NETIA S.A.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As of and for the nine-month period ended September 30, 2005

REVIEW REPORT OF THE AUDITORS

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

We have reviewed the accompanying interim condensed consolidated balance sheet of Netia S.A. (the "Company") and its subsidiaries (the "Netia Group") as at September 30, 2005, and the related interim condensed consolidated statements of income, changes in shareholders' equity and cash flows for the nine-month period ended September 30, 2005. These interim condensed consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these interim condensed 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 condensed 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 condensed consolidated financial statements have not been properly prepared, in all material respects, in accordance with accounting standards adopted for use in the European Union applicable to interim financial reporting and with International Accounting Standard 34 "Interim Financial Reporting".

The convenience translations are disclosed as part of the interim condensed 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 September 30, 2005 of PLN 3.9166 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 condensed 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
November 8, 2005

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

	Note	December 31, 2004 (Restated)	September 30, 2005	Convenience Translation September 30, 2005
		(PLN)	**(PLN)**	**(EUR)**
ASSETS				
Current assets				
Cash and cash equivalents		301,863	237,584	60,661
Trade and other receivables	3	122,734	135,054	34,482
Current income tax receivables		29	-	-
Inventories		2,488	3,040	776
Prepaid expenses		10,432	21,661	5,531
Total current assets		**437,546**	**397,339**	**101,450**
Available for sale financial assets		51	10	3
Fixed assets, net	4, 6	1,817,156	1,734,812	442,938
Intangible assets				
Licenses, net	5, 6	222,783	206,020	52,602
Computer software, net		84,690	69,911	17,850
Investments in associates	9	-	107,925	27,556
Goodwill / (Negative goodwill)	10	(77,657)	13,522	3,452
Deferred income tax assets	12	46,843	31,074	7,934
Other long term assets		1,149	-	-
Total non-current assets		**2,095,015**	**2,163,274**	**552,335**
Total assets		**2,532,561**	**2,560,613**	**653,785**

Wojciech Madalski
President of the Company

Kent Holding
Chief Financial Officer

Warsaw, Poland
November 8, 2005

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

	Note	December 31, 2004 (Restated)	September 30, 2005	Convenience Translation September 30, 2005
		(PLN)	(PLN)	(EUR)
LIABILITIES				
Current liabilities				
Short term liabilities for licenses	5	4,049	-	-
Short term installment obligations	7	11,872	4,000	1,021
Trade and other payables	8	150,234	132,289	33,777
Current income tax liabilities		-	54	14
Provisions		7,758	5,884	1,502
Deferred income		10,589	10,620	2,712
Total current liabilities		**184,502**	**152,847**	**39,026**
Non-current liabilities				
Long term liabilities for licenses	5	54,088	56,595	14,450
Provisions		2,137	1,224	312
Other long term liabilities		1,216	826	211
Total non-current liabilities		**57,441**	**58,645**	**14,973**
Total liabilities		**241,943**	**211,492**	**53,999**
Equity				
Share capital (nominal par value of PLN 1 per share)		366,956	397,833	101,576
Treasury shares		(2,812)	(122,806)	(31,355)
Supplementary capital		1,808,922	1,927,403	492,111
Other reserves		1,162	2,023	516
Retained earnings		111,204	138,870	35,457
Total capital and reserves attributable to the Company's equity holders	13	**2,285,432**	**2,343,323**	**598,305**
Minority interest		5,186	5,798	1,481
Total equity		**2,290,618**	**2,349,121**	**599,786**
Total liabilities and equity		**2,532,561**	**2,560,613**	**653,785**

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

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

	Note	Year ended December 31, 2004 (Restated)	Nine-month period ended September 30, 2004 (Restated)	Three-month period ended September 30, 2004 (Restated)	Nine-month period ended September 30, 2005	Three-month period ended September 30, 2005	Convenience Translation Nine-month period ended September 30, 2005
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(EUR)
Revenue							
Telecommunication services revenue	2, 14	852,826	635,470	217,786	663,038	227,913	169,287
Radio communication services revenue		10,568	7,936	2,554	7,463	2,425	1,905
Total revenue		**863,394**	**643,406**	**220,340**	**670,501**	**230,338**	**171,192**
Other operating income		4,634	3,315	249	2,239	528	572
Costs							
Interconnection charges		(158,733)	(119,357)	(43,145)	(134,670)	(50,121)	(34,384)
Salaries and benefits		(114,591)	(88,186)	(29,343)	(82,367)	(26,655)	(21,030)
Social security costs		(20,261)	(14,942)	(3,379)	(13,989)	(3,853)	(3,572)
Professional services		(13,840)	(10,006)	(3,211)	(8,379)	(2,696)	(2,139)
Insurance		(6,505)	(4,908)	(1,551)	(4,750)	(1,633)	(1,213)
Taxes and fees		(44,239)	(32,485)	(11,061)	(34,719)	(11,735)	(8,865)
Advertising and promotion expenses		(24,523)	(16,008)	(3,912)	(16,716)	(5,087)	(4,268)
Cost of rented lines and network maintenance		(73,618)	(53,626)	(18,750)	(54,736)	(19,625)	(13,975)
Depreciation of fixed assets	4	(188,891)	(137,380)	(46,949)	(150,173)	(51,803)	(38,343)
Amortization of negative goodwill		21,420	17,745	5,039	-	-	-
Amortization of other intangible assets		(49,938)	(37,824)	(12,444)	(35,999)	(12,135)	(9,191)
Impairment and write-off charges for non-current assets	6	(21,705)	-	-	-	-	-
Other operating expenses	15	(87,449)	(64,231)	(22,744)	(59,980)	(19,729)	(15,314)
Profit from operations		**85,155**	**85,513**	**29,139**	**76,262**	**25,794**	**19,470**
Financial income, net	16	27,874	28,408	15,718	11,758	4,922	3,002
Share of losses of investments in associates	9	-	-	-	(524)	(524)	(134)
Profit before income tax		**113,029**	**113,921**	**44,857**	**87,496**	**30,192**	**22,338**
Income tax benefit / (charge)	12	46,343	(390)	(147)	(16,219)	(7,357)	(4,141)
Profit for the period		**159,372**	**113,531**	**44,710**	**71,277**	**22,835**	**18,197**
Attributable to:							
Equity holders of the Company		158,514	112,950	44,495	70,665	22,637	18,041
Minority interest		858	581	215	612	198	156
		159,372	113,531	44,710	71,277	22,835	18,197
Basic earnings per share for profit attributable to the equity holders of the Company (expressed in PLN per share)	17	**0.44**	**0.32**	**0.13**	**0.19**	**0.06**	**0.05**
Diluted earnings per share for profit attributable to the equity holders of the Company (expressed in PLN per share)	17	**0.42**	**0.30**	**0.12**	**0.18**	**0.06**	**0.05**

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

NETIA S.A.
INTERIM CONDENSED 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		16,798	-	25,703	-	-	-	-	43,501
Issuance of series K shares		771	-	-	-	-	-	-	771
Cost of issuance*...............................		-	-	(594)	-	-	-	-	(594)
Employee share option scheme:					-				
- value of services provided		-	-	-	-	468	-	-	468
Appropriation of Netia's net profit:									
- transfer to other supplementary capital...		-	-	-	203,565	-	(203,565)	-	-
Transfers...		-	-	-	-	(3,816,325)	3,816,325	-	-
Net profit..		-	-	-	-	-	112,950	581	113,531
Balance as at September 30, 2004 (Restated)		**362,056**	**(2,812)**	**1,598,012**	**203,565**	**991**	**65,640**	**4,909**	**2,232,361**

	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)**	**1,605,357**	**203,565**	**1,162**	**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)**	**1,605,357**	**203,565**	**1,162**	**188,861**	**5,186**	**2,368,275**
Issuance of series J shares	13	24,838	-	38,003	-	-	-	-	62,841
Issuance of series K shares..................	13	163	-	-	-	-	-	-	163
Cost of issuance*................................		-	-	(373)	-	-	-	-	(373)
Issuance of series I shares	13	5,876	-	485	-	-	-	-	6,361
Cost of issuance of series I shares.......		-	-	(1,334)	-	-	-	-	(1,334)
Employee share option scheme:									
- value of services provided	13	-	-	-	-	861	-	-	861
Appropriation of Netia's 2004 net profit:									
- dividend	13	-	-	-	-	-	(38,710)	-	(38,710)
- transfer to other supplementary capital..	13	-	-	-	81,946	-	(81,946)	-	-
Repurchase of shares and warrants	13	-	(119,994)	-	(6)	-	-	-	(120,000)
Cost of repurchase of shares and warrants...		-	-	(240)	-	-	-	-	(240)
Net profit...		-	-	-	-	-	70,665	612	71,277
Balance as at September 30, 2005....		**397,833**	**(122,806)**	**1,641,898**	**285,505**	**2,023**	**138,870**	**5,798**	**2,349,121**

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

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(All amounts in thousands, except otherwise stated)

	Note	Year ended December 31, 2004 (Restated) (PLN)	Nine-month period ended September 30, 2004 (Restated) (PLN)	Nine-month period ended September 30, 2005 (PLN)	Convenience Translation Nine-month period ended September 30, 2005 (EUR)
Cash flows from operating activities:					
Net profit		**159,372**	**113,531**	**71,277**	**18,197**
Adjustments to reconcile net profit to net cash provided by operating activities:					
Depreciation of fixed assets and amortization of licenses and other intangible assets	4	238,829	175,204	186,172	47,534
Amortization of negative goodwill		(21,420)	(17,745)	-	-
Amortization of discount on notes and installment obligations	7	6,165	465	-	-
Impairment and write-off charges for non-current assets	6	21,705	-	-	-
Deferred income tax (benefit) / charge	12	(46,843)	-	15,769	4,026
Deferral of license fee obligations	5	(13,363)	(13,363)	-	-
Interest expense accrued on license liabilities	5	4,056	2,118	4,830	1,233
Interest accrued on loans		-	-	(592)	(151)
Non-cash employee benefits		639	468	1,024	261
Other provisions		(149)	(51)	117	30
Decrease/(increase) in long term assets		457	(1,461)	(250)	(64)
Foreign exchange gains		(6,118)	(3,765)	(3,416)	(872)
Profit on sale of fixed assets		-	-	(138)	(35)
Gain on sale of subsidiaries and other investments		(426)	(426)	(11)	(3)
Changes in working capital		(27,213)	(24,607)	(4,787)	(1,219)
Net cash provided by operating activities		**315,691**	**230,368**	**269,995**	**68,937**
Cash flows used in investing activities:					
Purchase of fixed assets and computer software		(191,397)	(140,925)	(102,565)	(26,188)
Proceeds from sale of fixed assets		-	-	768	196
Investment in associate		-	-	(108,460)	(27,692)
Purchase of subsidiary, net of received cash		(95,608)	(95,608)	5,177	1,322
Sale of subsidiaries		(504)	(504)	70	18
Loans granted		-	-	(24,899)	(6,357)
Payments for licenses		(4,790)	(4,790)	(4,050)	(1,034)
Net cash used in investing activities		**(292,299)**	**(241,827)**	**(233,959)**	**(59,735)**
Net cash used in financing activities:					
Proceeds from share issuance		55,667	43,272	62,761	16,024
Cost of share issuance		(744)	(594)	(1,707)	(436)
Dividend paid to the Company's shareholders		-	-	(38,710)	(9,884)
Repurchase of shares and warrants		-	-	(122,138)	(31,185)
Repayment of installment obligations		-	-	(1,511)	(386)
Redemption of notes for warrants		(8)	(8)	(1)	-
Net cash provided by / (used in) financing activities		**54,915**	**42,670**	**(101,306)**	**(25,867)**
Effect of exchange rate change on cash and cash equivalents		**(4,445)**	**(2,140)**	**991**	**253**
Net change in cash and cash equivalents		**73,862**	**29,071**	**(64,279)**	**(16,412)**
Cash and cash equivalents at beginning of period		228,001	228,001	301,863	77,073
Cash and cash equivalents at end of period		**301,863**	**257,072**	**237,584**	**60,661**

The accompanying notes are an integral part of these interim condensed 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 1,222, 1,263 and 1,254 during the nine-month period ended September 30, 2005, the nine-month period ended September 30, 2004 and year ended December 31, 2004, respectively.

The interim condensed consolidated financial statements of Netia S.A. for the nine-month period ended September 30, 2005 comprise the Company and its subsidiaries.

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 current associate, P4 Sp. z o.o. ("P4") (until August 23, 2005 the Company's subsidiary, until October 13, 2005 operating under the name „Netia Mobile Sp. z o.o.", see also Note 9), was announced the 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 P4 re-applied for the reservation of GSM 1800 MHz channels (the earlier tender for acquiring GSM 1800 MHz spectrum, in which Netia participated simultaneously, remained unresolved) and the tender should be completed by URTiP by January 9, 2006.

On August 1, 2005 the Company's subsidiaries, Netia Globe S.A. ("Netia Globe") and Netia Świat S.A. ("Netia Świat"), 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. The Company plans to use the frequencies to provide telecommunication services based on the WiMax technology. The WiMax based access network will be used to provide high quality data and voice transmission. The new WiMax network will interconnect with Netia's fiber-optic backbone infrastructure and integrate seamlessly with its existing access network.

In September 2005 the Netia Group acquired HFC Internet Sp. z o.o. Group, a telecommunication services provider (see also Note 10).

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 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 accounting standards adopted for use in the European Union (the "accounting standards adopted for use in the EU"). As of September 30, 2005 there are no differences as regards policies adopted by the Netia Group between these standards and International Financial Reporting Standards ("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 condensed 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 condensed consolidated financial statements and International Accounting Standard 34 "Interim Financial Reporting". The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2004, except for new accounting standards adopted as of January 1, 2005. These interim condensed 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 condensed consolidated financial statements only if it would be also appropriate to anticipate or defer such costs at the end of the financial year.

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

The interim condensed consolidated financial statements are presented in Polish Złoty ("PLN"), which is the Company's functional and presentation currency.

All Euro amounts shown as supplementary information in the accompanying interim condensed consolidated financial statements have been translated from PLN only as a matter of arithmetic computation at the PLN exchange rate of PLN 3.9166 = EUR 1.00, the average rate announced by the National Bank of Poland on September 31, 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.

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 the following International Accounting Standards ("IAS") and IFRS:

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.

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.

(All amounts in thousands, except otherwise stated)

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 September 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:

	January 1, 2004 (PLN)	**Year ended December 31, 2004 (PLN)**	**Nine-month period ended September 30, 2004 (PLN)**	**Three-month period ended September 30, 2004 (PLN)**	**Nine-month period ended September 30, 2005 (PLN)**	**Three-month period ended September 30, 2005 (PLN)**
Increase in other reserves.........................	523	639	468	192	861	61
Decrease in retained earnings	(523)	(639)	(468)	(192)	(861)	(61)
Increase in cost of salaries and benefits......	-	639	468	192	861	61

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 accounting standards and IFRIC interpretations, which might be relevant to the Netia Group are as follows:

a) IFRIC 4 "Determining whether an Arrangement Contains a Lease"
IFRIC 4 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.

b) Amendments to IAS 39 "Financial Instruments: Recognition and Measurement. The fair value option."
The amendments permit the fair value option to be used with respect to contracts containing embedded derivatives when it significantly reduces a measurement or recognition inconsistency between assets or liabilities. For existing preparers of IFRS financial statements the amendments allow the designation of any previously recognized financial asset or liability to be fair valued no later than September 1, 2005. The Netia Group has not elected to use the fair value option with respect to its financial assets and liabilities.

c) Amendments to IAS 39 "Financial Instruments: Recognition and Measurement. Cash Flow Hedge Accounting of Forecast Intragroup Transactions."
The amendment should be applied for annual periods beginning on or after January 1, 2006. It allows the foreign currency risk of a forecast intragroup transaction to qualify as a hedged item in consolidated financial statements. This is consistent with the provisions of IAS 21 "The Effects of Changes in Foreign Exchange Rates". This interpretation is not expected to change the accounting for any of the Netia Group's current arrangements.

d) IFRIC 6 "Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment"
IFRIC 6 gives guidance on the accounting for liabilities for waste management costs and clarifies when certain producers of electrical goods will need to recognize a liability for the cost of waste management relating to the decommissioning of waste electrical and electronic equipment supplied to private households. The Company is currently assessing its potential effect on the Netia Group's consolidated financial statements.

e) IFRS 7, Financial Instruments: Disclosures
IFRS 7 was issued on August 18, 2005, with a complementary amendment to IAS 1 Presentation of Financial Statements - 'Capital Disclosures'. IFRS 7 is effective for annual periods beginning on or after January 1, 2007. It introduces new requirements to improve the information on financial instruments that is given in entities' financial statements. It replaces IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and some of the requirements in IAS 32 "Financial Instruments: Disclosure and Presentation".

f) Amendments to IAS 1 "Presentation of Financial Statements Capital Disclosures"
The amendment shall be applied for annual periods beginning on or after January 1, 2007, it complements the release of IFRS 7 "Financial Instruments: Disclosures" and introduces requirements for all entities to disclose: the entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance.

Reclassifications

Certain prior periods' amounts have been reclassified to conform to the presentation for the nine-month period ended September 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).

Current financial condition

As at September 30, 2005, the equity amounted to PLN 2,349,121 and the Netia Group had working capital of PLN 244,492. In 2003 the financial restructuring and the cancellation of local license fee obligations of Netia were completed. The 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 56,595 (PLN 447,502 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 5. In 2004 and the nine-month period ended September 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.

(All amounts in thousands, except otherwise stated)

3. Trade and other receivables

	December 31, 2004 (PLN)	September 30, 2005 (PLN)
Trade receivables	182,584	195,919
Less provision for impairment of trade receivables	(65,852)	(73,537)
Trade receivables, net	116,732	122,382
VAT and other government receivables	2,980	5,876
Other receivables	3,855	6,454
Less provision for impairment of other receivables	(833)	(691)
Other receivables, net	3,022	5,763
Short-term loans	12,950	13,068
Accrued interest	27,960	40,808
Less provision for impairment of short-term loans and accrued interest	(40,910)	(53,876)
Short-term loans, net	-	-
Short-term loans granted to associates	-	1,002
Accrued interest	-	31
	122,734	**135,054**

4. Fixed assets and network under construction

Assets at adjusted cost	December 31, 2004 (PLN)	Purchase of subsidiary (PLN)	Additions (PLN)	Transfers* (PLN)	Disposals and other movements (PLN)	September 30, 2005 (PLN)
Buildings	74,116	40	-	194	(493)	73,857
Land	17,422	-	-	110	-	17,532
Transmission network	1,825,950	-	-	24,971	(835)	1,850,086
Switching system	1,398,748	5,710	-	59,901	1,144	1,465,503
Machinery and equipment	77,362	12	318	1,098	(13)	78,777
Office furniture and equipment	129,186	165	-	6,848	(423)	135,776
Vehicles	12,181	15	23	192	(1,221)	11,190
	3,534,965	5,942	341	93,314	(1,841)	3,632,721
Fixed assets under construction	86,222	-	68,787	(107,449)	4,830	52,390
	3,621,187	**5,942**	**69,128**	**(14,135)**	**2,989**	**3,685,111**

Accumulated depreciation	December 31, 2004 (PLN)	Depreciation expense (PLN)	Disposals and other movements (PLN)	September 30, 2005 (PLN)
Buildings	15,006	2,271	(125)	17,152
Transmission network	437,711	56,155	(810)	493,056
Switching system	378,345	76,113	511	454,969
Machinery and equipment	43,498	4,164	(28)	47,634
Office furniture and equipment	97,401	10,322	443	108,166
Vehicles	8,834	1,148	(986)	8,996
	980,795	**150,173**	**(995)**	**1,129,973**

(All amounts in thousands, except otherwise stated)

Accumulated impairment and write-off provisions	December 31, 2004	Transfers*	Disposals and other movements	September 30, 2005
	(PLN)	(PLN)	(PLN)	(PLN)
Buildings	14,633	-	75	14,708
Land	4,821	-	-	4,821
Transmission network	490,220	460	290	490,970
Switching system	283,680	169	41	283,890
Machinery and equipment	9,445	12	6	9,463
Office furniture and equipment	11,621	-	(872)	10,749
Vehicles	1,095	-	(146)	949
	815,515	641	(606)	815,550
Fixed assets under construction	7,721	(700)	(2,245)	4,776
	823,236	**(59)**	**(2,851)**	**820,326**

Net book value	December 31, 2004	September 30, 2005
	(PLN)	(PLN)
Buildings	44,477	41,997
Land	12,601	12,711
Transmission network	898,019	866,060
Switching system	736,723	726,644
Machinery and equipment	24,419	21,680
Office furniture and equipment	20,164	16,861
Vehicles	2,252	1,245
	1,738,655	1,687,198
Fixed assets under construction	78,501	47,614
	1,817,156	**1,734,812**

* The Company transferred during the nine-month period ended September 30, 2005 fixed assets under construction with net book value of PLN 14,076 to computer software.

5. Licenses

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 September 30, 2005 the total nominal value of outstanding license fee obligations of El-Net was EUR 104,624 (PLN 409,769 at the exchange rate prevailing on September 30, 2005) increased by prolongation fees of PLN 37,733.

On December 30, 2002, El-Net submitted applications for cancellation of certain outstanding local license fee obligations in accordance with the applicable law enacted in 2002. Following its purchase by the Netia Group, El-Net filed an amendment to the previous application asking for cancellation of license fee obligations of EUR 75,690 (PLN 296,447 at the exchange rate prevailing on September 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 113,322 at the exchange rate prevailing on September 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 PLN 37,733. The above cancellation shall occur upon the verification of capital expenditure incurred in accordance with the applicable law. The Minister of Infrastructure also decided that 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, until 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 license 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.

As at September 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. The only change in the value of those liabilities as compared to December 31, 2004 relates to interest accrued and foreign exchange differences as presented below:

	(PLN)	(EUR)
Carrying value as at December 31, 2004	**54,088**	**13,260**
Interest accrued in the period ended September 30, 2005	4,830	1,190
Foreign exchange gains on the translation of EUR balances	(2,323)	-
Carrying value as at September 30, 2005	**56,595**	**14,450**

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 September 30, 2005 comprises only PLN 56,595 of El-Net's liabilities, which is long term.

6. 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 September 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.

7. 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 13). 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, while PLN 4,000 will be deposited with the Polish court (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 court). Depositing the above amount with the court will have the same effect as the actual repayment of installment 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.

8. Trade and other payables

	December 31, 2004 (PLN)	September 30, 2005 (PLN)
Trade and investment	90,269	48,521
VAT and other taxes	10,955	27,828
Accruals and other	49,010	55,940
	150,234	**132.289**

9. Investments in associates

As P4 - previously the Company's subsidiary (until October 13, 2005 operating under the name „Netia Mobile Sp. z o.o."), was announced a winner of the mobile telephony UMTS frequency tender, the P4's Shareholders' Agreement ("Agreement") was concluded on August 23, 2005, by the following entities: the Company, Netia Ventures Sp. z o.o. ("Netia Ventures"), P4, Novator One L.P., Novator Telecom Poland S.a.r.l. ("Novator") and Novator Poland Pledge Sp. z o.o. in organization (Novator and Netia Ventures both called "Shareholders"). Netia Ventures is a 100% subsidiary of the Company, and Novator is a 100% subsidiary of Novator One L.P.

Upon that Agreement, Novator has purchased 70 (not in thousands) P4's shares ("Shares") at the price of PLN 70 and subscribed for 23,940 (not in thousands) Shares issued as part of P4's capital increase at the nominal value of PLN 11,970 and for the amount of PLN 251,300. Netia Ventures has subscribed for 10,260 (not in thousands) Shares in the increased P4's share capital at the nominal value of PLN 5,130 and for the amount of PLN 107,700. The increase of share capital was registered on October 13, 2005. As a result, Novator is the holder of 24,010 (not in thousands) Shares constituting 70% of the Shares in the P4's share capital. Consequently, Netia Ventures is the holder of 10,290 (not in thousands) Shares constituting 30% of the Shares in the P4's share capital. In total, based on the Agreement, the Shareholders are obligated to make contributions of up to the amount of EUR 300,000 in proportion to their share in the P4's share capital.

Due to the execution of the provisions of the Agreement, since August 23, 2005 the Company does not control P4. However, the Netia Group has a 30% interest in P4 and still has a significant influence over P4's financial and operating policy. The Netia Group started accounting for the investment in P4 using equity method from August 23, 2005, when it became an associate.

The following table illustrates summarized financial information of the associate as at September 30, 2005:

	(PLN)
Assets	361,511
Unregistered share capital paid	359,000
Liabilities	4,294

The following table illustrates changes in investment in the associate:

	(PLN)
Investment in the associate	108,449
Share of loss	(524)
	107,925

P4 is not listed on any public exchange and therefore there is no published quotation price for the fair value of this investment. The financial statements of P4 have been prepared as of the same reporting date as the Netia Group. However, as P4's reporting period differs from reporting period of the Netia Group, appropriate adjustments have been made to P4's financial statements to ensure consistency with the Netia Group reporting period.

(All amounts in thousands, except otherwise stated)

10. Business combinations

On September 30, 2005 Świat Internet S.A. ("Świat Internet"), one of the Company's subsidiaries, acquired 100% of the share capital of HFC Internet Sp. z o.o., a parent company of HFC Internet Sp. z o.o. Group ("HFC Internet Group"), a telecommunication services provider, for PLN 3,050. HFC Internet Sp. z o.o. controls one operating subsidiary.

The Netia Group accounted for the acquisition of HFC Internet Group using the purchase method and started consolidating the financial statements of HFC Internet Group as of September 30, 2005. Given the close proximity to the reporting date, the provisional fair values of assets, liabilities and contingent liabilities acquired are based on amounts from HFC Internet Group's historical accounting records and will therefore be subject to adjustments as additional information is obtained. Such additional information may include reports from valuation specialists, information related to pre-acquisition contingencies and calculation of the related deferred income taxes. A detailed review of these assets, liabilities and contingent liabilities will be performed during the course of the period ending December 31, 2005, which may result in further adjustments to the carrying amounts of identifiable net assets as at the acquisition date.

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

	(PLN)
Purchase consideration, including transaction costs of PLN 190	3,240
Negative provisional fair value of net assets acquired	10,282
Goodwill	**13,522**

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

	(PLN)
Cash and cash equivalents	8,367
Receivables	10,662
Inventories	505
Prepayments	37
Fixed assets	5,942
Intangible assets	23
Provisions	(3,230)
Short-term loans	(24,899)
Trade liabilities	(4,227)
Other liabilities and accruals	(3,462)
Negative provisional fair value of net assets acquired	**(10,282)**

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

	(PLN)
Purchase consideration settled in cash	(3,190)
Cash and cash equivalents in the subsidiary acquired	8,367
Cash inflow on acquisition	**5,177**

The investment in HFC Internet Group shares is of a long-term nature.

11. Sale of investments

On August 23, 2005, the Company's subsidiaries, Netia Ventures and Netia Globe, sold to Novator 69 and 1 shares of P4, respectively, for a total price of PLN 70 (see also Note 9). A summary of financial information regarding the above sale is presented below.

Furthermore, on September 30, 2005, the Company's subsidiary, El-Net, sold to Multimedia Polska S.A., with its seat in Gdynia, 1,612 shares of Multimedia Polska-Centrum Sp. z o.o. for a price of PLN 190. A summary of financial information regarding the above sale is presented below:

	% of interest sold	Profit / (loss) on disposal (PLN)
P4	70.00	95
Multimedia Polska-Centrum Sp. z o.o.	2.29	(84)

12. Corporate income tax

	Year ended December 31, 2004 (PLN)	Nine-month period ended September 30, 2004 (PLN)	Three-month period ended September 30, 2004 (PLN)	Nine-month period ended September 30, 2005 (PLN)	Three-month period ended September 30, 2005 (PLN)
Current tax	(500)	(390)	(147)	(450)	(127)
Deferred income tax benefit / (charge), net	46,843	-	-	(15,769)	(7,230)
Income tax benefit / (charge)	**46,343**	**(390)**	**(147)**	**(16,219)**	**(7,357)**

Deferred tax

As of December 31, 2004 the Management updated its previous year's assessment regarding the recognition of deferred income tax. The new assessment considered that the Netia Group expects that future taxable profits will be generated based on the 2005 budget and 2005-2008 business plan. 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. Since the realization of the tax benefits through the projected 2005-2008 taxable profits, against which the temporary differences can be utilized, became probable, Netia recognized a net deferred tax asset of PLN 46,843 as of December 31, 2004.

The method of calculation of the tax charge at September 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 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)	September 30, 2005 (PLN)
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	(33,161)	(38,237)
- Deferred tax asset to be recovered within 12 months	(37,575)	(19,499)
	(70,736)	(57,736)
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	16,264	19,721
- Deferred tax liabilities to be recovered within 12 months	7,629	6,941
	23,893	26,662
	(46,843)	**(31,074)**

13. 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 nine-month period ended September 30, 2005 24,838,417 of the warrants were exercised and the Company's share capital was accordingly increased by 24,838,417 series J shares. From the issuance date of warrants, the total number of series J shares issued at the exercise of warrants through September 30, 2005 was 46,978,519.

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 nine-month period ended September 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 September 30, 2005 was PLN 934.

Furthermore pursuant to the early repayment of the outstanding installment obligations (described in Note 7), in the nine-month period ended September 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 September 30, 2005 the Company's share capital consisted of 397,832,440 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 condensed consolidated financial statements.

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. The Company's General Shareholders' meeting held on March 17, 2005 (the "Shareholders Meeting"), 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. The remaining 2004 profit, in the amount of 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. Due to exhausting the funding limit set for the purpose of the Program by the Shareholders Meeting, effective September 30, 2005 the Program was completed. Under the whole Program, the Company acquired in total 27,693,462 of its own shares and 3,569 subscription warrants.

Share options (number of shares not in thousands)

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

	Year ended December 31, 2004		**Nine-month period ended September 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	3.56	2,698,125
Forfeited/ expired	2.53	(1,087,257)	3.50	(845,644)
Exercised	2.53	(1,872,498)	2.53	(362,419)
At the end of period	**2.65**	**7,206,097**	**2.85**	**8,696,159**

Furthermore as at September 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 September 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. The options are exercisable until December 20, 2007.

Until January 1, 2005, the Company did not recognize the employee share options issued under the Plan 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) over the vesting period. The cost is assessed on a fair value basis with measurement at the grant date. 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 nine-month period ended September 30, 2005 amounted to PLN 861.

(All amounts in thousands, except otherwise stated)

14. Telecommunication services revenue

	Year ended December 31, 2004 (PLN)	Nine-month period ended September 30, 2004 (PLN)	Three-month period ended September 30, 2004 (PLN)	Nine-month period ended September 30, 2005 (PLN)	Three-month period ended September 30, 2005 (PLN)
Direct voice services	546,349	411,364	135,504	371,950	117,619
Monthly fees	144,248	108,160	36,541	106,894	35,784
Calling charges	402,101	303,204	98,963	265,056	81,835
Local calls	*134,842*	*101,557*	*31,914*	*84,083*	*24,780*
Domestic long distance calls	*82,223*	*61,758*	*20,361*	*51,094*	*15,663*
International long distance calls	*35,685*	*27,111*	*8,844*	*27,399*	*7,804*
Fixed-to-mobile	*121,506*	*90,949*	*31,345*	*87,503*	*29,391*
Other	*27,845*	*21,829*	*6,499*	*14,977*	*4,197*
Indirect voice	103,445	77,999	27,352	62,499	19,299
Data	90,288	65,052	22,828	92,653	33,038
Interconnection revenue*	42,343	28,423	13,426	56,776	24,683
Wholesale services	41,921	31,037	11,745	58,899	26,452
Intelligent network services*	20,014	15,028	4,898	15,275	5,291
Other telecommunication revenue	8,466	6,567	2,033	4,986	1,531
	852,826	**635,470**	**217,786**	**663,038**	**227,913**

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

15. Other operating expenses

	Year ended December 31, 2004 (PLN)	Nine-month period ended September 30, 2004 (PLN)	Three-month period ended September 30, 2004 (PLN)	Nine-month period ended September 30, 2005 (PLN)	Three-month period ended September 30, 2005 (PLN)
Information technology services	16,411	11,805	4,236	11,158	3,973
External services	17,014	9,988	4,092	11,426	3,891
Bad debt expense	10,251	9,348	2,881	7,900	1,435
Office and car maintenance	9,138	8,827	2,589	7,461	2,594
Materials and energy	9,092	5,919	2,000	6,152	2,111
Mailing services	7,069	5,262	1,828	5,040	1,614
Travel and accommodation	4,822	3,361	1,217	3,569	1,293
Other operating costs	13,652	9,721	3,901	7,274	2,818
	87,449	**64,231**	**22,744**	**59,980**	**19,729**

16. Financial income, net

	Year ended December 31, 2004	Nine-month period ended September 30, 2004	Three-month period ended September 30, 2004	Nine-month period ended September 30, 2005	Three-month period ended September 30, 2005
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Interest income	9,516	6,353	2,704	11,644	4,826
Gain on deferral of license fee payments	13,363	13,363	13,363	-	-
Gain on sale of subsidiaries and other investments	340	426	30	11	11
Gain on fair value adjustment of financial assets	3,278	1,971	787	1,921	562
Foreign exchange gains, net	4,805	3,958	659	2,344	966
Interest expense	(4,448)	(2,513)	(1,506)	(5,147)	(1,756)
Amortization of discount on installment obligations	(6,165)	(465)	(159)	-	-
Other	7,185	5,315	(160)	985	313
	27,874	**28,408**	**15,718**	**11,758**	**4,922**

17. 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 nine-month period ended September 30, 2005, the weighted average number of ordinary shares excludes 27,693,462 of own shares repurchased within the Program.

	Year ended December 31, 2004	Nine-month period ended September 30, 2004	Three-month period ended September 30, 2004	Nine-month period ended September 30, 2005	Three-month period ended September 30, 2005
Net profit attributable to the equity holders of the Company	158,514	112,950	44,495	70,665	22,637
Weighted average number of ordinary shares in issue (not in thousands)	358,096,167	356,498,291	361,482,411	378,750,743	383,872,598
Basic earnings per share (not in thousands)	0.44	0.32	0.13	0.19	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	Nine-month period ended September 30, 2004	Three-month period ended September 30, 2004	Nine-month period ended September 30, 2005	Three-month period ended September 30, 2005
Net profit attributable to the equity holders of the Company	158,514	112,950	44,495	70,665	22,637
Weighted average number of ordinary shares in issue (not in thousands)	358,096,167	356,498,291	361,482,411	378,750,743	383,872,598
Adjustments for:					
- Share options	3,252,657	3,111,566	2,528,584	2,812,620	3,268,748
- Warrants	20,127,978	20,423,644	18,236,039	11,028,929	8,650,821
Weighted average number of ordinary shares for diluted earnings per share (not in thousands)	381,476,802	380,033,501	382,247,034	392,592,292	395,792,167
Diluted earnings per share (not in thousands)	0.42	0.30	0.12	0.18	0.06

18. 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.

19. Cash generated from operations

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)	Nine-month period ended September 30, 2004 (PLN)	Nine-month period ended September 30, 2005 (PLN)
Investment liabilities	70,975	30,560	28,730

20. Selected related party transactions

Changes in the Management Board

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

Effective August 31, 2005 Mrs. Irene Cackett resigned from her position in the Management Board.

Options granted to members of the Management Board

As at September 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 are vested as of that date. Strike prices for the options granted to the Management Board range between PLN 2.53 to 4.44 per share. The market price of the Company's shares at September 30, 2005 was PLN 4.59 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**	**September 30, 2005**
At the beginning of period	6,342,331	5,526,888
Granted	1,359,071	1,721,489
Forfeited/ expired	(664,435)	-
Status changed due to resignation from the Management Board	(362,419)	(543,628)
Exercised	(1,147,660)	-
At the end of period	**5,526,888**	**6,704,749**

Management Board remuneration and Supervisory Board remuneration

Compensation and related costs associated with members of the Company's Management Boards and Supervisory Boards during the nine-month periods ended September 30, 2005 and September 30, 2004 amounted to PLN 5,488 and PLN 5,301, respectively. Furthermore, the termination benefits for the former members of the Management Board pursuant to their resignation of PLN 219 and PLN 2,691, respectively, were recognized as a cost in the nine-month periods ended September 30, 2005 and September 30, 2004.

21. Commitments and contingencies

Capital expenditures contracted for at the balance sheet date but not recognized in the interim consolidated financial statements amounted to PLN 24,743 as at December 31, 2004 and PLN 27,201 as at September 30, 2005 of which, PLN 5,600 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 11.4 million at the September 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. On July 20, 2005, Newman filed an appeal.

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. On July 1, 2005 Millennium and Genesis filed an appeal.

On April 5, 2005, Millennium filed a claim against El-Net in connection with the the alleged acts of unfair competition of El-Net against Millennium. Millennium sought to prohibit El-Net from submitting offers or other market proposals and conducting any commercial activities in relation to a pool of 30,000 telephone numbers held by El-Net. The claim was delivered to El-Net on May 23, 2005. El-Net filed an answer to the claim on June 6, 2005 in which requested to dismiss the claim as wholly unsubstantiated.

In May 2005, Millennium filed a motion to secure the claim against Netia in connection with the alleged acts of unfair competition of Netia against Millennium. The Court issued a decision on June 20, 2005, in which the claim was secured by an injunction prohibiting Netia from submitting offers or other market proposals and conducting any commercial activities in relation to 30,000 telephone numbers mentioned in preceding paragraph. The decision was delivered to Netia on June 28, 2005, and was appealed on July 5, 2005. The injunction is still in force. Millennium filed a motion against Netia in connection with the claim to which the injunction pertained to. The claim was delivered to Netia on August 24, 2005. Netia filed an answer to the claim on September 7, 2005 in which rejected the claim as wholly groundless and unsubstantiated.

In July 2005, Millennium filed a motion to secure the claim against El-Net for determination that an agreement between El-Net and Millennium concerning provisions of telephone services and the use of the 30,000 telephone numbers by Millennium was not effectively terminated by El-Net. The Court issued a decision on August 8, 2005, in which the claim was secured by an injunction prohibiting El-Net from submitting offers or other market proposals and conducting any commercial activities in relation to those 30,000 telephone numbers. The motion was delivered to El-Net on August 31, 2005, and was appealed by El-Net on September 5, 2005. On August 21, 2005, Millennium filed a a motion against El-Net in connection with the claim to which the injunction pertained to. The claim was delivered to El- Net on October 5, 2005. El-Net filed an answer to the claim on October 19, 2005 in which requested to dismiss the claim as wholly unsubstantiated.

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. On May 19,2005, the minority shareholders filed a complaint regarding this return. In a second similar matter, a minority shareholder's claim was dismissed on merits by the Regional Court in Warsaw. On March 25, 2005, the minority shareholder filed an appeal.

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

P4 related commitments

Upon the P4’s Agreement described in Note 9, Novator and Netia Ventures are obligated to make contributions of up to the amount of EUR 300,000 in proportion to their share in the P4’s share capital. It means, that Netia Ventures is obligated to make contributions of up to EUR 90,000. Due to that obligation, as of September 30, 2005, Netia Ventures has made contributions to the P4’s equity in the amount of PLN 107,700 in order to cover UMTS frequency reservation fee and preliminary operational expenses.

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

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

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

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

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

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

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.

22. Subsequent events

Exercise of warrants (not in thousands)

As at November 8, 2005 50,328,583 of warrants have been exercised and the Company's share capital was accordingly increased by 50,328,583 series J shares. As a result at November 8, 2005 the Company's share capital consisted of 401,182,504 ordinary shares and of 1,000 of series A1 shares.

Pledge on shares in P4

On October 26, 2005 Netia Ventures, Netia's subsidiary, entered into an agreement on registered pledge on shares regarding 10,260 shares in P4, which are Netia Ventures' assets. The pledge was established for the benefit of Novator Poland Pledge Sp. z o.o. in order to secure the performance by Netia Ventures of the claims that may arise due to failure by Netia Ventures to perform certain obligations under the Agreement (see Note 9). Maximum amount of collateral equals to EUR 25,000. Pursuant to the Agreement on October 26, 2005 Novator has also pledged all its shares in P4 to the Netia Ventures on the same terms as indicated above in order to secure the performance by Novator of the claims that may arise if Novator fails to perform certain obligations under the Agreement.

Frequency reservations in the 3.6 – 3.8 GHz band (WiMax)

On October 27, 2005 the Company's subsidiaries, Netia Globe and Netia Świat, received 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.