



## **Quarterly Financial Report**

Containing:

- Independent auditor's review report
- Interim condensed consolidated financial statements as at and for the six-month period ended June 30, 2012

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**N E T I A**

**Report on review of interim condensed consolidated financial statements  
to the Shareholders and Supervisory Board of Netia S.A.**

*Introduction*

We have reviewed the accompanying interim condensed consolidated statement of financial position of Netia S.A. ('the Group') as at June 30, 2012 and the related interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of cash flows, interim condensed consolidated statement of changes in equity for the 6 months period then ended and notes to interim condensed consolidated financial statements ('the interim condensed consolidated financial statements').

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

*Scope of review*

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

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

*Convenience translations*

The convenience translations are disclosed as part of the interim condensed consolidated financial statements. The convenience translation for the 6 months period ended June 30, 2012 has been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at June 29, 2012 of PLN 4.2613 to EUR 1.00. We have not reviewed these translations and accordingly we do not report thereon. The Euro amounts presented in these accompanying interim condensed consolidated financial statements should not be construed as a representation that the PLN amounts have been or could have been converted to Euro at this rate or at any other rate.

*Ernst & Young Audit sp. z o.o.*

Ernst & Young Audit sp. z o.o.

Warsaw, August 22, 2012

NETIA S.A.  
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
As at and for the six-month period ended June 30, 2012

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**NETIA S.A.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**as at June 30, 2012**

*(All amounts in thousands, except as otherwise stated)*

				Convenience Translation
	Note	June 30, 2012 (PLN)	December 31, 2011 (restated) (PLN)	June 30, 2012 (EUR)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment, net .....	5	2,115,176	2,184,047	496,369
Intangible assets .....	7	723,640	765,229	169,817
Investment property .....		-	26,399	-
Deferred income tax assets .....	13	126,307	109,022	29,640
Available for sale financial assets .....		115	115	27
Long term receivables .....		218	218	51
Prepaid expenses and accrued income .....		13,857	11,832	3,252
<b>Total non-current assets .....</b>		<b>2,979,313</b>	<b>3,096,862</b>	<b>699,156</b>
<b>Current assets</b>				
Inventories .....		3,955	5,314	928
Trade and other receivables .....		270,368	255,212	63,447
Current income tax receivables .....		39	262	9
Prepaid expenses and accrued income .....		37,943	30,091	8,904
Derivative financial instruments .....	8	1,019	2,723	239
Financial assets at fair value through profit and loss .....		15	16	4
Restricted cash .....		2,278	2,263	535
Cash and cash equivalents .....		125,959	156,509	29,559
		<b>441,576</b>	<b>452,390</b>	<b>103,625</b>
Assets held for sale	4	26,770	-	6,282
<b>Total current assets .....</b>		<b>468,346</b>	<b>452,390</b>	<b>109,907</b>
<b>Total assets .....</b>		<b>3,447,659</b>	<b>3,549,252</b>	<b>809,063</b>

\_\_\_\_\_  
Miroslaw Godlewski  
President of the Company

\_\_\_\_\_  
Jonathan Eastick  
Member of the Management Board  
Chief Financial Officer

\_\_\_\_\_  
Tom Ruhan  
Member of the Management Board

\_\_\_\_\_  
Miroslaw Suszek  
Member of the Management Board

Warsaw, Poland  
August 22, 2012

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

**NETIA S.A.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)**  
**as at June 30, 2012**

*(All amounts in thousands, except as otherwise stated)*

				Convenience Translation
	Note	June 30, 2012 (PLN)	December 31, 2011 (restated) (PLN)	June 30, 2012 (EUR)
<b>EQUITY</b>				
Share capital .....	9	386,170	391,602	90,623
Treasury shares.....	9	(24,847)	(49,582)	(5,831)
Supplementary capital .....		2,058,494	1,867,421	483,067
Retained earnings .....		36,444	251,012	8,552
Other components of equity.....		27,619	39,915	6,481
<b>Equity attributable to equity owners .....</b>		<b>2,483,880</b>	<b>2,500,368</b>	<b>582,892</b>
Non-controlling interests.....		-	5	-
<b>Total equity.....</b>		<b>2,483,880</b>	<b>2,500,373</b>	<b>582,892</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings.....	10	451,096	514,584	105,860
Provisions.....		9,428	3,086	2,212
Deferred income .....		20,986	22,123	4,925
Other long term liabilities.....		5,006	9,392	1,174
<b>Total non-current liabilities .....</b>		<b>486,516</b>	<b>549,185</b>	<b>114,171</b>
<b>Current liabilities</b>				
Trade and other payables.....		275,009	262,322	64,537
Derivative financial instruments.....	8	3,806	84	893
Borrowings.....	10	128,734	180,593	30,210
Current income tax liabilities.....		1	1	-
Provisions.....	4	26,562	12,660	6,233
Deferred income .....		43,151	44,034	10,127
<b>Total current liabilities .....</b>		<b>477,263</b>	<b>499,694</b>	<b>112,000</b>
<b>Total liabilities.....</b>		<b>963,779</b>	<b>1,048,879</b>	<b>226,171</b>
<b>Total equity and liabilities .....</b>		<b>3,447,659</b>	<b>3,549,252</b>	<b>809,063</b>

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

**NETIA S.A.**  
**INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT**  
**for the six-month period ended June 30, 2012**

*(All amounts in thousands, except as otherwise stated)*

					Convenience Translation
	Note	Three-month period ended June 30, 2012	Six-month period ended June 30, 2012	Three-month period ended June 30, 2011	Six-month period ended June 30, 2011
		(PLN)	(PLN)	(PLN)	(EUR)
<b>CONSOLIDATED INCOME STATEMENT</b>					
<b>Revenue</b> .....		<b>536,472</b>	<b>1,080,751</b>	<b>396,280</b>	<b>797,469</b>
Cost of sales.....		(377,840)	(757,843)	(272,324)	(542,558)
<b>Gross profit</b> .....		<b>158,632</b>	<b>322,908</b>	<b>123,956</b>	<b>254,911</b>
Selling and distribution costs.....		(99,154)	(208,224)	(75,136)	(147,407)
General and administration costs.....		(54,534)	(111,402)	(39,424)	(75,464)
Other income.....		6,444	12,738	2,702	7,416
Other expenses .....		(955)	(1,910)	-	(996)
Other gains, net.....	11	2,343	2,789	795	483
<b>Operating profit</b> .....		<b>12,776</b>	<b>16,899</b>	<b>12,893</b>	<b>38,943</b>
Finance income.....	12	2,272	4,094	4,246	7,528
Finance costs.....	12	(11,992)	(27,149)	(401)	(623)
<b>Profit / (Loss) before income tax</b> .....		<b>3,056</b>	<b>(6,156)</b>	<b>16,738</b>	<b>45,848</b>
Income tax benefit/ (charge).....	13	17,962	17,328	(3,827)	(55,982)
<b>Profit / (Loss)</b> .....		<b>21,018</b>	<b>11,172</b>	<b>12,911</b>	<b>(10,134)</b>
Profit / (Loss) attributable to owners of the Company .....		<b>21,018</b>	<b>11,172</b>	<b>12,911</b>	<b>(10,134)</b>
<b>Earnings per share</b> (expressed in PLN per share)					
- basic .....		0.06	0.03	0.03	(0.03)
- diluted .....		0.06	0.03	0.03	(0.03)

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

**NETIA S.A.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**for the six-month period ended June 30, 2012**

*(All amounts in thousands, except as otherwise stated)*

					Convenience Translation	
	Note	Three-month period ended June 30, 2012 (PLN)	Six-month period ended June 30, 2012 (PLN)	Three-month period ended June 30, 2011 (PLN)	Six-month period ended June 30, 2011 (PLN)	Six-month period ended June 30, 2012 (EUR)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME						
Profit / (Loss).....		21,018	11,172	12,911	(10,134)	2,622
Interest rate cash flow hedges .....	8	(776)	(2,754)	-	-	(646)
Foreign exchange rate cash flow hedges (equipment and construction contracts) .....	8	1,598	(1,352)	(14)	(254)	(317)
Foreign exchange rate cash flow hedges (acquisitions).....		-	(203)	-	-	(48)
Income tax relating to components of other comprehensive income .....		(129)	843	(18)	23	198
Other comprehensive income/(loss) .....		693	(3,466)	(32)	(231)	(813)
TOTAL COMPREHENSIVE INCOME/(LOSS).....		21,711	7,706	12,879	(10,365)	1,809
Total comprehensive income / (loss) attributable to owners of the Company.....		21,711	7,706	12,879	(10,365)	1,809

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**  
**for the six-month period ended June 30, 2012**

*(All amounts in thousands, except as otherwise stated)*

	Note	Share capital (PLN)	Treasury shares (PLN)	Supplementary capital		Retained earnings (PLN)	Other components of equity			Total (PLN)	Non-controlling interest	Total equity
				Share premium (PLN)	Other supplementary capital (PLN)		Employee share option scheme (PLN)	Hedging reserve (PLN)	Other reserve (PLN)			
<b>Balance as at January 1, 2012 .....</b>		<b>391,602</b>	<b>(49,582)</b>	<b>1,357,768</b>	<b>509,653</b>	<b>251,012</b>	<b>38,486</b>	<b>1,429</b>	<b>-</b>	<b>2,500,368</b>	<b>5</b>	<b>2,500,373</b>
Profit for the period .....		-	-	-	-	11,172	-	-	-	11,172	-	11,172
Other comprehensive loss .....		-	-	-	-	-	-	(3,466)	-	(3,466)	-	(3,466)
Total comprehensive income .....		-	-	-	-	11,172	-	(3,466)	-	7,706	-	7,706
Transfer of Netia's 2011 profit	9	-	-	-	225,004	(225,004)	-	-	-	-	-	-
Transfer of 2010 adjustment to Netia's 2009 and earlier profits .....		-	-	-	726	(726)	-	-	-	-	-	-
Repurchase of own shares .....	9	-	(24,847)	-	-	-	-	-	-	(24,847)	-	(24,847)
Redemption of own shares .....	9	(9,775)	49,582	(49,582)	-	-	-	-	9,775	-	-	-
<i>Employee share option scheme:</i>												
- value of services provided	9	-	-	-	-	-	785	-	-	785	-	785
- issuance of series K shares	9	4,343	-	15,047	-	-	(19,390)	-	-	-	-	-
Cost of issuance .....		-	-	(122)	-	-	-	-	-	(122)	-	(122)
Acquisition of non-controlling interest .....		-	-	-	-	(10)	-	-	-	(10)	(5)	(15)
<b>Balance as at June 30, 2012 .....</b>		<b>386,170</b>	<b>(24,847)</b>	<b>1,323,111</b>	<b>735,383</b>	<b>36,444</b>	<b>19,881</b>	<b>(2,037)</b>	<b>9,775</b>	<b>2,483,880</b>	<b>-</b>	<b>2,483,880</b>

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**  
**for the six-month period ended June 30, 2012**

*(All amounts in thousands, except as otherwise stated)*

Note	Share capital (PLN)	Supplementary capital		Retained earnings (PLN)	Employee share option scheme (PLN)	Hedging reserve (PLN)	Total equity (PLN)
		Share premium (PLN)	Other supplementary capital (PLN)				
<b>Balance as at January 1, 2011 .....</b>	<b>389,459</b>	<b>1,356,678</b>	<b>242,621</b>	<b>269,258</b>	<b>39,798</b>	<b>(268)</b>	<b>2,297,546</b>
Loss for the period .....	-	-	-	(10,134)	-	-	(10,134)
Other comprehensive income .....	-	-	-	-	-	(231)	(231)
Total comprehensive income .....	-	-	-	(10,134)	-	(231)	(10,365)
Transfer of Netia's 2010 profit .....	-	-	267,032	(267,032)	-	-	-
<i>Employee share option scheme:</i>							
- value of services provided .....	-	-	-	-	1,313	-	1,313
- issuance of series K shares .....	1,584	565	-	-	(2,149)	-	-
Cost of issuance .....	-	(39)	-	-	-	-	(39)
<b>Balance as at June 30, 2011 .....</b>	<b>391,043</b>	<b>1,357,204</b>	<b>509,653</b>	<b>(7,908)</b>	<b>38,962</b>	<b>(499)</b>	<b>2,288,455</b>

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

**NETIA S.A.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**for the six-month period ended June 30, 2012**

*(All amounts in thousands, except as otherwise stated)*

				<b>Convenience Translation</b>
	<b>Note</b>	<b>Six-month period ended June 30, 2012</b>	<b>Six-month period ended June 30, 2011</b>	<b>Six-month period ended June 30, 2012</b>
		<b>(PLN)</b>	<b>(PLN)</b>	<b>(EUR)</b>
Cash flows from operating activities:				
<b>Profit/ (loss)</b> .....		<b>11,172</b>	<b>(10,134)</b>	<b>2,622</b>
Adjustments for:				
Depreciation and amortization .....	5, 7	242,120	151,111	56,818
Impairment charges for specific individual assets .....	5,7	1,539	958	361
Reversal of impairment charges.....		(330)	(1,007)	(77)
Deferred income tax benefit .....	13	(16,766)	(2,602)	(3,934)
Interest expense and fees charged on bank loans.....		25,626	-	6,014
Other interest charged / (earned).....		219	(3,273)	51
Share-based compensation.....		1,635	1,955	384
Fair value losses/ (gains) on financial assets / liabilities .....		1	-	-
Fair value gains on derivative financial instruments.....	8	1,125	(105)	264
Foreign exchange (gains)/losses.....		(60)	153	(14)
Loss/(gain) on disposal of fixed assets.....		322	(661)	76
Changes in working capital .....	15	15,788	5,285	3,704
Tax expense relating to prior periods .....		-	58,325	-
<b>Net cash provided by operating activities</b> .....		<b>282,391</b>	<b>200,005</b>	<b>66,269</b>
Cash flows from investing activities:				
Purchase of fixed assets and computer software .....		(141,873)	(118,599)	(33,294)
Proceeds from sale of fixed assets .....		231	4,872	54
Purchase of Ethernet operators, net of cash received .....	6	(5,285)	(2,197)	(1,240)
Purchase price adjustment for Crowley .....	6	(2,775)	-	(651)
Purchase of non-controlling interest.....		(15)	-	(4)
Sale of investments.....		28	-	7
Purchase of treasury bonds / notes.....		-	(115,594)	-
Repurchase of treasury bonds / notes .....		-	80,000	-
<b>Net cash used in investing activities</b> .....		<b>(149,689)</b>	<b>(151,518)</b>	<b>(35,128)</b>
Cash flows from financing activities:				
Government grants received .....		6,595	-	1,548
Loan repayments.....		(116,981)	(31)	(27,453)
Payments of interests/fees relating to bank loans.....		(24,835)	-	(5,828)
Repurchase of own shares .....		(24,847)	-	(5,831)
Finance lease payments.....		(3,244)	(2,515)	(760)
<b>Net cash used in financing activities</b> .....		<b>(163,312)</b>	<b>(2,546)</b>	<b>(38,324)</b>
<b>Net change in cash and cash equivalents</b> .....		<b>(30,610)</b>	<b>45,941</b>	<b>(7,183)</b>
<b>Exchange losses on cash and cash equivalents</b> .....		<b>60</b>	<b>(153)</b>	<b>14</b>
Cash and cash equivalents at beginning of period .....		156,509	173,600	36,728
<b>Cash and cash equivalents at end of period</b> .....		<b>125,959</b>	<b>219,388</b>	<b>29,559</b>

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

**NETIA S.A.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**as at and for the six-month period ended June 30, 2012**

*(All amounts in thousands, except as otherwise stated)*

## **1. The Company and the Netia Group**

Netia S.A. (the "Company" or "Netia") was formed in 1990 as a limited liability company under the laws of Poland and was transformed into a joint stock company in 1992. In 2003 a general meeting of shareholders adopted a resolution changing the Company's name from Netia Holdings S.A. to Netia S.A. The Company is incorporated and domiciled in Poland with its registered office located at ul. Poleczki 13, 02-822 Warsaw, Poland. The parent company is entered in the Register of Entrepreneurs kept by the District Court, XIII Economic Department of the National Court Register, Entry No. KRS 0000041649. The parent company was granted statistical REGON number 011566374. The parent company and other Group entities have an unlimited period of operation.

The interim condensed consolidated financial statements of Netia S.A. for the six-month period ended June 30, 2012 comprise the Company and its subsidiaries.

These interim condensed consolidated financial statements were approved for issuance by the Company's Management Board on August 22, 2012 and were subject to a review by an independent auditor.

The Company and its subsidiaries (together, the "Netia Group") is the largest alternative fixed-line telecommunication operator in Poland. The Netia Group provides various voice telephony and data transmission services. These services include switched, fixed-line voice telephone services (including domestic long-distance, international long-distance and fixed-to-mobile services), Integrated Services Digital Network ("ISDN"), Voice over Internet Protocol ("VoIP"), voice mail, leased lines and frame relay and MPLS services. The Netia Group also offers wholesale services (including the wholesale termination of in-bound traffic, ducts, dark fiber and co-location services), services based upon intelligent networks (free phone, split charge and premium rate services) and provides broadband Internet access with ADSL technology. These services are offered over Netia's own copper or fiber networks and, selectively, over network facilities leased from other operators.

Since 2006, the Netia Group has been providing voice and broadband services using WIMAX technology running over 3.6 – 3.8 GHz frequencies that were acquired by the Group in 2005.

Taking advantage of the opportunities arising from changes in the regulatory environment, the Company concluded a bitstream access agreement ("BSA") with Telekomunikacja Polska S.A. ("TP SA") and commercially launched its broadband Internet access services over TP SA's network in January 2007. During 2007 the Company began offering Netia voice services to TP SA customers including the arrangement whereby the customer pays a monthly fee to Netia as well as the hitherto call by call charges. Netia pays a line rental fee to TP SA under the Wholesale Line Rental (WLR) administrative decision issued by the telecommunications regulator (Urząd Komunikacji Elektronicznej, "UKE"). During 2008 Netia began to install its own equipment in the TP SA network nodes using a form of regulated access called Local Loop Unbundling (LLU) and began connecting customers using this form of regulated access.

In September 2008 the Company acquired Tele2 Polska Sp. z o.o. ("Tele2 Polska", merged with Netia in February 2009), a company providing voice and broadband services Poland-wide on the basis of regulated access to the TP SA network, including call by call, WLR and BSA.

The Netia Group is also expanding the footprint of its own network and broadband customer base by acquiring local fast ethernet operators. Since the beginning of 2007, the Netia Group has acquired 37 such operators with a total of 129,808 (not in thousands) active customers. Additionally, the Netia Group has acquired 10,723 (not in thousands) customers and local access networks from other Ethernet operators.

To further broaden Netia's product offer, including convergent services, Netia started offering mobile services in September 2008. Netia provides its mobile service based on a Mobile Service Provider Agreement with P4 Sp. z o.o. ("P4"), enabling Netia to buy mobile services wholesale from P4 and resell them as Netia branded mobile services. In the third quarter of 2009, the scope of this cooperation was expanded to cover mobile broadband services as well as mobile handset based voice and data services.

Netia introduced IPTV services into its offering during 2011 and is gradually upgrading its copper and Ethernet access networks using VDSL and fibre to the building (FTTB) technology to deliver faster broadband.

The Netia Group is also engaged in the installation and supply of specialized mobile radio communication services (public trunking) in Poland through its subsidiary UNI-Net Poland Sp. z o.o. (established in May 2009 through a corporate separation from UNI-Net Sp. z o.o.).

In December 2011 Netia acquired Telefonía DIALOG S.A. ("Dialog", which was transformed into Telefonía DIALOG Sp. z o.o. on April 30, 2012) with its subsidiaries Avista Media Sp. z o.o. ("Avista") and Petrotel Sp. z o.o. ("Petrotel") (together, the "Dialog Group") and Crowley Data Poland Sp. z o.o. ("Crowley", currently CDP Netia Sp. z o.o.), two other Polish alternative operators, which increased materially the size of the Netia Group. Dialog and Petrotel provide a similar range of telecommunication services to Netia and serve business and residential customers. Crowley provides telecommunications services exclusively to business customers. Avista provides call center services mainly for Dialog but also for some third party customers.

The Company's ordinary shares have been listed on the Warsaw Stock Exchange ("WSE") since July 2000. The Company's shares are currently a component of the mWIG40 index comprising companies of medium capitalization. The Company is subject to periodic reporting requirements under the Polish regulations regarding reporting for companies listed on the WSE.

### **Going concern**

As at June 30, 2012, the Group's equity amounted to PLN 2,483,880 and the Netia Group had negative net working capital of PLN 8,917 inclusive of cash available of PLN 125,959 and short-term bank loans of PLN 128,734. Netia's operations were free cash flow generative in 2011 and the first half of 2012 as were those of the Dialog Group and Crowley, and Management expects this to continue over the medium term. 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.

**NETIA S.A.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**as at and for the six-month period ended June 30, 2012**

*(All amounts in thousands, except as otherwise stated)*

## **2. Summary of significant accounting policies**

### ***Basis of preparation***

Following European Union regulations, commencing January 1, 2005 Netia as a public company in Poland prepares consolidated financial statements, as required by the Accounting Act of September 29, 1994 (Journal of Laws of 2009, No. 152, item 1,223 with later amendments, "the Accounting Act") in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). As of August 22, 2012, in light of the current process of IFRS endorsement in the EU and the nature of the Netia Group's activities, there is no difference between IFRS applied by the Netia Group and IFRS endorsed by the EU.

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2011, except for new accounting standards adopted as of January 1, 2012. These interim condensed consolidated financial statements do not include all the information and disclosures required in complete sets of financial statements and should be read in conjunction with the audited December 31, 2011 consolidated financial statements and the related notes.

Certain Group entities (acquired in 2009, 2010 and 2011) keep books of accounts in accordance with accounting policies specified in the Accounting Act and regulations issued based on that Act ("Polish Accounting Standards"). The consolidated financial statements include a number of adjustments not included in the books of account of the Group entities, which were made in order to bring the financial statements of those entities into conformity with IFRS.

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

All Euro amounts shown as supplementary information in the consolidated financial statements have been translated from PLN only as a matter of arithmetic computation using the official rate of the National Bank of Poland at June 29, 2012 of PLN 4.2613 to EUR 1.00. These amounts are included for the convenience of the reader only. Such translation should not be construed as a representation that the PLN amounts have been or could be converted into Euros at this or any other rate.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. The areas where assumptions and estimates are significant to the interim condensed consolidated financial statements include property, plant and equipment (estimation of the recoverable amount and economic useful lives), customer relationships (estimation of future economic benefits) and deferred income tax (estimation of future taxable profits).

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

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

### ***Changes in estimates***

In the six-month period ended June 30, 2012 the Netia Group reassessed the useful lives of its fixed telecommunication network, telecommunications equipment and machinery and equipment and in consequence, for certain non-current assets the remaining period over which they will be depreciated was extended (in most cases) and depreciation rates were changed accordingly.

The following table summarizes main changes in these estimates:

<b>Non-current assets</b>	<b>Main changes in the period of depreciation</b>	<b>Decrease in the depreciation charge recognized in current period (PLN)</b>	<b>Relevant increase in the depreciation charge for the remaining useful life (PLN)</b>
Fixed telecommunications network	- useful lives of certain assets were extended until the end of 2015	(155)	155
Telecommunications equipment	- useful lives of certain assets were extended until the end of 2013	(391)	391
Machinery and equipment	- useful lives of certain assets were extended until the end of 2013 and 2015	(336)	336
Equipment (IT servers)	- useful lives of certain assets were extended until the end of 2013 and 2015	(134)	134
<b>Total impact</b>		<b>(1,016)</b>	<b>1,016</b>

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***New standards, interpretations and amendments to existing standards***

*Adoption of new accounting standards and interpretations*

- Amendments to IFRS 7 "Disclosures - Transfers of Financial Assets". Amendments to the IFRS are to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position and will promote transparency in the reporting of transfer transactions, particularly those that involve securitization of financial assets. Entities are required to apply the amendments for annual periods beginning on or after 1 July 2011.

*Standards, interpretations and amendments to published standards that are not yet effective*

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2012 and have not been adopted early:

- IFRS 9 "Financial Instruments" applicable for annual periods beginning on or after January 1, 2013. IFRS 9 is the first part of Phase 1 of the Board's project to replace IAS 39. IFRS 9 improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. This standard has not yet been endorsed by the EU.
- IFRS 10 "Consolidated Financial Statements", which supersedes IAS 27 and SIC-12 "Consolidation – Special Purpose Entities", effective for annual periods beginning on or after 1 January 2013. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when entity controls one or more other entities. This standard has not yet been endorsed by the EU.
- IFRS 12 "Disclosure of Interests in Other Entities" effective for annual periods beginning on or after 1 January 2013. IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. This standard has not yet been endorsed by the EU.
- IFRS 11 "Joint Arrangements" effective for annual periods beginning on or after 1 January 2013. IFRS 11 establishes principles for financial reporting by parties to a joint arrangement and supersedes IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". This standard has not yet been endorsed by the EU.
- IFRS 13 "Fair Value Measurement" applicable for annual periods beginning on or after 1 January 2013. IFRS 13 defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurement. IFRS 13 applies to IFRSs that require or permit fair value measurement or disclosures about fair value measurements, except in specified circumstances. This standard has not yet been endorsed by the EU.
- Amendments to IAS 27 reissued as IAS 27 "Separate Financial Statements", effective for annual periods beginning on or after 1 January 2013. Consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10. The amendments have not yet been endorsed by the EU.
- Amendments to IAS 28 reissued as IAS 28 "Investments in associates and Joint Ventures", effective for annual periods beginning on or after 1 January 2013. The amendments were issued for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12. The amendments have not yet been endorsed by the EU.
- Amendments to IAS 19 "Employee Benefits", effective for annual periods beginning on or after 1 January 2013. These amendments finalise proposals in the exposure draft Defined Benefit Plans, published in April 2010 and proposals related to termination benefits in the exposure draft IAS 37 Provisions, Contingent Liabilities and Contingent Assets, published in June 2005. These amendments will make it easier for users of financial statements to understand how defined benefit plans affect an entity's financial position, financial performance and cash flows.
- IFRIC 20 "Accounting for stripping costs in the production phase of a surface mine", effective for annual periods beginning on or after 1 January 2013. This interpretation has not yet been endorsed by the EU.
- Amendment to IAS 1 "Presentation of Financial Statements" effective for annual periods beginning on or after 1 July 2012. The amendments require entities to group items presented in Other Comprehensive Income based on whether they are potentially reclassifiable to profit or loss subsequently.
- Amendments to IFRS 7 "Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities", effective for annual periods beginning on or after 1 January 2013. The amendments have not yet been endorsed by the EU.
- Amendments to IAS 32 "Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities", effective for annual periods beginning on or after 1 January 2014. The amendments have not yet been endorsed by the EU.
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards: Government Loans" – effective for financial years beginning on or after 1 January 2013. The amendments have not yet been endorsed by the EU.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 "Transition Guidance" - effective for financial years beginning on or after 1 January 2013. The amendments have not yet been endorsed by the EU.
- Improvements to IFRSs issued in May 2012 – effective for financial years beginning on or after 1 January 2013. The improvements have not yet been endorsed by the EU.
- Amendments to IAS 12 "Income Tax: Deferred Tax: Recovery of Underlying Assets", effective for financial years beginning on or after 1 January 2012. The amendments have not yet been endorsed by the EU.

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- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, effective for financial years beginning on or after 1 July 2011. The amendments have not yet been endorsed by the EU.

Management is currently assessing the impact of the above standards and interpretations on the Netia Group's operations.

### **3. Segment information**

For management purposes, the Netia Group is organized into business units based on their customer segments, and has four reportable operating segments, as follows:

- Home, i.e. residential clients,
- SOHO / SME, i.e. small and medium enterprises,
- Corporate, i.e. large enterprises,
- Carriers, i.e. other telecom service providers.

Management monitors the operating results of its customer segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on EBITDA (defined as operating profit / (loss) excluding depreciation and amortization) and Adjusted EBITDA (defined as operating profit / (loss) excluding depreciation and amortization as well as significant one-off transactions) which is derived from the information in the consolidated financial statements. The Netia Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments. As Netia considers its network to be a single cash generating unit, non-current assets are not acquired by individual operating segments, but shared between them. In order to produce operating profit ("EBIT") for each segment, depreciation and amortization from the shared assets also has to be allocated. The Company uses expected future cash flows from each segment as a basis to allocate depreciation and amortization. The resulting allocations can be volatile between periods, but unlike EBITDA, Management does not place reliance on these segment EBIT results for decision making purposes.

In December 2011 Netia acquired the Dialog Group and Crowley. Pending their full integration into the management and operating structures of the Netia Group, Dialog Group and Crowley are initially being reported as separate reporting segments. During second half of 2012 Management expects to integrate Dialog Group and Crowley into the existing Netia Group segments described above. Customers of Dialog and Crowley have been allocated into their respective customers segments whilst Petrotel has been assigned to the unallocated segment as it continues to operate as a stand-alone operating business.

No operating segments have been aggregated to form the above reportable operating segments.

The following tables present revenue and profit / (loss) information regarding the Netia Group's operating segments for the six-month and the three-month periods ended June 30, 2012 and 2011, respectively:

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*(All amounts in thousands, except as otherwise stated)*

	Home (PLN)	SOHO / SME (PLN)	Corporate (PLN)	Carriers (PLN)	Total reportable segments (PLN)	Unallocated (PLN)	Total "old Netia" (PLN)	Dialog Group (PLN)	Crowley (PLN)	Total (PLN)
<b>Six-month period ended June 30, 2012</b>										
<b>Revenue from external customers .....</b>	<b>402,307</b>	<b>108,190</b>	<b>167,946</b>	<b>106,115</b>	<b>784,558</b>	<b>3,060</b>	<b>787,618</b>	<b>247,466</b>	<b>45,667</b>	<b>1,080,751</b>
<b>Adjusted EBITDA.....</b>	<b>82,903</b>	<b>37,257</b>	<b>88,867</b>	<b>44,027</b>	<b>253,054</b>	<b>(55,436)</b>	<b>197,618</b>	<b>79,321</b>	<b>12,252</b>	<b>289,191</b>
Expenses incurred on mergers and acquisitions .....	-	-	-	-	-	(694)	(694)	-	-	(694)
Integration costs .....	-	-	-	-	-	(9,981)	(9,981)	(1,051)	(936)	(11,968)
Restructuring costs.....	-	-	-	-	-	(4,567)	(4,567)	(11,353)	(1,590)	(17,510)
<b>EBITDA .....</b>	<b>82,903</b>	<b>37,257</b>	<b>88,867</b>	<b>44,027</b>	<b>253,054</b>	<b>(70,678)</b>	<b>182,376</b>	<b>66,917</b>	<b>9,726</b>	<b>259,019</b>
Depreciation and Amortization .....	(29,643)	(28,934)	(59,044)	(30,563)	(148,184)	(26,517)	(174,701)	(61,254)	(6,165)	(242,120)
<b>Operating profit / (loss) .....</b>	<b>53,260</b>	<b>8,323</b>	<b>29,823</b>	<b>13,464</b>	<b>104,870</b>	<b>(97,195)</b>	<b>7,675</b>	<b>5,663</b>	<b>3,561</b>	<b>16,899</b>
Finance income / (cost), net .....	-	-	-	-	-	(25,623)	(25,623)	2,614	(46)	(23,055)
Income tax benefit / (charge) .....	-	-	-	-	-	(2,650)	(2,650)	19,798	180	17,328
<b>Profit / (Loss) .....</b>	<b>53,260</b>	<b>8,323</b>	<b>29,823</b>	<b>13,464</b>	<b>104,870</b>	<b>(125,468)</b>	<b>(20,598)</b>	<b>28,075</b>	<b>3,695</b>	<b>11,172</b>
Capital expenditure.....	33,501	8,030	30,409	10,068	82,008	20,986	102,994	24,512	1,315	128,821

The revenues of Netia Group with Dialog Group and Crowley integrated into the existing segments for the six-month period ended June 30, 2012, is reported below:

	Home (PLN)	SOHO / SME (PLN)	Corporate (PLN)	Carriers (PLN)	Total reportable segments (PLN)	Unallocated (PLN)	Total (PLN)
<b>Six-month period ended June 30, 2012</b>							
<b>Revenue from external customers .....</b>	<b>537,914</b>	<b>142,777</b>	<b>221,463</b>	<b>161,212</b>	<b>1,063,366</b>	<b>17,385</b>	<b>1,080,751</b>



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	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
<b>Six-month period ended June 30, 2011</b>							
<b>Revenue from external customers .....</b>	<b>414,356</b>	<b>99,170</b>	<b>168,620</b>	<b>112,161</b>	<b>794,307</b>	<b>3,162</b>	<b>797,469</b>
<b>Adjusted EBITDA.....</b>	<b>77,837</b>	<b>32,235</b>	<b>87,313</b>	<b>52,119</b>	<b>249,504</b>	<b>(55,168)</b>	<b>194,336</b>
Restructuring cost.....	-	-	-	-	-	(235)	(235)
Expenses incurred on merger and acquisition projects.....	-	-	-	-	-	(1,667)	(1,667)
USO provision .....	-	-	-	-	-	(2,380)	(2,380)
<b>EBITDA .....</b>	<b>77,837</b>	<b>32,235</b>	<b>87,313</b>	<b>52,119</b>	<b>249,504</b>	<b>(59,450)</b>	<b>190,054</b>
Depreciation and Amortization .....	(32,868)	(24,503)	(49,877)	(25,954)	(133,202)	(17,909)	(151,111)
<b>Operating profit / (loss) .....</b>	<b>44,969</b>	<b>7,732</b>	<b>37,436</b>	<b>26,165</b>	<b>116,302</b>	<b>(77,359)</b>	<b>38,943</b>
Finance income, net.....	-	-	-	-	-	6,905	6,905
Income tax charge .....	-	-	-	-	-	(55,982)	(55,982)
<b>Profit / (Loss) .....</b>	<b>44,969</b>	<b>7,732</b>	<b>37,436</b>	<b>26,165</b>	<b>116,302</b>	<b>(126,436)</b>	<b>(10,134)</b>
Capital expenditure.....	36,317	7,260	27,875	9,810	81,262	16,245	97,507

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	Home (PLN)	SOHO / SME (PLN)	Corporate (PLN)	Carriers (PLN)	Total reportable segments (PLN)	Unallocated (PLN)	Total "old Netia" (PLN)	Dialog Group (PLN)	Crowley (PLN)	Total (PLN)
<b>Three-month period ended June 30, 2012</b>										
<b>Revenue from external customers .....</b>	<b>199,795</b>	<b>54,300</b>	<b>83,427</b>	<b>52,154</b>	<b>389,676</b>	<b>1,494</b>	<b>391,170</b>	<b>123,262</b>	<b>22,040</b>	<b>536,472</b>
<b>Adjusted EBITDA.....</b>	<b>47,324</b>	<b>19,554</b>	<b>44,578</b>	<b>21,579</b>	<b>133,035</b>	<b>(24,936)</b>	<b>108,099</b>	<b>41,574</b>	<b>6,509</b>	<b>156,182</b>
Expenses incurred on mergers and acquisitions.....	-	-	-	-	-	(457)	(457)	-	-	(457)
Integration costs .....	-	-	-	-	-	(4,354)	(4,354)	(727)	(856)	(5,937)
Restructuring costs.....	-	-	-	-	-	(3,928)	(3,928)	(9,506)	(1,477)	(14,911)
<b>EBITDA.....</b>	<b>47,324</b>	<b>19,554</b>	<b>44,578</b>	<b>21,579</b>	<b>133,035</b>	<b>(33,675)</b>	<b>99,360</b>	<b>31,341</b>	<b>4,176</b>	<b>134,877</b>
Depreciation and Amortization .....	(14,874)	(14,531)	(29,577)	(15,387)	(74,369)	(13,868)	(88,237)	(30,951)	(2,913)	(122,101)
<b>Operating profit / (loss) .....</b>	<b>32,450</b>	<b>5,023</b>	<b>15,001</b>	<b>6,192</b>	<b>58,666</b>	<b>(47,543)</b>	<b>11,123</b>	<b>390</b>	<b>1,263</b>	<b>12,776</b>
Finance income / (cost), net .....	-	-	-	-	-	(11,112)	(11,112)	1,404	(12)	(9,720)
Income tax benefit / (charge) .....	-	-	-	-	-	(4,058)	(4,058)	21,957	63	17,962
<b>Profit / (Loss).....</b>	<b>32,450</b>	<b>5,023</b>	<b>15,001</b>	<b>6,192</b>	<b>58,666</b>	<b>(62,713)</b>	<b>(4,047)</b>	<b>23,751</b>	<b>1,314</b>	<b>21,018</b>
Capital expenditure.....	16,220	4,078	15,105	6,421	41,824	13,520	55,344	12,702	878	68,924

The revenues of Netia Group with Dialog Group and Crowley integrated into the existing segments for the three-month period ended June 30, 2012, is reported below:

	Home (PLN)	SOHO / SME (PLN)	Corporate (PLN)	Carriers (PLN)	Total reportable segments (PLN)	Unallocated (PLN)	Total (PLN)
<b>Three-month period ended June 30, 2012</b>							
<b>Revenue from external customers .....</b>	<b>268,594</b>	<b>71,227</b>	<b>109,649</b>	<b>78,757</b>	<b>528,227</b>	<b>8,245</b>	<b>536,472</b>

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	Home (PLN)	SOHO / SME (PLN)	Corporate (PLN)	Carriers (PLN)	Total reportable segments (PLN)	Unallocated (PLN)	Total (PLN)
<b>Three-month period ended June 30, 2011</b>							
<b>Revenue from external customers .....</b>	<b>206,536</b>	<b>50,007</b>	<b>83,165</b>	<b>55,033</b>	<b>394,741</b>	<b>1,539</b>	<b>396,280</b>
<b>Adjusted EBITDA.....</b>	<b>38,008</b>	<b>15,718</b>	<b>41,172</b>	<b>25,149</b>	<b>120,047</b>	<b>(27,215)</b>	<b>92,832</b>
Restructuring cost.....	-	-	-	-	-	(235)	(235)
Expenses incurred on merger and acquisition projects.....	-	-	-	-	-	(1,538)	(1,538)
USO provision .....	-	-	-	-	-	(2,380)	(2,380)
<b>EBITDA.....</b>	<b>38,008</b>	<b>15,718</b>	<b>41,172</b>	<b>25,149</b>	<b>120,047</b>	<b>(31,368)</b>	<b>88,679</b>
Depreciation and Amortization .....	(16,255)	(12,118)	(24,668)	(12,835)	(65,876)	(9,910)	(75,786)
Operating profit / (loss).....	<b>21,753</b>	<b>3,600</b>	<b>16,504</b>	<b>12,314</b>	<b>54,171</b>	<b>(41,278)</b>	<b>12,893</b>
Finance income, net.....	-	-	-	-	-	3,845	3,845
Income tax charge .....	-	-	-	-	-	(3,827)	(3,827)
<b>Profit / (Loss).....</b>	<b>21,753</b>	<b>3,600</b>	<b>16,504</b>	<b>12,314</b>	<b>54,171</b>	<b>(41,260)</b>	<b>12,911</b>
Capital expenditure.....	20,067	3,908	15,101	5,179	44,255	12,334	56,589

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Unallocated revenues comprise mainly revenues from the radio communication segment. A reconciliation of earnings before interest and tax ("EBIT") for reportable segments to net profit/(loss) is provided as follows:

	<b>Three -month period ended June 30, 2012</b>	<b>Six -month period ended June 30, 2012</b>	<b>Three -month period ended June 30, 2011</b>	<b>Six -month period ended June 30, 2011</b>
	(PLN)	(PLN)	(PLN)	(PLN)
Operating profit for "old" reportable segments.....	58,666	104,870	54,171	116,302
Operating profit for Dialog and Crowley .....	1,653	9,224	-	-
Radio communication segment .....	(171)	(318)	11	(4)
General fixed costs (incl. administration, IT, professional services) .....	(28,522)	(61,181)	(30,076)	(60,736)
Reorganization and restructuring costs .....	(3,928)	(4,567)	(235)	(235)
Integration costs .....	(4,354)	(9,981)	-	-
Other operating income / (expenses), net .....	3,226	5,214	(1,155)	1,354
Depreciation and amortization of unallocated assets (excluding radio communication segment).....	(13,794)	(26,362)	(9,823)	(17,738)
Finance income/(costs), net .....	(9,720)	(23,055)	3,845	6,905
Income tax benefit/(charge).....	17,962	17,328	(3,827)	(55,982)
<b>Profit / (Loss) .....</b>	<b>21,018</b>	<b>11,172</b>	<b>12,911</b>	<b>(10,134)</b>

The Netia Group operates in one geographical area, which is the territory of Poland.

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

##### ***Restructuring***

Following the acquisition of Dialog Group and Crowley in December 2011 which significantly augmented the scale of the business, the Netia Group performed a comprehensive cost review across all functional areas of the Company and identified areas for operating cost optimization. The reorganization program includes a reduction of headcount, review of control and reporting processes, increase in work effectiveness, span of control increase and contract renegotiations. In connection with the restructuring program, in April 2012 the Netia Group announced a headcount reduction, which assumed a decrease of employment by approximately 519 full time employees and changes in terms of employment contracts of approximately 129 employees by the end of 2012.

Total reorganization costs recorded during the six-month period ended June 30, 2012 amounted to PLN 29,478 (out of which PLN 17,510 related to the restructuring program announced in April 2012 and PLN 11,968 related to integration costs) and were included in the following cost categories:

Six-month period ended June 30, 2012	<b>Restructuring costs</b> (PLN)	<b>Integration costs</b> (PLN)
Cost of sales		
Salaries and benefits .....	(3,263)	(34)
Other .....	-	(3)
Selling and distribution costs		
Salaries and benefits .....	(8,797)	(11)
Other .....	-	(31)
General and administration costs		
Salaries and benefits .....	(5,450)	(3,277)
Other .....	-	(8,612)
	<b><u>(17,510)</u></b>	<b><u>(11,968)</u></b>

##### ***Initial agreement to sell the Company's investment property***

On March 23, 2012 the Company and Tilia SKA, a Company related to Ghelamco Group signed a conditional purchase agreement to sell Netia's land totalling 23,600 m2 (not in thousands) in Warsaw at Poleczki 13 and two buildings located thereon .

The Management of the Company plans to close the transaction for a value between PLN 25,920 - 32,020, depending on the size of the rentable area approved for construction by the local authorities. As an integral part of the agreement, Netia has committed to lease one of the buildings that Ghelamco plans to develop on the site, starting from 2015. Finalization of the sale depends on receipt of various authorizations from the relevant local authorities in a form satisfactory to the buyer. Management currently expects that receipt of all such authorisations will be completed in the first half of 2013 and that the sale transaction should be closed by July 31, 2013.

Consequently, as at June 30, 2012, the property of PLN 26,105 (reclassified from investment property) and land of PLN 631 and infrastructure of PLN 34 (reclassified from land) which will be sold to Tilia SKA were presented as assets held for sale.

This agreement does not relate to land and one building at the same location which houses network equipment crucial for the operation of Netia's network and is presented as property, plant and equipment as at June 30, 2012.

##### ***Interest rate risk hedging***

On January 5, 2012 and January 10, 2012 the Company entered into IRS contracts hedging interest rate risk associated with interest payments in the amount of fifty per cent of all amounts projected to be outstanding under the Term Loan (See Note 10 Borrowings). For these IRS contracts hedge accounting was applied. For details see Note 8.

##### ***Intercompany purchase of fixed assets (not in thousands)***

In second quarter of 2012 the Company acquired passive telecommunications network elements from its Dialog subsidiary as part of the on-going integration of Dialog into the Netia Group. These network elements will be managed jointly with Netia's existing network to reduce operating costs in the future. Telefonía Dialog Sp. z o.o. will continue to utilise the telecommunications network elements to service its clients via a long-term agreement put in place between Netia and Telefonía Dialog Sp. z o.o. This asset sale transaction resulted in Dialog incurring significant tax losses, which can be utilised over the next five years. Simultaneously Dialog crystallised timing differences on fixed assets generated by earlier asset impairment provisions for which no deferred tax asset had been recognised due to the length of time necessary for those timing differences to reverse. Netia Group recognised net additional deferred tax assets on this transaction of PLN 21 mln (see Note 13).

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**5. Property, plant and equipment**

Current period:

	<b>Buildings</b>	<b>Land</b>	<b>Fixed telecommunications network</b>	<b>Telecommunications equipment</b>	<b>Machinery and equipment</b>	<b>Office furniture and equipment</b>	<b>Vehicles</b>	<b>Fixed assets under construction</b>	<b>Total</b>
	<b>(PLN)</b>	<b>(PLN)</b>	<b>(PLN)</b>	<b>(PLN)</b>	<b>(PLN)</b>	<b>(PLN)</b>	<b>(PLN)</b>	<b>(PLN)</b>	<b>(PLN)</b>
Gross book value as at January 1, 2012 (restated).....	114,326	8,477	2,462,104	2,229,024	127,660	84,291	4,447	106,719	5,137,048
Additions.....	8	-	885	547	211	1,885	53	109,424	113,013
Transfer to assets held for sale.....	-	(631)	-	-	-	-	-	(34)	(665)
Transfer from investment property.....	283	-	156	-	-	2,078	-	-	2,517
Purchase of subsidiary.....	14	12	93	31	18	16	69	5	258
Transfers.....	800	-	31,879	78,770	3,779	1,233	-	(116,461)	-
Disposals.....	(9)	(11)	(206)	(1,119)	(1,940)	(6,382)	(562)	(18)	(10,247)
Other movements.....	(17)	-	(1,098)	(96)	830	495	(71)	1	44
<b>Gross book value as at June 30, 2012.....</b>	<b>115,405</b>	<b>7,847</b>	<b>2,493,813</b>	<b>2,307,157</b>	<b>130,558</b>	<b>83,616</b>	<b>3,936</b>	<b>99,636</b>	<b>5,241,968</b>
Accumulated depreciation as at January 1, 2012.....	34,287	-	926,780	1,186,824	75,815	60,364	1,159	-	2,285,229
Depreciation expense.....	3,542	-	67,756	97,215	4,956	4,717	1,294	-	179,480
Transfer from investment property.....	13	-	98	-	-	2,010	-	-	2,121
Disposals.....	-	-	(27)	(315)	(1,755)	(5,345)	(493)	-	(7,935)
Other movements.....	(1)	-	(688)	130	535	30	-	-	6
<b>Accumulated depreciation as at June 30, 2012.....</b>	<b>37,841</b>	<b>-</b>	<b>993,919</b>	<b>1,283,854</b>	<b>79,551</b>	<b>61,776</b>	<b>1,960</b>	<b>-</b>	<b>2,458,901</b>
Accumulated impairment as at January 1, 2012.....	7,301	-	359,747	277,530	13,967	5,092	18	4,117	667,772
Impairment charge for specific assets.....	-	-	-	-	-	-	-	1,191	1,191
Reversal of impairment charge for specific assets.....	-	-	-	-	-	-	-	(13)	(13)
Transfer from investment property.....	23	-	28	-	-	68	-	-	119
Disposals.....	-	-	-	(51)	(306)	(428)	-	(393)	(1,178)
Other movements.....	(1)	-	(96)	(148)	245	-	-	-	-
<b>Accumulated impairment as at June 30, 2012.....</b>	<b>7,323</b>	<b>-</b>	<b>359,679</b>	<b>277,331</b>	<b>13,906</b>	<b>4,732</b>	<b>18</b>	<b>4,902</b>	<b>667,891</b>
Net book value as at January 1, 2012.....	72,738	8,477	1,175,577	764,670	37,878	18,835	3,270	102,602	2,184,047
<b>Net book value as at June 30, 2012.....</b>	<b>70,241</b>	<b>7,847</b>	<b>1,140,215</b>	<b>745,972</b>	<b>37,101</b>	<b>17,108</b>	<b>1,958</b>	<b>94,734</b>	<b>2,115,176</b>

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

*Comparative period:*

	<b>Buildings</b>	<b>Land</b>	<b>Fixed telecommunications network</b>	<b>Telecommunications equipment</b>	<b>Machinery and equipment</b>	<b>Office furniture and equipment</b>	<b>Vehicles</b>	<b>Fixed assets under construction</b>	<b>Total</b>
	<b>(PLN)</b>	<b>(PLN)</b>	<b>(PLN)</b>	<b>(PLN)</b>	<b>(PLN)</b>	<b>(PLN)</b>	<b>(PLN)</b>	<b>(PLN)</b>	<b>(PLN)</b>
Gross book value as at January 1, 2011 .....	63,788	4,979	2,076,941	1,965,036	115,102	72,620	1,578	83,256	4,383,300
Additions .....	-	-	134	56	56	756	70	83,220	84,292
Transfer from investment property .....	26,500	-	-	-	-	-	-	-	26,500
Purchase of subsidiary .....	-	-	235	120	-	-	16	-	371
Purchase of operational networks .....	-	-	-	59	119	-	2	-	180
Transfers .....	356	-	22,502	42,570	2,688	278	-	(68,394)	-
Disposals .....	-	(154)	(4,816)	(5,719)	(222)	(1,051)	(91)	(42)	(12,095)
Other movements .....	(25)	-	(13)	(235)	273	-	-	-	-
<b>Gross book value as at June 30, 2011 .....</b>	<b>90,619</b>	<b>4,825</b>	<b>2,094,983</b>	<b>2,001,887</b>	<b>118,016</b>	<b>72,603</b>	<b>1,575</b>	<b>98,040</b>	<b>4,482,548</b>
Accumulated depreciation as at January 1, 2011 .....	23,686	-	868,326	1,040,579	69,602	54,902	910	-	2,058,005
Depreciation expense .....	2,526	-	30,015	74,599	3,610	3,388	194	-	114,332
Transfer from investment property .....	5,417	-	-	-	-	-	-	-	5,417
Disposals .....	-	-	(1,647)	(3,989)	(132)	(872)	(63)	-	(6,703)
Other movements .....	-	-	(41)	(3)	43	1	-	-	-
<b>Accumulated depreciation as at June 30, 2011 .....</b>	<b>31,629</b>	<b>-</b>	<b>896,653</b>	<b>1,111,186</b>	<b>73,123</b>	<b>57,419</b>	<b>1,041</b>	<b>-</b>	<b>2,171,051</b>
Accumulated impairment as at January 1, 2011 .....	6,491	534	510,546	308,801	15,878	5,312	18	2,033	849,613
Impairment charge for specific assets .....	-	-	-	-	-	67	-	891	958
Reversal of impairment charge for specific assets .....	-	-	-	-	-	-	-	(1,007)	(1,007)
Transfer from investment property .....	1,844	-	-	-	-	-	-	-	1,844
Transfers .....	-	-	-	5	1	-	-	(6)	-
Disposals .....	-	(33)	(248)	(609)	(25)	(166)	-	(139)	(1,220)
Other movements .....	-	-	5	(120)	115	-	-	-	-
<b>Accumulated impairment as at June 30, 2011 .....</b>	<b>8,335</b>	<b>501</b>	<b>510,303</b>	<b>308,077</b>	<b>15,969</b>	<b>5,213</b>	<b>18</b>	<b>1,772</b>	<b>850,188</b>
Net book value as at January 1, 2011 .....	33,611	4,445	698,069	615,656	29,622	12,406	650	81,223	1,475,682
<b>Net book value as at June 30, 2011 .....</b>	<b>50,655</b>	<b>4,324</b>	<b>688,027</b>	<b>582,624</b>	<b>28,924</b>	<b>9,971</b>	<b>516</b>	<b>96,268</b>	<b>1,461,309</b>

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## 6. Acquisitions

### Current period

#### **Acquisition of Ethernet operators**

##### **Elpro-Elektronika Profesjonalna Waldemar Nitka Sp. z o.o.**

On February 14, 2012, Interneta Sp. z o.o. ("Interneta"), the Company's subsidiary, purchased 100% of the share capital of Elpro-Elektronika Profesjonalna Waldemar Nitka Sp. z o.o. ("Elpro"), an internet service provider offering broadband Internet access to residential clients. The total price for all Elpro shares has been set at PLN 2,202.

The Netia Group accounted for the acquisition of Elpro using the acquisition method.

If the acquisition had occurred on January 1, 2012, the Netia Group's revenue would have amounted to PLN 1,080,862 and profit would have been PLN 11,234.

The Netia Group performed a valuation of the acquired company's assets, liabilities and contingent liabilities. In the purchase price allocation process the Netia Group identified customer relationships as an intangible asset. The fair value of customer relationships was estimated using the excess earnings method. Further changes to the valuation may be introduced during the course of 12 months from the acquisition dates if additional information in respect of acquired assets, liabilities and contingent liabilities is obtained. Such additional information may include information related to pre-acquisition contingencies and calculation of the related deferred income taxes. The Netia Group will continue evaluating fair values of these assets, liabilities and contingent liabilities, which may result in further adjustments to the carrying amounts of identifiable net assets.

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

	(PLN)
Purchase consideration .....	2,202
Provisional fair value of net assets acquired .....	(608)
Goodwill .....	<b>1,594</b>

The goodwill is based on provisional fair values of net assets acquired and is attributable to the significant synergies expected to arise after the Netia Group's acquisition. None of the recognized goodwill is expected to be deductible for income tax purposes.

The assets and liabilities recognized in the consolidated statement of financial position arising from the acquisition, as at the acquisition date, are as follows:

	Acquiree's carrying amount	Provisional fair value
	(PLN)	(PLN)
Customer relationships .....	-	712
Property, plant and equipment .....	12	12
Trade receivables .....	40	40
Cash and cash equivalents .....	52	52
Prepayments .....	5	5
Trade liabilities .....	(2)	(2)
Tax and other liabilities .....	(76)	(76)
Deferred income tax, net .....	-	(135)
Net assets acquired .....	<b>31</b>	<b>608</b>

Fair value of the purchase consideration transferred for the acquisition:

	(PLN)
Cash paid .....	2,202
Total consideration .....	<b>2,202</b>
	(PLN)
Total purchase consideration settled in cash .....	(2,202)
Cash and cash equivalents in the subsidiary acquired .....	52
Cash outflow on acquisition .....	<b>(2,150)</b>

The above investments are of a long-term nature.



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**STI Sp. z o.o.**

On March 7, 2012, Interneta Sp. z o.o. purchased 100% of the share capital of STI Sp. z o.o. ("STI"), an internet service provider offering broadband Internet access to residential clients. The total purchase consideration for all STI shares has been set at PLN 1,623.

The Netia Group accounted for the acquisition of STI using the acquisition method.

If the acquisition had occurred on January 1, 2012, the Netia Group's revenue would have amounted to PLN 1,080,873 and profit would have been PLN 11,137.

The Netia Group performed a valuation of the acquired company's assets, liabilities and contingent liabilities. In the purchase price allocation process the Netia Group identified customer relationships as an intangible asset. The fair value of customer relationships was estimated using the excess earnings method. Further changes to the valuation may be introduced during the course of 12 months from the acquisition dates if additional information in respect of acquired assets, liabilities and contingent liabilities is obtained. Such additional information may include information related to pre-acquisition contingencies and calculation of the related deferred income taxes. The Netia Group will continue evaluating fair values of these assets, liabilities and contingent liabilities, which may result in further adjustments to the carrying amounts of identifiable net assets.

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

	(PLN)
Purchase consideration .....	1,623
Provisional fair value of net assets acquired .....	(540)
Goodwill .....	<u><b>1,083</b></u>

The goodwill is based on provisional fair values of net assets acquired and is attributable to the significant synergies expected to arise after the Netia Group's acquisition. None of the recognized goodwill is expected to be deductible for income tax purposes.

The assets and liabilities recognized in the consolidated statement of financial position arising from the acquisition, as at the acquisition date, are as follows:

	<b>Acquiree's carrying amount</b>	<b>Provisional fair value</b>
	(PLN)	(PLN)
Customer relationships .....	-	581
Property, plant and equipment .....	162	162
Investments .....	28	28
Trade receivables .....	65	65
Cash and cash equivalents .....	35	35
Prepayments .....	7	7
Borrowings .....	(61)	(61)
Trade liabilities .....	(76)	(76)
Tax and other liabilities .....	(69)	(69)
Deferred income .....	(22)	(22)
Deferred income tax, net .....	-	(110)
Net assets acquired .....	<u><b>69</b></u>	<u><b>540</b></u>

Fair value of the purchase consideration transferred for the acquisition:

	(PLN)
Cash paid .....	1,623
Total consideration .....	<u><b>1,623</b></u>
	(PLN)
Total purchase consideration settled in cash .....	(1,623)
Cash and cash equivalents in the subsidiary acquired .....	35
Cash outflow on acquisition .....	<u><b>(1,588)</b></u>

The above investments are of a long-term nature.

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**Sanetja Sp. z o.o.**

On May 29, 2012, Interneta Sp. z o.o. purchased 100% of the share capital of Sanetja Sp. z o.o. ("Sanetja"), an internet service provider offering broadband Internet access to residential clients. The total purchase consideration for all Sanetja shares has been set at PLN 1,556.

The Netia Group accounted for the acquisition of Sanetja using the acquisition method.

If the acquisition had occurred on January 1, 2012, the Netia Group's revenue would have amounted to PLN 1,080,752 and profit would have been PLN 11,138.

The Netia Group performed a valuation of the acquired company's assets, liabilities and contingent liabilities. In the purchase price allocation process the Netia Group identified customer relationships as an intangible asset. The fair value of customer relationships was estimated using the excess earnings method. Further changes to the valuation may be introduced during the course of 12 months from the acquisition dates if additional information in respect of acquired assets, liabilities and contingent liabilities is obtained. Such additional information may include information related to pre-acquisition contingencies and calculation of the related deferred income taxes. The Netia Group will continue evaluating fair values of these assets, liabilities and contingent liabilities, which may result in further adjustments to the carrying amounts of identifiable net assets.

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

	(PLN)
Purchase consideration .....	1,556
Provisional fair value of net assets acquired .....	(303)
Goodwill .....	<u>1,253</u>

The goodwill is based on provisional fair values of net assets acquired and is attributable to the significant synergies expected to arise after the Netia Group's acquisition. None of the recognized goodwill is expected to be deductible for income tax purposes.

The assets and liabilities recognized in the consolidated statement of financial position arising from the acquisition, as at the acquisition date, are as follows:

	Acquiree's carrying amount	Provisional fair value
	(PLN)	(PLN)
Customer relationships .....	-	410
Property, plant and equipment .....	73	73
Trade receivables .....	8	8
Cash and cash equivalents .....	10	10
Borrowings .....	(51)	(51)
Trade liabilities .....	(22)	(22)
Tax and other liabilities .....	(47)	(47)
Deferred income tax, net .....	-	(78)
Net assets acquired .....	<u>(29)</u>	<u>303</u>

Fair value of the purchase consideration transferred for the acquisition:

	(PLN)
Cash paid .....	1,556
Total consideration .....	<u>1,556</u>

  

	(PLN)
Total purchase consideration settled in cash .....	(1,556)
Cash and cash equivalents in the subsidiary acquired .....	10
Cash outflow on acquisition .....	<u>(1,546)</u>

The above investments are of a long-term nature.

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**Ethernet operators: changes in provisional accounting in 2012**

During the year ended December 31, 2011 the Netia Group acquired several ethernet operators and performed a provisional valuation of the acquired companies' assets, liabilities and contingent liabilities. During the six-month period ended June 30, 2012 the company adjusted provisional values of the purchase consideration and net assets of some subsidiaries acquired in 2011. Further changes to the valuation may be introduced during the course of 12 months from the acquisition dates if additional information in respect of acquired assets, liabilities and contingent liabilities is obtained.

During the year ended December 31, 2011 the Netia Group purchased the following internet service providers:

Company	Date	Share capital acquired	Purchase price (PLN)	
Netpro Sp. z o.o. ("Netpro") .....	March 30, 2011	100.0 %	600	end of provisional accounting
Saite Sp. z o.o. ("Saite") .....	June 28, 2011	100.0 %	2,331	end of provisional accounting
E-IMG Internet Multimedia Group Sp. z o.o. ("E-IMG Internet") .....	August 23, 2011	100.0 %	2,764	provisional accounting
ZAX.EU Sp. z o.o. ("ZAX.EU") .....	September 30, 2011	100.0 %	2,960	provisional accounting
Silesia Multimedia Sp. z o.o. ("Silesia") .....	November 18, 2011	100.0 %	3,712	provisional accounting
Netsystem Sp. z o.o. ("Netsystem") .....	December 16, 2011	100.0 %	2,958	provisional accounting
Sieci Multimedialne Intergeo Sp. z o.o. ("Intergeo") .....	December 21, 2011	100.0 %	1,206	provisional accounting
ComNet ITT Sp. z o.o. ("ComNet") .....	December 29, 2011	100.0 %	6,707	provisional accounting
<b>Total</b> .....			<b>23,238</b>	

Details of provisional fair values of net assets acquired and goodwill as of the date of the acquisition estimated as at June 30, 2012 and December 31, 2011 are as follows:

	<b>E-IMG Internet</b>	<b>ZAX.EU</b>	<b>Silesia</b>	<b>Netsystem</b>	<b>Intergeo</b>	<b>ComNet</b>	<b>Total</b>
Purchase price provisionally estimated as at December 31, 2011 .....	2,764	2,960	3,712	2,890	1,206	6,707	20,239
Adjustments to purchase consideration made in 2012 * .....	-	-	-	68	-	-	68
Purchase price provisionally estimated as at June 30, 2012 .....	<b>2,764</b>	<b>2,960</b>	<b>3,712</b>	<b>2,958</b>	<b>1,206</b>	<b>6,707</b>	<b>20,307</b>
Provisional fair value of net assets acquired estimated as at December 31, 2011 .....	(845)	(141)	(665)	(753)	(198)	(1,990)	(4,592)
Adjustments to fair value of net assets acquired made in 2012 * .....	-	-	-	-	(105)	-	(105)
Provisional fair value of net assets acquired estimated as at June 30, 2012 .....	<b>(845)</b>	<b>(141)</b>	<b>(665)</b>	<b>(753)</b>	<b>(303)</b>	<b>(1,990)</b>	<b>(4,697)</b>
Goodwill .....	<b>1,919</b>	<b>2,819</b>	<b>3,047</b>	<b>2,205</b>	<b>903</b>	<b>4,717</b>	<b>15,610</b>

\* The 2011 comparative information has been restated to reflect the above adjustments in provisional valuation.

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The goodwill is based on provisional fair values of net assets acquired and is attributable to the significant synergies expected to arise after the Netia Group's acquisition. None of the recognized goodwill is expected to be deductible for income tax purposes.

The assets and liabilities recognized in the consolidated statement of financial position arising from the acquisitions, as at the acquisitions' dates, are as follows:

<b>Acquiree's carrying amount</b>	<b>E-IMG Internet</b>	<b>ZAX.EU</b>	<b>Silesia</b>	<b>Netsystem</b>	<b>Intergeo</b>	<b>ComNet</b>	<b>Total</b>
Property, plant and equipment .....	67	112	28	215	115	741	1,278
Inventories .....	-	64	-	-	-	9	73
Receivables .....	34	19	60	1	1	55	170
Prepayments .....	-	13	22	-	-	-	35
Cash and cash equivalents .....	73	34	111	99	5	56	378
Borrowings .....	-	(100)	-	-	(36)	(320)	(456)
Trade liabilities .....	(24)	(191)	(76)	(59)	(14)	(57)	(421)
Other liabilities and accruals .....	(79)	(349)	(35)	(18)	(9)	(41)	(531)
Deferred income .....	-	(17)	-	-	-	-	(17)
<b>Net assets acquired .....</b>	<b>71</b>	<b>(415)</b>	<b>110</b>	<b>238</b>	<b>62</b>	<b>443</b>	<b>509</b>

<b>Provisional fair value estimated as at June 30, 2012</b>	<b>E-IMG Internet</b>	<b>ZAX.EU</b>	<b>Silesia</b>	<b>Netsystem</b>	<b>Intergeo</b>	<b>ComNet</b>	<b>Total</b>
Property, plant and equipment .....	67	112	28	215	115	741	1,278
Customer relationships .....	955	686	685	636	297	1,910	5,169
Inventories .....	-	64	-	-	-	9	73
Receivables .....	34	19	60	1	1	55	170
Prepayments .....	-	13	22	-	-	-	35
Cash and cash equivalents .....	73	34	111	99	5	56	378
Borrowings .....	-	(100)	-	-	(36)	(320)	(456)
Trade liabilities .....	(24)	(191)	(76)	(59)	(14)	(57)	(421)
Other liabilities and accruals .....	(79)	(349)	(35)	(18)	(9)	(41)	(531)
Deferred income .....	-	(17)	-	-	-	-	(17)
Deferred income tax liabilities .....	(181)	(130)	(130)	(121)	(56)	(363)	(981)
<b>Provisional fair value of net assets acquired .....</b>	<b>845</b>	<b>141</b>	<b>665</b>	<b>753</b>	<b>303*</b>	<b>1,990</b>	<b>4,697</b>

\* Provisional fair value of property, plant and equipment increased by PLN 115 in 2012 with corresponding decrease in fair value of customer relationship by PLN 13 in 2012. Total provisional fair value of net assets acquired increased by PLN 105 net of tax.

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**Acquisition of Crowley : changes in provisional accounting in 2012**

On December 14, 2011 Netia purchased from Crowley Data, LLC and Crowley Poland, LLC (the "Sellers") 197,862 shares (not in thousands) in Crowley Data Poland sp. z o.o., with its registered office in Warsaw ("Crowley"), constituting 100% of the shares in the share capital of Crowley and representing 100% of the votes at the meetings of the shareholders of Crowley (the "Shares").

The total purchase price for the enterprise was USD 30,797 and comprised the purchase of a shareholder loan advanced by the Sellers to Crowley with the balancing amount paid for 100 % of the shares. The purchase price for the Shares is subject to adjustment for the difference between the certain amounts stated in the balance sheet of Crowley as at 31 December 2010 and the respective amounts stated in the balance sheet of Crowley as at 30 November 2011.

On September 16, 2011, Netia executed a foreign exchange risk hedging transaction at the USD/PLN exchange rate of PLN 3.14 per USD 1.00 to mitigate the foreign currency risk associated with the acquisition.

A deposit in the amount of PLN 5,000 was paid directly after signing the share purchase agreement and this amount was treated as part of the purchase consideration. On December 14, 2011 the Company paid the outstanding (net of hedging gains) PLN 91,894 for all shares in Crowley (including purchase of the shareholder loan extended to Crowley) and as of December 31, 2011 accrued for the purchase price adjustment of PLN 4,055 (from which PLN 2,775 was paid on March 15, 2012). Consequently, Netia expects to close the transaction at a consideration of PLN 100,950 comprising the enterprise value of PLN 97,589 and net cash and cash equivalents of PLN 3,361, subject to any adjustments to the balance sheet as at November 30, 2011 still to be agreed between Netia and the seller under the terms of the share purchase agreement.

The Netia Group accounted for the acquisition of Crowley using the purchase method and started consolidating the financial statements of Crowley as of December 14, 2011.

The Netia Group performed a valuation of the acquired company's assets, liabilities and contingent liabilities. In the purchase price allocation process the Netia Group identified customer relationships as an intangible asset. The fair value of customer relationships was estimated using the excess earnings method. Further changes to the valuation may be introduced during the course of 12 months from the acquisition dates if additional information in respect of acquired assets, liabilities and contingent liabilities is obtained. Such additional information may include information related to pre-acquisition contingencies and calculation of the related deferred income taxes. The Netia Group will continue evaluating fair values of these assets, liabilities and contingent liabilities, which may result in further adjustments to the carrying amounts of identifiable net assets.

Details of provisional fair values as of June 30, 2012 and December 31, 2011 and of net assets acquired and goodwill as of the date of the acquisition are as follows:

	Provisional accounting as at December 31, 2011 (PLN)	Adjustments to fair value of net assets acquired made in 2012 (PLN)	Provisional accounting as at June 30, 2012 (PLN)
Purchase consideration .....	100,950	-	100,950
Provisional fair value of net assets acquired .....	(53,329)	(179)	(53,508)
Goodwill .....	<u>47,621</u>	<u>(179)</u>	<u>47,442</u>

The goodwill is based on provisional fair values of net assets acquired and is attributable to the significant synergies expected to arise after the Netia Group's acquisition. None of the recognized goodwill is expected to be deductible for income tax purposes.

The assets and liabilities recognized in the consolidated statement of financial position arising from the acquisition, as at the acquisition date, are as follows:

	Acquiree's carrying amount (PLN)	Provisional fair value as at December 31, 2011 (PLN)	Adjustments to fair value of net assets acquired made in 2012	Provisional fair value as at June 30, 2012
Customer relationships .....	-	30,006	-	30,006
Property, plant and equipment .....	40,350	31,179	-	31,179
Other intangible assets .....	2,041	2,041	-	2,041
Receivables .....	10,907	10,907	179	11,086
Inventory .....	120	120	-	120
Cash and cash equivalents .....	3,221	3,221	-	3,221
Restricted cash .....	140	140	-	140
Prepayments .....	242	242	-	242
Trade liabilities .....	(6,418)	(6,418)	-	(6,418)
Tax and other liabilities .....	(11,143)	(11,143)	-	(11,143)
Provisions .....	(1,406)	(2,883)	-	(2,883)
Deferred income .....	(2,545)	(105)	-	(105)
Deferred income tax, net .....	(20)	(3,978)	-	(3,978)
Net assets acquired .....	<u>35,489</u>	<u>53,329</u>	<u>179</u>	<u>53,508</u>

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**Acquisition of Dialog: changes in provisional accounting in 2012**

On December 16, 2011 Netia acquired 19,598,000 shares (not in thousands) in Dialog, with a nominal value of PLN 25 (not in thousands) each and the aggregate nominal value of PLN 489,950, which constitute 100% of the shares in the share capital of Dialog and represent 100% of the votes at the general meetings of Dialog. In consequence of the acquisition of the shares, Netia became an indirect owner of shares in two material subsidiaries of Dialog: Petrotel and Avista.

The final price paid by the Company was PLN 968,927 and comprised Dialog's enterprise value of PLN 880,388 and net cash and cash equivalents of PLN 88,539.

The Netia Group accounted for the acquisition of Dialog Group using the purchase method and started consolidating the financial statements of Dialog Group as of December 16, 2011.

The Netia Group performed a valuation of the acquired Dialog's Group assets, liabilities and contingent liabilities. In the purchase price allocation process the Netia Group identified customer relationships and trademarks as an intangible asset. The fair value of customer relationships was estimated using the excess earnings method. Further changes to the valuation may be introduced during the course of 12 months from the acquisition dates if additional information in respect of acquired assets, liabilities and contingent liabilities is obtained. Such additional information may include information related to pre-acquisition contingencies and calculation of the related deferred income taxes. The Netia Group will continue evaluating fair values of these assets, liabilities and contingent liabilities, which may result in further adjustments to the carrying amounts of identifiable net assets.

Details of provisional fair values as of June 30, 2012 and December 31, 2011 and of net assets acquired and goodwill as of the date of the acquisition are as follows:

	<b>Provisional accounting as at December 31, 2011 (PLN)</b>	<b>Adjustments to fair value of net assets acquired made in 2012 (PLN)</b>	<b>Provisional accounting as at June 30, 2012 (PLN)</b>
Purchase consideration .....	968,927	-	968,927
Provisional fair value of net assets acquired .....	(834,525)	(4,236)	(838,761)
Non-controlling interests (0,01%) .....	5	-	5
Goodwill .....	<b>134,407</b>	<b>(4,236)</b>	<b>130,171</b>

The goodwill is based on provisional fair values of net assets acquired and is attributable to the significant synergies expected to arise after the Netia Group's acquisition. None of the recognized goodwill is expected to be deductible for income tax purposes.

The assets and liabilities recognized in the consolidated statement of financial position arising from the acquisition, as at the acquisition date, are as follows:

	<b>Acquiree's carrying amount (PLN)</b>	<b>Provisional fair value as at December 31, 2011 (PLN)</b>	<b>Adjustments to fair value of net assets acquired made in 2012 (PLN)</b>	<b>Provisional fair value as at June 30, 2012 (PLN)</b>
Customer relationships .....	-	102,100	-	102,100
Trademarks .....	-	10,900	-	10,900
Property, plant and equipment .....	655,499	501,544	(219)	501,325
Other intangible assets .....	35,346	35,346	(98)	35,248
Receivables .....	84,959	84,959	5,547	90,506
Prepayments .....	8,451	8,451	-	8,451
Inventory .....	1,013	1,013	-	1,013
Deferred income tax, net .....	85,060	79,165	(994)	78,171
Cash and cash equivalents .....	90,314	90,314	-	90,314
Borrowings .....	(1,775)	(1,775)	-	(1,775)
Trade liabilities .....	(29,493)	(29,493)	-	(29,493)
Tax and other liabilities .....	(33,488)	(33,488)	-	(33,488)
Provisions .....	(5,387)	(6,142)	-	(6,142)
Deferred income .....	(8,369)	(8,369)	-	(8,369)
Net assets acquired .....	<b>882,130</b>	<b>834,525</b>	<b>4,236</b>	<b>838,761</b>

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**7. Intangible assets**

*Current period:*

	Licences					Computer software costs				Total (PLN)
	Goodwill (PLN)	Trademark/ know how (PLN)	Local telecommunication licenses / permits (PLN)	Data communications and internet licenses / permits (PLN)	Domestic long-distance licenses / permits (PLN)	WiMAX licenses (PLN)	Computer software (PLN)	Capital work in progress (PLN)	Customer relationships (PLN)	
Gross book value as at January 1, 2012 (restated) .....	355,940	17,477	432,823	7,417	107,354	20,329	406,465	5,958	224,529	1,578,292
Additions.....	-	2	-	-	-	-	5,872	9,934	-	15,808
Purchase of subsidiary.....	3,930	-	-	-	-	-	-	-	1,704	5,634
Transfers.....	-	-	-	-	-	-	9,032	(9,032)	-	-
Disposals.....	-	-	-	-	-	-	(3)	-	-	(3)
Other movements.....	-	-	-	-	-	-	(44)	-	-	(44)
<b>Gross book value as at June 30, 2012.....</b>	<b>359,870</b>	<b>17,479</b>	<b>432,823</b>	<b>7,417</b>	<b>107,354</b>	<b>20,329</b>	<b>421,322</b>	<b>6,860</b>	<b>226,233</b>	<b>1,599,687</b>
Accumulated amortization as at January 1, 2012 .....	8	3,185	242,152	1,539	61,350	6,637	254,506	-	65,238	634,615
Amortization expense .....	-	2,564	14,521	-	3,675	705	21,214	-	19,961	62,640
Disposals.....	-	-	-	-	-	-	(4)	-	-	(4)
<b>Accumulated amortization as at June 30, 2012.....</b>	<b>8</b>	<b>5,749</b>	<b>256,673</b>	<b>1,539</b>	<b>65,025</b>	<b>7,342</b>	<b>275,716</b>	<b>-</b>	<b>85,199</b>	<b>697,251</b>
Accumulated impairment as at January 1, 2012.....	-	-	115,549	5,878	13,231	974	42,617	-	199	178,448
Impairment charge for specific assets.....	-	-	-	-	-	-	-	348	-	348
<b>Accumulated impairment as at June 30, 2012 .....</b>	<b>-</b>	<b>-</b>	<b>115,549</b>	<b>5,878</b>	<b>13,231</b>	<b>974</b>	<b>42,617</b>	<b>348</b>	<b>199</b>	<b>178,796</b>
Net book value as at January 1, 2012 .....	355,932	14,292	75,122	-	32,773	12,718	109,342	5,958	159,092	765,229
<b>Net book value as at June 30, 2012 .....</b>	<b>359,862</b>	<b>11,730</b>	<b>60,601</b>	<b>-</b>	<b>29,098</b>	<b>12,013</b>	<b>102,989</b>	<b>6,512</b>	<b>140,835</b>	<b>723,640</b>

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**7. Intangible assets (cont'd)**

*Comparative period:*

			Licences			Computer software costs				
			Local telecommunication licenses / permits	Data communications and internet licenses / permits	Domestic long-distance licenses / permits	WiMAX licenses	Computer software	Capital work in progress		
	Goodwill	Trademark/ know how	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	Customer relationships	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Gross book value as at January 1, 2011 .....	159,446	2,970	432,823	7,417	107,354	20,329	339,672	11,333	85,269	1,166,613
Additions.....	-	-	-	-	-	-	637	12,578	-	13,215
Purchase of subsidiary .....	1,974	7	-	-	-	-	20	-	764	2,765
Purchase of operational networks.....	1,298	-	-	-	-	-	-	-	1,238	2,536
Transfers .....	-	-	-	-	-	-	16,310	(16,310)	-	-
<b>Gross book value as at June 30, 2011 .....</b>	<b>162,718</b>	<b>2,977</b>	<b>432,823</b>	<b>7,417</b>	<b>107,354</b>	<b>20,329</b>	<b>356,639</b>	<b>7,601</b>	<b>87,271</b>	<b>1,185,129</b>
Accumulated amortization as at January 1, 2011 .....	-	2,970	222,952	1,539	55,952	5,227	224,625	-	48,562	561,827
Amortization expense .....	-	-	9,600	-	2,699	705	14,465	-	8,906	36,375
<b>Accumulated amortization as at June 30, 2011 .....</b>	<b>-</b>	<b>2,970</b>	<b>232,552</b>	<b>1,539</b>	<b>58,651</b>	<b>5,932</b>	<b>239,090</b>	<b>-</b>	<b>57,468</b>	<b>598,202</b>
Accumulated impairment as at January 1, 2011 .....	-	-	143,739	5,878	21,547	974	42,620	385	199	215,342
<b>Accumulated impairment as at June 30, 2011 .....</b>	<b>-</b>	<b>-</b>	<b>143,739</b>	<b>5,878</b>	<b>21,547</b>	<b>974</b>	<b>42,620</b>	<b>385</b>	<b>199</b>	<b>215,342</b>
Net book value as at January 1, 2011 .....	159,446	-	66,132	-	29,855	14,128	72,427	10,948	36,508	389,444
<b>Net book value as at June 30, 2011 .....</b>	<b>162,718</b>	<b>7</b>	<b>56,532</b>	<b>-</b>	<b>27,156</b>	<b>13,423</b>	<b>74,929</b>	<b>7,216</b>	<b>29,604</b>	<b>371,585</b>



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## 8. Financial instruments

### Forward contracts

In order to mitigate the currency risk related to the planned payments to be made under equipment and construction contracts which are indexed to foreign currencies the Company entered into several forward transactions to purchase USD and EUR for periods consistent with currency transaction exposures, generally up to 12 months. For these forward contracts hedge accounting was applied. Effective portion of the change in net fair value of forward contracts recognized in the hedging reserve in equity on these contracts as of June 30, 2012 amounted to PLN 1,352 (PLN 1,071, net of tax). During the six-month period ended June 30, 2012, 366 of net cash gains on closed forward contracts were capitalized, and the ineffective portion of open forward contracts of PLN 6 was recorded as finance income.

Furthermore, in order to mitigate the currency risk related to the planned payments to be made under commercial contracts associated with various types of operating expense which are denominated to foreign currency, the Company entered into several forward transactions to purchase USD and EUR for periods consistent with currency transaction exposures, generally up to 12 months. For these forward contracts hedge accounting was not applied. During the six-month period ended June 30, 2012, PLN 1,125 of fair value losses on open forward contracts were recorded as finance costs.

The table below presents outstanding forward transactions as at balance sheet date:

	Hedged nominal amount (EUR)	Hedged nominal amount (USD)	Fair value		
			Asset (PLN)	Liability (PLN)	Other comprehensive (loss)/income (PLN)
As at June 30, 2012					
Forward transactions related to equipment and construction contracts .....	5,360	6,050	791	(698)	(1,352)
Forward transactions related to commercial contracts ....	2,340	1,650	228	(353)	-
As at June 30, 2011					
Forward transactions related to equipment and construction contracts .....	2,660	3,600	71	(523)	(254)
Forward transactions related to commercial contracts ....	3,680	1,450	41	(323)	-
As at December 31, 2011					
Forward transactions related to equipment and construction contracts .....	3,915	4,530	1,692	(52)	1,892
Forward transactions related to commercial contracts .....	3,015	1,380	1,031	(32)	-

### Non-derivative hedging instruments

As of December 31, 2011, the Company held a cash balance of USD 736 purchased upon realization of a hedging forward contract and designated as hedging instrument to mitigate foreign exchange risk associated with the planned payment of a purchase price adjustment pursuant to the Conditional Agreement to acquire shares in Crowley. For this cash balance hedge accounting was applied. A fair value gain on this instrument of PLN 21 decreased the purchase price adjustment paid by the Company on March 15, 2012.

### Interests rate risk hedging instruments

On January 5, 2012 and January 10, 2012, the Company entered into interest rate swap ("IRS") contracts hedging interest rate risk associated with interest payments in the amount of fifty per cent of all amounts projected to be outstanding under the Term Loan (See Note 10 Borrowings). For these IRS contracts hedge accounting was applied. As of June 30, 2012 effective portion of change in net fair value of IRS contracts recognized in the hedging reserve in equity amounted to PLN 2,754 (PLN 2,231, net of tax) and effective portion of changes in net fair value of IRS contracts recognized as interest costs amounted to PLN 1. During the six-month period ended June 30, 2012, PLN 78 of net realized cash losses on IRS contracts increased interest costs.

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## 9. Shareholders' equity

### **Share capital (not in thousands)**

At December 31, 2011, the Company's share capital consisted of 391,601,064 ordinary shares and 1,000 series A1 shares with a par value of PLN 1 per share. Each ordinary share has one vote at the shareholders' meeting. The holder of 1,000 series A1 shares has the right to nominate one member of the Supervisory Board. The majority of votes of the Supervisory Board elect the Management Board.

In the six-month period ended June 30, 2012 the Company issued 4,342,719 ordinary series K shares due to five current and former Management Board members, twelve persons who hold managerial positions and one former manager (none of whom are or were management board members) exercising their rights arising from the key employee share option plan adopted by Netia's Supervisory Board in 2003 (the "2003 Plan").

At December 31, 2011, Netia held 9,775,000 own treasury shares. On December 15, 2011 the Extraordinary General Meeting of the Company resolved to redeem these treasury shares. The redemption was effective from January 30, 2012, when the decrease of the Company's share capital was registered in the National Court Registry. The redemption of shares in January 2012 resulted in a decrease of share capital by PLN 9,775,000 and a decrease in other supplementary capital by PLN 49,582,145, from which PLN 9,775,000 was transferred to the separate reserve capital of the Company established in accordance with Article 457, §2 of the Commercial Companies Code.

As a result at June 30, 2012, the Company's share capital consisted of 386,168,783 ordinary shares and 1,000 series A1 shares with a par value of PLN 1 per share. Each share had one vote at shareholders' meetings. All shares issued by the Company were fully paid and registered in the National Court Registry by the date of signing these consolidated financial statements.

Netia held 4,317,079 own treasury shares as at June 30, 2012. See Note 14: Dividends per share.

The 5,115,579 series K shares issued prior to Netia's General Meeting of Shareholders held on May 26, 2010, were redesignated in accordance with a resolution adopted by Netia's General Meeting of Shareholders, as series B shares. Following this change of the Company's Statute in 2010 up to 13,258,206 series K shares may be issued. The total number of series K shares issued through June 30, 2012 was 6,606,430 and their nominal value was PLN 6,606,430.

### **Supplementary capital**

The Annual General Meeting of the Company held on June 19, 2012, resolved that the Company's net profit for the year 2011, in the amount of PLN 225,004 and the retained earnings of PLN 726 relating to the adjustment made in 2010 to the Company's profit from 2009 and the previous years, shall be transferred to the Company's supplementary capital.

### **Distributable reserves**

In accordance with the Polish Code of Commercial Companies of 15 September 2000 (Journal of Laws of 2000, No. 94, item 1037 as amended) only those reserves, which relate to net profits of individual companies shown in their statutory financial statements, are available for distribution to shareholders. As at June 30, 2012, the distributable reserves of Netia S.A. amounted to PLN 656,643.

### **Stock options (not in thousands)**

#### *2003 Plan*

In the six-month period ended June 30, 2012 and 2011 the following changes took place in the number of options granted under the 2003 Plan:

Options	Six-month period ended June 30, 2012		Six-month period ended June 30, 2011 (restated)*	
	Average strike price	Options	Average strike price	Options
At the beginning of the period.....	6.22	46,754,751	5.89	54,245,436
Exercised.....	4.96	(22,995,937)	3.54	(4,710,622)
Forfeited .....	7.00	(429,000)	6.14	(175,000)
At the end of the period.....	<b>7.44</b>	<b>23,329,814</b>	<b>6.11</b>	<b>49,359,814</b>

\* in 2012 the Company found an error in its record of the number of outstanding options, which was due to a 1 mln overstatement in the number of forfeited options from 2008. The 2011 comparative information has been restated to reflect the above adjustments in number of outstanding options. The error had no impact on the Company's financial results neither in 2011 nor in earlier periods.

As at June 30, 2012 and December 31, 2011, the total number of options approved by the Supervisory Board and issued under the 2003 Plan was 87,877,470. Of these approved options 23,329,814 options were outstanding as at June 30, 2012 and 46,754,751 options were outstanding as at December 31, 2011. As at June 30, 2012 and December 31, 2011 the total number of outstanding vested options was 23,329,814 and 45,304,751, respectively. The vesting period for the options is up to three years from the date of grant. The outstanding options are exercisable until December 20, 2012. Upon exercise of the options, Netia will issue to each exercising participant the number of shares representing such participant's gain resulting from the exercise of the options, being the difference between the exercise price of the Company's shares and strike price of the options. The participant will not be required to pay the strike price ranging from PLN 5.30 to PLN 8.25.

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The Company recognizes the cost of share-based awards to employees (including share options) over the vesting period and the fair value of options is determined using a binomial pricing model. The cost of options recorded in the six-month periods ended June 30, 2012 and 2011 amounted to PLN 88 thousands and PLN 728 thousands, respectively.

*New Plan*

As at June 30, 2012 and December 31, 2011, the total number of options approved by the Supervisory Board and issued under the New Plan was 7,322,000 and 3,653,000, respectively. Of these approved options 5,564,519 options were outstanding as at June 30, 2012 and 3,621,000 options were outstanding as at December 31, 2011. As at June 30, 2012, the weighted average remaining contractual life of the outstanding options was 8 years. The outstanding options are exercisable until May 26, 2020. Upon exercise of the options, Netia will issue to each exercising participant the number of shares representing such participant's gain resulting from the exercise of the options, being the difference between the market price of the Company's shares as of the date of exercise of the options and the strike price of the options, limited to half of one series L share for each option exercised. The participant will not be required to pay the strike price ranging from PLN 5.23 to PLN 6.16.

The Company recognizes the cost of share-based awards to employees (including share options) over the vesting period and the fair value of options is determined using a binomial pricing model and taking into account business performance criteria in the financial year in which the options were granted. The cost of options recorded in the six-month periods ended June 30, 2012 and 2011 amounted to PLN 697 thousands and PLN 585 thousands, respectively.

In the six-month period ended June 30, 2012 and 2011 the following changes took place in the number of options granted under the New Plan:

Options	Six-month period ended June 30, 2012		Six-month period ended June 30, 2011	
	Average strike price	Options	Average strike price	Options
At the beginning of the period .....	5.24	3,621,000	-	-
Granted .....	6.16	3,669,000	5.24	3,473,000
Forfeited / expired .....	5.24	(1,725,481)	-	-
At the end of the period .....	<b>5.85</b>	<b>5,564,519</b>	<b>5.24</b>	<b>3,473,000</b>

**Change of Control Transaction Bonus (not in thousands)**

On April 25, 2012, the Supervisory Board approved a new bonus plan known as the Change of Control Transaction Bonus (CoCTB) for the Company's Management Board Members. The CoCTB is a cash settled share based bonus scheme under which up to 11,400,000 Participation Units (PUs) may be issued to Management Board Members. Each PU has a strike price of 7,00 zloty per share and a term of 36 months commencing on December 31, 2012. The strike price adjusts upward over time by one percent per month from 31 January 2013 and is reduced by any dividends paid out by the Company ("the Adjusted Strike Price"). In the event that an investor or consortium of investors holds at least 90 % of Netia's equity on or prior to December 31, 2015 ("Trigger Event"), each PU shall be worth the positive difference between the acquisition price paid in a successful tender offering that secures the 90 % share-holding and the Adjusted Strike Price. For the purpose of calculating the value of the PU, the acquisition price is capped at 10 zloty per share. Should a Trigger Event occur after December 31, 2012 and prior to the expiration of the PUs on December 31, 2015, the Company shall pay the cash equivalent of the value of the PUs to each participating Management Board Member who was fulfilling his duties as at December 31, 2012 and has not resigned from his position prior to such Trigger Event. See also Note 17 and 19.

**10. Borrowings**

	June 30, 2012	December 31, 2011
	(PLN)	(PLN)
Bank loans .....	579,830	695,177
	<b>579,830</b>	<b>695,177</b>
Of which:		
Current .....	128,734	180,593
Non-current .....	451,096	514,584

**Bank loans**

On September 29, 2011, Netia and Internetia Sp. z o.o. (the "Borrowers") executed a loan agreement (the "Agreement") with Rabobank Polska S.A. (the "Facility Agent") and BNP Paribas S.A., BRE Bank S.A., Raiffeisen Bank Polska S.A. and Raiffeisen Bank International AG (jointly with the Facility Agent, the "Lenders"), whereunder the Lenders agreed to extend to the Borrowers a term facility maturing in five years with a total of PLN 650,000, designated for the Company to acquire 19,598,000 (not in thousands) shares Dialog, constituting 100% of its share capital, and a PLN 50,000 revolving facility for general operating purposes. The term loan was drawn on December 16, 2011 and the revolving loan was drawn on December 15, 2011. The revolving loan was repaid in full on March 15, 2012. As at June 30, 2012 the value of these loans at amortised cost was PLN 579,822.

The loan accrues annual interest at the rate of 3M WIBOR plus a margin established depending on the level of debt. The terms and conditions of the Agreement comply with market practice and are not different from the terms and conditions generally applied to such types of agreements. The borrowing is measured at amortized cost using an effective interest rate of 7.8%. Total transaction costs included in the calculation of the effective interest rate amounted to PLN 9,272. The carrying amount of the borrowings approximates their fair value and the discount rate for the fair value calculation approximates the effective interest rate.

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To secure the Lender's claims under or related to the Agreement, the Borrowers agreed to establish in favour of the Lenders mortgages, financial and registered pledges and to make relevant representations on submission to enforcement, and to execute agreements on assignment as collateral security. The repayment of the loan is secured by the following: two capped mortgages on the right of perpetual usufruct of the Company's real estate at ul. Poleczki 13 in Warsaw, a registered pledge on a set of movables and rights of Netia and Internetia Sp. z o.o., registered pledges and financial pledges on the shares of Internetia Sp. z o.o., Netia Brand Management Sp. z o.o. and Dialog. Moreover, the Borrowers made relevant representations on submission to enforcement up to the amount of PLN 1,050,000.

On March 8, 2012, Netia entered into an overdraft credit facility agreement with BRE Bank S.A. of PLN 50,000. The facility will be disbursed for general operating purposes of the Company. The Company is entitled to become indebted under the facility agreement in the period between March 12, 2012 and December 27, 2012. The terms and conditions of the agreement comply with market practice and are not different from the terms and conditions generally applied to such types of agreements. The outstanding balance of the overdraft credit as at June 30, 2012, amounted to zero.

Moreover, as at June 30, 2012, the Netia Group had an outstanding bank loan of PLN 8 drawn by the Company's subsidiary Sanetja Sp. z o.o. The loan was fully repaid as at the date of the approval of these interim condensed consolidated financial statements.

## 11. Other gains, net

	Six-month period ended June 30, 2012 (PLN)	Six-month period ended June 30, 2011 (PLN)
Gain on sale of impaired receivables .....	2,898	241
Gain/ (loss) on disposal of fixed assets .....	(293)	721
Net foreign exchange gains / (losses) .....	184	(479)
	<b>2,789</b>	<b>483</b>

## 12. Finance income and finance costs

### Finance income

	Six-month period ended June 30, 2012 (PLN)	Six-month period ended June 30, 2011 (PLN)
Interest income on cash and cash equivalents.....	3,678	3,939
Amortization of held to maturity investments .....	-	3,470
Fair value gains on open forward contracts hedging commercial exposures .....	-	119
Net foreign exchange gains .....	407	-
Ineffective portion of cash flow hedges (see Note 8) .....	6	-
Income on financial assets valuation .....	3	-
	<b>4,094</b>	<b>7,528</b>

### Finance costs

	Six-month period ended June 30, 2012 (PLN)	Six-month period ended June 30, 2011 (PLN)
Interests and fees charged on bank loans.....	(25,793)	-
Amortization of finance lease liability .....	(169)	(164)
Amortization of provisions .....	(52)	(33)
Net foreign exchange losses.....	-	(408)
Fair value losses on open forward contracts hedging commercial exposures (see Note 8) .....	(1,125)	-
Ineffective portion of cash flow hedges (see Note 8) .....	-	(14)
Loss on financial assets valuation .....	(3)	-
Other finance costs .....	(7)	(4)
	<b>(27,149)</b>	<b>(623)</b>

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**13. Corporate income tax**

	Six-month period ended June 30, 2012 (PLN)	Six-month period ended June 30, 2011 (PLN)
Current income tax .....	(900)	(259)
Adjustment in respect of current income tax for the year 2003 .....	-	(34,183)
Penalty interests relating to current income tax for the year 2003 .....	1,462	(24,142)
Deferred income tax benefit, net .....	16,766	2,602
<b>Income tax benefit/(charge) .....</b>	<b>17,328</b>	<b>(55,982)</b>

The deferred income tax calculation is based upon the probability that future taxable profit will be available against which temporary differences, unused tax losses and unused tax credits can be utilized. That calculation is based upon Management's estimates, which are subject to considerable 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.

As of December 31, 2011 the Management updated its previous year's assessment regarding the recognition of deferred income tax. The new assessment concluded that the Netia Group expects that future taxable profits will be generated based on the 2012 budget and long term business plan covering period until 2016. Management's assessment also considered factors such as: the stability and trend of past earnings, the nature of the business and industry, and the economic environment in which the Netia Group is located. As at June 30, 2012 the Management upholds its assessment regarding future taxable profits and the recognition of deferred income tax.

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

	June 30, 2012 (PLN)	December 31, 2011 (restated) (PLN)
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months .....	123,352	126,364
- Deferred income tax assets to be recovered within 12 months .....	83,087	64,060
	206,439	190,424
Deferred income tax liabilities:		
- Deferred income tax liabilities to be incurred after more than 12 months .....	34,752	35,270
- Deferred income tax liabilities to be incurred within 12 months .....	45,380	46,132
	80,132	81,402
<b>Deferred income tax assets, net .....</b>	<b>126,307</b>	<b>109,022</b>

The deferred income tax assets and liabilities consist of the following items:

	June 30, 2012 (PLN)	December 31, 2011 (PLN)
Deferred income tax assets:		
- Tax losses .....	92,653	44,768
- Accrued expenses .....	19,793	17,067
- Impairment provisions for receivables .....	6,428	6,351
- Depreciation and impairment .....	86,736	121,079
- Foreign exchange differences .....	-	454
- Forward and IRS contracts .....	723	16
- Other .....	106	689
	206,439	190,424
Deferred income tax liabilities:		
- Depreciation and impairment .....	63,251	66,644
- Accrued revenue .....	9,399	8,690
- Interest .....	428	-
- Forward contracts .....	194	517
- Other .....	6,860	5,551
	80,132	81,402
<b>Deferred income tax assets, net .....</b>	<b>126,307</b>	<b>109,022</b>

Deferred income tax recognized in equity as at June 30, 2012 in the amount of PLN 843 (PLN 398 as at December 31, 2011) relates to the hedging reserve.

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, 2012, the Netia Group had total deductible temporary differences of PLN 591,921 and unutilised tax loss carry-forwards of PLN 601,010 (total potential deferred income tax asset net of PLN 226,657).

The Netia Group did not recognize deferred income tax assets of PLN 21,539 relating to tax losses of PLN 113,363 of the Company

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and Company's subsidiaries, due to insufficient likelihood of future taxable profits to realize these tax losses before they expire. These unrecognized tax losses of the Netia Group available for use as at June 30, 2012 will expire in the following years: PLN 97,405 in 2012, PLN 6,937 in 2013, PLN 4,002 in 2014, PLN 4,784 in 2015 and PLN 235 in 2016.

Furthermore, due to the lack of conclusive evidence of future taxable profits, the Netia Group did not recognize deferred income tax assets of PLN 78,811, relating to deductible temporary differences of PLN 414,796 as follows:

	<b>Timing differences</b>	<b>Potential deferred income tax asset</b>
	<b>(PLN)</b>	<b>(PLN)</b>
Depreciation and impairment .....	283,022	53,774
Trademark .....	116,309	22,099
Deferred income.....	8,500	1,615
Other.....	6,965	1,323
	<b>414,796</b>	<b>78,811</b>

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.

#### **14. Dividends per share**

In accordance with the approved distribution policy, the Management Board proposed and the shareholders granted (by approval of resolution 18 at the annual General Shareholders' Meeting held on June 2, 2011) an authorisation to the Company's Management Board to purchase its own shares for the purpose of their redemption pursuant to the procedure set forth in Art. 362 § 1 point 5 of the Commercial Companies Code (the "General Program"). The Annual General Meeting of the Company assigned the total amount of up to PLN 350,000 for the execution of the General Program, out of which the amount of up to PLN 267,032 shall be utilized from the supplementary capital created out of profits for the year 2010 and the amount of up to PLN 82,968 shall be utilized from the supplementary capitals created out of profits in the previous years. Any specific buy-back proposal within the scope of the General Program must be accepted by the Supervisory Board prior to the implementation.

The first tranche of share buy-backs approved under the General Program began on August 17, 2011. The Company allocated an amount of up to PLN 60,000 for the tranche to repurchase a maximum of 2.5% of the Company's outstanding share capital. On November 9, 2011 the Company completed the repurchase of 9,775,000 (not in thousands) own shares constituting 2.5% of the Company share capital for a total of PLN 49,582 and the tranche was completed. The repurchased shares were redeemed on January 30, 2012.

Netia obtained the relevant consent from its Supervisory Board and on May 18, 2012 commenced a further tranche of buy-backs. The Company allocated an amount of up to PLN 75,000 for the tranche to repurchase a maximum of 3.5% of the Company's outstanding share capital. As of June 30, 2012 the Company had repurchased 4,317,079 (not in thousands) own shares constituting 1.12% of Company share capital for a total of PLN 24,847 and the repurchases are continuing.

Moreover, Netia has obtained a further relevant consent from its Supervisory Board and upon the completion of the second tranche the Company may commence a third tranche of buy-backs. The Company has allocated an amount of up to PLN 50,000 for the third tranche to repurchase a maximum of 2.5% of the Company's outstanding share capital.

Netia's distributable reserves are disclosed in Note 9.

#### **15. Supplemental disclosures to consolidated cash flow statement**

##### **Changes in working capital components:**

	<b>Six-month period ended June 30, 2012</b>	<b>Six-month period ended June 30, 2011</b>
	<b>(PLN)</b>	<b>(PLN)</b>
Receivables .....	(14,820)	(30,239)
Inventories .....	2,259	4,505
Prepaid expenses.....	(9,982)	6,120
Provisions, accruals and payables.....	40,375	12,920
Restricted cash.....	(15)	-
Deferred income .....	(2,029)	11,979
	<b>15,788</b>	<b>5,285</b>
<i>Out of which:</i>		
<i>Change in long -term position.....</i>	<i>275</i>	<i>901</i>

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**Supplemental disclosures to operating activities:**

	Six-month period ended June 30, 2012 (PLN)	Six-month period ended June 30, 2011 (PLN)
Income taxes paid .....	(781)	(100)
Interest received .....	3,678	6,931

## **16. The Management Board and Supervisory Board**

### **Management Board**

Effective January 1, 2012 Mr. Piotr Nesterowicz resigned from his position as a member of the Company's Management Board.

Effective March 16, 2012 Mr. Grzegorz Esz resigned from his position as a member of the Company's Management Board.

On April 25, 2012 the Supervisory Board of the Company appointed Mr. Mirosław Suszek as a member of the Management Board with effect from May 1, 2012.

Due to the above changes as at June 30, 2012 the Company's Management Board consisted of the following members:

- Mirosław Godlewski – President,
- Jonathan Eastick – Chief Financial Officer,
- Tom Ruhan,
- Mirosław Suszek.

### **Supervisory Board**

As at June 30, 2012 and 2011 the Company's Supervisory Board consisted of the following members:

- Benjamin Duster – Chairman,
- George Karaplis – Vice-Chairman,
- Stan Abbeloos,
- Raimondo Eggink,
- Nicolas Maguin,
- Ewa Pawluczuk,
- Tadeusz Radzimiński,
- Jerome de Vitry.

## **17. Related party transactions**

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

As at June 30, 2012, the total number of options granted to members of the Company's Management Board under the 2003 Plan and the New Plan, was 16,202,351 of which 13,800,000 had vested as of that date. Strike prices for the options granted to the Management Board range between PLN 5.23 and 8.25 per share. The market price of the Company's shares at June 30, 2012 was PLN 5.90 per share.

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

<b>Options</b>	Six-month period ended June 30, 2012	Six-month period ended June 30, 2011
At the beginning of the period .....	38,214,064	40,771,814
Granted .....	1,725,000	1,725,000
Exercised .....	(15,354,814)	(2,950,500)
Resignation from Management Board .....	(7,909,250)	-
Forfeited .....	(472,649)	-
At the end of the period .....	<b>16,202,351</b>	<b>39,546,314</b>

As at June 30, 2012, Mr. Mirosław Godlewski – the Company's President of the Management Board – held 7,028,675 options, out of which 6,000,000 had vested. As at December 31, 2011, Mr. Mirosław Godlewski held 12,775,000 options, out of which 12,200,000 had vested.

As at June 30, 2012, Mr. Jonathan Eastick – a member of the Company's Management Board – held 5,914,338 options, out of which 5,400,000 had vested. As at December 31, 2011, Mr. Jonathan Eastick held 9,859,314 options, out of which 9,571,814 had vested.

As at June 30, 2012, Mr. Tom Ruhan – a member of the Company's Management Board – held 2,914,338 options, out of which 2,400,000 had vested. As at December 31, 2011, Mr. Tom Ruhan held 5,004,000 options, out of which 4,716,500 had vested.

As at June 30, 2012, Mr. Mirosław Suszek – a member of the Company's Management Board – held 345,000 options, none of which had vested.

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

As at June 30, 2012 and December 31, 2011, Mr. Mirosław Godlewski – the Company's President of the Management Board – held 1,610,000 and 393,716 shares of the Company, respectively.

As at June 30, 2012 and December 31, 2011, Mr. Jonathan Eastick – a member of the Company's Management Board – held 1,000,000 and 499,175 shares of the Company, respectively.

As at June 30, 2012 and December 31, 2011, Mr. Tom Ruhan – a member of the Company's Management Board – held nil and 592,379 shares of the Company, respectively. During the six-month period ended June 30, 2012, a company closely related to Mr. Ruhan acquired 1,057,011 shares in Netia S.A. from Mr. Ruhan and subsequently disposed of 501,436 shares in Netia S.A. Accordingly, the company closely related to Mr. Ruhan held 555,575 shares in Netia S.A. as at June 30, 2012.

Details of the changes in the number of shares held by members of the Company's Management Board in the six-month period ended June 30, 2012 are presented below:

	December 31, 2011	Received from exercise of options	Reductions in shareholdings	June 30, 2012
Mirosław Godlewski .....	393,716	1,389,415	(173,131)	1,610,000
Jonathan Eastick .....	499,175	572,188	(71,363)	1,000,000
Tom Ruhan, (including closely related company holdings) .....	592,379	464,632	(501,436)	555,575
Mirosław Suszek .....	-	-	-	-
<b>Total .....</b>	<b>1,485,270</b>	<b>2,426,235</b>	<b>(745,930)</b>	<b>3,165,575</b>

**Participation Units in the Change of Control Transaction Bonus Scheme (not in thousands)**

As at June 30, 2012, the members of the Management Board held Participation Units in the Change of Control Transaction Bonus Scheme as follows:

	Number of Participation Units
Mirosław Godlewski .....	3,800,000
Jonathan Eastick .....	1,900,000
Tom Ruhan .....	1,900,000
Mirosław Suszek .....	1,900,000
<b>Total .....</b>	<b>9,500,000</b>

A further 1,900,000 Participation Units may be assigned by the Supervisory Board.

See also Change of Control Transaction Bonus in Note 14 and Possible liabilities under the Change of Control Transaction Bonus Scheme in Note 19.

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

As at June 30, 2012 and December 31, 2011, Mr. Benjamin Duster – Chairman of the Company's Supervisory Board – held nil and 21,000 shares of the Company, respectively.

As at June 30, 2012 and December 31, 2011, Mr. George Karaplis – Vice-Chairman of the Company's Supervisory Board – held nil and 20,000 shares of the Company, respectively.

As at June 30, 2012 and December 31, 2011, Mr. Raimondo Eggink – a member of the Company's Supervisory Board – held 40,000 shares of the Company.

As at June 30, 2012 and December 31, 2011, Mr. Nicolas Maguin, – a member of the Company's Supervisory Board – held 21,300 shares of the Company.

As at June 30, 2012 and December 31, 2011, Mr. Tadeusz Radziwiński – a member of the Company's Supervisory Board – held 20,001 shares of the Company.

As at June 30, 2012 and December 31, 2011, Mr. Jerome de Vitry – a member of the Company's Supervisory Board – held 20,000 shares of the Company.

As at June 30, 2012 and December 31, 2011, Mr. Stan Abbeloos – a member of the Company's Supervisory Board – held 20,650 and nil shares of the Company, respectively.



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**Restricted Stock Units (not in thousands)**

As at June 30, 2012 and December 31, 2011, the total number of Restricted Stock Units ("RSU") granted to the members of the Company's Supervisory Board was 630,000 and 640,000, respectively. RSUs entitle the holder to receive additional cash remuneration equal to the value of restricted stock units, which corresponds to the market price of the Company's shares. The vesting period for the RSU ranges from 12 to 36 months after the grant date. The Company recognizes the cost of cash-settled share-based payment transactions (including RSU) over the vesting period by accruing cost provisions pro-rata to elapsed time and the market price of the Company's shares. The cost of RSUs recorded in the six-month period ended June 30, 2012 amounted to PLN 909 thousands (PLN 735 thousands in the six-month period ended June 30, 2011).

Changes in the number of RSU held by members of the Company's Supervisory Board in the six-month period ended June 30, 2012 are presented below:

	December 31, 2011	RSUs exercised	June 30, 2012
Stan Abbeloos.....	80,000	-	80,000
Benjamin Duster.....	80,000	(5,000)	75,000
Raimondo Eggink .....	80,000	-	80,000
George Karaplis .....	80,000	(5,000)	75,000
Nicolas Maguin.....	80,000	-	80,000
Ewa Pawluczuk.....	80,000	-	80,000
Jerome de Vitry.....	80,000	-	80,000
Tadeusz Radziwiński.....	80,000	-	80,000
<b>Total RSU</b>	<b>640,000</b>	<b>(10,000)</b>	<b>630,000</b>

**Management Board remuneration**

Compensation and related costs associated with members of the Company's Management Board during the six-month periods ended June 30, 2012 and 2011 amounted to PLN 4,035 and PLN 3,587, respectively. In addition, the non-cash gross cost of share-based payments in the amounts of PLN 462 and PLN 895 was recognized in the respective periods. Moreover, upon exercise of the options, Management Board members received the following number of shares with a par value of PLN 1 (not in thousands) per share for which they were not required to pay (PIT and social security cost were incurred by the Company).

	Six-month period ended June 30, 2012	Six-month period ended June 30, 2011
Number of shares (not in thousands) .....	2,426,235	1,015,703
PIT and employee ZUS costs incurred by the Company (PLN) .....	1,300	544

Amounts paid and payable to former Management Board members in the course of termination of their employment relationship with the Netia Group during the six-month period ended June 30, 2012 totalled PLN 879.

Compensation and related costs associated with members of the Management Boards of the Company's subsidiaries during the six-month periods ended June 30, 2012 and 2011 amounted to PLN 1,344 and PLN 297, respectively. These amounts were paid to certain employees of the Netia Group who are neither past nor present members of the Management Board of Netia S.A.

**Supervisory Board remuneration**

Compensation and related costs associated with members of the Company's Supervisory Board during the six-month periods ended June 30, 2012 and 2011 amounted to PLN 420 and PLN 420, respectively.

Compensation and related costs associated with members of the Supervisory Boards of the Company's subsidiaries during the six-month periods ended June 30, 2012 and 2011 amounted to PLN 39 and PLN nil, respectively.

Incidental expenses of the Supervisory Board Members reimbursed by the Company amounted to PLN 129 and PLN 93 during the six-month periods ended June 30, 2012 and 2011, respectively, and mainly related to travel and accommodation.

**Other transactions with related parties**

During the six-month periods ended June 30, 2012 and 2011, respectively the Netia Group has not been a party to any other material transactions, or proposed transactions, apart from transactions mentioned above, in which any member of the key management personnel or close members of their families, had or was to have a direct or indirect material interest.

**18. Commitments**

**Capital commitments**

Capital expenditures contracted for at the balance sheet date but not recognized in the consolidated financial statements amounted to PLN 60,035 as at June 30, 2012 and PLN 30,586 as at December 31, 2011 of which, PLN 7,471 and PLN 3,708 respectively, related to the planned acquisition of intangible assets.

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## **19. Contingencies**

### **Universal services**

The telecommunications law stipulates that the obligation to provide universal service should be designated by the President of UKE following completion of a tender procedure. The President of UKE issued a decision designating TP SA to provide universal service until May 8, 2011. Telecommunications undertakings, whose relevant annual revenue from telecommunications activity exceeds PLN 4,000, are obliged to participate in financing of the universal service obligation. The exact participation amount of a telecommunications undertaking obliged to pay subsidy will be established by virtue of the President of UKE decision and cannot exceed 1% of revenues of a given telecommunications undertaking in a given calendar year.

TP SA filed with the President of UKE applications for awarding subsidy towards incurred costs of universal service provision. The applications cover subsidy towards costs incurred in the period from May 8, 2006, until May 8, 2011, i.e. the whole period of obligation to provide universal service by TP. The total amount claimed by TP SA on all applications for 2006-2011 was PLN 1,106,994. The last application was filed by TP on 29 June 2012 and included a request for subsidy for the period from January 1 to May 8, 2011 in the amount of PLN 33,837.

In May 2011, the President of UKE issued decisions by virtue of which TP SA was awarded subsidies towards incurred costs of several services falling within the scope of universal service as follows:

- in 2006 - amounting to PLN 745 - due to provision of facilities for customers with disabilities
- in 2007 - amounting to PLN 1,269 - due to provision of facilities for customers with disabilities
- in 2008 - amounting to PLN 1,830 - due to provision of facilities for customers with disabilities
- in 2009 - amounting to PLN 63,150 - due to provision of facilities for customers with disabilities as well as provision of telephone services with use of public pay phones

By virtue of a decision issued on September 7, 2011, the President of UKE upheld the decisions awarding subsidies towards incurred costs of universal service for years 2006-2009. TP SA challenged the decisions of the President of UKE before the Voivodeship Administrative Court (further "WSA"). WSA dismissed the complaints of TP SA against the decisions granting subsidy towards costs of provision of universal service in 2006 - 2009. TP appealed against sentences regarding subsidies for 2006 and 2007.

On January 10, 2012, the President of UKE issued decisions by virtue of which TP SA was awarded subsidies towards incurred costs of several services falling within the scope of universal service for 2010 amounting to PLN 55,102 due to provision of facilities for customers with disabilities as well as provision of telephone services with use of public pay phones. Jointly for the provision of universal service within the years 2006-2010 TP SA was awarded the total amount of PLN 122,096.

TPSA and KIGEiT filed for reconsideration by the President of UKE of the matter concluded by issuing the above-mentioned decisions. By virtue of a decision issued on April 11, 2012, the President of UKE also upheld the decisions awarding subsidies towards incurred costs of universal service for 2010.

Despite the fact that in the opinion of the Management Board the application of the TP SA for reconsideration should not be admitted, and that so far the applications of TP SA for subsidies towards costs of universal service provision within 2006-2010 have been only partially admitted by the President of UKE, the Management Board is unable to assure neither that TP SA will not be finally awarded the subsidy for 2011, nor that the amount of the subsidy will not be established as higher than awarded in proportion to the sums claimed by the TP SA for the previous years.

The exact amount of share in the subsidies to costs of universal services to be payable by each telecommunications undertaking requires the President of UKE to issue individual decisions. Until the date of approval of these consolidated financial statement Companies of the Netia Group have received no such decisions.

Based on Management's best estimates of Netia's revenue market share in the years 2006 - 2011 and the decisions of the President of UKE awarding TP SA 122,096 in USO subsidies for years 2006-2011, Netia has made a provision of PLN 5,104 for potential obligation under the subsidy for universal service provided in years 2006 - 2011. The total amount of potential obligation of Companies of the Netia Group, estimated by the Management Board taking into account their market shares in 2006 - 2011, decisions of the President of UKE, in which the amounts of subsidies towards the costs of providing universal service in years 2006 - 2011 were granted in the total amount of PLN 122,096 and estimated amount of potential subsidy to the cost of USO for the year 2011 is PLN 7,156. In this amount, the Companies of the Netia Group have made a provision for covering potential obligations under the subsidy for universal service provided in the years 2006 - 2011.

Should TP SA prevail in any of mentioned litigation, the USO liability in respect to 2006 - 2011 could still rise materially above the amount provided to date.

On the basis of the full amount of subsidies claimed by TP SA and of the Company's estimations concerning revenues of telecommunications services providers that may participate in subsidies towards universal services, the amount of subsidy towards universal service that might conceivably be claimed by TP SA from the Netia Group amounts to approximately PLN 56,838 for the period from 2006 until 2011 inclusive as follows:

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	Maximum subsidies		Provision			
	Old Netia Group	New Netia Group	Old Netia Group	Dialog Group	Crowley	New Netia Group
	PLN	PLN	PLN	PLN	PLN	PLN
2006	4,854	6,293	27	6	1	34
2007	7,462	10,862	43	17	3	63
2008	6,389	9,202	55	21	4	80
2009	8,492	11,964	2,270	777	152	3,199
2010	9,934	13,888	2,032	673	135	2,840
2011	3,311	4,629	677	218	45	940
	<b>40,442</b>	<b>56,838</b>	<b>5,104</b>	<b>1,712</b>	<b>340</b>	<b>7,156</b>

Pursuant to the decision of the President of UKE designating TP SA to provide universal service the above obligation of TP SA expired as of May 8, 2011. No undertaking obliged to provide USO as of May 8, 2011 has been designated to date and, according to the published position of the President of UKE, will not be.

#### **WiMAX license requirements**

On October 27, 2005 Netia WiMax S.A. (merged with Netia in 2006) and Netia WiMax II S.A. (merged with Netia in 2008) received the reservations of the 3.6-3.8 GHz frequencies, which are used to provide telecommunication services based on the WiMAX technology. The terms of licenses issued to the Company's former subsidiaries require them to meet annual connected capacity milestones in the future, as measured at the end of each year, subject to demand in the territory and population of Poland. Considering changes in the telecommunications market and, in particular, the advent of regulated access to the fixed line network of the incumbent fixed line operator, TP SA, the Company submitted applications to change future territorial and population coverage commitments for WiMax and on October 31, 2007 and on December 13, 2011 the Polish regulator issued decisions reducing the initial milestones. The milestones established for the year 2011 regarding population coverage and area coverage were achieved. In the event that reservation obligations are not met by an operator, the UKE has the power to limit or confiscate the reservation, if the entrepreneur is not able to assure effective use of possessed right. However, historically such measures have rarely been used.

#### **Tax contingent liability**

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

#### **Overpayment of tax (not in thousands)**

On February 19, 2010 Netia received a binding and enforceable decision of the Director of the Tax Chamber according to which the Company's corporate income tax due for the year 2003 was set at PLN 34.2m plus penalty interest of approximately PLN 25.3m.

Netia executed the decision of the Tax Chamber Director, which was enforceable as a decision of the second instance tax authority, on February 23, 2010. Of the PLN 59.6m paid, PLN 1.3m was subsequently conceded by the Tax Authority as overpayment. During 2010, Netia treated the tax paid as a receivable in its accounts rather than as an expense, due to Management's expectations, based on the expert advice received, that the amounts paid will ultimately be recovered.

The Company appealed to the Voivodship Administrative Court against the decision issued by the Tax Chamber Director. However, on March 15, 2011 the Voivodship Administrative Court delivered a judgment dismissing the Company's claim in its entirety. Following the WSA decision in favour of the tax office in the first quarter of the year 2011 the Company recognized an income tax expense relating to the year 2003 of PLN 58,325 thousands.

On July 5, 2011 the Company received the written justification of this decision and the Company filed a cassation claim to the Supreme Administrative Court on August 3, 2011.

On December 30, 2011 Netia received further repayment of PLN 6.4m related to penalty interests paid previously by the Company and subsequently conceded by the Tax Authority as incorrectly claimed.

On February 22, 2012 Netia received payment of PLN 1.4m concerning penalty interests on the amount returned in December 2011.

Should the appeal to the Supreme Administrative Court be positive for the Company, the amount of unduly paid tax plus interest will be treated as an overpayment and must be returned by the tax authorities together with interest.

Netia will undertake all possible legal steps to prove that the decision of the Tax Chamber Director was groundless and reclaim the remaining net amount of PLN 51.9 m paid to tax office, together with related interest.

**NETIA S.A.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**as at and for the six-month period ended June 30, 2012**

*(All amounts in thousands, except as otherwise stated)*

***Possible liabilities under the Change of Control Transaction Bonus Scheme (CoCTB) (not in thousands)***

Following a decision of the Supervisory Board on April 25, 2012, the current four members of Netia's Management Board have been awarded Participation Units (PUs) in a new cash paid bonus scheme known as the Change of Control Transaction Bonus Scheme (CoCTB). As of the date of these financial statements, a total of 9,500,000 from a possible 11,400,000 PUs have been allocated to the Management Board Members.

Each PU has a strike price of 7.00 zloty per share and a term of 36 months commencing on December 31, 2012. The strike price adjusts upward over time by one percent per month from January 31, 2013 and is reduced by any dividends paid out by the Company ("the Adjusted Strike Price"). In the event that an investor or consortium of investors holds at least 90 % of Netia's equity on or prior to December 31, 2015 ("Trigger Event"), each PU shall be worth the difference between the acquisition price paid in a successful tender offering that secures the 90 % share-holding and the Adjusted Strike Price. For the purpose of calculating the value of the PU, the acquisition price is capped at 10 zloty per share. Should a Trigger Event occur after December 31, 2012 and prior to the expiration of the PUs on December 31, 2015, the Company shall pay the cash equivalent of the value of the PUs to each participating Management Board Member who was fulfilling his duties as at December 31, 2012 and has not resigned from his position prior to such Trigger Event.

The PUs will expire without value if there is no Trigger Event on or prior to December 31, 2015 or if the Management Board Member to whom they are allocated resigns prior to the Trigger Event or if the Trigger Event occurs at a price below the Adjusted Strike Price. Conversely, should a Trigger Event occur for an acquisition price of 10 zloty or above occur in January 2013 and if all four Management Board Members are still performing their duties at the Company on the day of the Trigger Event, the maximum possible liability incurred by the Company could reach 28,500,000 PLN. This amount would fall towards zero as December 31, 2015 approaches without a Trigger Event occurring and as the Adjusted Strike Price increases towards 10 zloty per share.

Given that Netia is not presently controlled by any single large investor and given that Management is not in possession of information concerning the circumstances under which existing large shareholders may consider disposing of their shares in the Company, it is not possible for Management to make a reliable estimate of the likelihood of a Trigger Event occurring during the validity period of the PUs or to reliably estimate at what price such a Trigger Event might occur. Accordingly, Management is presently unable to reliably estimate the fair value of the CoCTB contingent liability as would otherwise be required in accordance with IFRS 2, Share Based Payments.

## **20. Subsequent events**

***Issuance of series K shares (not in thousands)***

On July 13, 2012 due to the exercise of 685,500 stock options from the 2003 Plan by a former Management Board member and one person who holds a managerial position (but not management board member) the Company issued from its authorized capital 42,447 ordinary bearer series K shares with a nominal value of PLN 1 each, which give the right to 42,447 votes at Netia's General Meeting of Shareholders.

Netia's issued and outstanding share capital, following the issuance is PLN 386,212,230 and represents 386,212,230 shares, PLN 1 par value per share, each share giving the right to one vote at Netia's General Meeting of Shareholders.

***Buy-back program (not in thousands)***

Between June 30, 2012 and the date of the approval of these interim condensed consolidated financial statements the company has repurchased a further 4,562,834 (not in thousands) of its own shares at a total cost of PLN 26,995,214 under a share buy-back program in addition to the 4,317,079 of its own shares held as of June 30, 2012 (see Note 14: Dividends per share).

***Restricted Stock Units (not in thousands)***

In accordance with rules of remunerating the Supervisory Board Members approved by the Extraordinary General Shareholders Meeting on July 26, 2010, on July 27, 2012 each independent Supervisory Board Member received an annual grant of 15,000 Restricted Stock Units ("RSU"). One third of each grant vests 12, 24 and 36 months after the grant date. One RSU corresponds to one ordinary share in the Company having a value equal to the market price of the Company's shares. Accordingly, the total number of RSUs outstanding as at the date of these financial statements is 750,000.