Quarterly Financial Report

Containing:

- Review report of independent auditors
- Interim condensed consolidated financial statements as at and for the three-month and nine-month periods ended September 30, 2006

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REVIEW REPORT OF INDEPENDENT AUDITORS

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

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

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

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements have not been properly prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Without qualifying our conclusion, we draw your attention to Note 4 to the interim condensed consolidated financial statements ("Note 4"), which describes the Company's Management assessment of impairment indications which have been determined for the Netia Group as of September 30, 2006. However, as of the date of signing of these interim condensed consolidated financial statements, the Netia Group has not yet completed its new long-term business plan and as a result the Company was not able to complete impairment testing on its non-current assets. Management plans to complete this impairment test during the fourth quarter of 2006 and based on the work performed so far expects to record an impairment loss in the consolidated income statement which, it is anticipated, will be material in relation to the Netia Group's carrying value of its non-current assets of PLN 2,203,442 thousands as of September 30, 2006. As a consequence these interim condensed consolidated financial statements do not include any result of this impairment assessment.

The convenience translations are disclosed as part of the interim condensed consolidated financial statements. The convenience translation for the nine-month period ended September 30, 2006 has been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at September 30, 2006 of PLN 3.9835 to EUR 1.00. We have not reviewed these translations and accordingly we do not report thereon. The Euro amounts presented in these interim condensed consolidated financial statements should not be construed as a representation that the PLN amounts have been or could have been converted to Euro at this rate or at any other rate.

PricewaterhouseCoopers Sp. z o.o.

Warsaw, Poland
November 14, 2006

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

Index to the interim condensed consolidated financial statements

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

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2005 (PLN)	September 30, 2006 (PLN)	Convenience Translation September 30, 2006 (EUR)
ASSETS				
Non-current assets				
Property, plant and equipment, net	5	1,766,911	1,743,291	437,628
Intangible assets		309,430	307,570	77,211
Investments in associates	8	105,633	140,136	35,179
Deferred income tax assets	14	14,182	11,896	2,986
Available for sale financial assets		10	10	3
Other receivables	10	-	539	135
Other long term assets		323	-	-
Total non-current assets		**2,196,489**	**2,203,442**	**553,142**
Current assets				
Inventories		2,262	1,819	457
Trade and other receivables	10	156,924	131,302	32,961
Current income tax receivables		38	-	-
Prepaid expenses		10,876	23,155	5,813
Financial assets at fair value through profit and loss		63,059	53,013	13,308
Restricted cash		-	6,100	1,531
Cash and cash equivalents		197,387	107,783	27,057
		430,546	**323,172**	**81,127**
Non-current assets classified as held for sale	11	-	2,329	585
Total current assets		**430,546**	**325,501**	**81,712**
Total assets		**2,627,035**	**2,528,943**	**634,854**

Paweł Karłowski
Acting President of the Company

Piotr Czapski
Member of the Management Board

Jonathan Eastick
Member of the Management Board
Chief Financial Officer

Paul Kearney
Member of the Management Board

Tom Ruhan
Member of the Management Board

Warsaw, Poland
November 14, 2006

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

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

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2005 (PLN)	September 30, 2006 (PLN)	Convenience Translation September 30, 2006 (EUR)
EQUITY				
Share capital		408,615	389,168	97,695
Treasury shares		(122,806)	-	-
Supplementary capital		1,939,572	1,809,434	454,232
Other reserves		1,758	28,891	7,253
Retained earnings		126,502	89,702	22,518
Total capital and reserves attributable to the Company's equity holders	12	**2,353,641**	**2,317,195**	**581,698**
Minority interest		6,349	6,799	1,707
Total equity		**2,359,990**	**2,323,994**	**583,405**
LIABILITIES				
Non-current liabilities				
Liabilities for licenses	7	14,000	3,509	881
Provisions		1,231	789	198
Deferred income		-	8,227	2,065
Deferred income tax liabilities		-	2,789	700
Other long term liabilities		741	288	72
Total non-current liabilities		**15,972**	**15,602**	**3,916**
Current liabilities				
Liabilities for licenses	7	43,413	10,062	2,526
Trade and other payables	13	193,957	164,486	41,292
Current income tax liabilities		-	19	5
Provisions		2,969	2,957	742
Deferred income		10,734	11,823	2,968
Total current liabilities		**251,073**	**189,347**	**47,533**
Total liabilities		**267,045**	**204,949**	**51,449**
Total equity and liabilities		**2,627,035**	**2,528,943**	**634,854**

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

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
for the three-month and nine-month periods ended September 30, 2006

(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2005 (PLN)	Three-month period ended September 30, 2005 (PLN)	Nine-month period ended September 30, 2005 (PLN)	Three-month period ended September 30, 2006 (PLN)	Nine-month period ended September 30, 2006 (PLN)	Convenience Translation Nine-month period ended September 30, 2006 (EUR)
Telecommunication services revenue	15	898,694	228,285	664,090	228,433	645,503	162,044
Radio communication services revenue		9,931	2,425	7,463	2,098	6,716	1,686
Total revenue		**908,625**	**230,710**	**671,553**	**230,531**	**652,219**	**163,730**
Interconnection charges		(191,322)	(50,121)	(134,670)	(66,937)	(172,180)	(43,223)
Services purchased	16	(177,973)	(42,406)	(123,235)	(56,105)	(152,393)	(38,256)
Salaries and benefits		(132,664)	(30,508)	(96,356)	(33,456)	(102,416)	(25,710)
Restructuring costs		-	-	-	(1,104)	(1,104)	(277)
Depreciation of fixed assets	5	(199,985)	(51,803)	(150,173)	(55,984)	(163,674)	(41,088)
Amortization of intangible assets		(48,472)	(12,135)	(35,999)	(13,593)	(38,442)	(9,650)
Impairment charges for non-current assets	5, 11	-	-	-	(87)	(5,774)	(1,449)
Reversal of impairment charges	5	2,289	-	-	925	1,315	330
Reassessment of the carrying value of license fee liabilities	7	-	-	-	40,713	51,150	12,840
Other gains/(losses), net	17	3,125	1,792	2,157	927	832	209
Other income	18	11,102	1,325	2,957	1,661	3,921	984
Other expenses	19	(84,416)	(18,099)	(56,045)	(22,361)	(63,658)	(15,980)
Operating profit		**90,309**	**28,755**	**80,189**	**25,130**	**9,796**	**2,460**
Finance income	20	15,453	3,797	13,190	1,425	6,826	1,714
Finance costs	20	(7,205)	(1,836)	(5,359)	(1,628)	(5,176)	(1,299)
Share of losses of associates	8	(3,073)	(524)	(524)	(7,262)	(14,989)	(3,763)
Profit / (Loss) before income tax		**95,484**	**30,192**	**87,496**	**17,665**	**(3,543)**	**(888)**
Income tax benefit / (charge)	14	(35,294)	(7,357)	(16,219)	129	(1,965)	(493)
Profit / (Loss)		**60,190**	**22,835**	**71,277**	**17,794**	**(5,508)**	**(1,381)**
Attributable to:							
Equity holders of the Company		59,027	22,637	70,665	17,651	(5,958)	(1,494)
Minority interest		1,163	198	612	143	450	113
		60,190	**22,835**	**71,277**	**17,794**	**(5,508)**	**(1,381)**
Basic earnings per share for profit attributable to the equity holders of the Company (expressed in PLN per share)		**0.16**	**0.06**	**0.19**	**0.05**	**(0.02)**	**(0.00)**
Diluted earnings per share for profit attributable to the equity holders of the Company (expressed in PLN per share)		**0.15**	**0.06**	**0.18**	**0.05**	**(0.02)**	**(0.00)**

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

(All amounts in thousands, except as otherwise stated)

	Note	Attributable to the Company's equity holders						Minority interest	Total equity
				Supplementary capital					
		Share capital	Treasury shares	Share premium	Other supplementary capital	Other reserves	Retained earnings		
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2005		**366,956**	**(2,812)**	**1,605,357**	**203,565**	**1,892**	**188,131**	**5,186**	**2,368,275**
Issuance of series J shares		24,838	-	38,003	-	-	-	-	62,841
Cost of issuance of series J shares		-	-	(373)	-	-	-	-	(373)
Issuance of series I shares		5,876	-	485	-	-	-	-	6,361
Cost of issuance of series I shares		-	-	(1,334)	-	-	-	-	(1,334)
Employee share option scheme:									
- value of services provided		-	-	-	-	861	-	-	861
- issuance of series K shares		163	-	-	-	-	-	-	163
Appropriation of Netia's 2004 net profit:									
- dividend		-	-	-	-	-	(38,710)	-	(38,710)
- transfer to other supplementary capital		-	-	-	81,946	-	(81,946)	-	-
Repurchase of shares and warrants		-	(119,994)	-	(6)	-	-	-	(120,000)
Cost of repurchase of shares and warrants		-	-	(240)	-	-	-	-	(240)
Profit		-	-	-	-	-	70,665	612	71,277
Balance as at September 30, 2005		**397,833**	**(122,806)**	**1,641,898**	**285,505**	**2,753**	**138,140**	**5,798**	**2,349,121**

	Note	Attributable to the Company's equity holders						Minority interest	Total equity
				Supplementary capital					
		Share capital	Treasury shares	Share premium	Other supplementary capital	Other reserves	Retained earnings		
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at December 31, 2005		**408,615**	**(122,806)**	**1,654,067**	**285,505**	**1,758**	**126,502**	**6,349**	**2,359,990**
Issuance of series J shares	12	7,662	-	11,723	-	-	-	-	19,385
Cost of issuance*		-	-	(175)	-	-	-	-	(175)
Employee share option scheme:									
- value of services provided		-	-	-	-	454	-	-	454
- issuance of series K shares	12	1,053	-	601	-	(1,483)	-	-	171
Coverage of negative difference in retained earnings related to adoption of International Financial Reporting Standards by Netia S.A.	12	-	-	-	(42,605)	-	42,605	-	-
Appropriation of Netia's 2005 net profit:									
- dividend	12, 23	-	-	-	-	-	(50,323)	-	(50,323)
- transfer to reserve capital	12	-	-	-	-	2,812	(2,812)	-	-
- transfer to other supplementary capital	12	-	-	-	20,312	-	(20,312)	-	-
Transfer related to repurchase of series C and E shares	12	-	-	2,343	469	(2,812)	-	-	-
Decrease of share capital	12	(28,162)	122,806	(2,343)	(120,463)	28,162	-	-	-
Profit / (Loss)		-	-	-	-	-	(5,958)	450	(5,508)
Balance as at September 30, 2006		**389,168**	**-**	**1,666,216**	**143,218**	**28,891**	**89,702**	**6,799**	**2,323,994**

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

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

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the nine-month period ended September 30, 2006

(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2005	Nine-month period ended September 30, 2005	Nine-month period ended September 30, 2006	Convenience Translation Nine-month period ended September 30, 2006
		(PLN)	(PLN)	(PLN)	(EUR)
Cash flows from operating activities:					
Profit / (loss)		**60,190**	**71,277**	**(5,508)**	**(1,381)**
Adjustments to reconcile net profit to net cash provided by operating activities:					
Depreciation and amortization	5	248,457	186,172	202,116	50,738
Impairment charges for non-current assets	5, 11	-	-	5,774	1,449
Reversal of impairment charges	5	(2,289)	-	(1,315)	(330)
Share of losses of associates	8	3,073	524	14,989	3,763
Deferred income tax charge / (benefit)	14	34,720	15,769	1,684	423
Reassessment of the carrying value of license fee liabilities	7	-	-	(51,150)	(12,840)
Interest expense accrued on license liabilities	7	6,495	4,830	4,933	1,238
Interest accrued on loans		(351)	(592)	5	1
Share-based compensation	12	3,395	1,024	625	157
Fair value gains on financial assets at fair value through profit and loss		(2,631)	(2,182)	(1,722)	(432)
Other provisions		-	117	-	-
Decrease/(increase) in long term assets		(573)	(250)	323	81
Foreign exchange (gains) / losses		(3,946)	(3,209)	1,961	492
Profit on sale of fixed assets	17	(345)	(138)	(2,677)	(672)
Gain on sale of subsidiaries and other investments	9	(11)	(11)	(20)	(5)
Changes in working capital		(7,847)	(5,311)	6,770	1,698
Net cash provided by operating activities		**338,337**	**268,020**	**176,788**	**44,380**
Cash flows used in investing activities:					
Purchase of fixed assets and computer software		(146,102)	(102,565)	(127,999)	(32,132)
Proceeds from sale of fixed assets		2,077	768	2,902	729
Investment in associate	8	(109,465)	(108,460)	(49,500)	(12,426)
Purchase of subsidiary, net of cash received	6	5,051	5,177	(68,227)	(17,127)
Sale of subsidiaries and other investments, net of cash in subsidiaries	9	260	70	25	6
Sale of financial assets at fair value through profit and loss		4,953	4,953	12,161	3,053
Loans granted		(24,899)	(24,899)	(1,533)	(385)
Loans repaid		1,002	-	23	6
Interest repaid		32	-	-	-
Payments for licenses		(24,250)	(4,050)	-	-
Net cash used in investing activities		**(291,341)**	**(229,006)**	**(232,148)**	**(58,276)**
Net cash used in financing activities:					
Proceeds from share issuance		82,364	62,761	19,385	4,866
Cost of share issuance		(1,916)	(1,707)	(175)	(44)
Dividend paid to the Company's shareholders		(38,710)	(38,710)	(50,323)	(12,633)
Repurchase of shares and warrants		(123,052)	(122,138)	-	-
Repayment of installment obligations		(5,511)	(1,511)	-	-
Finance lease payments		-	-	(150)	(38)
Loans repaid		-	-	(2,500)	(628)
Interest repaid		-	-	(167)	(42)
Redemption of notes for warrants		(31)	(1)	(334)	(84)
Net cash used in financing activities		**(86,856)**	**(101,306)**	**(34,264)**	**(8,603)**
Effect of exchange rate change on cash and cash equivalents		**1,310**	**1,167**	**20**	**5**
Net change in cash and cash equivalents		**(38,550)**	**(61,125)**	**(89,604)**	**(22,494)**
Cash and cash equivalents at beginning of period		235,937	235,937	197,387	49,551
Cash and cash equivalents at end of period		**197,387**	**174,812**	**107,783**	**27,057**

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

(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 principal executive office located at ul. Poleczki 13, 02-822 Warsaw, Poland. The Company and its subsidiaries (collectively, the "Netia Group") is the largest alternative fixed-line telecommunication operator in Poland.

The interim condensed consolidated financial statements of Netia S.A. for the three-month and nine-month periods ended September 30, 2006 comprise the Company and its subsidiaries.

These interim condensed consolidated financial statements were approved for issuance by the Company's Management Board on November 14, 2006.

The Netia Group provides various voice telephone and data transmission services. These services include switched, fixed-line voice telephone services (including domestic long distance, international long distance and fixed-to-mobile services), Integrated Services Digital Network ("ISDN"), Voice over Internet Protocol ("VoIP"), voice mail, dial-up and fixed-access Internet, leased lines and frame relay services. The Netia Group also offers wholesale services (including the wholesale termination of in-bound traffic, ducts, dark fiber and co-location services), services based upon the intelligent network (free phone, split charge and premium rate services) and provides a broadband Internet access in ADSL technology.

To further broaden Netia's product offer, including convergent services, Netia intends to offer mobile services. On May 9, 2005 the Company's current associate, P4 Sp. z o.o. ("P4") (until August 23, 2005 the Company's subsidiary, see also Notes 8 and 28), was announced the winner of the UMTS tender, organized by the Polish regulator.

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

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

In March 2006 the Company sold 100 (not in thousands) shares of Netia Ventures Sp. z o.o., representing 100% of its share capital (see Note 9).

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

In June 2006 the Netia Group acquired Zachodni – Inwestycje Telekomunikacyjne Sp. z o.o. (for further details see Note 6).

In July 2006 the Netia Group acquired Pro Futuro S.A. ("Pro Futuro"), a telecommunication services provider (see also Note 6).

In July 2006 Netia merged with its three wholly-owned subsidiaries, which operated previously under the following names: Regionalne Sieci Telekomunikacyjne El-Net S.A. ("El-Net"), Netia WiMax S.A. and Polbox Sp. z o.o. In August 2006 Świat Internet S.A., the Company's subsidiary, merged with its wholly-owned subsidiary HFC Internet Sp. z o.o.

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

2. Summary of significant accounting policies

Basis of preparation

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

These interim 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, 2005, except for new accounting standards adopted as of January 1, 2006.

The preparation of financial statements in conformity with accounting standards as adopted by the EU requires the use of certain critical accounting estimates. The Company makes estimates and assumptions concerning the future. The areas where assumptions and estimates are significant to the interim condensed consolidated financial statements include license liabilities, fixed assets and deferred tax.

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

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

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

All Euro amounts shown as supplementary information in the interim condensed consolidated financial statements have been translated from PLN only as a matter of arithmetic computation using the official rate of the National Bank of Poland at September 30, 2006 of PLN 3.9835 to EUR 1.00. These amounts are included for the convenience of the reader only. Such translation should not be construed as a representation that the PLN amounts have been or could be converted into Euros at this or any other rate.

Reclassifications of comparatives

As at September 30, 2006 the Netia Group had funds of PLN 53,013 deposited in money market investment funds. Following detailed analysis of liquidity and risks connected with these financial assets, performed in the three-month period ended March 31, 2006, the Company's management decided to no longer classify these financial assets as cash equivalents. From March 31, 2006 these financial assets are presented as a separate balance sheet item – financial assets at fair value through profit and loss. The comparative amount of PLN 63,059 presented in these interim condensed consolidated financial statements has been reclassified to conform to the presentation for the three-month and nine-month periods ended September 30, 2006. The relevant changes have also been made to the interim condensed consolidated cash flow statement.

New standards, interpretations and amendments to existing standards

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- IFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after January 1, 2007. IAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after January 1, 2007. The Netia Group will follow the new disclosure requirements.

Non-current assets classified as held for sale

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

Deferred income

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

Customer relationships

Following the acquisition of Pro Futuro, the Netia Group recognized the fair value of customer relationships as a separate intangible asset (see Note 6). Customer relationships are amortized using the straight-line method over their estimated useful lives of 5 years.

Current financial condition

As at September 30, 2006, the equity amounted to PLN 2,323,994 and the Netia Group had working capital of PLN 136,154. In 2003 the financial restructuring and the cancellation of local license fee obligations of Netia were completed. The Management of the Company has an expectation that the outstanding local license fee obligations of El-Net should be cancelled in accordance with the applicable law. For further details on the current situation and the Company's plans in this respect, see Note 7. In 2004, 2005 and the nine-month period ended September 30, 2006 the Netia Group generated positive cash flows from operating activities. Based on this position, the Management does not believe that events or conditions exist which may cast significant doubt on the Company's ability to continue as a going concern. However, the Netia Group is currently in the process of development of new long-term projections. That will be used in the performance of an impairment test. Management expects that this will result in recognition of an impairment charge during the fourth quarter of 2006 (for further details see Note 4). The impairment charge will have no impact on the liquidity position of the Company.

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

Having analyzed the risk of crystallization with respect to the remaining part of the license fee liabilities, the Management reduced the carrying value of the liability (see Note 7). As a result of this reassessment in the three-month and nine-month periods ended September 30, 2006, PLN 40,713 and PLN 51,150, respectively, was recorded as a gain in the income statement.

Pursuant to the managed services contract with Ericsson Sp. z o.o. ("Ericsson ") signed on April 28, 2006, during the nine-month period ended September 30, 2006 the Company transferred to Ericsson certain fixed assets of the Netia Group (mainly cars, computers and technical equipment). The profit on sales of these assets amounted to PLN 2,250.

As Telekomunikacja Polska S.A. ("TP S.A.") did not pay significant amounts invoiced by El-Net for incoming local traffic after October 1, 2005 the Netia Group decided to sell a certain part of the unpaid receivables. However, as at September 30, 2006, the receivable from TP S.A. in the nominal amount of PLN 4,715 remained unpaid and had been fully provided for. The related impairment charge recorded in the nine-month period ended September 30, 2006 amounted to PLN 3,565, of which PLN nil related to the three-month period ended September 30, 2006.

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

In the nine-month and three-month periods ended September 30, 2006 the Company recorded an impairment charge for non-current assets of PLN 5,774 and PLN 87, respectively, resulting mainly from the replacement of telecommunications equipment and switching systems (see Note 5) and valuation of certain fixed assets classified as held for sale (see Note 11).

4. Impairment of non-current assets

Impairment of assets of the Netia Group

Under IAS 36 "Impairment of Assets" the Netia Group is obliged to assess at each balance sheet date whether there is any indication that an asset may be impaired or there is any indication that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased. The Netia Group also tests annually whether goodwill has suffered any impairment. The goodwill recognized on the acquisition of HFC Internet Group and Pro Futuro is allocated to the cash generating unit ("CGU") identified as the entire Netia Group. If any such indication exists, the Netia Group must estimate the recoverable amount from the CGU. The recoverable amount of the CGU is determined based on value-in-use calculations that use financial projections based on assumptions underlying the long-term business plan.

As at September 30, 2006, Management has determined that indications exist that the CGU of the Netia Group may be impaired. Financial performance during the first nine months of 2006 has been below previously planned levels and the Netia Group has been unable to consistently record an operating profit. Faster erosion of voice tariffs and average revenues per subscriber than was previously planned, together with prospects for further significant price declines resulting from the expected impact of regulatory decisions announced during 2006 are being reflected in the Netia Group's new business plan. In addition, the amount and timing of revenues and margins previously planned to be generated from WiMAX connected customers and from cooperation with P4 are being revised in the context of regulatory changes and delays in P4's UMTS network roll-out respectively.

As at the date of these financial statements, Management has not yet completed its work to roll-forward the Netia Group's long term business plan to cover the period 2007-2011 whereas the previous business plan, which ran to 2008, is no longer considered reliable for purposes of performing an impairment test. Due to the fact that Management's long term business plan is yet to be finalized and new strategic initiatives that may impact the recoverable amount of the Netia Group's existing CGU are still to be agreed with the Company's Supervisory Board, it is not possible to calculate the value in use of the Netia Group's existing CGU with reasonable accuracy.

Management expects to complete the impairment test of the Netia Group's CGU during the fourth quarter of 2006 once the value in use has been finalized, based on a new long term business plan, and once fair value less costs to sell of the CGU have also been estimated. Until the relevant data has been finalised to allow the impairment test to be performed, it is not possible to estimate the size of the impairment with reasonable accuracy that is likely to be recognized in the financial results for 2006.

However, the Netia Group now expects the outcome of this test will be an impairment loss, which could be material in relation to the carrying value of the Netia Group's non-current assets as of September 30, 2006 and to its net results for the three-month and nine-month periods ended September 30, 2006.

Impairment of investments in associates

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

However, as P4 is a start-up phase enterprise, there is considerable uncertainty as to the recoverable amount of the Netia Group's investment in P4. The future success of P4's business model, based on its planned limited coverage UMTS network with national GSM coverage provided to its customers via a national roaming agreement with an incumbent GSM operator, is dependent on many factors. The overall level of competition in the market, including market prices for voice and data services, the future take-up of new mobile data services, access to sufficient distribution channels and the impact of possible mobile virtual network operators (MVNOs) that may enter the market, may all impact P4's ability to generate revenues. Possible delays in building and utilizing its own UMTS network and uncertainties over the market regulator's approach to new entrants relative to market incumbents, the rate of decrease in unit costs of UMTS handsets and market levels of handset subsidy generate uncertainties over achievable profit margins. Uncertainties as to the availability of additional sources of financing and the ability to attract the experienced employees necessary to implement P4's plans may also impact significantly on the success of P4's business. As a result of these and other uncertainties, including possible significant changes in mobile technology, the actual recoverable amount from Netia's investment in P4 may differ significantly in the future from Netia's current estimates.

(All amounts in thousands, except as otherwise stated)

5. Property, plant and equipment

Current period:

	Buildings (PLN)	Land (PLN)	Transmission network (PLN)	Switching system (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at December 31, 2005	73,272	17,684	1,855,368	1,488,393	82,439	138,948	17,369	72,855	3,746,328
Additions	6	-	157	471	326	1,171	3,036	82,927	88,094
Purchase of subsidiary	449	987	12,437	43,287	327	745	867	3,712	62,812
Transfers	137	-	16,411	34,547	1,558	5,502	44	(58,199)	-
Transfers to non-current assets held for sale	(1,079)	(1,363)	(2,464)	-	-	-	-	-	(4,906)
Disposals and other movements	113	-	(1,658)	(10,478)	(2,047)	(19,634)	(7,249)	(1,185)	(42,138)
Gross book value as at September 30, 2006	**72,898**	**17,308**	**1,880,251**	**1,556,220**	**82,603**	**126,732**	**14,067**	**100,110**	**3,850,189**
Accumulated depreciation as at December 31, 2005	17,645	-	511,946	473,690	49,268	110,087	8,420	-	1,171,056
Depreciation expense	2,285	-	57,339	90,509	3,836	8,202	1,504	-	163,675
Transfers to non-current assets held for sale	(141)	-	(583)	-	-	-	-	-	(724)
Disposals and other movements	10	-	(166)	(3,118)	(5,246)	(18,404)	(5,470)	-	(32,394)
Accumulated depreciation as at September 30, 2006	**19,799**	**-**	**568,536**	**561,081**	**47,858**	**99,885**	**4,454**	**-**	**1,301,613**
Accumulated impairment as at December 31, 2005	14,481	4,821	491,023	274,558	9,898	10,667	874	2,039	808,361
Impairment charge	-	-	1	4,703	10	-	87	-	4,801
Reversal of impairment	-	-	-	(876)	-	-	-	(359)	(1,235)
Transfers	-	-	-	-	10	18	-	(28)	-
Transfers to non-current assets held for sale	-	(379)	(501)	-	-	-	-	-	(880)
Disposals and other movements	2	-	(448)	(4,138)	760	(610)	(597)	(731)	(5,762)
Accumulated impairment as at September 30, 2006	**14,483**	**4,442**	**490,075**	**274,247**	**10,678**	**10,075**	**364**	**921**	**805,285**
Net book value as at December 31, 2005	41,146	12,863	852,399	740,145	23,273	18,194	8,075	70,816	1,766,911
Net book value as at September 30, 2006	**38,616**	**12,866**	**821,640**	**720,892**	**24,067**	**16,772**	**9,249**	**99,189**	**1,743,291**

(All amounts in thousands, except as otherwise stated)

Comparative period:

	Buildings (PLN)	Land (PLN)	Transmission network (PLN)	Switching system (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at December 31, 2004	74,116	17,422	1,825,950	1,398,748	77,362	129,186	12,181	86,222	3,621,187
Additions	-	-	-	-	318	-	23	68,787	69,128
Purchase of subsidiary	40	-	-	5,710	12	165	15	-	5,942
Transfers	194	110	24,971	59,901	1,098	6,848	192	(107,449)	(14,135)
Disposals and other movements	(493)	-	(835)	1,144	(13)	(423)	(1,221)	4,830	2,989
Gross book value as at September 30, 2005	**73,857**	**17,532**	**1,850,086**	**1,465,503**	**78,777**	**135,776**	**11,190**	**52,390**	**3,685,111**
Accumulated depreciation as at December 31, 2004	15,006	-	437,711	378,345	43,498	97,401	8,834	-	980,795
Depreciation expense	2,271	-	56,155	76,113	4,164	10,322	1,148	-	150,173
Disposals and other movements	(125)	-	(810)	511	(28)	443	(986)	-	(995)
Accumulated depreciation as at September 30, 2005	**17,152**	**-**	**493,056**	**454,969**	**47,634**	**108,166**	**8,996**	**-**	**1,129,973**
Accumulated impairment as at December 31, 2004	14,633	4,821	490,220	283,680	9,445	11,621	1,095	7,721	823,236
Transfers	-	-	460	169	12	-	-	(700)	(59)
Disposals and other movements	75	-	290	41	6	(872)	(146)	(2,245)	(2,851)
Accumulated impairment as at September 30, 2005	**14,708**	**4,821**	**490,970**	**283,890**	**9,463**	**10,749**	**949**	**4,776**	**820,326**
Net book value as at December 31, 2004	44,477	12,601	898,019	736,723	24,419	20,164	2,252	78,501	1,817,156
Net book value as at September 30, 2005	**41,997**	**12,711**	**866,060**	**726,644**	**21,680**	**16,861**	**1,245**	**47,614**	**1,734,812**

The impairment charge for specific assets recorded in the nine-month period ended September 30, 2006 amounting to PLN 4,801 relates mainly to telecommunication equipment and switching systems due to their replacement.

The reversal of impairment of fixed assets under construction in the amount of PLN 359 (net of VAT) recorded in the nine-month period ended September 30, 2006, relates to those fixed assets, which the Company began to use in its operations. In addition, the impairment provision for specific assets (switching system) recorded in 2004 was partially reversed in the amount of PLN 876, due to the Management decision to continue their use in the Company's operations.

Furthermore, the Netia Group reassessed the useful lives of certain of its fixed assets (narrowband radio equipment) and in consequence, the remaining period over which they would be depreciated was shortened until the end of 2008. The depreciation rates were changed accordingly resulting in an additional charge of PLN 5,282 recognized in the consolidated income statement during the nine-month period ended September 30, 2006. The relevant increase in the depreciation charge for the next three-month period ended December 31, 2006 will amount to approximately PLN 2,628.

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

In addition, during the nine-month period ended September 30, 2006 the Company reclassified certain non-current assets (land and buildings) at the total net book value of PLN 3,302, to assets held for sale (see Note 11).

6. Acquisitions

<u>Current period:</u>

Zachodni – Inwestycje Telekomunikacyjne Sp. z o.o.

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

ZIT has been rendering managerial services for Premium Internet since July 2005. As the purchase price of ZIT's shares will equal the amount due for those managerial services (and consequently the fair value of ZIT's net assets will equal the same amount), the Netia Group decided to reflect the economic substance of this transaction and not apply IFRS 3 "Business Combinations" for this acquisition. Therefore, during the nine-month period ended September 30, 2006 and the year ended December 31, 2005, the Netia Group recognized the cost of managerial services in the amount of PLN 6,694 and PLN 2,650, respectively and included it in "Professional services" in the consolidated income statement. The advance payment of PLN 5,324 was netted with the related accrual, which as at September 30, 2006 and December 31, 2005 amounted to PLN 6,670 and PLN 5,300, respectively.

Pro Futuro S.A.

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

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

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

On July 5, 2006, Pro Futuro sold 456,166 (not in thousands) shares of dataCOM with a total nominal value of PLN 3,193, representing 18.6% of its share capital for a total price of PLN 2,007. The disposal of dataCOM's shares was agreed in advance and was directly related to the above transactions.

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

Pro Futuro is an independent telecommunications operator providing data transmission, internet access, hosting and VoIP transmission services. It provides the services based on its own broadband telecommunications network (Infostrada Futuro) created based on modern LMDS technologies. The Company provides services based on the Infostrada network in Poland's largest cities: Warsaw, Łódź, Katowice, Kraków, Kielce, Gdańsk, Gdynia, Szczecin, Wrocław, Poznań, Bielsko-Biała and Lublin.

The Netia Group accounted for the acquisition of Pro Futuro using the purchase method and started consolidating the financial statements of Pro Futuro as of July 1, 2006 adjusting the consolidated statements of operations and the consolidated balance sheet for material transactions, which took place between July 1, 2006 and July 4, 2006. The acquired business contributed revenue of PLN 11,418 and loss of PLN 2,198 in the three-month period ended September 30, 2006, after taking into account intercompany eliminations. If the acquisition had occurred on January 1, 2006, the Netia Group's revenue would have amounted to PLN 675,265, and loss would have been PLN 14,709. These amounts have been calculated using the Netia Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment had applied from January 1, 2006, together with the consequential tax effects.

(All amounts in thousands, except as otherwise stated)

During the three-month period ended September 30, 2006 the Netia Group performed a valuation of Pro Futuro's assets, liabilities and contingent liabilities. In particular, the Netia Group assessed fair values of identifiable assets, liabilities and contingent liabilities according to IFRS 3, including fixed asset items which have been adjusted on the basis of an independent valuation, and recorded a deferred income tax liability. Additionally, in the purchase price allocation process the Netia Group identified customer relationships as an intangible asset. The fair value of customer relationships was estimated using excess earnings method. The estimation of the fair value of Pro Futuro's customer relationships resulted in recognition of the goodwill of PLN 1,182 compared with the goodwill of PLN 11,645 provisionally accounted for. Further changes to the valuation may be introduced in 2006 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 value of net assets acquired and goodwill as at the date of the acquisition are as follows:

	(PLN)
Purchase consideration, including transaction costs of PLN 872	70,872
Sale of Pro Futuro's investment	(2,007)
Provisional fair value of net assets acquired	(67,683)
Goodwill	**1,182**

The goodwill is based on provisional fair value of net assets acquired and is attributable to the significant synergies expected to arise after the Netia Group's acquisition of Pro Futuro.

The purchase consideration made by the Company in exchange for control over the net assets of Pro Futuro encompassed: the price for 100% shares of PLN 37,893 (including a retention of PLN 2,500 to be paid in 2007 subject to all conditions being met by the seller), the amounts paid for Pro Futuro's convertible bonds issued to its previous shareholder of PLN 32,107 and transaction costs of PLN 872. The purchase consideration was decreased by PLN 2,007 received due to the disposal of Pro Futuro's investment in dataCOM shares.

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

	Acquiree's carrying amount (PLN)	**Fair value (PLN)**
Property, plant and equipment	65,189	62,811
Computer software	2,681	2,645
Customer relationships	-	18,827
Investments	2,002	-
Receivables	3,341	2,712
Prepayments	325	325
Cash and cash equivalents	638	638
Short-term loans	(2,500)	(2,500)
Trade liabilities	(4,028)	(4,026)
Other liabilities and accruals	(7,843)	(10,358)
Deferred income tax liabilities	(770)	(3,391)
Provisional net assets acquired	**59,035**	**67,683**

	(PLN)
Total purchase consideration settled in cash	(68,865)
Cash and cash equivalents in the subsidiary acquired	638
Cash outflow on acquisition	**(68,227)**

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

Comparative period:

HFC Internet Sp. z o.o. Group

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

The Netia Group accounted for the acquisition of HFC Internet Group using the purchase method and started consolidating the financial statements of HFC Internet Group as of September 30, 2005. The Netia Group performed the valuation of the assets, liabilities and contingent liabilities of HFC Internet Group during the three-month period ended December 31, 2005. In particular, the Netia Group assessed fair values of identifiable assets and liabilities according to IFRS 3 and recorded a deferred income tax asset.

(All amounts in thousands, except as otherwise stated)

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

	(PLN)
Purchase consideration, including transaction costs of PLN 213	3,263
Negative fair value of net assets acquired	10,580
Goodwill	**13,843**

The goodwill is attributable to the significant synergies expected to arise after the Netia Group's acquisition of HFC Internet Group.

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

	Acquiree's carrying amount (PLN)	**Fair value (PLN)**
Property, plant and equipment	7,557	8,260
Intangible assets	23	23
Deferred income tax assets	2,193	2,059
Inventories	274	274
Receivables	10,082	10,082
Prepayments	30	30
Cash and cash equivalents	8,367	8,367
Provisions	(1,071)	(1,071)
Short-term loans	(24,899)	(24,899)
Trade liabilities	(4,889)	(4,889)
Other liabilities and accruals	(8,816)	(8,816)
Negative net assets acquired	**(11,149)**	**(10,580)**

	(PLN)
Purchase consideration settled in cash	(3,263)
Cash and cash equivalents in the subsidiary acquired	8,367
Cash inflow on acquisition	**5,104**

The acquired business contributed revenue of PLN 15,946 and loss of PLN 784 in the year ended December 31, 2005, after taking into account intercompany transactions eliminations. If the acquisition had occurred on January 1, 2005, the Netia Group's telecommunication revenue would have amounted to PLN 932,849, and profit would have been PLN 60,143. These amounts have been calculated using the Netia Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment had applied from January 1, 2005, together with the consequential tax effects.

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

7. Licenses

El-Net, the subsidiary acquired in 2004 and merged with Netia in July 2006, obtained licenses from the Ministry of Communications for the provision of local telephone services in areas including Warsaw, Bydgoszcz and smaller cities in the northern part of Poland. As of January 1, 2001, pursuant to the 2000 Act, all telephone licenses were converted by virtue of law into telecommunication permits. At that date the total nominal value of outstanding license fee obligations of El-Net was EUR 104,624 (PLN 416,770 at the exchange rate prevailing on September 30, 2006) increased by prolongation fees of PLN 37,733.

On December 30, 2002, El-Net submitted applications for cancellation of certain outstanding local license fee obligations in accordance with the applicable law enacted in 2002. Following its purchase by the Netia Group, El-Net filed an amendment to the previous application asking for cancellation of license fee obligations of EUR 75,690 (PLN 301,511 at the exchange rate prevailing September 30, 2006) and related prolongation fees of PLN 37,733, based on capital expenditure incurred between 2001 and 2003 as well as future capital expenditure to be incurred until the end of 2006 within the Netia Group. On August 16, 2004 El-Net received a decision of the Minister of Infrastructure dated July 12, 2004 granting the promise to cancel the outstanding license fees obligations, amounting to EUR 75,690 and prolongation fees amounting to PLN 37,733. The above cancellation shall occur upon the verification of capital expenditure incurred in accordance with the applicable law. The Minister of Infrastructure also decided that this cancellation could apply to El-Net's capital expenditure incurred from January 1, 2001 until December 30, 2006, upon the assumption that capital expenditure already incurred by El-Net in 2001-2003 amounted to PLN 85,459. Pursuant to this decision all license fee payments and prolongation fees subject to the decision have been deferred until December 30, 2006.

(All amounts in thousands, except as otherwise stated)

On October 29, 2004, El-Net filed an application for cancellation of the remaining license fee installments payable in 2010 and 2011 amounting to a nominal value of EUR 28,934 (PLN 115,259 at the exchange rate prevailing on September 30, 2006). El-Net declared that it would cover these obligations by capital expenditure to be incurred in 2007-2008. On April 3, 2006 El-Net, received a decision of the Minister of Transport and Construction (a successor of the Minister of Infrastructure), dated March 28, 2006, granting the promise to cancel these obligations.

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

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

On September 20, 2006 the Company received the decisions of the Minister of Transportation, dated September 14, 2006, amending the previous decisions of the Minister of Infrastructure, dated July 12, 2004, and the Minister of Transportation and Construction, dated March 28, 2006, with regard to the deferral and promise to cancel the license fee obligations of El-Net, which merged with Netia on July 31, 2006 (see Note 1). The amendments to the above mentioned decisions follow Netia's motion and enable conducting the restructuring of license fee obligations based on the capital investments incurred by Netia from January 1, 2003 to July 31, 2006.

As at September 30, 2006 the total nominal value of El-Net's outstanding license fee obligations was EUR 74,509 (PLN 296,807 at the exchange rate prevailing on September 30, 2006) increased by prolongation fees of PLN 25,606.

As at September 30, 2006 the outstanding liabilities continued to be recorded at amortized cost. At the acquisition of El-Net they were recorded at fair value based on the assessment performed in 2004 by the Management, which took into account the probability of future payments of license fee liabilities. In 2006 the Management, having analysed the progress of the cancellation process of the remaining liabilities, updated its assessment. Pursuant to the decisions obtained in March and June 2006, described above, regarding cancellation of part of outstanding local license fee obligations and the prolongation fees in exchange for expenditure on the telecommunications infrastructure incurred in years 2001 – 2005 Management estimated that there was an 80% probability of cancellation in relation to the remaining licence fee liabilities and prolongation fees. In June 2006 the relevant adjustment was recorded as a gain in the income statement amounting to PLN 10,437. In addition, pursuant to the decisions obtained in September 2006, described above, enabling conducting the restructuring of license fee obligations based on the capital investments incurred by Netia, the Management has changed its estimation and increased the probability of cancellation of the remaining licence fee liabilities and prolongation fees, up to 95%. This resulted in further reduction in license liabilities of PLN 40,713, and was accordingly recorded as a gain in the income statement during the three-month period ended September 30, 2006. Further changes in the value of licence fee liabilities as compared to December 31, 2005 relate to interest accrued and foreign exchange differences as presented below:

	(PLN)
Carrying value as at December 31, 2005	**57,413**
Interest accrued in the period ended September 30, 2006	4,933
Foreign exchange losses on the translation of EUR balances	2,375
Reassessment of the carrying value of license fee liabilities	(51,150)
Carrying value as at September 30, 2006	**13,571**
out of which:	
Non-current liabilities	3,509
Current liabilities (including prolongation fees)	10,062

8. Investments in associates

P4

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

The following table summarizes financial information of the associate:

	December 31, 2005 (PLN)	September 30, 2006 (PLN)
Assets	354,337	533,279
Liabilities	5,618	69,522

(All amounts in thousands, except as otherwise stated)

	Year ended December 31, 2005 (PLN)	Nine-month period ended September 30, 2006 (PLN)
Revenue	-	-
Loss for the period	(10,326)	(49,961)

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

	Four-month period ended December 31, 2005 (PLN)	Nine-month period ended September 30, 2006 (PLN)
At the beginning of the period	-	105,633
Investment in the associate	108,706	49,500
Unrealized profits on transaction with associate (see Note 9)	-	(8)
Share of loss	(3,073)	(14,989)
At the end of the period	**105,633**	**140,136**

Following the provisions of the P4's Shareholders' Agreement (see Note 28), during the nine-month period ended September 30, 2006 the Company and Novator Telecom Poland S.a.r.l. ("Novator") contributed share capital of PLN 49,500 and PLN 115,500, respectively. As a result, the Company is the holder of 10,830 (not in thousands) P4 shares constituting 30% of the shares in P4's share capital. Novator is the holder of 25,270 (not in thousands) P4's shares constituting 70% of the shares in the P4's share capital.

P4 is not listed on any public stock exchange market and therefore there is no published quotation price for the fair value of this investment.

BiznesPartner.pl

Following the acquisition of Pro Futuro (see Note 6) the Netia Group has 30.8% interest in Pro Futuro's associate, BiznesPartner.pl S.A. (BiznesPartner.pl). The Netia Group decided to classifiy this investment as held for sale (see Note 11) and not to account for it by applying the equity method.

9. Sale of investments

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

10. Trade and other receivables

	December 31, 2005 (PLN)	September 30, 2006 (PLN)
Trade receivables	227,639	192,073
Less provision for impairment of trade receivables	(82,582)	(75,943)
Trade receivables, net	145,057	116,130
Trade receivables from an associate	2,051	675
VAT and other government receivables	7,226	10,773
Other receivables	3,260	3,406
Less provision for impairment of other receivables	(670)	(663)
Other receivables, net	2,590	2,743
Short-term loans	13,070	14,528
Accrued interest	42,909	49,155
Less provision for impairment of short-term loans and accrued interest	(55,979)	(62,163)
Short-term loans, net	-	1,520
	156,924	**131,841**
Of which,		
Current	156,924	131,302
Non-current	-	539
	156,924	**131,841**

11. Non-current assets classified as held for sale

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

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

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

Following the acquisition of Pro Futuro (see Note 6) the Netia Group acquired also Pro Futuro's associate, BiznesPartner.pl. The fair value of the acquired investment was nil. Due to Pro Futuro's Management decision relating to the disposal of this investment and the ongoing negotiations with a potential buyer, the Netia Group decided to classifiy it as held for sale.

12. Shareholders' equity

Shareholders' Rights (number of shares not in thousands)

At December 31, 2005, the Company's share capital consisted of 408,613,873 ordinary shares and of 1,000 series A1 shares with a par value of PLN 1 per share. Each ordinary share had one vote at shareholders' meetings. The holder of 1,000 series A1 shares had the right to nominate one member of the Supervisory Board. The majority of votes of the Supervisory Board elect the Management Board.

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

The Company also may issue up to 18,373,785 ordinary series K shares under a key employee share option plan (employee share option scheme) adopted by Netia's Supervisory Board in 2002 (the "Plan"). In the nine-month period ended September 30, 2006 the Company issued 1,052,691 ordinary series K shares due to the exercise by certain persons of their rights arising from the Plan. The total number of series K shares issued through September 30, 2006 was 4,945,065 and their nominal value was PLN 4,945.

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

As a result at September 30, 2006 the Company's share capital consisted of 389,166,839 ordinary shares and of 1,000 series A1 shares (par value of PLN 1 per share). All shares issued by the Company were fully paid and registered in the National Court Registry by the date of signing these interim condensed consolidated financial statements.

Other supplementary capital

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

(All amounts in thousands, except as otherwise stated)

Other reserves

Pursuant to the resolution of the Shareholders' Meeting held on March 29, 2006 and in relation to the decrease of share capital, the Company has established separate reserve capital and presented in other reserves, where the nominal value of 28,162,110 (not in thousands) own shares has been transferred. This reserve capital does not constitute a distributable reserve, but may be used to cover future losses. Furthermore, as at September 30, 2006 and December 31, 2005 other reserves included the amounts of PLN 729 and PLN 1,758, respectively, representing the fair value of granted options.

Stock options (number of options not in thousands)

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

	Year ended December 31, 2005		Nine-month period ended September 30, 2006	
Options	**Average strike price**	**Options**	**Average strike price**	**Options**
At the beginning of the period	2.65	7,206,097	3.06	2,776,650
Granted	3.56	2,698,125	5.30	271,814
Forfeited / expired	3.77	(1,389,272)	-	-
Exercised	2.60	(5,738,300)	2.59	(1,817,188)
At the end of the period	**3.06**	**2,776,650**	**4.24**	**1,231,276**

As at September 30, 2006 the total number of options approved for issue by the Supervisory Board was 15,271,220, out of which 2,206,963 options were outstanding as of that date. The total number of vested options was 634,233 as at September 30, 2006. The vesting period for the options is up to three years from the date of grant. The options are exercisable until December 20, 2007 or December 20, 2012 (due to the change of Netia's statute in relation to the extention of the period during which series K shares may be offered to members of the Management Board and key employees to execute their rights resulting from the Plan, the Supervisory Board extended the period when options may be exercised).

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

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 three and nine-month periods ended September 30, 2006 amounted to PLN 99 and PLN 454, respectively.

13. Trade and other payables

	December 31, 2005 (PLN)	September 30, 2006 (PLN)
Trade payables	56,662	28,554
Investment payables	74,477	32,367
VAT and other taxes	10,408	24,696
Accruals and other	52,410	78,869
	193,957	**164,486**

14. Corporate income tax

	Year ended December 31, 2005 (PLN)	Three-month period ended September 30, 2005 (PLN)	Nine-month period ended September 30, 2005 (PLN)	Three-month period ended September 30, 2006 (PLN)	Nine-month period ended September 30, 2006 (PLN)
Current tax	(574)	(127)	(450)	(92)	(281)
Deferred income tax benefit / (charge), net	(34,720)	(7,230)	(15,769)	221	(1,684)
Income tax benefit / (charge)	**(35,294)**	**(7,357)**	**(16,219)**	**129**	**(1,965)**

(All amounts in thousands, except as otherwise stated)

Current tax

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

	Year ended December 31, 2005 (PLN)	Three-month period ended September 30, 2006 (PLN)	Nine-month period ended September 30, 2006 (PLN)
Profit / (loss) before tax	95,484	17,665	(3,543)
Tax calculated at tax rates applicable to profit	(18,142)	(3,356)	673
Income not subject to tax	4,669	4,900	15,484
Expenses not deductible for tax purposes	(17,871)	1,843	(15,478)
Expenses deductible for tax purposes in previous periods	-	-	(739)
Utilization of previously unrecognized tax losses	24,879	-	4,403
Tax losses for which no deferred income tax asset was recognized	(4,334)	(3,258)	(5,848)
Reassessment of tax bases of assets and liabilities	(28,009)	-	(460)
Recognition of previously unrecognized deferred tax asset (opening balances)	3,514	-	-
Income tax benefit / (charge)	**(35,294)**	**129**	**(1,965)**

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

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

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

Deferred tax

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

The Management assessment considered that entities in the Netia Group expect that future taxable profits will be generated based on the 2006 budget and business plan covering the period up to 2008. For temporary differences, which reverse beyond 2008, no deferred tax asset was recognized. Management's assessment also considered factors such as: the stability and trend of past earnings; the nature of the business and industry; the economic environment in which the Netia Group is located; and the stability of the legislation to which the companies in the Netia Group are subject. Based on the above assumptions, the recognized deferred tax assets as at September 30, 2006 amounted to PLN 11,896 and deferred tax liabilities calculated on Pro Futuro's temporary differences, amounted to PLN 2,789. However, during the fourth quarter of 2006 the Netia Group expects to complete its new long-term projections, which will result in material change in recognized deferred tax asset.

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

	December 31, 2005 (PLN)	September 30, 2006 (PLN)
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	20,098	13,358
- Deferred tax assets to be recovered within 12 months	19,453	17,104
	39,551	30,462
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	5,478	5,433
- Deferred tax liabilities to be recovered within 12 months	19,891	15,922
	25,369	21,355
Deferred tax asset, net	**14,182**	**9,107**
out of which:		
Deferred income tax assets	14,182	11,896
Deferred income tax liabilities	-	(2,789)

Deferred income tax assets are recognized for deductible temporary differences and tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable, based on the Netia Group business plan covering the period to December 31, 2008. As of September 30, 2006, the Netia Group had total deductible temporary differences of PLN 650,777 and unutilized tax loss carry-forwards of PLN 287,043 (total potential deferred tax asset of PLN 178,186).

(All amounts in thousands, except as otherwise stated)

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.

15. Telecommunication services revenue

	Year ended December 31, 2005 (PLN)	Three-month period ended September 30, 2005 (PLN)	Nine-month period ended September 30, 2005 (PLN)	Three-month period ended September 30, 2006 (PLN)	Nine-month period ended September 30, 2006 (PLN)
Direct voice services	485,482	117,619	371,950	101,898	313,155
Monthly fees	142,824	35,784	106,894	32,759	102,093
Calling charges	342,658	81,835	265,056	69,139	211,062
Local calls	*108,548*	*24,780*	*84,083*	*18,723*	*61,289*
Domestic long distance calls	*65,658*	*15,663*	*51,094*	*12,086*	*38,202*
International long distance calls	*34,693*	*7,804*	*27,399*	*7,217*	*21,381*
Fixed-to-mobile	*114,692*	*29,391*	*87,503*	*27,206*	*79,439*
Other	*19,067*	*4,197*	*14,977*	*3,907*	*10,751*
Indirect voice	78,919	19,299	62,499	12,003	37,812
Data	128,258	33,038	92,653	49,524	120,874
Interconnection revenue	80,264	24,683	56,776	18,733	38,849
Wholesale services	97,867	26,452	58,899	39,330	115,418
Intelligent network services	19,960	5,291	15,275	3,560	11,341
Other telecommunication revenue	7,944	1,903	6,038	3,385	8,054
	898,694	**228,285**	**664,090**	**228,433**	**645,503**

16. Services purchased

	Year ended December 31, 2005 (PLN)	Three-month period ended September 30, 2005 (PLN)	Nine-month period ended September 30, 2005 (PLN)	Three-month period ended September 30, 2006 (PLN)	Nine-month period ended September 30, 2006 (PLN)
Professional services	(14,244)	(2,696)	(8,379)	(5,505)	(19,033)
Advertising and promotion expenses	(27,422)	(5,087)	(16,716)	(4,792)	(20,118)
Cost of rented lines and network maintenance	(75,632)	(19,625)	(54,736)	(29,812)	(67,341)
Information technology services	(15,975)	(3,973)	(11,158)	(3,860)	(11,393)
Office and car maintenance	(10,929)	(2,594)	(7,461)	(2,874)	(7,658)
Insurance	(6,382)	(1,633)	(4,750)	(1,550)	(4,700)
Mailing services	(6,709)	(1,614)	(5,040)	(1,560)	(4,637)
Travel and accommodation	(4,977)	(1,293)	(3,569)	(1,038)	(3,426)
Other services	(15,703)	(3,891)	(11,426)	(5,114)	(14,087)
	(177,973)	**(42,406)**	**(123,235)**	**(56,105)**	**(152,393)**

17. Other gains/(losses), net

	Year ended December 31, 2005 (PLN)	Three-month period ended September 30, 2005 (PLN)	Nine-month period ended September 30, 2005 (PLN)	Three-month period ended September 30, 2006 (PLN)	Nine-month period ended September 30, 2006 (PLN)
Gain on sale of subsidiaries and other investments	11	11	11	-	20
Gain on sale of impaired receivables	-	-	-	-	845
Profit / (loss) on sale of fixed assets	345	(18)	138	472	2,677
Net foreign exchange gains / (losses)	2,769	1,799	2,008	455	(2,710)
	3,125	**1,792**	**2,157**	**927**	**832**

(All amounts in thousands, except as otherwise stated)

18. Other income

	Year ended December 31, 2005 (PLN)	Three-month period ended September 30, 2005 (PLN)	Nine-month period ended September 30, 2005 (PLN)	Three-month period ended September 30, 2006 (PLN)	Nine-month period ended September 30, 2006 (PLN)
Forgiveness of liabilities	4,357	-	-	359	359
Sale of services to associate	1,696	-	-	725	1,654
Reversal of accrued other income on sale of services to associate (see Note 26)	-	-	-	-	(303)
Other operating income	5,049	1,325	2,957	577	2,211
	11,102	**1,325**	**2,957**	**1,661**	**3,921**

19. Other expenses

	Year ended December 31, 2005 (PLN)	Three-month period ended September 30, 2005 (PLN)	Nine-month period ended September 30, 2005 (PLN)	Three-month period ended September 30, 2006 (PLN)	Nine-month period ended September 30, 2006 (PLN)
Taxes and fees	(47,727)	(11,735)	(34,719)	(14,306)	(40,358)
Provision for impaired receivables	(17,514)	(1,435)	(7,900)	(1,964)	(8,585)
Materials and energy	(8,699)	(2,111)	(6,152)	(2,334)	(6,850)
Other operating costs	(10,476)	(2,818)	(7,274)	(3,757)	(7,865)
	(84,416)	**(18,099)**	**(56,045)**	**(22,361)**	**(63,658)**

20. Finance income and finance costs

Finance income

	Year ended December 31, 2005 (PLN)	Three-month period ended September 30, 2005 (PLN)	Nine-month period ended September 30, 2005 (PLN)	Three-month period ended September 30, 2006 (PLN)	Nine-month period ended September 30, 2006 (PLN)
Interest income	12,527	3,990	10,616	1,080	4,909
Gain on fair value adjustment of financial assets	2,436	518	2,038	528	1,548
Net foreign exchange gains	295	(742)	391	(242)	195
Other finance income	195	31	145	59	174
	15,453	**3,797**	**13,190**	**1,425**	**6,826**

Finance costs

	Year ended December 31, 2005 (PLN)	Three-month period ended September 30, 2005 (PLN)	Nine-month period ended September 30, 2005 (PLN)	Three-month period ended September 30, 2006 (PLN)	Nine-month period ended September 30, 2006 (PLN)
Interest expense	(6,851)	(1,746)	(5,098)	(1,628)	(5,176)
Net foreign exchange losses	(354)	(90)	(261)	-	-
	(7,205)	**(1,836)**	**(5,359)**	**(1,628)**	**(5,176)**

21. Net foreign exchange gains / (losses)

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

	Year ended December 31, 2005 (PLN)	Three-month period ended September 30, 2005 (PLN)	Nine-month period ended September 30, 2005 (PLN)	Three-month period ended September 30, 2006 (PLN)	Nine-month period ended September 30, 2006 (PLN)
Other gains/(losses), net	2,769	1,799	2,008	455	(2,710)
Finance income	295	(742)	391	(242)	195
Finance costs	(354)	(90)	(261)	-	-
	2,710	**967**	**2,138**	**213**	**(2,515)**

22. Earnings per share

Basic

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

	Year ended December 31, 2005	Three-month period ended September 30, 2005	Nine-month period ended September 30, 2005	Three-month period ended September 30, 2006	Nine-month period ended September 30, 2006
Weighted average number of treasury shares (not in thousands)	468,648	468,648	468,648	-	187,116
Weighted average number of own shares repurchased within the program (not in thousands)	12,889,141	18,856,653	7,172,117	-	11,057,097

	Year ended December 31, 2005	Three-month period ended September 30, 2005	Nine-month period ended September 30, 2005	Three-month period ended September 30, 2006	Nine-month period ended September 30, 2006
Profit / (loss) attributable to the equity holders of the Company	59,027	22,637	70,665	17,651	(5,958)
Weighted average number of ordinary shares in issue (not in thousands)	377,405,104	383,872,598	378,750,743	389,167,839	387,352,052
Basic earnings per share (not in thousands)..................................	0.16	0.06	0.19	0.05	(0.02)

Diluted

Diluted earnings per share for profit / (loss) attributable to the equity holders of the Company is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Company had two categories of potentially dilutive ordinary shares: warrants (which expired in April 2006 and which upon their exercise triggered the issue of the series J shares) and the employees' share options (which upon their exercise trigger the issue of the series K shares). For the share options and warrants a calculation was done to determine the number of shares that could had been acquired at fair value based on the monetary value of the subscription rights attached to the outstanding share options and warrants. The number of shares calculated as above was compared with the number of shares that would had been issued assuming the exercise of the share options and warrants.

	Year ended December 31, 2005	Three-month period ended September 30, 2005	Nine-month period ended September 30, 2005	Three-month period ended September 30, 2006	Nine-month period ended September 30, 2006
Profit / (loss) attributable to the equity holders of the Company	59,027	22,637	70,665	17,651	(5,958)
Weighted average number of ordinary shares in issue (not in thousands)	377,405,104	383,872,598	378,750,743	389,167,839	387,352,052
Adjustments for:					
- Share options	3,401,532	3,268,748	2,812,620	105,732	362,698
- Warrants...	10,283,419	8,650,821	11,028,929	-	979,897
Weighted average number of ordinary shares for diluted earnings per share (not in thousands)	391,090,055	395,792,167	392,592,292	389,273,571	388,694,647
Diluted earnings per share (not in thousands)..................................	0.15	0.06	0.18	0.05	(0.02)

23. Dividends per share

The Company's Shareholder's Meeting held on March 29, 2006, approved the dividend of PLN 0.13 (not in thousands) per share to be paid out of the net profit of Netia S.A. for the year ended December 31, 2005. Due to that resolution, PLN 50,323 of dividend was paid on May 16, 2006 to shareholders of record as at April 20, 2006.

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

(All amounts in thousands, except as otherwise stated)

24. Supplemental disclosures to interim condensed consolidated statement of cash flows

Supplemental disclosures to operating activities:

	Year ended December 31, 2005 (PLN)	Nine-month period ended September 30, 2005 (PLN)	Nine-month period ended September 30, 2006 (PLN)
Income taxes paid	592	163	302
Interest received	(12,503)	(10,990)	(4,916)

Non-cash transactions:

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

25. Changes in the Management Board and Supervisory Board

Changes in the Management Board

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

Effective April 5, 2006 Mr. Jonathan Eastick was appointed as Member of the Management Board and Chief Financial Officer. Since March 1, 2006 until October 23, 2006 Mr. Jonathan Eastick was also a Member of the Management Board and Chief Financial Officer of P4, the Netia's associate. Based on the Resolution of the Supervisory Board of Netia S.A. dated April 5, 2006 concerning issues connected with the appointment of a member of the Company's Management Board, in all business relations between the Company and P4, Mr. Jonathan Eastick; (i) did not act on behalf of the Company and (ii) abstained from conducting in any way, directly or indirectly, any businesses between the Company and P4, which could possibly lead to the conflict of interest.

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

Effective September 13, 2006 Mr. Wojciech Mądalski, President of the Company, resigned from his position.

Effective September 13, 2006 Mr. Paweł Karłowski was appointed as Acting President of the Management Board.

Changes in the Supervisory Board

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

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

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

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

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

Appointment of Chairperson of Netia's Supervisory Board

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

26. Related party transactions

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

As at September 30, 2006, the total number of options granted to members of the Company's Management Board under the Plan, was 1,177,861 of which 634,233 had vested as of that date. Strike prices for the options granted to the Management Board range between PLN 3.12 to 5.30 per share. The market price of the Company's shares at September 30, 2006 was PLN 4.68 per share.

(All amounts in thousands, except as otherwise stated)

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

Options	**Year ended December 31, 2005**	**Nine-month period ended September 30, 2006**
At the beginning of the period	5,526,888	1,812,094
Granted	1,721,489	271,814
Status changed due to resignation from Management Board	(1,087,256)	-
Exercised	(4,349,027)	(906,047)
At the end of the period	**1,812,094**	**1,177,861**

As at December 31, 2005 Mr. Wojciech Mądalski – the former Company's President (see Note 25) – held 906,047 options, which were exercised during the nine-month period ended September 30, 2006.

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

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

As at September 30, 2006 Mr. Paweł Karłowski – Acting President of the Company (see Note 25) – held 271,814 options.

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

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

As at December 31, 2005 Mr. Wojciech Mądalski – the former Company's President (see Note 25) – held 2,043,292 series K shares of the Company. As at June 30, 2006 his holdings increased to 2,576,607 shares. Due to Mr. Wojciech Mądalski's resignation from the Company's President his shares are no longer recognized as shares held by members of the Company's Management Board.

As at September 30, 2006 Mr. Tom Ruhan – a member of the Company's Management Board (see Note 25) – held 253,593 series K shares of the Company.

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

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

As at September 30, 2006, Mr. Raimondo Eggink – a member of the Company's Supervisory Board (see Note 25) – held 20,000 shares of the Company.

As at September 30, 2006, Mr. Constantine Gonticas – a member of the Company's Supervisory Board (see Note 25) – held 43,000 shares of the Company.

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

Management Board remuneration

Compensation and related costs associated with members of the Company's Management Boards during the nine-month periods ended September 30, 2006 and September 30, 2005 amounted to PLN 6,171 and PLN 5,837, respectively. These amounts include PLN 437 and PLN 715, respectively of share-based payments. In addition, termination benefits for the former members of the Management Board of PLN 1,750 and PLN 219, respectively, were recognized as a cost in the the nine-month period ended September 30, 2006 and September 30, 2005. In the nine-month period ended September 30, 2005 the fair value of options granted to the former members of the Management Board in the amount of PLN 284 was derecognized in the income statement.

Compensation and related costs associated with members of the Company's Management Boards during the three-month periods ended September 30, 2006 and September 30, 2005 amounted to PLN 1,929 and PLN 1,951, respectively. These amounts include PLN 95 and PLN 281, respectively of share-based payments. Furthermore, termination benefits for the former members of the Management Board of PLN 1,750 and PLN 219, respectively, were recognized as a cost in the the three-month period ended September 30, 2006 and September 30, 2005. Additionally, in the three-month period ended September 30, 2005 the fair value of options granted to the former members of the Management Board in the amount of PLN 284 was derecognized in the income statement.

Supervisory Board remuneration

Compensation and related costs associated with current members of the Company's Supervisory Boards during the nine-month periods ended September 30, 2006 and September 30, 2005 amounted to PLN 315 and PLN 366, respectively. Furthermore, the compensation and related costs for the former members of the Supervisory Board of PLN 44 were recognized as a cost in the nine-month period ended September 30, 2006.

Compensation and related costs associated with current members of the Company's Supervisory Boards during the three-month periods ended September 30, 2006 and September 30, 2005 amounted to PLN 131 and PLN 77, respectively.

Transactions with an associate

The following transactions were carried out with P4 and 3GNS, P4's subsidiary (see also Notes 8, 9 and 28):

	Four-month period ended December 31, 2005 (PLN)	Three-month period ended September 30, 2006 (PLN)	Nine-month period ended September 30, 2006 (PLN)
Sale of services	1,696	725	1,654
Reversal of accrued other income on sale of services*	-	-	(303)
Other sales transactions	211	324	596
	1,907	**1,049**	**1,947**

	December 31, 2005 (PLN)	September 30, 2006 (PLN)
Trade receivables	2,051	675
	2,051	**675**

* Reversal of accrued other income on sale of services resulted from the adjustment of estimated prices for services provided to P4 during 2005 to contractual prices negotiated with P4 during the nine-month period ended September 30, 2006, but also applicable retrospectively to 2005.

27. Commitments

Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognized in the interim condensed consolidated financial statements amounted to PLN 30,991 as at September 30, 2006 and PLN 27,366 as at December 31, 2005 of which, PLN 3,653 and PLN 2,327, respectively, related to the planned acquisition of intangible assets.

28. Contingencies

Millennium (not in thousands)

In August and September 2000, the Company entered into certain agreements to acquire all of the outstanding equity of Millennium Communications S.A. ("Millennium"), a provider of telecommunications services in Warsaw. Certain advances were made to Millennium following the execution of the agreements, and currently a loan of EUR 2.9 million (PLN 11.6 million at the September 30, 2006 exchange rate) increased by the applicable interest is outstanding from Millennium. In December 2000, the Company brought a claim for the repayment of the loan against Millennium in the District Court in Warsaw. On October 16, 2006, the Regional Court granted the Company's claim and ordered Millennium to pay PLN 11.5 million with interest. The Court has also dismissed Millennium's counterclaim. The judgment is not final.

In 2001, a valuation allowance of PLN 17.0 million was recorded as other operating expense against the outstanding amount receivable from Millennium as a result of the events described above.

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

On April 5, 2005, Millennium filed a claim against El-Net in connection with the alleged acts of unfair competition of El-Net against Millennium. El-Net filed an answer to the claim on June 6, 2005 in which it requested the District Court to dismiss the claim as wholly unsubstantiated. The matter is still pending.

On August 21, 2005 Millennium filed a motion against Netia in connection with the alleged acts of unfair competition of Netia against Millennium. Netia filed an answer to the claim on September 7, 2005 in which it rejected the claim as wholly groundless and unsubstantiated. On October 6, 2006, the Court discontinued proceedings in their entirety, because of identity of claims of Millennium and the defendant (after merger of Netia and El-Net) with the matter indicated above (Millennium's claim dated April 5, against El-Net). The judgment is not final.

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

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

Minority shareholders

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

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

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

P4 related commitments

In 2005 P4 - previously the Company's subsidiary, was announced a winner of the mobile telephony UMTS frequency tender. On August 23, 2005 Shareholders' Agreement ("Agreement") was concluded by the following entities: the Company, Netia Mobile Sp. z o.o. ("Netia Mobile", previously operating under the name "Netia Ventures Sp. z o.o."), P4, Novator One L.P., Novator and Novator Poland Pledge Sp. z o.o. (Novator and Netia Mobile both called "Shareholders"). Netia Mobile is a 100% subsidiary of the Company, and Novator is a 100% subsidiary of Novator One L.P.

As a result of that Agreement, Novator was the holder of 24,010 (not in thousands) of P4's shares ("Shares") constituting 70% of the Shares in P4's share capital and Netia Mobile was the holder of 10,290 (not in thousands) Shares constituting 30% of the Shares in P4's share capital. In total, based on the Agreement, the Shareholders are obligated to make contributions of up to the amount of EUR 300,000 in proportion to their share of P4's share capital. As a result, Netia Mobile is obligated to make contributions of up to EUR 90,000. Due to that obligation, as of September 30, 2006, Netia Mobile has made contributions to P4's equity in the amount of PLN 157,200 (of which PLN 49,500 was made in the nine-month period ended September 30, 2006) in order to cover the UMTS frequency reservation fee and initial operational expenses and capital investments in fixed assets.

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

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

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

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

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

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

Pledge on shares in P4

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

WiMAX license requirements

On October 27, 2005 Netia WiMax and Netia WiMax II received the reservations of the 3.6-3.8 GHz frequencies, which will be used to provide telecommunication services based on the WiMAX technology. The terms of licenses issued to the Company's subsidiaries require them to meet annual connected capacity milestones in the future, as measured at the end of each year (beginning 2006), subject to demand in the territory and population of Poland.

Tax contingent liability

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

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

29. Subsequent events

Share options granted under the Plan (not in thousands)

On October 5, 2006 a member of the Company's Management Board was granted 543,628 options to subscribe for series K shares in accordance with the Plan. The strike price for the options was established at PLN 4.80 and the granted options shall expire on December 20, 2012 at the latest.

Agreements partially securing the repayment of the vendor financing extended to P4

On October 31, 2006 the Company concluded a number of agreements partially securing the repayment of the credit facility of EUR 150,000 (the "Facility") granted to P4 by China Development Bank, acting as the Mandated Lead Arranger, and BPH SA, as the Facility Agent and Security Agent, under the Facility Agreement dated October 31, 2006. The Facility agreement provides for a ten year amortising term Facility with a three year availability period. The funds will be used by P4 for the purchase of core equipment for its UMTS network from Huawei, including the acquisition of transmitter construction sites and related network construction costs. In order to facilitate the conclusion of part of the vendor financing package assumed in P4's original business plans, the Netia Group and Novator provided certain undertakings and separate guarantees in direct proportion to their shareholdings in P4. Accordingly, Netia concluded the following agreements:

Share Retention Agreement. Under the Share Retention Agreement, Netia provided a guarantee to a maximum amount of EUR 27,000. The guarantee covers the repayment of 30% of the outstanding amounts under one of the tranches of the Facility (limited to a total of EUR 75,000) to be applied towards the acquisition of transmitter and core network construction sites, and the costs of related civil works investments in P4's UMTS network, increased by interest and costs (with a cap at EUR 90,000). Furthermore, Netia is obliged to ensure that the P4 equity stake currently held by the Netia Group shall not be disposed of before August 23, 2008. Thereafter, the current shareholders of P4 may not reduce their combined holdings below 50% of P4's share capital without the prior consent of China Development Bank.

Equity Contribution Agreement. Under the Equity Contribution Agreement, Netia and Novator One L.P. agreed to ensure that during the scheduled Facility repayment period, P4's share capital will be increased or the shareholders will grant subordinated loans to P4 pro rata to their respective shareholdings in P4 to ensure that P4 can meet its obligations up to a maximum committed amount of EUR 300,000. The total outstanding amount of committed contributions still to be made by Netia will not exceed EUR 51,000 as at the agreement execution date.

The Subordination Agreement. Under the Subordination Agreement, Netia agreed to subordinate all of its, and the Netia Group's, financial receivables due from P4, including any subordinated shareholders loans, by giving priority to the receivables due under the Facility granted to P4. The subordination does not affect commercial agreements concluded with P4 and other agreements, once accepted by the creditors on a case-by-case basis. Netia had no such receivables subject to subordination as at the date of entering into this agreement.

The Agreement for the Registered and Financial Pledges on Shares and the Agreement on Change of Priority of the Pledges. Under the Agreement for the Registered and Financial Pledges on Shares, Netia Mobile (P4's shareholder), established a registered and a financial pledge in favour of the Security Agent on its entire equity stake in P4 to secure P4's obligations under the Facility. At the same time, under a separate Agreement on Change of Priority of the Pledges, Netia Mobile agreed that the registered pledge established in its favour by Telecom Poland S.a.r.l. on P4's shares in connection with the conclusion of P4's Shareholders' Agreement (see Note 28) be subordinated to the registered and financial pledges established by Telecom Poland S.a.r.l. on the same date in favour of the Security Agent to secure P4's obligations under the Facility.

Update of the Prospectus

On October 31, 2006, based on a decision of the Financial Supervisory Commission dated October 13, 2006, and Art. 81 section 1 subsection 1 of the Law on Public Trading in Securities of 21 August 1997, the Company amended the prospectus for the Company's shares and notes, dated April 17, 2002, with respect to changing the subscription dates applicable to the series III notes and series K shares (the "Prospectus"). The period during which series K shares may be issued, due to the exercise by members of the Management Board and key employees their rights resulting from the Plan, was extended until December 31, 2012.

The Prospectus amendments result from resolution concerning amending the Company's Statute adopted by the Company's Shareholders' Meeting held on March 29, 2006 and resolution concerning the amendments to the Plan adopted by the Company's Supervisory Board on June 8, 2006.

Loan Agreements with Bank Handlowy w Warszawie SA

On November 6, 2006, Netia entered into two one-year financing agreements with Bank Handlowy w Warszawie SA. Netia has secured an overdraft facility in the amount of PLN 40,000 and a term loan facility of PLN 160,000. The PLN 160,000 loan facility will reduce to PLN 60,000 on May 7, 2007 if not drawn down prior to that date. These facilities are available to the Company as of November 7, 2006 and there were no withdrawals as at the date of signing these financial statements. The overdraft and loan facility will bear interest at WIBOR plus applicable margin, as the case may be. These facilities will provide back-up liquidity to the Netia Group.