(All amounts in thousands, except as otherwise stated)

This comment presents the financial results of Netia S.A. ("Netia", the "Company", the "Issuer") and the consolidated financial results for the Netia S.A. Group ("Netia Group").

1. The Netia Group's structure

The interim condensed consolidated financial statements as at and for the nine-month period ended September 30, 2008 include the financial statements of the Company and the following subsidiaries:

Netia WiMax S.A.
Netia Spółka Akcyjna UMTS Spółka komandytowo – akcyjna (previously operating under the name Netia Mobile Sp. z o.o.)
Świat Internet S.A. Group
InterNetia Sp. z o.o. Group
Tele2 Polska Sp. z o.o.

The financial statements of the Świat Internet S.A. Group include the financial statements of Świat Internet S.A. and its subsidiary Premium Internet S.A.

The financial statements of the InterNetia Sp. z o.o. Group include the financial statements of InterNetia Sp. z o.o. and its subsidiaries:

- Interbit Sp. z o.o.
- Netis Sp. z o.o.
- Przedsiębiorstwo Informatyczne Punkt Sp. z o.o.
- Connect Systemy Komputerowe Sp. z o.o.
- Cybertech Sp. z o.o.
- Lanet Sp. z o.o.
- UNI-Net Sp. z o.o.

The Netia Group accounted for the investment in its former associate company P4 Sp. z o.o. ("P4") using the equity method, until the date of receiving a consent of the Supervisory Board of the Company to sign an agreement to sell P4's shares (see "Changes within the Netia Group's structure" below).

2. Changes within the Netia Group's structure

Decrease of Netia's share in Netia Mobile

On January 21, 2008, the Company sold to its subsidiary InterNetia Sp. z o.o. („Internetia") 1 share of Netia Mobile Sp. z o.o. („Netia Mobile", currently Netia Spółka Akcyjna UMTS Spółka komandytowo – akcyjna), representing 0,01% of its share capital, for a total of PLN 10. As a result of this transaction, the Company holds 99.99% of Netia Mobile's share capital.

Transfer of shares' ownership (not in thousands)

On January 31, 2008, the Company transferred the ownership of the below mentioned shares in telecommunications companies to its subsidiary Lanet Sp. z o.o. („Lanet"):

(i) 946 shares in the share capital of Magma Systemy Komputerowe Schmidt i S-ka S.J. ("Magma") with the nominal value of PLN 500 each and the total nominal value of PLN 473,000 for all these shares, which represent 100% of the share capital and confer the right to 100% of the votes at Magma's meeting of shareholders,
(ii) 100 shares in the share capital of Kom-Net Systemy Komputerowe Sp. z o.o. ("Kom-Net") with the nominal value of PLN 500 each and the total nominal value of PLN 50,000 for all these shares, which represent 100% of the share capital and confer the right to 100% of the votes at Kom-Net's meeting of shareholders.

These transfers were made in execution of the agreement concluded by Netia and Lanet on January 31, 2008. The shares represent an in-kind contribution in exchange for which Netia acquired 400 newly issued shares in Lanet, with the nominal value of PLN 500 and at the issue price of PLN 44,545.43 each, i.e., at the total price of PLN 17.8 million.

The transfer of the shares represents one of the elements of the Ethernet companies' consolidation process within the Netia Group.

Transformation of Netia's subsidiary

On February 20, 2008 Warsaw Regional Court registered the transformation of Netia's subsidiary, Netia Mobile Sp. z o.o. (a limited liability company), into Netia Spółka Akcyjna UMTS, a limited joint stock partnership (spółka komandytowo - akcyjna).

Netia holds 99.99% of the share capital and 99.99% of the votes at the meetings of the shareholders of Netia Mobile and is the general partner in the transformed company, i.e. the partner liable without limitation for the obligations of the transformed company. InterNetia Sp. z o.o., the Company's subsidiary, holds 1 share, which amounts to 0.01% of the share capital and 0.01% of the votes at the meetings of the shareholders of Netia Mobile.

(All amounts in thousands, except as otherwise stated)

The goal of this transformation is the restructuring of some of the companies of the Netia Group.

Transfer of shares' ownership in an Ethernet subsidiary (not in thousands)

On April 29, 2008 the Company transferred ownership of 500 shares in the share capital of Lanet, with the nominal value of PLN 500 each and the total nominal value of PLN 250,000, to its subsidiary Internetia. These shares represent 100% of the share capital and confer the right to 100% of the votes at Lanet's meeting of shareholders.

The transfer of the shares was made in execution of the agreement concluded by Netia and Internetia on April 29, 2008. The shares represent an in-kind contribution in exchange for which Netia acquired 500 newly issued shares in Internetia, with the nominal value of PLN 500 and at the issue price of PLN 68,200 each, i.e., for a total price of PLN 34.1 million.

Mergers with subsidiaries

On February 19, 2008 Lanet merged with its wholly-owned subsidiary Akron Sp. z o.o. and on May 30, 2008 Lanet merged with the following subsidiaries:

- 3Vnet Sp. z o.o.
- Ikatel Telekom Sp. z o.o.
- Inet Sp. z o.o.
- KOM-NET Systemy Komputerowe Sp. z o.o.
- Magma Systemy Komputerowe Schmidt i S-ka Sp. z o.o.
- Ozimek Net Sp. z o.o.
- Verizone Sp. z o.o.
- Zielona Burza Sp. z o.o.

On September 29, 2008 Lanet merged with its wholly-owned subsidiary Kom-Net Systemy Komputerowe Piotr Szulc i Henryka Szulc Sp. z o.o.

The mergers were carried out through the transfer of the acquired companies' assets to Lanet (merger by acquisition) without any increase in Lanet's share capital and without any share exchanges.

Sale of investment in P4

On February 22, 2008 the Company concluded an agreement to sell its interest in P4 held by Netia Mobile to Tollerton Investments Limited ("Tollerton") and Novator Telecom Poland S.a.r.l. ("Novator Telecom Poland"). The transaction was closed on April 30, 2008 for a final price of EUR 131,795. The gain on this transaction recognized in the consolidated income statement for the six-month period ended June 30, 2008 amounted to PLN 353,427.

Simultaneously, on April 30, 2008 the shareholders agreement of P4 dated May 24, 2007 was terminated with respect to the Company and Netia Mobile. Upon the termination of the shareholders agreement the Company and Netia Mobile were released from the obligation to finance P4. The commercial agreements between the Company and P4 (service provider, transmission and distribution agreements) remain in force.

Acqusitions (not in thousands)

On February 18, 2008, Internetia, the Company's subsidiary, purchased 200 shares of Przedsiębiorstwo Informatyczne Punkt Sp. z o.o. ("Punkt"), constituting jointly 100% of the share capital of Punkt with the total nominal value of PLN 100,000 for all these shares. The total price of all the Shares has been set at PLN 5.1 million. This represents an equivalent of the value of Punkt's active customers as agreed with the Sellers of PLN 4.2 million, increased by balances of the cash and cash equivalents held by Punkt, and decreased by Punkt's debt and overdue liabilities as at February 13, 2008. The purchase price may be increased up to PLN 6.7 million in case of the fulfillment of certain conditions included in the Shares purchase agreement and related to execution of certain transactions by Punkt's business partners.

On June 11, 2008, Internetia purchased 11,300 shares in the share capital of a company operating under the business name Connect Systemy Komputerowe Sp. z o.o. ("Connect") with the total nominal value of PLN 565,000 for all these shares, which represent 100% of the share capital of Connect. The total price for the shares has been set at PLN 4.5 million.

On June 27, 2008, Internetia purchased 200 shares in the share capital of a company operating under the business name Cybertech Sp. z o.o. ("Cybertech") with the total nominal value of PLN 50,000 for all these shares, which represent 100% of the share capital of Cybertech. The total price for the shares has been set at PLN 4.0 million.

On April 18, 2008, Lanet, the Company's subsidiary, purchased 100 shares in the share capital of a company operating under the business name KOM-NET Systemy Komputerowe Piotr Szulc I Henryka Szulc Sp. z o.o. ("Kom-Net SK") with the total nominal value of PLN 50,000 for all these shares, which represent 100% of the share capital of Kom-Net SK. The total price for the shares has been set at PLN 0.1 million.

Punkt is a service provider offering broadband Internet access to residential clients in the town of Opole in the Silesian region of Southern Poland. Connect and Cybertech are service providers offering broadband Internet access to residential clients in the towns of Białystok and Suwałki in North-Eastern Poland. Kom-Net SK owns the rights of access to the telecommunications infrastructure in the city of Wrocław in the Southern Poland.

(All amounts in thousands, except as otherwise stated)

On September 15, 2008 the Company finalised the purchase of 1,000 shares in Tele2 Polska Sp. z o.o. ("Tele2 Polska"), with the total nominal value of PLN 1 million for all these shares, which represent 100% of Tele2 Polska's share capital and confer the right to 100% of the votes at the shareholders' meeting of Tele2 Polska. Upon closing of the transaction Netia paid EUR 31.4 million in cash. The purchase consideration also reflects a future additional payment of up to EUR 4.8 million dependent on Tele2 Polska performance during the 12 month period after closing and a further future payment for the difference between actual net cash and net working capital and their respective target estimated at PLN 24.4 million.

Transfer of shares' ownership in Uni-Net Sp. z o.o. (not in thousands)

On September 8, 2008 Netia transferred ownership of 435,610 shares in the share capital of Uni-Net Sp. z o.o. ("Uni-Net") with the nominal value of PLN 50 each and the total nominal value of PLN 21.8 million to its subsidiary Internetia. These shares represent 100% of the share capital and confer the right to 100% of the votes at Uni-Net's meeting of shareholders.

The transfer of the shares was made in execution of the agreement concluded by Netia and Internetia on September 8, 2008. The shares represent an in-kind contribution in exchange for which Netia acquired 280 newly issued shares in Internetia, with the nominal value of PLN 500 and at the issue price of PLN 67,860 each, i.e., for a total price of PLN 19 million.

Changes within the Netia Group's structure after the balance sheet date

Acquisition of another Internet service provider

On October 7, 2008 Lanet, Netia's subsidiary, purchased 100 shares in the share capital of a company operating under the business name Seal-Net Sp. z o.o ("Seal-Net") with the total nominal value of PLN 50 for all these shares, which represent 100% of the share capital and confer the right to 100% of votes at the general meeting of shareholders of Seal-Net, for the total price of PLN 456.

Transfer of shares' ownership in Świat Internet SA (not in thousands)

On October 28, 2008 Świat Internet SA ("Świat Internet"), the Company's subsidiary transferred ownership of 464,000 shares in the share capital of Premium Internet SA ("Premium Intenet") with the nominal value of PLN 100 each and the total nominal value of PLN 46.4 million to its another subsidiary Tele2 Polska. These shares represent 100% of the share capital and confer the right to 100% of the votes at shareholders' meeting of Świat Internet.

The transfer of the shares was made in execution of the agreement concluded by Świat Internet and Tele2 Polska on October 28, 2008. The Premium Internet's shares were transferred for the total price of PLN 1.00, while the balance of Premium Internet's financial liabilities towards its related parties as at October 28, 2008 was PLN 17.3 million (main liability).

Mergers with subsidiaries

On October 31, 2008 Netia merged with its wholly-owned subsidiaries Świat Internet and Netia Wimax S.A. The mergers were carried out through the transfer of the acquired companies' assets to Netia (merger by acquisition) without any increase in Netia's share capital and without any share exchanges.

3. Shareholders holding at least 5% of the votes at the General Shareholders' Meeting of Netia as at the date of filing this report (not in thousands)

Based on the information presented to the Company by the shareholders, as at the date filing of this report, significant blocks of the Company's shares were held by the following entities (the interest and the number of votes are calculated on the basis of the number of shares constituting the Company's share capital as at November 12, 2008):

Novator Telecom Poland II S.a.r.l.

In the period from the submission of the previous quarterly report Novator Telecom Poland II S.a.r.l. increased its share in the Company's share capital and exceeded the threshold of 31% of the total number of votes at the General Shareholders' Meeting of the Company. Novator Telecom Poland II S.a.r.l. held 121,784,294 shares constituting 31.28% of the Company's share capital and representing 31.28% of the total number of votes at the General Shareholders' Meeting of the Company.

Subsidiaries of SISU Capital Limited

The subsidiaries of SISU Capital Limited held a total of 39,043,006 of the Company's shares constituting 10.0% of its share capital and carrying 10.0% of the total number of votes at the General Shareholders' Meeting of the Company. The number of the Company's shares held by the subsidiaries of SISU Capital Limited has not changed since the submission of the previous quarterly report.

Third Avenue Management LLC

In the period from the submission of the previous quarterly report Third Avenue Management LLC decreased its share in the Company's share capital to 18.5% of the total number of votes at the General sharehlders' Meeting of the Company. Third Avenue Management LLC held 72,014,340 shares constituting 18.5% of the Company's share capital, inclusive of the shareholding of Third Avenue International Value Fund described below.

(All amounts in thousands, except as otherwise stated)

Third Avenue International Value Fund

Third Avenue International Value Fund held 19,594,034 of the Company's shares constituting 5.03% of the Company's share capital and representing 5.03% of the total number of votes at the General Shareholders' Meeting of the Company. The number of the Company's shares held by the subsidiaries of Third Avenue International Value Fund has not changed since the submission of the previous quarterly report.

Banca Akros S.p.A.

Banca Akros S.p.A. held 23,262,944 shares constituting 5.98% of the Company's share capital and representing 5.98% of the total number of votes at the General Shareholders' Meeting of the Company. The number of the Company's shares held by Banca Akros S.p.A. has not changed since the submission of the previous quarterly report.

4. Changes in shares and share options held by members of the Company's Management Board and Supervisory Board (not in thousands)

Between the adoption of the employee share option scheme (the "Plan") on April 10, 2003 and September 30, 2008, the Supervisory Board approved and issued a total number of 78,029,720 options to members of the Management Board and to Netia's key employees. Out of the total number of approved options 51,753,373 were outstanding as at September 30, 2008. The options are exercisable until December 20, 2012. The strike price of the approved outstanding options, depending on the agreement, ranges between PLN 3.50 and PLN 8.25 per share.

During the third quarter of 2008 the following changes took place in the number of options granted under the Plan:

Three-month period ended September 30, 2008

At the beginning of the period	42,769,873
Granted	13,333,500
Forfeited / expired	(4,350,000)
At the end of the period	51,753,373

Options held by members of the Company's Management Board are presented below:

Three-month period ended September 30, 2008	Mirosław Godlewski	Jonathan Eastick	Piotr Czapski	Bertrand Le Guern	Tom Ruhan	Piotr Nesterowicz	Total
At the beginning of the period	10,000,000	9,271,814	5,000,000	5,000,000	4,000,000	-	33,271,814
Granted	3,334,000	1,666,500	-	-	1,666,500	6,666,500	13,333,500
Resignation from MB	-	-	(5,000,000)	-	-	-	(5,000,000)
At the end of the period	13,334,000	10,938,314	-	5,000,000	5,666,500	6,666,500	41,605,314

There were no further changes in the number of options granted to members of the Management Board as at the date of filing this report.

The members of the Supervisory Board did not hold any options as at June 30, 2008. Due to Mr. Piotr Czapski's appointment as a member of the Company's Supervisory Board, as at September 30, 2008 members of the Supervisory Board held 1,000,000 options, out of which all had vested (4,000,000 of unvested options, previously granted to Mr. Piotr Czapski whilst he was serving as a Management Board Member, have lapsed upon his termination of the employment contract).

Changes in the number of Netia's shares held by members of the Company's Management Board are presented below:

Three-month period ended September 30, 2008	Tom Ruhan	Jonathan Eastick	Total
At the beginning of the period	253,593	15,000	268,593
At the end of the period	253,593	15,000	268,593

Movements in the number of Netia's shares held by members of the Company's Supervisory Board are presented below:

Three-month period ended September 30, 2008	Tadeusz Radzimiński	Raimondo Eggink	Constantine Gonticas	Bruce McInroy	Total
At the beginning of the period	2,000	20,000	143,000	150,000	315,000
At the end of the period	2,000	20,000	143,000	150,000	315,000

There were no further changes in the number of shares held by members of the Supervisory and Management Boards as at the date of filing this report.

(All amounts in thousands, except as otherwise stated)

5. Legal proceedings

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 9.7 million at the September 30, 2008 exchange rate) increased by the applicable interest is outstanding from Millennium. As on April 24, 2007 Millennium was declared bankrupt. The loan has been claimed by the Company in the bankruptcy proceedings relating to Millennium. The bankruptcy trustee of Millennium accepted Netia's claim against Millennium and registered it on the list of claims in the amount of PLN 65.5 million. The bankruptcy proceeding of Millennium is still pending.

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

On April 5, 2005, Millennium filed a claim against Regionalne Sieci Telekomunikacyjne El-Net S.A. (“El-Net”), the subsidiary merged with Netia in July 2006, 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. On May 27, 2008, the Appellate Court rejected Millennium’s appeal against the decision of the District Court issued on December 22, 2006 dismissing Millennium’s claim. The decision of the District Court is therefore final and non-appealable.

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 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 April 16, 2008, the District Court dismissed Millennium’s claim. The decision of the District Court is final and non-appealable. As a result of the decision, the injunction described above, was cancelled by operation of law.

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.

Jupiter

Jupiter Narodowy Fundusz Inwestycyjny S.A. (“Jupiter”) has sued the Company for payment of PLN 2,084 on alleging improper performance of the Share and Bonds Purchase Agreement dated May 22, 2006 (the “Agreement”) relating to the Company’s purchase of Pro Futuro S.A. (“Pro Futuro”).

Having identified unrecorded liabilities the Company applied the price reduction mechanism provided for in the Agreement and requested the escrow agent to reimburse part of the price paid for the Pro Futuro shares. The escrow agent reimbursed the Company in the amount of PLN 1,940 on account of the breach of the Agreement. The existence of unrecorded liabilities was confirmed by an independent auditor.

Since Jupiter did not agree with the price reduction, it filed a suit against the Company on September 7, 2007. The amount claimed by Jupiter comprises the amount of the reduced price, increased by statutory interest. On October 30, 2007, the Company responded to the suit, requesting dismissal of the claim on the grounds that it was entirely unfounded. The matter is still pending.

Management, having obtained legal advice, does not believe resolution of the matter described above will have a material adverse effect on the Netia Group’s financial condition and no liability has been recorded for the claim.

TP SA

As a result of Telekomunikacja Polska S.A. (“TP SA”)A failing to meet certain obligations under the bitstream access agreement, in 2007 and 2008 the Company demanded payment from TP SA for contractual penalties totaling PLN 22,425, following the expiration of an initial grace period. Netia’s management intends to use all legal means to enforce the penalties and will recognize income when TP SA either pays or settles the liability in a manner acceptable to Netia. After the Company’s demand for TP SA to pay contractual penalties delivered in 2007, Netia filed a claim in court against TP SA for payment of PLN 19,542 of penalties. Despite the fact that the Management Board is convinced of the legitimacy of the claim the Management Board cannot ensure that the Court will decide fully in accordance with the claim.

Prior to its acquisition by Netia, Tele2 Polska has made several significant damages claims against TP SA, a number of which are the subject of legal proceedings at the present time. Netia’s Management is in the process of familiarizing itself with the details of these claims and has not reached a conclusion as to the probability of executing these claims against in TP SA, in whole or in part, as at the date of this report and therefore no contingent asset in relation to these claims has been recognized as at September 30, 2008.

6. Factors which may have an impact on the result of the Netia Group

Risk of changes to the Netia Group's strategy

On April 18, 2007 the Company announced the main assumptions of its new operational strategy. Financial guidance regarding this strategy was updated on October 14, 2008 to take account of the material impact of the acquisition of Tele2 Polska in enlarging the Netia Group. No assurance can be given as to whether new strategic initiatives included in the new strategy, will be successful, and if not, whether they may adversely affect the operating activity of the Netia Group, its financial standing or its overall performance.

Funding Risk

Although Netia has maintained a significant cash surplus over the past few years and the Company's core activities remain cash generative, the Company has recently changed its strategy to one which requires significant investments and start-up losses in order to develop new sources of revenue and to expand Netia's market share. Netia received EUR 131,795 for its stake in P4 on April 30, 2008 and has raised funding from medium-term senior debt of PLN 275.000. Furthermore, the Company paid EUR 31,385 for the acquisition of Tele2 Polska in September 2008 and an additional PLN 100,000 borrowing facility, available at the Company's option has been secured to fund the majority of this acquisition. Whilst these amounts are currently expected to be sufficient for Netia to reach cash flow break-even, no assurance can be given that Netia's plans will be reached as expected and, if performance is significantly below expectations, the Company may need to raise additional financing from financial institutions and or from its shareholders. We cannot guarantee that such funding would be available on acceptable market conditions or at all and, if this proved to be the case, Netia would have to significantly modify its development plans.

Risk of changes in the shareholder structure, which may influence business activity

Currently, Netia is not controlled by any strategic investors, and its shares are held by a large number of shareholders. Novator Telecom Poland II S.a.r.l. („Novator"), is the largest single shareholder of Netia and according to the information furnished to the Company it holds 121,784,294 shares which represents 31.3% of the Company's share capital and 31.3% of the aggregate number of votes at the Company's General Shareholders' Meeting. Third Avenue Management LLC holds 72,014,340 shares representing 18.5% of the Company's share capital and 18.5% of the aggregate number of votes at the Company's General Shareholders' Meeting. The subsidiaries of SISU Capital Limited hold 39,043,006 shares representing 10.0% of the Company's share capital and 10.0% of the aggregate number of votes at the Company's General Shareholders' Meeting. Moreover, Banca Akros S.p.A. holds 23,262,944 shares representing 6.0% of the Company's share capital and 6.0% of the aggregate number of votes at the Company's General Shareholders' Meeting. Neither Netia's corporate documents nor the provisions of Polish law provide for any serious restrictions to changes in control over the Issuer in the event of third parties acquiring a considerable number of shares. Thus, such changes of control may materially affect the composition of the Company's Supervisory Board and the Management Board and, in turn, the strategy and business activity of the Netia Group. Due to the above, the Issuer cannot guarantee that any adopted strategy of the Netia Group will be pursued in accordance with its initial objectives.

Conflict of interests between major and minority shareholders

Novator, as the owner of 31.3% of the Shares, is currently the Company's largest shareholder. Even though the equity stake held by Novator does not entitle it to exercise control over the Company, it nevertheless enables Novator to have a significant degree of influence on key decisions taken by the Company. In particular, Novator may materially influence the composition of the Company's Supervisory Board, especially given the fact that the remaining shareholders do not represent a single unified position. The Company's Statute provides that the consent of the majority of the Company's Supervisory Board members is required to adopt resolutions on key matters affecting the Company's operations.

Any potential conflicts between Novator and the remaining shareholders may adversely affect the operations of the Netia Group.

Risk concerning the liquidity of the market for the Company's shares

Based on information provided to the Company, almost 66 % of Netia's share capital is currently held by four investors each holding at least 5 % of the Company's equity. As these investors have built their positions, we have noted a steady reduction in the average volume of the Company's shares traded on the Warsaw stock exchange. The relatively low liquidity in the market for our shares may make it difficult for a shareholder to sell their shareholding at the previously prevailing market price.

Risk connected with the impact of potential future takeovers and acquisitions of large-scale businesses

Revenues and financial performance of the Netia Group may materially be affected by takeovers of and mergers with other entities that operate large scale telecommunications businesses. Upon the Company's takeover of another entity, the process of fully integrating this entity may carry high risks, e.g. employment termination by key employees, the loss of a certain segment of its customers or high costs of the entire integration process.

The highly fragmented market of alternative operators rendering wireline telephone services may result in increasing consolidation within the Polish market. The Company shall evaluate potential takeovers and acquisitions whenever such possibilities arise. The performance of such transactions requires the special involvement of the Company's high-ranking managers and may entail high costs connected with the identification and evaluation of the candidates for takeover, the negotiating of agreements and integration of the entities acquired. The Netia Group may require additional funding in order to conduct such transactions.

The benefits from potential takeovers will depend mostly on the extent to which the Netia Group is able to integrate the acquired entities into its structures. Future company acquisitions may entail acquiring existing liabilities and the risk of undisclosed liabilities. The Netia Group cannot guarantee that beneficial takeover possibilities will arise in the future, nor, if such possibilities arise, that they will result in the successful integration of the acquired entities with the Netia Group. Failure to integrate the acquired entities into the structures of the Netia Group and / or the failure to generate the expected operating and strategic synergies may adversely affect the operations and financial standing of the Netia Group.

Risks relating to the acquisition, integration and development of Ethernet network operators

An important element of Netia's strategy to expand its broadband subscriber base is the acquisition of Ethernet network operators. Our plans require that these companies, which typically have no more than 5,000 customers at the time of acquisition, are fully integrated into Netia's core operations. We aim to continue to grow the subscriber bases connected to the networks that we acquire and to upsell their customers voice services in addition to the internet access that they currently purchase. We cannot provide any assurance that we will be successful in implementing this strategy in whole or in part in any or all of the Ethernet networks that we have or will acquire. Costs of integration may exceed our plans or we may discover undisclosed liabilities post acquisition. Customers may prove reluctant to switch to services provided by Netia directly or unwilling to switch to Netia voice services from their current providers. Moreover the price of such Ethernet networks may increase to the point that further acquisitions are uneconomic, making it more difficult for Netia to reach its subscriber growth objectives. Failure to fully implement our stategy in regard to Ethernet network operators may adversely affect the operations and financial standing of the Netia Group.

Technological risk

The telecommunications sector is an area witnessing dynamic technological changes. In designing and expanding its networks, the Netia Group uses the latest technical solutions. However, it is not possible to predict how the Netia Group's operations may be affected by technological advances in the field of fixed-line telephony, wireless transmission, voice transmission protocol via the Internet or cable television telephony. In particular, the business activities of the Netia Group may be affected by the tendency to provide telecom services via wireless or portable platforms, with wireless broadband access and third generation mobile cellular telephone systems equipped with IP. Even if the Netia Group succeeds in adapting its operations to such technological advances, new market participants may emerge as a result of the new technology with a competitive advantage over Netia or existing competitors may benefit relatively more than Netia from the new technologies.

Risk of employment termination by key executives and difficulties related to the recruitment of new, competent executives

The activity of the Netia Group is dependent on the quality of the work of its staff and employees in executive positions. The Management Board cannot guarantee that the possible termination of employment by some of its key executives will not adversely affect the financial standing and performance of the Netia Group, which, should some of its executives terminate their employment, may then lack executives with sufficient knowledge and experience in the field of management and operating activity. Changes in composition at the Company's executive levels may result in disruptions in the Netia Group's business activity.

Risk resulting from changes in the Telecommunications Law

The Telecommunications Law transposed the so-called "set of directives 2002" and entered into force on September 3, 2004, with the exception of several provisions, which entered into force on January 1, 2005.

Pursuant to the Telecommunications Law, each public telecommunications network operator is required to conduct negotiations concerning interconnection agreements upon another telecom operator's request. However, the President of the UKE is required to resolve any disputes between the parties to the negotiations by way of an administrative decision, which shall replace the relevant agreement only if one of the negotiating parties is a public telecommunications network operator required to provide the interconnection.

The Telecommunications Law states that the obligation to provide universal services shall rest with the operator selected pursuant to a decision of the President of the UKE issued after a tender procedure. On November 7, 2006 the President of the UKE issued a decision assigning TP SA as an operator required to provide universal services commencing on May 8, 2011. Telecommunications providers whose revenues from telecom activities exceed PLN 4,000 will have to co-finance the performance of this obligation, by co-financing the funding of universal services, if the funding has been assigned to the telecommunications provider selected on the basis of the decision of the President of the UKE. The share in the funding that a telecommunications provider will be required to provide shall also be established by a decision of the President of the UKE; however, it may not exceed 1% of the telecommunications provider's revenues in the given calendar year. The amount of the share in the funding of the universal service shall constitute a deductible cost, as defined by the Act on Corporate Income Tax. At the present stage one may not guarantee that the Netia Group will not be required to co-finance the funding of universal services.

On June 29, 2007 TP SA applied to the President of UKE for a subsidy towards the incurred costs of the universal service provision. The application pertains to the subsidy towards the costs of the period from May 8, 2006 to December 31, 2006. With the decision dated September 13, 2007 UKE refused to subsidize to TP SA the costs of services provided by TP SA that form a part of the universal service. TP SA applied for reconsideration. Regulator affirmed the Decision of September 13, 2007. with the Decision dated 11 February, 2008.

On June 25, 2008 lower administrative court in Warsaw reversed the appealed decision of the President of UKE dated February 11, 2008, as well as the preceding decision dated September 13, 2007 and indicated that both these decisions should not be enforced. The Management is unable to assure that the decision of the administrative court will be modified.

Additionally TP SA filed on June 27, 2008 amotion for subsidies to costs of universal service incurred in 2007. The Management is unable to assure that the President of UKE dismisses the motion of TP SA.

The Telecommunications Law requires that telecommunications providers pay annual telecommunications fees of up to 0.05 % of the provider's annual revenues from telecommunications activities generated in the financial year 2 years prior to the year to which the annual fee pertains, if the annual revenues exceed PLN 4,000. The amount of the annual telecommunications fee shall constitute a deductible cost as defined by the Act on Corporate Income Tax.

As from January 1, 2006, Netia is required to provide subscribers' with a right to retain their numbers when changing operators. Despite the fact that Netia performs this obligation, the Management Board cannot guarantee that it will be possible to enter into an agreement with particular telecommunication operators to define the terms and conditions of cooperation between the parties to the extent required to execute the subscribers' rights to retain his/her number.

On October 7, 2008 the Council of Ministers adopted an amendment of Telecommunications Law. The Ministry of Infrastructure prepares a further amendment to the Telecommunications Law. At this stage it is difficult to determine if and when they will become law at this stage.

Risks related to holding a position of SMP

On April 26, 2007, UKE issued the decision, whereby it has appointed Netia as a telecommunications operator holding significant market power in the market for the call termination in its fixed public telephone network, in the area of the network where the termination is executed. At the same time, UKE imposed regulatory obligations that relate to:
- providing access to the network (including the use of network elements and associated facilities to the extent they are used to provide call termination services in the fixed public telephone network of Netia),
- non-discrimination (obligation not to discriminate between telecommunications operators with regard to telecommunications access to the call termination services in its fixed public telecommunications network, in particular to offer the same conditions in comparable circumstances, as well as to offer the services and to provide the information on the conditions not less favorable than used within own enterprise or in relations with affiliates);
- transparency (comprising the publication of the information in matters concerning provision of telecommunications access with regard to the provision of call termination services in the fixed public telecommunications network of Netia S.A., on technical specifications of networks and telecommunications equipment, network characteristics, terms and conditions of the services and of the use of networks, as well as on the fees).

In the performance of the obligation imposed on Netia in the above mentioned decision of the President of UKE, the Company published information on the conditions of telecommunications access with regard to call termination services in the fixed public telephone network of Netia by posting them on the internet site of Netia S.A., at: http://www.netia.pl/informacje,dla_biznesu,42,921.html. The published document, hereinafter the "Netia IC Offer" contains information as required in the Decision of the President of UKE, necessary for the preparation by the interested entrepreneurs of an application pertaining to the provision of telecommunications access with regard to call termination services in the fixed public telephone network of Netia.

Netia filed an appeal against the Decision of the President of UKE dated April 26, 2007 to the District Court in Warsaw – The Court of Competition and Consumer Protection. By virtue of the decision of January 23, 2008, the Court suspended legal proceedings, due to the juridicial question filed to the Supreme Court in another case and concerning the correctness of appointing the President of the Office of Electronic Communications and certain related issues.

By virtue of the resolution of February 20, 2008, the Supreme Court has decided that the President of UKE may effectively undertake all activities, such as the issuing decisions and provisions, as well as the granting of power(s) of attorney.

Dependence of the Company on TP SA due to telecommunication access services

Interconnect

The rendering of telecommunications services by the Netia Group is dependent on the possibility of accessing the telephony network of TP SA. Except for some cases, calls initiated in Netia's network ending outside this network, including the majority of international and domestic long distance calls by subscribers of the Netia Group companies, are - due to technical reasons - executed via the network of TP SA. According to the provisions of the new Telecommunications Law TP SA is required to connect companies such as Netia to its network.

In the past Netia has had many disputes with TP SA over interconnection, in particular in relation to the interconnection agreements of its former subsidiary El-Net (now merged with Netia SA) and due to the continued existence of the interconnection agreements between TP SA and the Netia Group companies for local calls based on a bill & keep payment systems. In order to avoid further disputes and to prevent conflict escalation, in December 2006 Netia concluded an agreement with TP SA on closing all disputed issues. Finally, on June 30, 2007 Netia and TP SA concluded contracts related to interconnection that thoroughly regulate the cooperation between operators.

With a motion dated September 17, 2007, TP SA has requested from Netia the renegotiation of fees for call termination in the public fixed telecommunications network of Netia. Despite the lack of legal obligation to follow the motion of TP SA, the Board may provide no assurance that TP SA will not request from UKE to issue a decision that substitutes the amendment to the contract in relation to the fees and that UKE will not consider that the fees should be aligned with the fees of TP SA.

With motions dated October 3 and 9, 2008, TP SA requested from Netia and PI the renegotiation of fees specified in contracts on interconnection between TP SA and Netia and Premium Internet, AUS services, performed as a part of number portability agreements, for collocation services and for WLR services by Premium Internet. Despite of their opinion that the requests of TP SA in the above motions are ungrounded, the Management Board cannot assure that in case TP SA applies to the President of UKE for a decision in this matter, the regulator will not accept the above motions of TP SA and will change the terms of settlements between Netia and TP SA and Premium Internet and TP SA for the above services.

On October 10, 2008 TP SA informed Netia in writing about the interest of TP SA in the provision of "[…] services of wholesale network access offered by Netia SA". Conversely to TP SA, Neta is not subject to obligations to provide telecommunications access in that scope of services, so despite the vagueness of the TP SA's request, the Management Board is definitely of the opinion that there is not basis for such obligations, in particular if it is understood as a request for the provision of telecommunications access with regard to the above services. The Management Board cannot, however, assure that in case TP SA applies to UKE, the regulator will share the opinion of the Management Board that the TP SA's request are without any basis.

TP SA applied to UKE also for a modification of the contract for the interconnection with Tele2 Polska: with regard to fees for transit of connections to ported numbers, with regard to fees for preselection and for directing traffic to flat rate interconnection points. The Management Board cannot assure that the President of UKE will not approve these motions of TP SA and change the contract for interconnection between TP SA and Tele2 Polska.

TP SA requested from Tele2 Polska to pay damages in the total amount of PLN 12 million (not in thousands) for directing on the basis of the interconnection contract "forbidden" traffic to PSI bundle. Despite circumstances that allow to treat this claim as ungrounded, the Management Board cannot assure that in case of a court dispute, the court will not approve this claim.

TP SA appealed against the Decision of the President of UKE dated November 4, 2004 that specified conditions of the contract for interconnection between Tele2 Polska and TP SA of December 19, 2002 with regard to zone and local connections. The Appellate Court reversed the decision of the Court for the Protection of Competition and Consumers ("SOKIK") that dismissed the appeal of TP SA and remanded it for a de novo hearing. TP SA appealed also against the Decision of the President of UKE that specified conditions for the use of "Flat Rate" service by Tele2 Polska. The Management Board cannot assure that the SOKIK will dismiss the appeals of TP SA.

On August 4, 2008 the President of UKE issued the decisions refusing to change the fees for that service in line with the motion of TP SA. TP SA appealed to the SOKIK against the decision issued to Premium Internet. Despite being of the opinion that the decision of UKE is valid, the Management Board cannot assure that SOKIK will not accept claims raised by TP SA in the appeal.

By virtue of the judgment of February 25, 2008, SOKIK annulled the decision of the President of UKE,, dated January 26, 2007. The above-mentioned decision was establishing the rules for the use by PISA of the wholesale access to the network of TP SA. The Court based the annulment of the decision dated January 26, 2007 mostly on admitting that the President of UKE, as the authority that issued the decision, was invalidly appointed, despite a clearly opposite evaluation of this fact expressed by the Supreme Court on February 20, 2008 (docket no. III SZP 1/08). As far as the terms and amount of remuneration for wholesale network access provided by TP SA as specified in the Decision dated January 26, 2007, that were questioned by the Court as well, remain generally in compliance with obligations of TP SA as specified in the decisions issued by the President of UKE: that obliged TP SA to adjust the remuneration for wholesale network access and for additional services to the wholesale network access, and that approved "Reference offer of TP SA for the telecommunication access with regard to call initiation, call termination, and wholesale network access".

The above Court's decision has been appealed against. Despite the deep conviction of the legitimacy of the appeal charges, the Management Board can not ensure that the Court of Appeal will change the judgment of the SOKIK.

On October 14, 2008, the President of UKE issued to Netia the decision that substituted the contract for the use by Netia of the wholesale network access service of TP SA. On the basis of the above decision, Netia is allowed to file to TP SA a binding statement on the use of WLR services on conditions that follow from the Decision on WLR Lines of the company that is Netia's affiliate within the meaning of Sec. 4.1.4 of the Commercial Companies Code, upon consent of that company. This right is a basis for the provision by Netia of WLR services on WLR Lines of any company of Netia Group that is entitled to use WLR Service.Despite of their opinion that the decision of UKE is valid, the Management Board cannot assure that TP SA will not appeal the decision to SOKIK and that the court will not approve of TP SA's claims.

Due to that Decision, which forms a direct basis for the provision of telephone services to subscribers connected to TP SA's network, the decision of the Circuit Court in Warsaw dated September 24, 2008 (XVIGCo 235/08), issued upon the motion of TP SA, becomes obsolete. In that decision, the court ordered Netia to refrain from publishing in media advertisements of possible provision of fixed line telephone services and Internet access to TP SA subscribers that use analogous telephone lines. Netia appealed against that decision. Despite their opinion that there are no grounds for the preliminary injunction, the Management Board cannot assure that the court will approve of the appeal and modify the court's decision. For the same reasons it cannot be assured that the court will not approve of TP SA's claims that were secured with that preliminary injunction.

On December 29 2006, the President of UKE issued to Tele2 Polska decision specifying conditions for the use of WLR service. TP SA appealed against this decision to SOKIK. With the decision dated December 10, 2007, SOKIK reversed the decision of UKE. Upon the motion of TP SA, with the decision dated June 3, 2008, the appellate court has stayed the enforcement of that decision. On November 5, 2008 the Appellate Court, while approving the claims raised in the appeals of Tele2, UKE and KIGEIT, decided to submit to the Supreme Court (SN) a legal question. The Management Board cannot assure that the Supreme Court ruling on the question presented by the Appellate Court will result in finding the appeal valid and reversing the appealed decision.

On July 24, 2008 the President of UKE issued a decision specifying conditions for the use by Tele2 Polska of the wholesale network access to TP SA on the conditions of the "frame offer of TP SA on the telecommunications access with regard to call initiation, call termination, and wholesale network access" approved by UKE in the decision dated April 8, 2008. TP SA appealed to SOKIK against that decision. In the decision dated July 10, 2008 the Circuit Court dismissed the motion of TP SA to stay the enforcement of the decision of UKE. Despite being of the opinion that the decision of UKE is valid, the Management Board cannot assure that TP SA has not appealed decision dated July 24, 2008 and the Court will reverse the appeal of TP SA and that it will not annul of that decision or will not stay the enforcement of it.

In the opinion of the Management Board, reached on the basis of an external legal opinion, claims of TP SA raised against Tele2 Polska for the payment of PLN 47,635 as damages for applying fees specified in decision of UKE dated December 29, 2006 are not grounded. The Management board cannot assure, however, that in case of a court dispute, the court will decide that this claim is not grounded.

Bitstream Access

TP SA has appealed decisions issued by the President of UKE to SOKIK:

- the decision that modified the contract between Netia and TP SA concluded on September 15, 2006 on the access to the local loop by access to nodes of telecommunications network for the sale of broadband data transmission ("BSA services"). In that decision, TP SA was obliged to change rules for calculating the balancing fee in case of resignation of the service on a given subscriber line;
- the decision changing the contract for the provision of BSA services between Tele2 Polska and TP SA. In that decision, TP SA was obliged to provide to Tele2 Polska BSA services also with regard to inactive lines and lines, on which WLR services are provided;
- the decision that modified rules for calculating remuneration for TP SA for the BSA services provided to Netia. Rules were modified by raising the bulk rebate for the special version of the service (i.e., provided on the basis of the periodic contract) from 41% to 51%;
- the decision that modified rules for calculating remuneration for TP SA for the BSA services provided to Tele2 Polska. Rules were modified by raising the bulk rebate for the special version of the service (i.e., provided on the basis of the periodic contract) from 41% to 51%.

Despite their opinion on the validity of UKE's decisions, the Management cannot assure that the Court will dismiss the appeals of TP SA and that it will not annul above decisions .

On July 2, 2008, the President of UKE issued the decision modified the contract concluded between Netia and TP SA on September 15, 2006 on the access to the local loop by way of accessing nodes of telecommunications network for the purpose of sales of broadband data transmission services. The decision released Netia from the obligation to pay to TP SA compensation for the resignation from the special version of the BSA service before the term for which the service was ordered for. The President of UKE decided that according to „the frame offer of TP SA of the terms of telecommunications access with regard to broadband access service, including the broadband data transmission", the level of fees due to TP SA for the deactivation of the BSA Service is 40,98 PLN. Netia is not obliged to pay this fee in case of resignation from the BSA Service activated before the date of serving with the above mentioned decision, if the resignation takes place within the term of the validity of the special version of the service. In the decision, the President of UKE has also provided for the level of fees for the activation of the BSA Service up to 40, 98 PLN. In the decision, simplified rules for settling prognoses of demand for the BSA Service were provided for and linked to the level of the decreased fee for its activation. The Management cannot assure that TP SA has not appealed this decision and the Court will reverse the appeal of TP SA and that it will not annul the Decision dated July 2, 2008.

With motions dated October 3 and 9, 2008, TP SA requested from Netia renegotiation of fees for access to the local loop. Despite of their opinion that the request of TP SA in the above motions are ungrounded, the Management Board cannot assure that in case TP SA applies to the President of UKE for a decision in this matter, the regulator will not accept the above motions of TP SA and will change the terms of settlements between Netia and TP SA and PI SA and TP SA for the above services.

On October 10, 2008 TP SA informed Netia in writing about the interest of TP SA in the provision of "services of access to the local loop […] offered by Netia SA". Conversely to TP SA, Neta is not subject to obligations to provide telecommunications access in that scope of services, so despite the vagueness of the TP SA's request, the Management Board is definitely of the opinion that there is not basis for such obligations, in particular if it is understood as a request for the provision of telecommunications access with regard to the above services. The Management Board cannot, however, assure that in case TP SA applies to UKE, the regulator will share the opinion of the Management Board that the TP SA's request are without any basis.

The Management cannot guarantee that new sources of dispute with TP SA will not emerge in the future and, if they do emerge, whether these will have a material impact on the business of the Netia Group.

Risks related to amendments to reference offers

Reference Interconnect Offer

In the decision dated April 8, 2008 the President of UKE approved the „Reference offer of TP SA on telecommunications access with regard to call initiation, call termination, and wholesale network access". The decision was made immediately binding. After scrutinizing the motion of TP SA for a reconsideration of the case, on November 4, 2008 UKE issued Decision amending the content of the approved frame offer. The amendments are of organizational nature. In particular, UKE did not approve TP SA's request to change fees for services covered in the offer. The Management cannot assure that the Decision will not be appealed by TP SA to the administrative court and that it will not be amended or annulled.

(All amounts in thousands, except as otherwise stated)

Bitstream Access Reference Interconnect Offer

In the decision dated May 6, 2008 the President of UKE approved the „Offer of Telekomunikacja Polska S.A. specifying reference terms for the telecommunications access with regard to broadband access, including broadband data transmission", which modified the terms of the broadband access that were agreed in the contract between Netia and TP SA. The decision was made immediately binding. After scrutinizing motion of TP SA and KIGEIT for reconsideration of the case, on November 4, 2008 the President of UKE issued a Decision amending the content of the approved frame offer. The amendments are of organizational nature. In particular, UKE did not approve TP SA's request to change fees for services covered in the offer. Management cannot assure that the Decision will not be appealed by TP SA to the administrative court and that it will not be amended or annulled.

The Management cannot also assure that due to the binding nature of the reference offers of TP SA the terms on which Netia uses access to the network of TP SA will remain unchanged.

Other regulatory risks

UKE is regularly carrying out inspections of Netia's compliance with legal requirements. To date, none of these inspections have ended with a monetary penalty.

However, the president of UKE currently holds the case of fining Tele2 Polska for the exchange of traffic between Tele2 Polska and TP SA in breach of the decision specifying conditions for the exchange of traffic for the so-called flat interconnection fee. The Management cannot assure that the President of UKE will take under consideration explanations of Tele2 Polska and consider them sufficient for deciding that the case is without basis.

The Management can not also assure that with regard to all inspection procedures UKE agrees that the position of Netia and the activities undertaken on its basis by the Netia Group are consistent with regulatory requirements and the law.

The President of the Office for the Protection of Competition and Consumers is currently investigating standard terms and conditions, and price lists of Netia and Tele2 Polska, as well as procedures for practices infringing collective interests of consumers by Tele2 Polska.

Before SOKIK and the Appellate Court there are procedures with regard to practices of Tele2 Polska infringing collective interests of consumers and for holding clauses of terms and conditions and price lists as abusive.

The Management Board cannot assure that as a result of these procedures, the companies will not be obliged to amend their standard contracts or will not be subject to a fine of UOKiK in case the regulator finds a practice infringing collective interests of consumers.

Risk of increased competition

The Netia Group's main competitors in the field of telephone services are TP SA and cellular network operators, and in some geographic areas also other operators providing wireline telephone services including some cable television networks. Within the market for data transmission services, the main competitors are numerous providers of various sizes, the most significant of which is TP SA. Poland has witnessed a considerable increase in competition, which, as can be expected, will intensify even further, considering the lack of legal barriers in entering the market and increasing integration within the European Union. Netia is unable to evaluate the extent to which new market participants will use the availability of their rights, particularly with regard to the significantly lower costs of entering the market than those incurred by the Netia Group. The Management is unable to evaluate the extent to which the intensification of competition will affect the Netia Group's activity.

Risk of competition from TP SA and TP SA's compliance with regulatory decisions

TP SA occupies a leading position among wireline telephone service operators in Poland. At the same time, it enjoys a stable position on the market for data transmission. Within the scope of wireline telephone services, the Netia Group encounters competition from TP SA in all the geographic areas in which it operates. TP SA is a much larger entity than the Netia Group and possesses a much wider backbone and access networks. It enjoys long-established relationships with many customers which the Netia Group considers its target customers, including many companies operating in areas where the Netia Group conducts its business activities. The infrastructure used by TP SA in these areas is comparable to the infrastructure of the Netia Group in terms of the technologies employed.

Moreover, TP SA still maintains a leading position among operators of domestic long-distance calls, which enables it to offer more flexible tariffs. It is difficult to predict what policies TP SA will pursue with regard to tariffs, the selection of target markets and arrangements concerning access to its infrastructure and interconnections as a reaction to the extension of the network by the Netia Group and more intense competition from the Netia Group in various areas of the country. However, the Management expects that TP SA will compete with the Netia Group on prices and for the most attractive customers. In the past, the Netia Group was forced to lower its prices in order to attract new customers and retain the current ones, and such measures may also be necessary in the future. The Management expects that TP SA will maintain a strong competitive position against the Netia Group on the Warsaw market and in most geographic areas where the Netia Group provides telephone services, and will continue to compete with the Netia Group in other fields, including data transmission services and internet access. It is possible that aggressive competition from TP SA will materially and adversely affect the revenues of the Netia Group and the results of its operating activity.

TP SA owns most local loop access networks and has, in the past, offered other operators access to the network of these local loops on terms that, in many cases, render the addition of a customer to the network too expensive. However, during the course of 2006 a new telecommunications regulator has issued decisions creating unified offers in the area of regulatory access to the TP SA network which Netia currently considers to be commercially viable. As a result, in 2006 the Netia Group signed a new cooperation agreement with TP SA that allows Netia to offer Internet access to TP SA's customers using a regulated TP SA wholesale service known as bitstream access. In January 2007 President of UKE issued a decision changing an interconnect agreement between TP SA and Premium Internet SA., the Company's subsidiary, regarding wholesale line rental (WLR). This decision constituted the basis for a new type of access to TP SA's network, enabling the Netia Group to offer voice services to TP SA customers. Moreover, in April 2007 the Company concluded an agreement with TP SA on local loop unbundling. The Netia Group uses local loop unbundling in providing voice and data services and in the future intends to offer differentiated value added services such as IPTV. Whilst key commercial terms of these services, as set by the regulatory decisions, are currently commercially attractive, operational cooperation with TP SA in order to provide and maintain such services to end customers needs to be much more coordinated than has been the case in the past. The Management can give no assurance that TP SA will provide the required level of cooperation or that the regulator will respond by effectively enforcing TP SA's cooperation. Furthermore, we can give no assurance that market developments, future court judgments or future regulatory decisions may not render the current opportunities to reach customers via TP SA access networks no longer commercially viable.

Competition from other independent operators

According to the regulations in force before January 1, 2001, the Minister of Telecommunications granted licenses for the provision of local telecom services within a given geographic area (usually within a given numbering zone) to one private operator (apart from TP SA). Obtaining licenses usually entailed significant investments. Pursuant to the New Telecommunications Law, telecommunications activity may be pursued on the basis of an entry in the Register of Telecommunications Providers kept by the President of the UKE. Therefore, the Netia Group expects the number of operators active in the areas in which it conducts its activities to increase. In 2003 there was a swap of license fee liabilities of the then-operating subsidiaries of the Netia Group, and in the case of the fees which El-Net was required to pay, the swap for capital expenditures took place in 2006. However, the license fees installments paid prior to the change in the Telecommunications Law have not been repaid to Netia. Operators who have not paid license fees and, therefore, do not need to recover the costs of such license fees, hold a competitive advantage.

In some areas in which the Netia Group operates, there are large institutions with their own internal telecommunications networks (where the users of the telecom services of such institutions include, additionally, the inhabitants of the given area), which reduces the potential revenues that the Netia Group could generate in these areas, and such operators may be a potential source of competition in the future.

Competition from cellular mobile telephone operators

In recent years, services offered by cellular telephone operators have negatively affected wire line telephone operators. This stems largely from mobile substitution, where subscribers choose to make telephone calls using their mobile phones in preference over fixed telephones, resulting either in less traffic or disconnections for fixed line operators. Mobile substitution becomes more pronounced as mobile tariffs decline, as they have in recent years, converging with traditionally lower cost fixed line tariffs.

To help mitigate the losses to mobile operators, Netia invested in Poland's newest mobile phone operator, P4. In 2007 P4 began commercial service offering a range of mobile telephony services. Despite Netia's sale of its interest in P4, Netia expects to benefit from cooperation with P4 by being able to offer convergent products and by having a wholesale mobile service provider agreement to serve mobile services from P4 that Netia may resell under the Netia brand to Netia customers.

During the first half of 2008, certain Polish mobile operators have begun to market fixed internet access services via the fixed access network of TP SA, on the basis of regulated bitstream access decisions. This represents a significant new source of competition for market share in the fixed broadband market.

Other sources of competition

Over the last several years, competition for voice and Internet services has increased from cable television operators. Triple play bundles (voice telephony, Internet access and cable television) have proven to be particularly challenging, however, Netia is reviewing alternatives to combat this threat. Specifically, IPTV offers fixed line telephone operators the ability to compete head on with cable television operators. The importance of IPTV and related services (such as video on demand) is being analyzed in the context of Netia's strategy to expand its share of the broadband market.

Market consolidation

Market consolidation through acquisitions remains an effective way for fixed line operators to strengthen their market position while by utilizing the effects of scale. In the past Netia has successfully acquired several telecommunications operators making it the market leader for consolidation.

Whilst acquisitions of large scale telecommunications businesses are not crucial to the Company's strategy Netia closely monitors the situation of all its main altnet competitors and may choose to try to acquire one or more of these competitors in the future if the opportunity arises. Some acquisitions may consume a considerable portion of Netia's financial reserves and no assurance can be given that expected synergies from such acquisitions will be reached as planned.

Strategic importance of P4 to Netia's future development

The successful development of P4 into an important player on the Polish mobile market, having significant market share and being able to self-finance its continued development is in turn important for Netia with respect to being able to achieve its own development plans. The successful and profitable implementation of the Transmission Agreement with P4, under which Netia is providing substantially all the transmission services for P4's UMTS network depends on P4's long term ability to build out its network and meet its obligations to Netia. Furthermore, Netia's opportunities to cross sell its fixed line services to P4's mobile subscribers and for the joint development of fixed-mobile convergent services in the future depend upon P4 building a significant market share in order to be commercially viable.

The Management can provide no assurance that P4 will develop in accordance with its current business plans and, should P4 underperform those plans, this may have a material financial impact upon the results and cash flows of Netia from its commercial agreements with P4 and may also limit Netia's opportunities to grow its own fixed line business. No assurance can be given that Netia can find an alternative supplier of wholesale mobile services on acceptable financial terms or at all if P4 ceases to operate or is sold to another owner.

Integration of Tele2 Polska

On September 15, 2008 Netia acquired Tele2 Polska, hitherto one of Netia’s largest altnet competitors, for a price of up to EUR 33,900, net of cash.

Following the acquisition, Netia has begun implementing its plans to integrate Tele2 Polska’s operations into its own business and to deliver PLN 30,000 of annual cost savings within 12 months of completion. As with any large scale acquisition, there is a risk that Management’s estimates of the savings to be reached may prove inaccurate. Moreover, Tele2 Polska’s operations are exclusively based on regulated access to TP SA’s network, thereby significantly increasing Netia’s risk exposure in respect to the following risk factors described elsewhere in this section: ”Dependence of the Company on TP SA due to telecommunication access services”, “Risks related to amendments to reference offers”, “Other regulatory risks”.

Tele2 Polska, like Netia, has a significant number of ongoing disputes with TP SA and/or is an interested party in a number of appeals made by TP SA against decisions of the President of the UKE.

While Management has plans in place to mitigate many of these business risks associated with Tele2 Polska’s business, we can give no assurance that our plans will be successful or that future decisions of Courts or the telecommunications regulator on the activities of TP SA will not have a material negative effect on the value of Tele2 Polska’s business after we have acquired it.

Tax regulations and their interpretation

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.

Following a tax authority inspection performed during 2008 in respect to the 2003 tax year, the Company has received a tax protocol alleging certain unrecognised tax liabilities in respect to 2003. Based on tax advice received that refutes both the basis and amount of tax assessed, Management is of the opinion that no material tax liability is due in respect to the issues raised in this protocol and will take all necessary steps to repudiate the findings of this protocol. Other than this protocol, Management is not aware of any circumstances, which may currently give rise to a potential material tax liability.

7. Transactions with related parties

Bonds

On the basis of the resolutions of the Company’s Management Board and of the foreign currency permit dated September 11, 2008, the Company issued one unsecured registered bond, AA series, in the nominal value of PLN 94,500 and one unsecured registered bond, BB series, in the nominal value of EUR 40,340, with the repurchase date falling on September 12, 2010 and with a right of the Issuer for an earlier repurchase. The offer to sell both the above bonds was addressed to Netia Spółka Akcyjna UMTS s.k.a. the Company’s subsidiary. The issue price of both bonds corresponds to their nominal value.

On September 30, 2008 Tele2 Polska, the Company’s subsidiary, agreed to purchase from Netia one unsecured registered bond, CC series, in the nominal value of PLN 20,000 issued on the basis of the resolution of the Company’s Management Board dated September 29, 2008 - with the repurchase date falling on September 30, 2010 and with a right of Netia for an earlier repurchase. Tele2 Polska purchased the above bond for the issue price equal to the nominal value thereof.

Netia was issuing the bonds to ensure that it utilizes the group’s cash deposits for the acquisition of Tele2 Polska and implementation of its ongoing growth strategy prior to beginning to draw down on its available credit lines.

(All amounts in thousands, except as otherwise stated)

Guarantees granted

The Company's subsidiaries (Świat Internet S.A., Netia WiMax S.A., Premium Internet S.A., InterNetia Sp. z o.o, Netia Spółka Akcyjna UMTS s.k.a and Tele2 Polska) guaranteed repayment of Netia's credit facility to the maximum amount of PLN 343,750 (see also "Bank loan" in "Loans, warranties and collaterals").

Other transactions

A detailed list of transactions with related parties has been presented in the interim condensed consolidated financial statements of the Netia Group (Note 12) and interim condensed financial statements of Netia (Note 12).

8. Loans, warranties and collaterals

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

On April 30, 2008, Netia completed the sale of its investment in the shares of P4. Upon completion of the sale, the buyers confirmed to Netia expiry of certain future obligations originally undertaken by Netia in order to partially secure the repayment of the credit facility of EUR 150,000 (the "CDB Facility") granted to P4 by China Development Bank under the Facility Agreement dated October 31, 2006. In particular, these obligations included a payment guarantee to CDB of up to EUR 21,060 (reduced by 50% in June 2008). The Company's Management is not aware of any payment default by P4 prior to receipt of the release confirmation, and believes that all other obligations have effectively expired. Moreover, under the sale agreement of the shares in P4, Novator Telecom Poland and Tollerton have counter-guaranteed Netia's exposure to CDB until such a time as CDB recognizes the transfer of Netia's obligations to the buyers. Therefore the Company's Management believes that all remaining exposure to the CDB Facility has been effectively offset to Tollerton and Novator Telecom Poland.

Bank loan

On May 15, 2007 the Company entered into a PLN 300,000 credit facility agreement with Rabobank Polska SA (the "Bank") as arranger, credit facility agent, security agent and lender (the "Facility"). As at June 30, 2008 the total draw downs under this Facility had reached PLN 180,000 when they were repaid in full.

On June 27, 2008, the Company entered into an Accession, Amendment and Restatement Agreement (the "Amendment Agreement") with the Bank (as the arranger), Bank Millennium S.A., Bank Gospodarki Żywnościowej S.A. and Raiffeisen Bank Polska S.A. (the "Banks"), relating to the Facility (the "Facility Agreement"). The Facility Agreement has, among others, extended a draw-dawn availability period to December 31, 2010 from November 15, 2008 (with respect to the term loan), and reduced the Facility amount from PLN 300,000 to PLN 275,000, available to Netia in the form of a term loan and a revolving loan of up to PLN 225,000 and PLN 50,000, respectively. The Facility is to be repaid by December 31, 2012 instead of November 15, 2011. The proceeds from the Facility will be used to finance the Netia Group's capital expenditures, its general corporate purposes and the acquisition of companies whose business activities are substantially similar to the business activities of the Group.

The repayment of the Facility is secured by the following: two capped mortgages on the right of perpetual usufruct of the Company's real estate at ul. Poleczki 13 in Warsaw, a registered pledge on a set of movables and rights constituting an organised part of the enterprise of Świat Internet S.A, registered pledges and financial pledges on the shares of Świat Internet S.A., UNI-Net Sp. z o.o., InterNetia Sp. z o.o, Netia WiMax S.A., Premium Internet S.A., Netia Spółka Akcyjna UMTS s.k.a and assignment as collateral security of Netia's receivables under certain agreements. Moreover, the Company's subsidiaries (Świat Internet S.A., Netia WiMax S.A., Premium Internet S.A, InterNetia Sp. z o.o, UNI-Net Sp. z o.o., Netia Spółka Akcyjna UMTS s.k.a and since October 16, 2008 also Tele2 Polska) jointly, severally, irrevocably and unconditionally guaranteed punctual performance by the Company of all its obligations under the Facility up to the maximum amount of PLN 343,750 (the Amendment Agreement has reduced this guarantee from PLN 375,000).

Furthermore, pursuant to the Amendment Agreement the Company is entitled to increase the Facility granted by the consortium of the banks in the amount of PLN 100,000 (to PLN 375,000), for the acquisition of Tele2 Polska (see "Other information" below). In this case the Facility shall be repaid by June 30, 2013. The additional facility is conditional upon the satisfaction of certain conditions precedent. The Company has until December 31, 2008 to decide whether to increase the facility to PLN 375,000 by pledging Netia's enterprise.

9. Guidance for 2008 and medium-term outlook for 2009-2012 (not in thousands)

On February 28, 2008 the Management Board of the Company announced its guidance for the 2008 financial year, which was revised on August 12, 2008, at the time of publishing the results for the first half of 2008:

2008 Guidance	original	revised
Number of broadband service clients	> 400,000	> 400,000
Number of voice service clients (own network and WLR)	> 580,000	> 580,000
Unbundled local loop (LLU) nodes	100	125
Revenues (PLN m)	> 950.0	960.0 – 975.0
EBITDA *(*PLN m*)*	125.0	125.0
of which regulatory start-up losses for the development of the regulatory access methods (i.e., bitstream access, local loop unbundling, wholesale line rental) and reaching 400,000 broadband subscribers	*80.0*	*80.0*
Investment outlays (excl. M&A) (PLN m)	280.0	240.0
M&A investment (PLN m)	40.0	60.0

Guidance amended to take account of the acquisition of Tele2 Polska

The following guidance for the Netia Group including the impact of the acquisition of Tele2 Polska was issued on October 14, 2008.

2008 Guidance	Updated
Number of broadband service clients	> 400,000
Number of voice service clients (own network and WLR)	> 1,080,000
Unbundled local loop (LLU) nodes	125
Revenues (PLN m)	1,100.0
EBITDA *(*PLN m*)*	145.0
Investment outlays (excl. M&A) (PLN m)	240.0
M&A investment (PLN m)	30.0

Having completed the acquisition of Tele2 Polska on September 15, 2008, the Netia Group has commenced a comprehensive integration project that is expected to deliver extensive operational synergies. Consequently, Netia increased its 2008 revenue guidance from the level of PLN 960.0m – PLN 975.0m to PLN 1,100.0m and EBITDA guidance from PLN 125.0m to PLN 145m. Targeted number of voice service clients has been increased to the level of 1,080,000 customers.

Targets regarding the number of broadband service clients are being maintained.

Anticipated capital expenditures remain on the level of PLN 240.0m, while funding for bolt-on acquisitions of Ethernet operators is being decreased by PLN 30.0m due to possible delays in closing a number of such networks acquisitions currently under negotiation.

Outlook for 2009

Outlook for 2009	
Revenues *(PLN m)*	1,500.0
EBITDA *(PLN m)*	225.0
Investment outlays (excl. M&A) *(PLN m)*	280.0
M&A investment in Ethernet networks *(PLN m)*	75.0

Netia forecasted to raise its 2009 revenue by 36% over the prior year to PLN 1,500.0m, driven by the continued development of broadband and double play bundles and the full-year impact of the Tele2 Polska acquisition.

EBITDA was projected to grow by 55% year-on-year to PLN 225.0m. Netia confirmed its earlier estimates of at least PLN 30.0m in annual synergies to be achieved from the merger with Tele2 Polska and continues to expect almost all synergies to be delivered within the first 12 months of the acquisition date. The expected synergies include marketing and network cost savings of PLN 10.0m and PLN 20.0m, respectively. In particular, Netia intends to transfer a significant portion of Tele2 Polska customers to its own copper networks or onto LLU, further improving the gross margins.

(All amounts in thousands, except as otherwise stated)

Capital expenditures guidance is PLN 280.0m as compared to PLN 240.0m for 2008. The increase was driven by the cost of rolling out the LLU and IPTV projects.

Investment in the acquisition of Ethernet networks was projected to be PLN 75.0m up from PLN 30.0m for 2008, reflecting the anticipated shift towards 2009 in completing a number of larger acquisitions.

Medium-term outlook

Medium-term outlook	
Revenue growth (CAGR)	5% - 10%
EBITDA margins at 20% at 25%	 2010 2012
Net profit by	2010
Free cash flow positive by	2010
Capex to sales down to 15% by	2011
1 milion broadband subscribers	2012

Netia's substantially improved market share position following the Tele2 Polska acquisition enables Management to rebalance its broadband driven growth strategy to increase the focus on accelerating improvements in profitability.

The Company expects annual revenue growth of 5%-10% from the enlarged base of PLN 1,500.0m in 2009, as opposed to the previous CAGR estimate of 15%-20% for Netia stand-alone.

Management has accelerated the targets of achieving 20% EBITDA margin, net profit and positive free cash flow by one year from 2011 to 2010.

Capital expenditures are expected to peak in 2009 and then to drop steadily as a percentage of sales thereafter.

Given the focus on upselling products to the existing clients and acquiring new broadband subscribers through less expensive sales channels, the target of acquiring 1 million broadband customers is being postponed from 2010 to 2012.

Becoming free cash flow positive by 2010 remains a key objective and Netia is more than adequately funded to complete its expansion plans in the meantime. As a result, Management has the flexibility to consider acquisition opportunities, should they arise. Furthermore, Management is considering options to accelerate remitting cash to shareholders.

Netia would also like to announce that it will continue to monitor the possibilities of achieving the forecast results on a quarterly basis. The achievement of the forecast results will be assessed, and any necessary adjustments introduced, after the end of a given quarter of the financial year based on an analysis of sales revenues, investment expenditure and the number of broadband clients.

10. Other information

Sale of group of assets comprising Premium Internet's IVT activities

On March 19, 2008 the Netia Group sold its wholesale international voice traffic termination (IVT) activities to Mediatel S.A. ("Mediatel") for PLN 13,619, of PLN 6,000 was settled in cash, PLN 2,000 shall be settled on December 31, 2008 and PLN 5,619 is the estimated fair value of shares issued by Mediatel and related "put" and "call" options. Mediatel acquired the IVT specific business assets, principally customer contracts, employees and telecommunications switching equipment, of the Company's subsidiary Premium Internet whilst Netia retained the Premium Internet legal entity and its interconnection infrastructure, used both for IVT and for the provision of wholesale line rental voice and indirect access services to Netia's retail customers. The IVT market has been intensely competitive and the decline in Netia's wholesale revenues during 2007 was largely driven by IVT revenues falling to PLN 57,139 in 2007 from PLN 81,957 in 2006.

Warsaw, November 12, 2008