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Netia reports 2014 first quarter results

WARSAW, Poland – May 15, 2014 – Netia SA ("Netia" or the "Company") (WSE: NET), Poland's largest alternative provider of fixed-line telecommunications services, today announced its unaudited consolidated results for the quarter ended March 31, 2014.

1 Key highlights

1.1 FINANCIAL

- *Revenue* was PLN 434.4m in Q1 2014, down by 12% versus Q1 2013 and by 4% sequentially. The decline in revenues was driven by a 6% year-on-year and a 2% sequential decline in services provided (RGUs). In addition, the Company estimates that reductions in mobile termination rates (MTRs) during 2013 contributed 30% of the year-on-year revenue decline and 14% sequentially. RGU decline continued to be concentrated in the B2C (Residential) sub-segment and particularly in fixed voice services, while the MTR declines mainly impacted revenues in the B2B (Carrier) sub-segment.

- *Adjusted EBITDA* was PLN 134.4m for Q1 2014, down by 5% versus Q1 2013 and up by 8% over Q4 2013. Adjusted EBITDA margin was 31.0% for Q1 2014 versus 28.9% for Q1 2013 and 27.6% in Q4 2013. Higher Adjusted EBITDA margin year-on-year is due to the lower revenues being concentrated in low margin RGU categories such as off-net services, the impact of steadily rising integration synergies, lower acquisition cost on lower gross additions and falling MTR rates. The sequential increase in Adjusted EBITDA margin reflects mainly decreased advertising and promotion cost, higher gross margin on lower network maintenance costs and fewer one-off expenses than in Q4 2013.

- *EBITDA* was PLN 126.0m for Q1 2014, down by 9% versus Q1 2013 and up by 9% versus Q4 2013. The unusual items for Q1 2014 totalled PLN 8.4m of net expense and included restructuring costs of PLN 3.6m representing mainly provisions for staff redundancies related to Netia's reorganisation into B2B and B2C Business Units (N2 Project) and provisions for payments to the outgoing CEO, an impairment charge of PLN 2.5m recorded upon the decision to discontinue using Dialog's trademark, Dialog Group and Crowley integration costs of PLN 1.8m, and non-staff related costs of Netia's reorganisation into B2B and B2C Business Units (N^2 Project) of PLN 0.5m. The unusual items for the comparative periods totalled a net expense of PLN 9.0m in Q4 2013 and a net expense of PLN 3.4m in Q1 2013 and a detailed comparison with Q1 2014 is presented below. EBITDA margin was 29.0% for Q1 2014 as compared to 28.3% for Q1 2013 and 25.6% for Q4 2013.

EBITDA Reconciliation to Adjusted EBITDA
(PLN in thousands unless otherwise stated)

Time periods:	Q1 2013 *unaudited*	Q4 2013 *unaudited*	Q1 2014 *unaudited*
EBITDA	**138,621**	**115,232**	**125,978**
Less net unusual expenses	***3,384***	***8,954***	***8,462***
comprising:			
Impairment charge for non-current assets	-	-	2,503
Restructuring costs	884	781	3,641
M&A related costs	271	418	-
New Netia integration costs	2,229	3,683	1,776
B2B/B2C split costs (N^2 Project)	-	1,469	542
Impairment charge on market valuation of investment property in Warsaw	-	2,603	-
Adjusted EBITDA	**142,005**	**124,186**	**134,440**

- *EBIT* was PLN 20.7m (Adjusted EBIT was PLN 29.1m profit when excluding all one-offs) in Q1 2014 as compared to PLN 27.3m (PLN 30.7m profit when excluding one-offs) in Q1 2013 and PLN 6.2m (PLN 15.2m profit when excluding one-offs) in Q4 2013.

- *Net profit* was PLN 11.0m for Q1 2014 versus net profit of PLN 13.1m for Q1 2013 and net profit of PLN 10.5m for Q4 2013. Reported net profit for Q1 2014 included PLN 5.4m of interest to service the loan taken in 2011 to acquire Dialog Group versus PLN 8.7m and PLN 6.9m of interest for this purpose in Q1 and Q4 2013, respectively. Moreover, reported net profit for Q1 2014 included an income tax charge of PLN 5.2m versus PLN 6.7m recorded in Q1 2013 and an income tax benefit of PLN 9.4m recorded in Q4 2013.

- *Netia was operating free cash flow positive in Q1 2014*. Operating free cash flow, measured as Adjusted EBITDA less capital investment excluding integration related capex and acquisitions, was PLN 82.6m for Q1 2014 versus PLN 98.6m for Q1 2013 and 35.9m for Q4 2013. Lower capital investment, higher gross profit contribution and lower advertising and promotion expenses are mainly responsible for the sequential increase in operating free cash flow.

- *Netia's cash and short term deposits* at March 31, 2014 totalled PLN 124.6m, up by PLN 31.2m from December 31, 2013, with *total debt* at PLN 385.3m, up by PLN 1.2m from December 31, 2013. *Net debt* therefore stood at PLN 260.7m, down by PLN 30.0m from PLN 290.7m on December 31, 2013 and *financial leverage* was 0.52x Adjusted EBITDA guidance of PLN 505.0m for 2014 full year.

- *Netia maintains its full year 2014 guidance* projecting revenue at PLN 1,735m, Adjusted EBITDA at PLN 505m and Adjusted EBIT at PLN 75m. Capital investments excluding integration capex and acquisitions are expected at PLN 200m and Adjusted OpFCF at PLN 305m.

  Management expects continued declines in off-net RGUs while on-net RGUs, including TV services and broadband services in particular, are planned to continue growing.

- *Distribution policy.* Management maintains its stated policy objective of making distributions at the level of PLN 0.42 per share from 2014 onwards, subject to no major M&A transactions taking place. Financial leverage may grow towards 1.0x Adjusted EBITDA over the medium-term as necessary to meet this distribution objective.

- *Netia is proposing to its AGM, convened for May 21, 2014, to pay a dividend of PLN 0.42 per share to shareholders of record as at May 29, 2014.* In addition, Management is proposing that shareholders approve a new PLN 200m share buy-back program to provide Netia with greater flexibility to meet its commitment to its distribution policy in the event that Netia SA, the parent company, records a loss in a given financial year *(see section 'Other Highlights')*.

1.2 OPERATIONAL

- *Total services (RGUs)* were 2,477,463 at March 31, 2014 as compared to 2,637,912 at March 31, 2013 and 2,526,357 at December 31, 2013, with the year-on-year and quarterly decreases driven by the fall in fixed voice services and generally intense competition on a weak telecommunications market. In Q1 2014 Netia added 9,608 on-net RGUs and recorded 58,502 off-net RGU disconnections. As in recent quarters, RGU growth remains concentrated in B2B and B2C TV and on-net broadband services.

  In 2014 Management expects to continue growth in on-net services with broadband, TV and B2B services being the main focus. However, as the short-term priority is to add additional TV functionality and improve processes in order to sell more effectively in subsequent periods, 2014 is seen as a year of consolidation and therefore no RGU guidance has been published.

Total services (RGUs) by division (k)	*Q1 2013*	*Q2 2013*	*Q3 2013*	*Q4 2013*	*Q1 2014*
B2B Division	460.7	464.6	469.6	477.7	484.1
Net change in B2B services	*6.1*	*3.9*	*5.0*	*8.1*	*6.4*
B2C Division	2,142.4	2,093.1	2,056.0	2,014.1	1,959.1
Net change in B2C services	*(56.4)*	*(49.3)*	*(37.1)*	*(41.9)*	*(55.1)*
Other[1] (Petrotel)	34.8	34.6	34.4	34.5	34.3
Net change in Other (Petrotel) services	*(0.2)*	*(0.2)*	*(0.1)*	*0.1*	*(0.2)*
Total	**2,637.9**	**2,592.3**	**2,560.0**	**2,526.4**	**2,477.5**
Net change in total services	***(50.6)***	***(45.7)***	***(32.2)***	***(33.7)***	***(48.9)***

[1] *Number of services in Dialog and Crowley has been fully integrated under the Netia Group's operating segments. Services at Dialog's subsidiary Petrotel are shown separately under the 'Other' segment.*

Total services (RGUs) by access type (k)	*Q1 2013*	*Q2 2013*	*Q3 2013*	*Q4 2013*	*Q1 2014*
On-net services	1,131.1	1,137.0	1,146.8	1,161.1	1,170.7
Net change in on-net services	*3.6*	*5.9*	*9.8*	*14.2*	*9.6*
Off-net services	1,506.8	1,455.3	1,413.2	1,365.3	1,306.8
Net change in off-net services	*(54.2)*	*(51.5)*	*(42.1)*	*(47.9)*	*(58.5)*
Total	**2,637.9**	**2,592.3**	**2,560.0**	**2,526.4**	**2,477.5**
Net change in total services	***(50.6)***	***(45.7)***	***(32.2)***	***(33.7)***	***(48.9)***

- *Netia's TV services* reached 127,247 at March 31, 2014, growing by 39% from 91,237 at March 31, 2013 and by 6% from 120,321 at December 31, 2013. In Q1 2014 Netia added net 6,926 TV services as compared to 8,963 TV services added in Q4 2013.

- *Netia's broadband services* base was 837,413 at March 31, 2014, declining by 3% from 866,077 at March 31, 2013 and by 1% from 848,909 at December 31, 2013. Netia estimates that its total fixed broadband market share was approximately 12.4% versus 13.1% at March 31, 2013. Netia recorded a net decrease of 11,496 broadband customers during Q1 2014 versus a net decrease of 5,256 broadband customers during Q4 2013. Slow market growth and tougher price competition, including cable operators offering multiplay bundles, is reflected in the performance. Management is focusing on its own network and bundled services rather than regulated access or total services sold in order to defend gross margins. The own infrastructure-based broadband services (excluding WiMAX Internet) recorded a net increase of 1,083 during Q1 2014 versus 3,855 in Q4 2013, being the fourth consecutive quarter to register growth. Management attributes the sequential slowdown in on-net additions to seasonal factors and less advertising support while new TV functionality is being developed and the former Aster cable network is being readied for commercial launch. Of the total broadband customers served at March 31, 2014, 48% received service over Netia's own access infrastructure as compared to 46% at March 31, 2013.

- *Netia's fixed voice services*. Netia estimates that its total fixed voice market share was approximately 18.5% in Q1 2014 versus 19.4% in Q1 2013. Due to competitive market conditions and focus on higher-value services, Netia is concentrating on defending voice revenues and margins as opposed to subscriber numbers. Netia's voice subscriber base was 1,450,817 at March 31, 2014 as compared to 1,594,875 at March 31, 2013 and 1,488,610 at December 31, 2013. In total, Netia recorded a net decrease of 37,793 voice subscribers during Q1 2014 versus 30,655 in Q4 2013.

  The Company expects the number of fixed voice services to continue to decline, mainly in connection with clients churning from traditional direct voice and WLR services. Of the total voice customers served at March 31, 2014, 45% received service over Netia's own access infrastructure as compared to 41% at March 31, 2013.

- *Netia's mobile services* at March 31, 2014 were 24,763 for mobile broadband and 37,223 for mobile voice as compared to, respectively, 29,272 and 56,451 services at March 31, 2013 and 26,397 and 42,120 services at December 31, 2013. Netia is not actively promoting mobile services, but maintains its offering to provide competitive services to those customers looking for a convergent offering.

- *NGA network expansion.* During Q1 2014 Netia continued to expand its NGA standard network, which allows for providing, among others, high speed broadband and 3play services including IPTV and streaming TV services adding 7,000 homes passed. As of March 31, 2014, Netia covered in total 1,288,000 households with its NGA networks, including approximately 897,000 homes passed with VDSL copper networks, approximately 149,000 homes passed with passive optical networks (PON) and approximately 242,000 homes passed with the fast Ethernet networks and fiber to the building (FTTB). This represents sequential increases by approximately 6,000 homes passed with FTTB, and 1,000 homes passed with PON. The previously adopted target for expanding NGA coverage over VDSL copper networks has been achieved and currently Netia does not plan any significant additional investments in this area during 2014.

- *Netia splits its operations into B2B and B2C Business Units (N^2 Project).* In January 2014 Netia announced a reorganization of its operations into two distinct Business Units: Business to Business (B2B) and Business to Consumers (B2C), with a view to best support the needs of its business and residential customers and the Company's key strategic objectives. The reorganization went live from the beginning of Q2 2014 *(see section 'Other Highlights')*.

Miroslaw Godlewski, Netia's President and CEO, commented: *"Netia delivered a robust 31% Adjusted EBITDA margin for Q1 2014, up by 2.1 percentage points on last year. While Q1 2014 revenue of PLN 434m is below our expectations, it is worth underlining that the first quarter has seen substantial progress on various projects that I believe are key to stabilizing financial performance going forward. Firstly, we completed our B2B and B2C divisional split, with the newly designed organizations going into operation from the beginning of April. I believe that these new divisions will deliver materially improved commercial performance through better customer focus and operational flexibility along the service value chain in B2C and B2B, respectively. Secondly, April saw the successful migration of Dialog's customer data onto Netia's billing and CRM platforms following nearly two years of complex preparation. Elimination of the second IT platform delivers further cost synergies in IT, finance and customer care while, more importantly, simplifying the way we deliver services to our customers. The integration of Dialog into the Netia Group is now effectively complete with the Dialog brand withdrawn, savings running at an annualized rate of PLN 143m and employment down by 32% from its proforma peak in 2011.*

The proven ability of Netia's team to implement change will be key going forward as we continue to look to acquisitions, particularly in the B2B segment, as the most attractive way to drive value for our shareholders in a deflationary telecommunications market. In the meantime, Management is committed to returning capital to our shareholders, with a 42 groszy dividend of 42, exactly in line with the distribution policy we published last year, being proposed to our shareholders at the forthcoming AGM on May 21, 2014.

This next AGM will be my eighth and final such meeting as Netia's CEO before I stand down at the beginning of June. I have known the incoming CEO, Adam Sawicki, for many years and feel sure that he will be able to leverage his considerable telecom experience to take the business forward to a new level in the coming years."

Jon Eastick, Netia's CFO, commented: *„Adjusted Operating Free Cash Flow generation of PLN 83m in Q12014 puts us on track for our PLN 305m full year target. Nevertheless, we have seen 2014 get off to a relatively soft start commercially with revenue down by 12% year on year at PLN 434m versus our full year guidance of a 7% decline. Sequentially fewer on-network RGU additions and softening ARPUs caused the underperformance as the market remains difficult. Nevertheless, Netia delivered an Adjusted EBITDA of PLN 134m, up 8% sequentially for a margin of 31% due to tight cost control.*

Our newly created B2B and B2C Business Units have been operating since the beginning of Q2 2014 and Management has high expectations that the simplified organization and greater empowerment will lead to steadily improving commercial performance in both segments. Our priority remains to accelerate new sales generally in B2B and in TV and on-net broadband in B2C, while continuously improving our retention processes to better defend existing revenue. Together with the upcoming launch of our CATV network in H2 2014 and deployment of a network based PVR system, we expect the new organization to significantly slow revenue declines in the next few quarters and therefore we make no revisions to our 2014 guidance at this early stage of the year.

We continue to manage our balance sheet conservatively to maximize strategic flexibility. Net debt fell a further 10% in the quarter to PLN 261m and leverage stands at a comfortable 0.52x our PLN 505m full year Adjusted EBITDA guidance. This strong financial position leaves us well placed for possible acquisition activity in B2B and allows us to propose a PLN 146m dividend (42 groszy per share) to our shareholders at the upcoming AGM."

2 Operational review

2.1 BROADBAND, TV & MOBILE SERVICES

TV and content services. Netia offers its customers TV services branded as 'Telewizja Osobista' (Personal Television). The offering includes a proprietary set-top box – the 'Netia Player', which provides access to paid digital TV content provided over IP based protocols in multicast and unicast, quick and easy access to popular internet services or personal multimedia over the TV screen as well as video-on-demand (VOD) content libraries such as Ipla, Kinoplex, TVN Player and HBO GO.

In November 2013 Netia introduced an innovative offering of its TV services known as 'GigaFreedom', which allows a customer to tailor freely his/her own Personal Television from more than a dozen thematic options available and over 170 channels, including 56 HD channels. During the first month, a customer has access to all TV packages at the minimum monthly fee of PLN 35. Thereafter, a customer may choose TV packages meeting his/her interest within freely tailored monthly fee plans ranging between PLN 35 and PLN 160. This TV offering is unified in terms of available packages and channels across the various TV transmission technologies deployed by Netia.

In April 2014 Netia introduced new service offering 'GigaFreedom II', which, among others, allows a customer to subscribe for bundled broadband and TV services for a shorter subscription period of 12 months.

The number of active TV services in Netia grew to 127,247 as at March 31, 2014 up by 39% from 91,237 as at March 31, 2013 and by 6% from 120,321 as at December 31, 2013.

Number of TV services (k)	*Q1 2013*	*Q2 2013*	*Q3 2013*	*Q4 2013*	*Q1 2014*
Total	**91.2**	**100.9**	**111.3**	**120.3**	**127.2**

Netia added 6,926 TV services net in Q1 2014 as compared to 8,965 services added in Q4 2013. TV penetration has now reached a satisfactory 33% of the on-net broadband base and the key objective for 2014 is to increase TV sales to completely new customers for Netia, both over upgraded NGA networks and over the former Aster cable TV network acquired during 2013.

TV ARPU was PLN 36 in Q1 2014 as compared to PLN 40 in Q1 2013 and PLN 37 in Q4 2013. As the newest TV offering has identical content over both streaming and IPTV, an improvement in ARPU trend is expected to become visible during 2014.

Broadband services totalled 837,413 at March 31, 2014, down by 3% from 866,077 at March 31, 2013 and by 1% from 848,909 at December 31, 2013.

Netia provides its broadband services using the following technologies:

Number of broadband ports (k)	*Q1 2013*	*Q2 2013*	*Q3 2013*	*Q4 2013*	*Q1 2014*
xDSL, FastEthernet and PON over own network	381.1	381.3	382.9	386.8	387.9
incl. Traditional networks (PON, VDSL, ADSL)	*263.1*	*266.1*	*271.2*	*276.0*	*278.9*
incl. Ethernet networks	*118.0*	*115.2*	*111.7*	*110.8*	*109.0*
WiMAX Internet	17.1	16.5	16.0	15.3	14.8
LLU	178.4	175.4	172.5	169.9	166.6
Bitstream access	289.5	286.5	282.8	276.9	268.1
Total	**866.1**	**859.7**	**854.2**	**848.9**	**837.4**

Broadband services net decrease totalled 11,496 during Q1 2014 as compared to 5,256 in Q4 2013. There were no additions from Ethernet network acquisitions throughout 2013 nor in Q1 2014.

Slower fixed broadband market growth and increased price competition on broadband products from both the incumbent and cable TV operators has eliminated Netia's retail price advantage on 1play BSA services and reduced gross additions run rates and increased churn rates across the broadband portfolio. In Q1 2014 the Company recorded a net increase of 1,083 additions on its own broadband networks (excluding WiMAX Internet). While local Ethernet companies contracted net by 1,773 services in Q1 2014 versus 964 services in Q4 2013, Management is observing encouraging organic sales performance on the NGA upgraded part of the Ethernet networks.

Broadband ARPU was PLN 55 in Q1 2014 as compared to PLN 56 in both Q1 2013 and Q4 2013. Netia's conservative pricing policy and focus on higher value customer segments has resulted in a satisfactory ARPU performance over the past year, despite deep price cuts introduced by some of Netia's competitors.

Broadband SAC was PLN 176 as compared to PLN 166 in Q1 2013 and PLN 164 in Q4 2013.

Local Ethernet network operators. As of March 31, 2014, Netia's Ethernet networks provided broadband access to a total of 108,981 mostly residential customers as compared to 110,754 customers at December 31, 2013 and 118,006 customers at March 31, 2013, with approximately 621,000 homes passed. Netia is currently focused on upgrading Ethernet networks already acquired and therefore will likely acquire new networks at a much slower pace than seen in the past, if at all. There were no additions of Ethernet networks completed in Q1 2014.

NGA network development. As at March 31, 2014, Netia covered in total 1,288,000 households with its NGA networks, including 149,000 PON HPs, 897,000 VDSL HPs and 242,000 Ethernet FTTB HPs. During Q1 2014 Netia expanded its NGA coverage by approximately 7,000 HPs (being 6,000 FTTB HPs and 1,000 PON HPs). Moreover, at March 31, 2014 Netia covered a further 172,000 TV ready HPs within its network coverage based on ADSL2+ technology. Combined with NGA ready HPs, all of which can deliver TV services, Netia had 1,460,000 TV ready HPs in its proprietary network coverage.

Netia has advanced plans to expand its NGA coverage by another 400,000 or more HPs inclusive of the recent acquisition of cable networks from UPC Polska. Once all upgrade projects are completed, Netia expects to cover in total approximately 1,734,000 NGA HPs which can be reached with 3play service bundles (TV + fixed NGA broadband + fixed voice). Furthermore, Netia has introduced smooth streaming technology, which expands the availability of its 3play bundle offer onto networks where line speeds are too slow to support IPTV (extra + 240k on-net HPs) and, potentially in the future, to homes where Netia does not provide the broadband connection. Management is presently focusing on optimizing sales, provisioning and maintenance processes around TV services in addition to constant development of the content offering and service functionalities in the course of 2014.

Mobile services. The mobile broadband customer base totalled 24,763 at March 31, 2014 as compared to 29,272 at March 31, 2013 and 26,397 at December 31, 2013. *Mobile broadband ARPU* was PLN 27 in Q1 2014 as compared to PLN 25 in Q1 2013 and PLN 27 in Q4 2013. *Mobile voice services* totalled 37,223 at March 31, 2014 as compared to 56,451 at March 31, 2013 and 42,120 at December 31, 2013. *Mobile voice ARPU* was PLN 27 in Q1 2014 as compared to PLN 27 in Q1 2013 and PLN 29 in Q4 2013. Mobile broadband has similar economics to BSA services whilst mobile voice has benefited from improved terms of MVNO agreements with partners P4 and Polkomtel.

Number of mobile services (k)	*Q1 2013*	*Q2 2013*	*Q3 2013*	*Q4 2013*	*Q1 2014*
Mobile data	29.3	28.9	28.0	26.4	24.8
Mobile voice	56.4	52.0	47.2	42.1	37.2
Total	**85.7**	**80.9**	**75.2**	**68.5**	**62.0**

2.2 VOICE

2.2.1 Own network, WLR & LLU

Voice lines totalled 1,450,817 at March 31, 2014 as compared to 1,594,875 at March 31, 2013 and 1,488,610 at December 31, 2013. In Q1 2014 Netia recorded a net decrease of 37,793 voice lines versus 30,655 voice lines in Q4 2013 and 49,029 voice lines in Q1 2013. The Company expects the number of fixed voice lines to continue to decline, mainly due to clients churning from traditional direct voice and WLR services.

The aggressive price competition from other providers on the market together with substitution from mobile and migrations to voice bundled with cable TV, has been putting pressure on the fixed voice subscriber base whilst Netia has been targeting higher ARPU customers and upselling unlimited fixed-line national call bundles in order to attract higher value customers. With respect to the off-net (WLR) customer base, the Company is chiefly focused on retention of clients and defending cash flows while Netia is more aggressively defending its on-net base through bundling in B2C and discounting in B2B.

Netia is steadily growing its base of relatively low cost VoIP customers, principally in the business segments. Over time, the Company expects to gradually reduce its reliance on traditional switched telephony, thereby reducing its cost base.

Netia provides its voice services through the following types of access:

Number of fixed voice lines (k)	*Q1 2013*	*Q2 2013*	*Q3 2013*	*Q4 2013*	*Q1 2014*
Traditional direct voice	553.3	545.1	537.4	532.6	526.5
Incl. ISDN	*236.6*	*235.4*	*235.3*	*236.4*	*240.2*
Incl. Legacy wireless	*45.1*	*42.9*	*42.5*	*42.6*	*43.2*
Voice over IP (excl. LLU)	74.6	80.0	86.6	94.0	102.7
WiMAX voice	13.8	13.2	12.6	12.0	11.5
Own network voice lines	**641.7**	**638.3**	**636.6**	**638.6**	**640.7**
WLR	828.9	789.0	760.5	728.7	690.0
LLU voice over IP	124.3	123.5	122.2	121.3	120.1
Total	**1,594.9**	**1,550.8**	**1,519.3**	**1,488.6**	**1,450.8**

Voice ARPU per WLR line was PLN 44 in Q1 2014 as compared to PLN 45 in Q1 2013 and PLN 45 in Q4 2013.

Voice ARPU per Netia network subscriber line was PLN 38 in Q1 2014 as compared to PLN 43 in Q1 2013 and PLN 39 in Q4 2013. The fall reflects more aggressive defence of the customer base than on WLR, aggressively priced voice over IP services to business customers and deep discounts given when voice is bundled in 3play.

Blended voice ARPU was PLN 41 in Q1 2014 as compared to PLN 44 in Q1 2013 and PLN 42 in Q4 2013.

2.2.2 Indirect voice

CPS lines (carrier pre selection) totalled 54,251 at March 31, 2014 as compared to 62,013 at March 31, 2013 and 55,922 at December 31, 2013. Netia is focused on the conversion of CPS customers to WLR and is not actively acquiring new CPS customers. CPS clients are not reflected in the total voice subscriber base of 1,450,817 clients as at March 31, 2014.

Indirect voice ARPU per CPS line was PLN 22 in Q1 2014 as compared to PLN 30 in Q1 2013 and PLN 24 in Q4 2013. Tariff reductions, reduced call volumes and conversion of higher ARPU customers to Netia's WLR or LLU offers are responsible for the progressive ARPU decline.

2.3 OTHER

Headcount was 1,986 at March 31, 2014, compared to 2,053 at March 31, 2013 and 2,012 at December 31, 2013. Active headcount was 1,897 at March 31, 2014 versus 1,971 at March 31, 2013 and 1,917 at December 31, 2013. During Q1 2014 certain job positions were identified for reduction during the course of 2014 in connection with the split of Netia's operations into B2B/B2C Business Units. Provisions totaling PLN 3.6m were booked in the Q1 2014 results, with similar amounts expected to be recorded in the remainder of 2014.

The movement in headcount can be analyzed as follows:

	Active	*Total*
Headcount at March 31, 2013	**1,971**	**2,053**
Employees acquired in Ethernet acquisitions since March 31, 2013	-	-
Net organic headcount reductions since March 31, 2013	(63)	(56)
Disposal of UNI-Net in Q1 2014	(11)	(11)
Headcount at March 31, 2014	**1,897**	**1,986**

Capital investment additions

Capital investment additions (PLN'M)	*Q1 2013*	*Q1 2014*	*Change %*
Existing network and IT	18.6	20.5	10%
Broadband networks	15.5	17.9	15%
CPE broadband (mainly capitalised Netia Spot routers)	6.5	9.5	46%
TV (incl. dedicated CPE – Netia Player)	2.8	4.0	43%
Adjusted capex	**43.4**	**51.9**	**20%**
CDN integration	2.5	2.7	8%
Total capex	**45.9**	**54.6**	**19%**

Capital investment in existing network and IT reflect extension of transmission network capacity to activate new business customers. Investments in broadband networks include mainly NGA development and upgrades for residential clients and works on integrating with Netia's broadband network the cable networks in Warsaw and Kraków, which were acquired from UPC Polska in May 2013.

The Company continues to guide for 2014 total investment of PLN 200m, including capex related to the CDN integration, and management therefore anticipates a slight slowdown in spending over the coming quarters of 2014.

3 Other Highlights

Appointment of Netia's CEO and President of Management Board. On April 22, 2014 Netia's Supervisory Board appointed Mr. Adam Sawicki as President of the Company's Management Board and Chief Executive Officer, effective June 2, 2014. Mr. Adam Sawicki, 43, has many years of general management experience in an international environment and including the telecommunications industry. In particular, he served as Chief Executive Officer of GTS Central Europe (from 2008 to 2011) and worked in various senior management positions in TeliaSonera Group (from 1996 to 2008). The existing CEO Mr. Mirosław Godlewski decided to stand-down from him position on February 19, 2014. In agreement with Netia's Supervisory Board, Mr. Godlewski will remain in his position until Mr. Sawicki begins work at Netia.

Netia splits its operations into B2B and B2C Business Units (N^2 Project). On January 24, 2014 Netia announced a divisional split of its operations between two distinct Business Units: Business to Business (B2B) and Business to Consumers (B2C), with a view to best support the needs of its business and residential customers and the Company's key strategic objectives. The B2B and B2C Business Units will be responsible for providing new, innovative and user-friendly products to their customers and constant improvement of service delivery. This organizational change is expected to result in the maximal possible simplification of internal procedures and processes, clear accountability for execution of strategic targets and thus the further improvement of the Group's commercial and financial performance along the entire service value chain. Moreover, the change is expected to allow Netia, being the second largest fixed network operator in Poland, to take optimal advantage of its existing infrastructure, which in the medium and long term is expected to increasingly play an important role in Netia's financial performance. In addition, it is expected to provide the flexibility necessary to take advantage of possible consolidation scenarios in the Polish telecommunications market.

During Q1 2014 the new management structure was defined and the new organization went into operation at the beginning of April 2014. The new structure enabled a number of cost reducing headcount reductions to be identified, which resulted in a PLN 3.6m provision being booked for restructuring costs in the Q1 2014 results, with similar amounts expected to be reserved during the remainder of 2014.

Integration of Netia, Dialog Group and Crowley into New Netia Group. In December 2011 Netia acquired 100% stakes in Telefonia Dialog SA ("Dialog", currently Telefonia Dialog Sp. z o.o.) and Crowley Data Poland Sp. z o.o. ("Crowley", currently merged into Netia).

From a total of well over 100 integration projects, the final tasks related to IT platform migrations were completed successfully at the beginning of Q2 2014. As a result, the same billing system and CRM system will manage the same set of products and services for all customers of Netia SA and Telefonia Dialog Sp. z o.o.

Following completion of this integration process, Netia has decided to discontinue using Dialog's trademark, recording in Q1 2014 a related impairment charge of PLN 2.5m. The customers of Dialog now receive Netia branded products and services.

Plans to launch Netia's services over the former Aster cable operator's network which reaches 446,000 homes passed in Warsaw and Kraków are well advanced. Netia has now taken-over the majority of the cable networks and is integrating them into its backbone network and continues to work with UPC Polska on the hand-over of the remaining nodes. Netia's full range of broadband, TV and voice services are currently being tested on the new network and Management expects to begin offering commercial services in H2 2014. The network was acquired without customers, which simplifies integration and allows Netia to offer its standard services from day one on this high quality CATV network.

Netia's annual shareholder meeting was convened for May 21, 2014. The AGM's agenda includes, among others, the proposed resolutions on dividend payment of PLN 0.42 per share, totalling PLN 146.1m, which would be payable on June 17, 2014 to shareholders of record on May 29, 2014. In addition, the Company is proposing to the AGM to adopt a new share buy-back program to acquire and redeem up to 20% of the Netia's share capital for up to PLN 200m in order to maximize future flexibility in the form of payments to shareholders. Moreover, the AGM's agenda includes such items as changes to the composition of Netia's Supervisory Board, the merger of Netia SA with its wholly-owned subsidiaries Net 2 Net Sp. z o.o., Centrina Sp. z o.o., Dianthus Sp. z o.o. and Internetia Holdings Sp. z o.o., and the amendments to the par.5, par.5A and par. 18 of the Company's statute. At the request of a shareholder, the AGM's agenda was extended further by such items as changes in the number of members of Netia's Supervisory Board, its composition and rules of remuneration of Supervisory Board members.

Distribution policy. As previously announced, while remaining interested in a number of potential acquisition targets, Netia Management presently anticipates no likely short-term transactions and therefore targets to facilitate payments to shareholders through either dividends or offers to purchase shares directed to all shareholders or capital redemptions, depending on the evolution of distributable reserves in Netia SA, which stood at PLN 370.1m at March 31, 2014 and represent the key constraint on future distributions. Based on its free cash flow projections, Management estimates that the Company may distribute up to PLN 146m from 2014 onwards (pro forma PLN 0.42 per outstanding share) with some scope to moderately increase payments over time whilst allowing debt leverage to increase towards 1.0x Adjusted EBITDA over the medium term.

Accordingly, for 2014 Management is proposing a PLN 0.42 per share dividend, totaling PLN 146.1m, to the Annual Shareholders Meeting, which will be held on May 21, 2014. The record date is being proposed as May 29, 2014, with ex-dividend date on May 27, 2014 and dividend payment on June 17, 2014.

In addition, Management is proposing that shareholders approve a new PLN 200m share buy-back program to provide Netia with greater flexibility to meet its commitment to its distribution policy in the event that Netia SA, the parent company, records a loss in a given financial year.

Financing. On March 31, 2014, Netia had PLN 124.6m in cash and short term deposits and PLN 385.3m in total debt and accrued interest as compared to PLN 93.4m and PLN 384.1m, respectively, on December 31, 2013. The debt outstanding on both March 31, 2014 and December 31, 2013 comprised of principal and interest on a five-year senior debt facility drawn to acquire Dialog group. Accordingly, Netia Group's net debt at March 31, 2014 was PLN 260.7m versus PLN 464.2m at March 31, 2013 and PLN 290.7m at December 31, 2013 and net debt to the 2014 Adjusted EBITDA guidance of PLN 505m amounted to 0.52x.

Netia has undrawn long-term loan facilities of PLN 200.0m available for general corporate purposes that may be drawn until December 20, 2014.

Financial covenants agreed as part of the loan facility with the consortium of banks signed in September 2011 are such that further funds may be raised to finance further acquisitions.

Resignation of Netia's Management Board member. On May 14, 2014 Mr. Mirosław Suszek, Chief Technical Officer and member of the Management Board, after two years at Netia, has resigned from the position of member of the Company's Management Board with effect on July 31, 2014. Mr. Suszek's resignation was due to intention to continue his career in another industry in order to take up new challenges and to gain new experience.

Consolidated Financial Information

Please also refer to our financial statements for the three-month period ended March 31, 2014.

Q1 2014 vs. Q1 2013

Revenue decreased by 12% YoY to PLN 434.4m for Q1 2014 from PLN 490.7m for Q1 2013. The B2C operating segment decreased by 11% or PLN 32.8m and the B2B segment by 11% or PLN 22.2m. The decline in revenues was driven by a 6% YoY decline in services provided (RGUs) and by falls in mobile termination rates (MTRs) which contributed approximately 30% of the revenue decline. RGU declines continued to be concentrated in the B2C (Home) sub-segment and in fixed voice services and lower margin WLR services in particular. The proportion of RGUs delivered on-network has increased from 43% to 47% in the twelve months to March 31, 2014.

Telecommunications revenue decreased by 11% YoY to PLN 434.0m in Q1 2014 from PLN 488.2m in Q1 2013, driven by a 16% or PLN 34.8m decrease in direct voice revenue to PLN 180.6m from PLN 215.4m in Q1 2013, associated with the decrease in the voice subscriber base and the drop in the number of WLR services in particular. Data revenue decreased by 5% or PLN 9.0m to PLN 175.2m from PLN 184.2m in Q1 2013, mainly due to the lower number of BSA services. Revenues from interconnect and carrier services combined were down by 22% to PLN 42.3m from PLN 54.3m in Q1 2013 following the introduction of lower MTRs in January 2013 and again in July 2013. Indirect voice services (CPS) revenue decreased by 34% or PLN 1.9m as a result of decreasing customer numbers and falling ARPUs. Other telecommunications revenue, which include TV and mobile services, increased between the compared periods by 13% or PLN 3.6m to PLN 32.3m in Q1 2014 from PLN 28.6m in Q1 2013 and represented 7% of total revenue versus 6% in the prior year quarter. Direct voice revenue as a share of total telecommunications revenue declined YoY from 44% to 42% and data revenue increased over the same period from 38% to 40%.

Cost of sales decreased by 11% YoY to PLN 292.6m from PLN 329.0m for Q1 2013 and represented 67% of total revenue in both quarters. Lower interconnection costs following cuts to MTRs, a relatively faster decline in off-net services and synergies from Dialog Group and Crowley integration and lower depreciation and amortization expenses were the main drivers of the decrease in costs.

Interconnection charges decreased by 29% to PLN 42.5m in Q1 2014 as compared to PLN 60.0m for Q1 2013, due mainly to falling MTRs.

Network operations and maintenance cost decreased by 10% to PLN 137.6m from PLN 153.2m for the prior year quarter due to synergies from Dialog Group and Crowley integration and less off-net RGUs regulated access fees.

Depreciation and amortization related to cost of sales decreased by 4% to PLN 87.0m as compared to PLN 90.4m for Q1 2013 following the reassessment of useful lives of the Netia Group's fixed assets in Q1 2014, resulting in a reduction of some depreciation rates.

Taxes, frequency fees and other expenses decreased by 9% to PLN 14.2m in Q1 2014 as compared to PLN 15.7m for Q1 2013 mainly as a result of lower cost of office space rentals.

Gross profit for Q1 2014 was PLN 141.8m as compared to PLN 161.7m for Q1 2013. Gross profit margin was 32.6% for Q1 2014 and 33.0% for Q1 2013.

Selling and distribution costs decreased by 19% YoY to PLN 76.3m from PLN 93.6m for previous year quarter and represented 18% of total revenue as compared to 19% in Q1 2013. Lower direct acquisition costs from fewer gross additions and lower advertising spending were the main drivers of the decreasing costs.

Advertising and promotion cost decreased by 60% YoY to PLN 3.2m for Q1 2014 as compared to PLN 7.9m for Q1 2013 as a result of limited advertising campaigns/lower costs of both broadcasting and production of new TV commercials.

Impairment of receivables was lower by 89% and PLN 4.2m as the current year quarter benefited from provision releases due to sales of overdue receivables and observed bad debt recovery performance allowing a reduction in provisioning rates for new sales.

Depreciation and amortization related to selling and distribution cost decreased by 24% to PLN 10.3m from PLN 13.6m in Q1 2013 following the full amortization of certain intangible assets.

Billing, mailing and logistics costs decreased by 30% YoY to PLN 5.5m from PLN 7.9m while the average number of RGUs served fell only by 6% between the two quarters due to integration synergies and greater use of electronic billing solutions.

Outsourced customer service cost decreased by 42% YoY to PLN 3.3m from PLN 5.7m due to extracting integration synergies and increased use of internal customer care resources.

Third party commissions decreased by 37% YoY to PLN 3.8m from PLN 6.0m due to lower gross additions, particularly in voice services.

Salaries and benefits related to selling and distribution cost increased by 7% to PLN 32.6m from PLN 30.4m in Q1 2013, reflecting mainly enforcement of Netia's B2B sales team.

General and administration costs remained broadly unchanged at YoY at PLN 45.6m versus PLN 45.7m for Q1 2013 and represented 10% of total revenue in Q1 2014 as compared to 9% in Q1 2013. Restructuring cost representing part of provisions for redundancies to be implemented during the course of 2014 in connection with the B2B/B2C Business Units split (N^2 Project) was the main cost driver.

Other costs related to general administration cost decreased by 20% to PLN 5.3m from PLN 6.6m in Q1 2013, due to significantly lower integration costs as the scale of the CDN integration project is reduced with most synergy initiatives now completed. Implementation costs of N^2 Project incurred during Q1 2014 only were much smaller than those necessary for the CDN integration.

Salaries and benefits related to general administration cost decreased by 4% to PLN 20.7m from PLN 21.6m in Q1 2013.

Professional services costs decreased by 31% or PLN 0.8m.

Office and car maintenance costs decreased by 14% or PLN 0.5m between the periods.

Restructuring costs related to general administration increased to PLN 2.3m from PLN 0.4m in Q1 2013, reflecting mainly provisions for the on-going headcount optimization process in connection with the B2B/B2C Business Units split (N^2 Project).

Depreciation and amortization related to general administration increased by 11% or PLN 0.8m in connection with amortization of additional computer software and licenses.

Electronic data processing cost increased by 21% or PLN 0.8m in connection with the integration projects such as migration of Dialog's customer data bases to Netia, completed in April 2014.

Other income, net of other expenses was a gain of PLN 0.9m versus a prior year quarter gain of PLN 2.3m driven mainly by recording an impairment charge of PLN 2.5m on the decision to discontinue using Dialog's trademark.

Other gains/(losses), net were a loss of PLN 0.1m from a gain of PLN 2.6m in Q1 2013 on significantly lower gain on sale of impaired receivables.

Adjusted EBITDA was PLN 134.4m, down by 5% from PLN 142.0m for Q1 2013. Adjusted EBITDA margin was 31.0% as compared to 28.9% in Q1 2013. Higher Adjusted EBITDA margin reflects Dialog Group and Crowley integration synergies, the lower base of both revenue and cost from MTR reductions, and lower sales and distribution spending, partially offset by falling gross profits from contracting voice services.

Unusual items excluded from the Adjusted EBITDA were PLN 8.4m of net expenses in Q1 2014 and PLN 3.4m of net expenses in Q1 2013. Including headcount restructuring costs of PLN 3.6m in Q1 2014 and PLN 0.9m in Q1 2013, an impairment charge of PLN 2.5m recorded in Q1 2014 upon the decision to discontinue using Dialog's trademark, the Dialog Group and Crowley integration costs of PLN 1.8m in Q1 2014 and PLN 2.2m in Q1 2013, cost of N^2 Project of PLN 0.5m recorded in Q1 2014 and the costs of M&A projects of PLN 0.3m in recorded in Q1 2013, *EBITDA* was PLN 126.0m for Q1 2014 as compared to PLN 138.6m for Q1 2013. EBITDA margin was 29.0% as compared to 28.3% for Q1 2013.

Depreciation and amortization was PLN 105.3m, a decrease of 5% YoY as compared to PLN 111.3m in Q1 2013 following full depreciation of certain assets and liquidation in 4Q 2013 of certain obsolete assets.

Operating profit (EBIT) was PLN 20.7m as compared to an operating profit of PLN 27.3m for Q1 2013. Excluding unusual items described above of PLN 8.4m of net costs in Q1 2014 and PLN 3.4m of costs in Q1 2013, Adjusted EBIT was PLN 29.1m profit for Q1 2014 versus PLN 30.7m profit for Q1 2013.

Net financial cost was PLN 4.6m as compared to net financial cost of PLN 7.4m for the prior year quarter and the improvement is driven by the falls in net debt between the periods.

Income tax charge of PLN 5.2m was recorded in Q1 2014 as compared to income tax charge of PLN 6.7m for Q1 2013.

Net profit was PLN 11.0m for Q1 2014 versus net profit of PLN 13.1m for Q1 2013.

Cash outlays on purchase of fixed assets and computer software increased by 18% to PLN 84.6m for Q1 2014 versus PLN 71.6m for Q1 2013 driven by investments in broadband networks including NGA development.

Cash and short term deposits at March 31, 2014 totalled PLN 124.6m versus PLN 98.3m at March 31, 2013. In addition, as at March 31, 2013 PLN 131.4m was held as restricted cash to fund a share buyback executed during Q2 2013.

Debt and accrued interest at March 31, 2014 was PLN 385.3m as compared to PLN 562.5m in the prior year quarter.

Net debt at March 31, 2014 was PLN 260.7m as compared to PLN 464.2m in Q1 2013. Inclusive of the PLN 131.4m held on escrow mainly for share repurchases, the net debt at the end of Q1 2013 would have been PLN 332.8m.

Q1 2014 vs. Q4 2013

Sequential revenue decreased by 4% to PLN 434.4m in Q1 2014 from PLN 450.8m in Q4 2013. The decline in revenues was driven by a 2% sequential decline in services provided (RGUs), which continued to be concentrated in the B2C (Home) sub-segment and in fixed voice services, and by falls in mobile termination rates (MTRs), which contributed 14% of revenue decline via their knock-on effects on B2B retail results. The Company estimates the sequential impact of lower MTRs on revenue at PLN 2.2m. The fall in radio communications and other revenue to PLN 0.3m resulted mainly from the sale of Netia's UNI-Net radio trunking subsidiary in February 2014.

Telecommunications revenue decreased by 3% to PLN 434.0m in Q1 2014 versus PLN 449.2m in Q4 2013. Direct voice revenue fell by 5% QoQ to PLN 180.6m from PLN 190.0m in Q4 2013 as a result of the fall in the subscriber base and on-network ARPU declines partly related to passing on of MTR savings. Other telecommunications revenue remained broadly unchanged at PLN 32.3m versus PLN 32.1m in Q4 2013. Carrier segment revenue decreased sequentially by 3% or PLN 1.3m on lower traffic volumes. Data revenue decreased by 2% to PLN 175.2m from PLN 179.3m in Q4 2013 following sequentially higher disconnections among off-net broadband services. Indirect voice revenue decreased sequentially by 9% or PLN 0.4m on lower customer base.

Cost of sales decreased by 7% to PLN 292.6m as compared to PLN 312.8m in Q4 2013, representing 67% of total revenue in Q1 2014 as compared to 69% in Q4 2013. Cost of network operations and maintenance decreased by 6% or 8.9m mainly as a result of less fees payable to TP on less wholesale access services. Taxes, frequency fees and other expenses decreased by 34% or PLN 7.4m as in the prior quarter their level was driven by liquidation of certain obsolete assets. Similarly, liquidation of certain obsolete assets in Q4 2013 resulted in sequentially lower depreciation and amortization related to cost of sales, which was down by 4% or PLN 3.1m. Cost of goods sold decreased by 57% or PLN 2.6m as the prior quarter included higher sale of equipment to business customers.

Gross profit increased by 3% to PLN 141.8m from PLN 137.9m in Q4 2013, with gross profit margin at 32.6% versus 30.6% in Q4 2013.

Selling and distribution costs decreased by 13% sequentially to PLN 76.3m in Q1 2014 as compared to PLN 88.1m in Q4 2013 representing 18% of total revenue in Q1 2014 as compared to 20% in Q4 2013. Advertising and promotion spending was down by 78% or PLN 11.3m as a result of less intensive advertising campaigns. Sequentially lower sales volumes and synergies resulted in a decrease of billing, mailing and logistics costs (by 22% or PLN 1.6m) and third party commissions (by 22% or PLN 1.1m). Salaries and benefits related to selling and distribution increased by 8% or PLN 2.3m reflecting mainly the strengthening of Netia's B2B sales team.

General and administrative expenses decreased by 8% to PLN 45.6m in Q1 2014 from PLN 49.6m in Q4 2013, and represented 10% of total revenue in Q1 2014 as compared to 11% in Q4 2013. The decrease was driven mainly by sequentially lower cost of other expenses, which in the previous quarter included liquidation of certain obsolete fixed assets. Office and car maintenance cost was down by 41% to PLN 3.0m from PLN 5.0m in Q4 2013 mainly as a result of renegotiated office rental costs. Cost of salaries and benefits related to general administration increased by 17% or PLN 2.9m on sequentially higher annual bonus provision. Restructuring cost was higher by PLN 2.1m in connection with the implementation of restructuring changes under the N^2 Project.

Adjusted EBITDA was PLN 134.4m versus PLN 124.2m for Q4 2013 and Adjusted EBITDA margin was 31.0% in Q1 2014 versus was 27.6% in Q4 2013.

EBITDA was PLN 126.0m as compared to PLN 115.2m in Q4 2013. EBITDA for Q1 2014 included restructuring costs of PLN 3.6m, impairment charge on decision to discontinue using Dialog's trademark of PLN 2.5m, Dialog Group and Crowley integration costs of PLN 1.8m and costs of Netia's B2B/B2C divisional split (N^2 Project) of PLN 0.5m. EBITDA for Q4 2013 included Dialog Group and Crowley integration costs of PLN 3.7m, restructuring costs of PLN 0.8m, an impairment charge on valuation of Netia's investment property in Warsaw of PLN 2.6m, costs of Netia's B2B/B2C divisional split (N^2 Project) of PLN 1.5m, and costs of M&A projects of PLN 0.4m.

Operating profit (EBIT) was PLN 20.7m as compared to operating profit of PLN 6.2m in Q4 2013. Excluding unusual items, EBIT for Q1 2014 would have been PLN 29.1m profit as compared to PLN 15.2m profit for Q4 2013.

Net financial cost was PLN 4.6m as compared to net financial cost of PLN 5.2m in Q4 2013.

Income tax charge of PLN 5.2m was recorded in Q1 2014 versus income tax benefit of PLN 9.4m in Q4 2013.

Net profit for Q1 2014 was PLN 11.0m versus net profit of PLN 10.5m for Q4 2013.

Key Figures

PLN'000	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014
Revenues	490,690	477,492	457,076	450,758	434,371
y-o-y % change	*(9.8%)*	*(11.0%)*	*(12.3%)*	*(13.2%)*	*(11.5%)*
Adjusted EBITDA	142,005	140,541	144,123	124,186	134,440
Margin %	*28.9%*	*29.4%*	*31.5%*	*27.6%*	*31.0%*
y-o-y change %	*6.8%*	*(10.0%)*	*(8.5%)*	*(14.1%)*	*(5.3%)*
EBITDA	138,621	136,408	142,492	115,232	125,978
Margin %	*28.3%*	*28.6%*	*31.2%*	*25.6%*	*29.0%*
Adjusted EBIT	30,656	30,573	34,457	15,175	29,146
Margin %	*6.2%*	*6.4%*	*7.5%*	*3.4%*	*6.7%*
EBIT	27,272	26,440	32,826	6,221	20,684
Margin %	*5.6%*	*5.5%*	*7.2%*	*1.4%*	*4.8%*
Adjusted Profit of the Netia Group (consolidated)	15,885	11,932	15,387	17,749	17,807
Margin %	*3.2%*	*2.5%*	*3.4%*	*3.9%*	*4.1%*
Profit/(Loss) of the Netia Group (consolidated)	13,144	8,584	14,066	10,496	10,953
Margin %	*2.7%*	*1.8%*	*3.1%*	*2.3%*	*2.5%*
Profit/(Loss) of Netia SA (stand alone)[1]	(9,055)	(9,254)	(2,232)	51,265	(6,827)
Cash and short term deposits	98,304	124,401	130,931	93,356	124,611
Cash, restricted cash and short term deposits	229,750	126,524	130,944	93,369	124,611
Debt	562,543	522,935	448,154	384,077	385,265
Capex related payments	71,628	55,165	57,353	97,680	84,551
Investments in tangible and intangible fixed assets and investment property	45,899	61,921	63,888	107,866	54,554

EUR'000[2]	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014
Revenues	117,635	114,471	109,576	108,690	104,133
y-o-y % change	*(9.8%)*	*(11.0%)*	*(12.3%)*	*(13.2%)*	*(11.5%)*
Adjusted EBITDA	34,043	33,692	34,551	29,945	32,230
Margin %	*28.9%*	*29.4%*	*31.5%*	*27.6%*	*31.0%*
y-o-y change %	*6.8%*	*(10.0%)*	*(8.5%)*	*(14.1%)*	*(5.3%)*
EBITDA	33,232	32,702	34,160	27,785	30,201
Margin %	*28.3%*	*28.6%*	*31.2%*	*25.6%*	*29.0%*
Adjusted EBIT	7,349	7,329	8,260	3,659	6,987
Margin %	*6.2%*	*6.4%*	*7.5%*	*3.4%*	*6.7%*
EBIT	6,538	6,339	7,869	1,500	4,959
Margin %	*5.6%*	*5.5%*	*7.2%*	*1.4%*	*4.8%*
Adjusted Profit of the Netia Group (consolidated)	3,808	2,860	3,689	4,280	4,269
Margin %	*3.2%*	*2.5%*	*3.4%*	*3.9%*	*4.1%*
Profit/(Loss) of the Netia Group (consolidated)	3,151	2,058	3,372	2,531	2,626
Margin %	*2.7%*	*1.8%*	*3.1%*	*2.3%*	*2.5%*
Profit/(Loss) of Netia SA (stand alone)[1]	(2,171)	(2,218)	(535)	12,361	(1,637)
Cash and short term deposits	23,567	29,823	31,389	22,511	29,873
Cash, restricted cash and short term deposits	55,079	30,332	31,392	22,514	29,873
Debt	134,860	125,365	107,437	92,611	92,361
Capex related payments	17,172	13,225	13,749	23,553	20,270
Investments in tangible and intangible fixed assets and investment property	11,004	14,845	15,316	26,009	13,078

[1] The profit of Netia SA (stand alone) is used for purpose of calculation of the amounts available for potential cash distribution to shareholders through dividends or share buy-backs.

[2] The EUR amounts shown in this table and in the entire document have been translated using an exchange rate of PLN 4.1713 = EUR 1.00, the average rate announced by the National Bank of Poland on March 31, 2014. These figures are included for the convenience of the reader only.

Adjusted EBITDA, Adjusted EBIT and Adjusted Profit for 2013 exclude the following items as appropriate: New Netia (Dialog Group & Crowley) integration costs of PLN 9.5m, restructuring expenses of PLN 3.6m, impairment charge of PLN 0.4m, expenses related to M&A activities of PLN 0.6m, a decrease in provision for universal service obligation payment of PLN 0.2m, an impairment charge on valuation of investment property of PLN 2.6, costs of B2B/B2C divisional split of PLN 1.5m and impact from these one-offs on the income tax charge of PLN 3.4m. Items excluded for Q1 2014 are as follows: New Netia (Dialog Group & Crowley) integration costs of PLN 1.8m, restructuring expenses of PLN 6.1m, an impairment charge on discontinuity of Dialog's trademark of PLN 2.5m, costs of B2B/B2C divisional split of PLN 0.5m and impact from these one-offs on the income tax charge of PLN 2.1m.

Netia Group's Key Operational Indicators

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014
Total services (RGUs)	**2,637,912**	**2,592,260**	**2,560,019**	**2,526,357**	**2,477,463**
Broadband data services					
Own infrastructure-based services	398,162	397,788	398,892	402,140	402,703
Own fixed-line networks	*381,078*	*381,255*	*382,932*	386,787	387,870
WiMAX	*17,084*	*16,533*	*15,960*	*15,353*	*14,833*
Bitstream access	289,522	286,465	282,792	276,857	268,089
LLU	178,393	175,455	172,481	169,912	166,621
Total broadband data services (end of period)	**866,077**	**859,708**	**854,165**	**848,909**	**837,413**
Voice services (excl. CPS)					
Traditional direct voice	553,337	545,127	537,422	532,639	526,585
incl. ISDN equivalent of lines	*236,628*	*235,370*	*235,228*	*236,429*	*240,150*
incl. legacy wireless	*45,143*	*42,943*	*42,540*	*42,621*	*43,190*
Voice over IP (excl. LLU)[1]	79,437	84,844	91,339	98,833	107,678
WiMAX voice	13,802	13,210	12,575	11,983	11,459
Netia network subscriber voice services	646,576	643,181	641,336	643,455	645,722
WLR	828,850	788,996	760,519	728,693	689,988
LLU voice over IP[1]	119,449	118,635	117,410	116,462	115,107
Total voice services (end of period)	**1,594,875**	**1,550,812**	**1,519,265**	**1,488,610**	**1,450,817**
TV services (end of period)	**91,237**	**100,879**	**111,358**	**120,321**	**127,247**
Mobile Data services (end of period)	**29,272**	**28,906**	**28,063**	**26,397**	**24,763**
Mobile Voice services (end of period)	**56,451**	**51,955**	**47,168**	**42,120**	**37,223**
Total services (RGUs) by segment[2] (end of period)	**2,637,912**	**2,592,260**	**2,560,019**	**2,526,357**	**2,477,463**
B2B Division	460,730	464,612	469,603	477,713	484,105
Business segment	*456,571*	*460,330*	*465,285*	*473,502*	*479,609*
Carrier segment	*4,159*	*4,282*	*4,318*	*4,211*	*4,496*
B2C Division	2,142,387	2,093,098	2,056,016	2,014,144	1,959,063
Home segment	*1,877,839*	*1,830,042*	*1,792,530*	*1,749,930*	*1,697,056*
Share of lines with multiplay services	*32.2%*	*32.5%*	*32.8%*	*33.7%*	*34.0%*
SOHO segment	*264,548*	*263,056*	*263,486*	*264,214*	*262,007*
Share of lines with multiplay services	*47.1%*	*47.8%*	*48.1%*	*48.8%*	*49.0%*
Other[3] (Petrotel)	34,795	34,550	34,400	34,500	34,295
Other					
Total on-net services	1,135,975	1,141,848	1,151,586	1,165,916	1,175,672
Total off-net services	1,501,937	1,450,412	1,408,433	1,360,441	1,301,791
Total net change in on-net services	3,574	5,873	9,738	14,330	9,756
Total net change in off-net services	(54,129)	(51,525)	(41,979)	(47,992)	(58,650)
Total net change in Broadband data services	(8,701)	(6,369)	(5,543)	(5,256)	(11,496)
Total net change in Voice services	(49,029)	(44,063)	(31,547)	(30,655)	(37,793)
Monthly Broadband ARPU (PLN)	56	56	56	56	55
Monthly Voice ARPU in own network (PLN)	43	42	40	39	38
Monthly Voice ARPU for WLR (PLN)	45	45	45	45	44
Monthly Voice ARPU blended (PLN)	44	44	43	42	41
Monthly TV ARPU blended (PLN)	40	38	37	37	36
Monthly Mobile Data ARPU blended (PLN)	25	28	27	27	27
Monthly Mobile Voice ARPU blended (PLN)	27	27	28	29	27
CPS lines (cumulative)	62,013	58,358	57,008	55,922	54,521
Monthly Voice ARPU for CPS	30	28	26	24	22
Headcount	2,053	2,012	2,012	2,012	1,986
Active headcount	1,971	1,948	1,930	1,917	1,897

[1] *Voice over IP customers of Ethernet networks have historically been classified along with LLU voice over IP as they were served by the same VoIP platform. With effect from Q1 2014 and retrospectively, these customers are now correctly classified as Voice over IP (excl. LLU).*

[2] *Following the reorganisation of its sales channels structure, with effect from Q3 2013 Netia has modified its segment reporting to comprise two main segments, Business to Consumer (B2C) and Business to Business (B2B). Pursuant to this change, the previous SOHO/SME segment has been split such that SOHO becomes a sub-segment of B2C and SME part of the Business sub-segment of B2B. Accordingly, segment reporting of B2C and B2B segments now includes sub-segments as follows: B2C (Home), B2C (SOHO), B2B (Business) and B2B (Carrier). For comparative purposes, KPIs and results have been estimated retrospectively for H1 2013.*

[3] *Number of services in Dialog and Crowley has been fully integrated under the Netia Group's operating segments. Services at Dialog's subsidiary Petrotel are shown separately under the 'Other' segment.*

B2B Business Unit's Key Operational Indicators

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014
B2B's total services (RGUs)	***460,730***	***464,612***	***469,603***	***477,713***	***484,105***
Broadband data services					
Own infrastructure-based services	26,190	26,099	25,921	26,025	25,930
Own fixed-line networks	*25,136*	*25,089*	*24,953*	*25,111*	*25,053*
WiMAX	*1,054*	*1,010*	*968*	*914*	*877*
Bitstream access	11,220	11,797	12,175	12,577	12,676
LLU	5,856	6,138	6,214	6,355	6,342
Total broadband data services (end of period)	**43,266**	**44,034**	**44,310**	**44,957**	**44,948**
Voice services (excl. CPS)					
Traditional direct voice	270,158	268,427	267,777	268,729	269,012
incl. ISDN equivalent of lines	*221,548*	*220,874*	*221,190*	*223,102*	*225,158*
incl. legacy wireless	*44,756*	*42,538*	*42,117*	*42,240*	*42,822*
Voice over IP (excl. LLU)	64,742	70,183	76,356	83,626	92,117
WiMAX voice	2,181	2,084	1,975	1,877	1,807
Netia network subscriber voice services	337,081	340,694	346,108	354,232	362,936
WLR	68,944	68,331	67,762	67,322	65,283
LLU voice over IP	3,627	3,774	3,815	3,868	3,808
Total voice services (end of period)	**409,652**	**412,799**	**417,685**	**425,422**	**432,027**
TV services (end of period)	22	25	25	42	71
Mobile Data services (end of period)	2,404	2,626	2,719	2,827	2,933
Mobile Voice services (end of period)	5,386	5,128	4,864	4,465	4,126
Other					
Average monthly ARPU per customer (PLN)	475	455	443	431	425
RGUs per customer location[1]	6.19	6.19	6.25	6.35	6.48

B2C Business Unit's Key Operational Indicators

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014
B2C's total services (RGUs)	***2,142,387***	***2,093,098***	***2,056,016***	***2,014,144***	***1,959,063***
Broadband data services					
Own infrastructure-based services	356,009	355,719	356,953	359,968	360,524
Own fixed-line networks	*342,846*	*343,113*	*344,935*	*348,551*	*349,654*
WiMAX	*13,163*	*12,606*	*12,018*	*11,417*	*10,870*
Bitstream access	278,302	274,668	270,617	264,280	255,413
LLU	172,537	169,317	166,267	163,557	160,279
Total broadband data services (end of period)	**806,848**	**799,704**	**793,837**	**787,805**	**776,216**
Voice services (excl. CPS)					
Traditional direct voice	266,468	260,260	253,557	248,049	242,445
incl. ISDN equivalent of lines	*14,124*	*13,552*	*13,220*	*12,516*	*12,004*
incl. legacy wireless	*387*	*405*	*423*	*381*	*368*
Voice over IP (excl. LLU)	14,695	14,661	14,983	15,207	15,366
WiMAX voice	10,464	9,981	9,481	9,000	8,573
Netia network subscriber voice services	291,627	284,902	278,021	272,256	266,384
WLR	759,906	720,665	692,757	661,371	624,705
LLU voice over IP	115,822	114,861	113,595	112,594	111,299
Total voice services (end of period)	**1,167,355**	**1,120,428**	**1,084,373**	**1,046,221**	**1,002,388**
TV services (end of period)	90,251	99,859	110,158	118,893	125,532
Mobile Data services (end of period)	26,868	26,280	25,344	23,570	21,830
Mobile Voice services (end of period)	51,065	46,827	42,304	37,655	33,097
Other					
Average monthly ARPU per customer (PLN)	58	58	58	58	58
RGUs per customer[1]	1.37	1.38	1.38	1.40	1.40

1 A customer is defined as a customer location

Income Statement
(PLN in thousands unless otherwise stated)

Time periods:	Q1 2013 *unaudited*	Q2 2013 *unaudited*	Q3 2013 *unaudited*	Q4 2013 *unaudited*	Q1 2014 *unaudited*
Direct Voice	215,404	205,874	197,861	190,049	180,588
Incl. monthly fees	*154,449*	*148,804*	*144,771*	*140,373*	*135,249*
Incl. calling charges	*60,769*	*56,829*	*52,939*	*49,686*	*45,295*
Indirect Voice	5,620	5,022	4,481	4,080	3,714
Data	184,240	181,534	179,652	179,295	175,191
Interconnection revenues	24,730	21,651	19,705	19,202	17,923
Wholesale services	29,598	30,105	22,893	24,407	24,364
Other telecommunications revenues	28,618	30,522	30,929	32,120	32,252
Total telecommunications revenue	**488,210**	**474,708**	**455,521**	**449,153**	**434,032**
Radio communications and other revenue	2,480	2,784	1,555	1,605	339
Total revenue	**490,690**	**477,492**	**457,076**	**450,758**	**434,371**
Cost of sales	**(328,994)**	**(322,544)**	**(300,972)**	**(312,832)**	**(292,555)**
Interconnection charges	(59,989)	(57,237)	(42,215)	(41,860)	(42,459)
Network operations and maintenance	(153,154)	(149,430)	(144,292)	(146,523)	(137,632)
Costs of goods sold	(1,350)	(1,809)	(1,676)	(4,548)	(1,940)
Depreciation and amortization	(90,422)	(89,627)	(89,475)	(90,038)	(86,894)
Salaries and benefits	(8,385)	(7,975)	(7,708)	(8,107)	(8,895)
Restructuring	(36)	(395)	(19)	(179)	(533)
Taxes, frequency fees and other expenses	(15,658)	(16,071)	(15,587)	(21,577)	(14,202)
Gross profit	**161,696**	**154,948**	**156,104**	**137,926**	**141,816**
Margin (%)	***33.0%***	***32.5%***	***34.2%***	***30.6%***	***32.6%***
Selling and distribution costs	**(93,604)**	**(89,294)**	**(87,565)**	**(88,063)**	**(76,257)**
Advertising and promotion	(7,939)	(9,761)	(6,854)	(14,526)	(3,196)
Third party commissions	(6,046)	(6,154)	(5,742)	(4,912)	(3,820)
Billing, mailing and logistics	(7,930)	(6,757)	(6,417)	(7,133)	(5,537)
Outsourced customer service	(5,710)	(3,402)	(2,877)	(2,386)	(3,322)
Impairment of receivables	(4,775)	(3,152)	(5,034)	(440)	(543)
Depreciation and amortization	(13,608)	(13,351)	(12,538)	(11,022)	(10,299)
Salaries and benefits	(30,352)	(29,746)	(30,159)	(30,211)	(32,558)
Restructuring	(485)	(396)	(121)	(454)	(850)
Other costs	(16,759)	(16,575)	(17,823)	(16,979)	(16,132)
General and administration costs	**(45,665)**	**(42,938)**	**(40,997)**	**(49,586)**	**(45,599)**
Professional services	(2,683)	(1,786)	(2,367)	(2,663)	(1,852)
Electronic data processing	(3,682)	(3,842)	(4,187)	(4,672)	(4,443)
Office and car maintenance	(3,443)	(3,248)	(3,754)	(5,030)	(2,972)
Depreciation and amortization	(7,319)	(6,990)	(7,653)	(7,951)	(8,101)
Salaries and benefits	(21,583)	(20,601)	(17,266)	(17,743)	(20,678)
Restructuring	(363)	(507)	(528)	(148)	(2,258)
Other costs	(6,592)	(5,964)	(5,242)	(11,379)	(5,295)
Other income	2,345	2,653	3,259	7,471	3,719
Other expense	(76)	(1,018)	(563)	(3,617)	(2,854)
Other gains/ (losses), net	2,576	2,089	2,588	2,090	(141)
EBIT	**27,272**	**26,440**	**32,826**	**6,221**	**20,684**
Margin (%)	***5.6%***	***5.5%***	***7.2%***	***1.4%***	***4.8%***
Finance income	1,844	2,185	566	205	1,052
Finance cost	(9,256)	(10,118)	(8,389)	(5,376)	(5,603)
Profit before tax	**19,860**	**18,507**	**25,003**	**1,050**	**16,133**
Tax benefit / (charge)	(6,716)	(9,923)	(10,937)	9,446	(5,180)
Profit / (Loss)	**13,144**	**8,584**	**14,066**	**10,496**	**10,953**

EBITDA Reconciliation to Profit
(PLN in thousands unless otherwise stated)

Time periods:	Q1 2013 *unaudited*	Q2 2013 *unaudited*	Q3 2013 *unaudited*	Q4 2013 *unaudited*	Q1 2014 *unaudited*
Operating Profit	**27,272**	**26,440**	**32,826**	**6,221**	**20,684**
Add back:					
Depreciation and amortization	111,349	109,968	109,666	109,011	105,294
EBITDA	**138,621**	**136,408**	**142,492**	**115,232**	**125,978**
Add back:					
Impairment charge for non-current assets	-	431	-	-	2,503
Restructuring costs	884	1,298	668	781	3,641
M&A related costs	271	(152)	81	418	-
New Netia integration costs	2,229	2,556	1,032	3,683	1,776
B2B/B2C split costs (N^2 Project)	-	-	-	1,469	542
Impairment charge on market valuation of investment property in Warsaw	-	-	-	2,603	-
Decrease in provision for universal service obligation payment	-	-	(150)	-	-
Adjusted EBITDA	**142,005**	**140,541**	**144,123**	**124,186**	**134,440**
Margin (%)	***28.9%***	***29.4%***	***31.5%***	***27.6%***	***31.0%***

Note to Other Expense
(PLN in thousands unless otherwise stated)

Time periods:	Q1 2013 *unaudited*	Q2 2013 *unaudited*	Q3 2013 *unaudited*	Q4 2013 *unaudited*	Q1 2014 *unaudited*
Impairment charges for specific individual assets	(67)	(975)	(399)	(3,743)	(2,854)
Other expenses	(9)	(43)	(164)	126	-
Total	**(76)**	**(1,018)**	**(563)**	**(3,617)**	**(2,854)**

Note to Other Gains / (losses), net
(PLN in thousands unless otherwise stated)

Time periods:	Q1 2013 *unaudited*	Q2 2013 *unaudited*	Q3 2013 *unaudited*	Q4 2013 *unaudited*	Q1 2014 *unaudited*
Gain / (loss) on sale of impaired receivables	3,369	2,067	2,587	2,308	(2)
Gain / (loss) on disposal of fixed assets	(704)	209	(109)	(197)	77
Net foreign exchange gains / (losses)	(89)	(187)	110	(21)	(216)
Total	**2,576**	**2,089**	**2,588**	**2,090**	**(141)**

Total comprehensive income
(PLN in thousands unless otherwise stated)

Time periods:	Q1 2013 *unaudited*	Q2 2013 *unaudited*	Q3 2013 *unaudited*	Q4 2013 *unaudited*	Q1 2014 *unaudited*
Profit / (Loss)	**13,144**	**8,584**	**14,066**	**10,496**	**10,953**
Cash flow hedges	1,642	3,626	(434)	(373)	1,029
Income tax relating to components of other comprehensive income	(343)	(684)	88	91	(220)
Net other comprehensive Income / (Loss) to be reclassified to profit or loss in subsequent periods	**1,299**	**2,942**	**(346)**	**(282)**	**809**
Re-measurement gains on a defined benefit plan	-	-	-	105	-
Income tax relating to re- measurement gains on a defined benefit plan	-	-	-	(1)	-
Net other comprehensive Income / (Loss) not to be reclassified to profit or loss in subsequent periods	**-**	**-**	**-**	**104**	**-**
Other comprehensive Income / (Loss)	**1,299**	**2,942**	**(346)**	**(178)**	**11,762**
Total comprehensive Income / (Loss)	**14,443**	**11,526**	**13,720**	**10,318**	**10,953**

Statement of financial position
(PLN in thousands unless otherwise stated)

Time periods:	March 31 2013 *unaudited*	June 30 2013 *unaudited*	September 30 2013 *unaudited*	December 31 2013 *audited*	March 31 2014 *unaudited*
Property, plant and equipment, net	2,018,333	1,984,723	1,957,160	1,956,680	1,923,691
Intangible assets	579,108	563,481	545,418	538,340	516,785
Investment property	26,267	26,141	26,067	27,142	27,016
Deferred income tax assets	99,778	95,124	89,194	92,501	91,114
Available for sale financial assets	115	115	116	116	116
Long-term receivables	1	1	-	-	-
Prepaid expenses and accrued income	9,281	7,354	6,170	5,544	5,601
Derivative financial instruments	-	814	595	326	256
Total non-current assets	**2,732,883**	**2,677,753**	**2,624,720**	**2,620,649**	**2,564,579**
Inventories	1,670	1,745	2,043	2,664	2,296
Trade and other receivables	222,480	216,925	195,223	191,000	188,192
Current income tax receivables	1,114	26	107	5,258	3,864
Prepaid expenses and accrued income	32,464	34,216	30,425	24,638	25,431
Derivative financial instruments	254	1,337	39	33	34
Financial assets at fair value through profit and loss	15	18	22	25	26
Held to maturity investments	-	-	-	-	-
Restricted cash	131,446	2,123	13	13	-
Cash and short-term deposits	98,304	124,401	130,931	93,356	124,611
	487,747	**380,791**	**358,803**	**316,987**	**344,454**
Total current assets	**487,747**	**380,791**	**358,803**	**316,987**	**344,454**
TOTAL ASSETS	**3,220,630**	**3,058,544**	**2,983,523**	**2,937,636**	**2,909,033**
Share capital	386,281	386,281	386,281	347,911	347,911
Treasury shares	(122,702)	(251,012)	(251,012)	-	-
Supplementary capital	2,060,076	1,971,500	1,971,500	1,720,488	1,720,488
Retained earnings	(49,288)	57,647	71,713	82,313	93,266
Other components of equity	20,996	14,986	15,262	53,792	55,444
TOTAL EQUITY	**2,295,363**	**2,179,402**	**2,193,744**	**2,204,504**	**2,217,109**
Bank loans/Borrowings	385,096	320,809	321,457	257,211	257,800
Provisions	18,053	20,397	19,177	1,876	1,822
Deferred income tax liabilities	19,745	21,227	21,027	17,746	14,454
Deferred income	21,185	19,646	18,856	34,175	30,886
Other financial liabilities/Derivative financial instruments	5,464	2,487	2,862	2,587	2,101
Other long-term liabilities	3,773	3,319	2,841	3,143	4,436
Total non-current liabilities	**453,316**	**387,885**	**386,220**	**316,738**	**311,499**
Trade and other payables	237,885	226,868	217,155	231,652	193,551
Derivative financial instruments	5,769	6,025	5,421	6,449	5,444
Borrowings	177,447	202,126	126,697	126,866	127,465
Other financial liabilities	66	66	66	66	65
Current income tax liabilities	1	946	1,123	57	90
Provisions	13,169	13,217	11,838	11,265	14,106
Deferred income	37,614	42,009	41,259	40,039	39,704
Total current liabilities	**471,951**	**491,257**	**403,559**	**416,394**	**380,425**
Total liabilities	**925,267**	**879,142**	**789,779**	**733,132**	**691,924**
TOTAL EQUITY AND LIABILITIES	**3,220,630**	**3,058,544**	**2,983,523**	**2,937,636**	**2,909,033**

Cash Flow Statement

(PLN in thousands unless otherwise stated)

Time periods:	Q1 2013 *unaudited*	Q2 2013 *unaudited*	Q3 2013 *unaudited*	Q4 2013 *unaudited*	Q1 2014 *unaudited*
Profit / (Loss)	**13,144**	**8,584**	**14,066**	**10,496**	**10,953**
Depreciation and amortization	111,349	109,968	109,666	109,011	105,294
Impairment charges for specific individual assets	67	975	398	3,744	2,854
Reversal of impairment charges for specific assets	-	-	-	(1,415)	-
Deferred income tax charge / (benefit)	3,628	5,453	5,817	(6,498)	(2,125)
Interest expense and fees charged on bank loans	8,655	8,135	6,951	6,940	5,410
Other interest charged	92	80	38	49	33
Share-based compensation	608	874	1,145	441	755
Fair value (gains)/losses on financial assets/liabilities	-	(3)	(4)	(3)	(1)
Fair value (gains)losses on derivative financial instruments	366	(1,629)	839	555	(270)
Foreign exchange (gains)/losses	(39)	(68)	151	3	60
(Gain)/Loss on disposal of fixed assets	1,154	(209)	(1,011)	6,424	54
Gain on sale of subsidiary	-	-	-	-	(286)
Changes in working capital	30,848	(2,042)	7,119	359	(1,630)
Net cash provided by operating activities	**169,872**	**130,118**	**145,175**	**130,106**	**121,101**
Purchase of fixed assets and computer software	(71,628)	(55,165)	(57,353)	(97,680)	(84,551)
Proceeds from sale of non-core assets	332	398	125	101	169
Transfer from restricted cash	-	-	2,051	-	-
(Purchase)/repurchase of treasury bonds / notes	50	-	-	-	-
Sale of investments	-	-	-	-	322
Net cash used in investing activities	**(71,246)**	**(54,767)**	**(55,177)**	**(97,579)**	**(84,060)**
Government grants received	-	-	-	2,488	29
Transfer to/(from) restricted cash	(129,000)	129,601	-	-	-
Proceeds from borrowings	50,000	-	-	-	-
Repurchase of own shares	(15,888)	(128,310)	-	-	-
Finance lease payments	(747)	(736)	(332)	(209)	(132)
Overdraft	(18,751)	25,530	(25,530)	-	328
Loan repayments	-	(65,000)	(50,000)	(65,000)	-
Interest repayments	(28,677)	(8,694)	(7,011)	(6,566)	(5,576)
Payments of fees relating to bank loans	-	(1,713)	(444)	(812)	(375)
Net cash used in financing activities	**(143,063)**	**(49,322)**	**(83,317)**	**(70,099)**	**(5,726)**
Net change in cash and short-term deposits	**(44,437)**	**26,029**	**6,681**	**(37,572)**	**31,315**
Effect of exchange rate change on cash and cash equivalents	39	68	(151)	(3)	(60)
Cash and short-term deposits at the beginning of the period	142,702	98,304	124,401	130,931	93,356
Cash and short-term deposits at the end of the period	**98,304**	**124,401**	**130,931**	**93,356**	**124,611**

Definitions	
Active headcount	• full-time employment equivalent with regard to employees who are not during maternity leaves, non-paid leaves nor long-term sick leaves (above 33 days during calendar year), who are not at military service or who were relieved from the obligation to perform work
Backbone	• a telecommunications network designed to carry the telecommunications traffic between the main junctions of the network;
Bitstream access	• a type of regulatory broadband access enabling provision of broadband service by an altnet to customers connected by a copper line owned by the incumbent. The altnet connects to the incumbent's data network and may only offer services identical to those of the incumbent, paying it on a retail minus basis for use of its network.
Broadband SAC	• a cost per unit related to the acquisition of new customers through broadband access (i.e., Bitstream, LLU, WiMAX, xDSL), including a one-time payment to the incumbent, sales commissions, postal services and the cost of modems sold;
Broadband ARPU	• average monthly revenue per broadband port during the period; Broadband ARPU is obtained by dividing the amount of monthly revenues from data services related to provisioning fixed Internet access by the average number of broadband ports, in each case for the referenced three-month period; Where significant promotional discounts are given at the beginning of contracts, revenues are averaged over the life of the contract.
Broadband port	• a broadband port which is active at the end of a given period;
B2B (Business to Business)	• Netia's business unit responsible for all operations to the business customers and one of two main reporting segments, including B2B (Business) and B2B (Carrier) sub-segments.
B2C (Business to Consumer)	• Netia's business unit responsible for all operations to the residential customers and one of two main reporting segments, including B2C (Home) and B2C (SOHO) sub-segments.
Cash	• cash and cash equivalents at the end of period;
Cost of network operations and maintenance	• cost of rentals of lines and telecommunications equipment, as well as maintenance, services and related expenses necessary to operate our network;
Data revenues	• revenues from provisioning Frame Relay (including IP VPN-virtual private network services), lease of lines (including leased lines for carriers), Internet fixed-access services (provided, among others, through bitsteam and WiMAX types of access) and IP Transit;
Direct voice revenues	• telecommunications revenues from voice services offered by Netia to its subscribers (through various types of access, including, among others, WiMAX). Direct voice services include the following traffic fractions: local calls, domestic long-distance (DLD) calls, international long distance (ILD) calls, fixed-to-mobile calls and other services (incl. Internet dial-in, emergency calls and 0-80x/0-70x - type calls originated by Netia's subscribers);
DSLAM	• technical infrastructure that splits data from voice traffic over a copper line and is deployed in the local network of a telecommunications operator to provide ADSL services to customers connected to a given local network node.
EBITDA / Adjusted EBITDA	• to supplement the reporting of our consolidated financial information under IFRS, we will continue to present certain financial measures, including EBITDA. We define EBITDA as profit/(loss) as measured by IFRS, adjusted for depreciation and amortization, financial income and expense and income taxes. EBITDA has been further adjusted for non-cash impairment charges for non-current assets, one-off restructuring expenses related to the cost reduction program, M&A expenses, New Netia integration expenses, B2B/B2C split costs (Project N^2), impairment charge on market valuation of Netia's investment property and a decrease in provision for universal service obligation payment and is therefore defined as Adjusted EBITDA. We believe EBITDA and related measures of cash flow from operating activities serve as useful supplementary financial indicators in measuring the operating performance of telecommunication companies. EBITDA is not an IFRS measure and should not be considered as an alternative to IFRS measures of profit/(loss) or as an indicator of operating performance or as a measure of cash flows from operations under IFRS or as an indicator of liquidity. The presentation of EBITDA, however, enables investors to focus on period-over-period operating performance, without the impact of non-operational or non-recurring items. It is also among the primary indicators we use in planning and operating the business. You should note that EBITDA is not a uniform or standardized measure and the calculation of EBITDA, accordingly, may vary significantly from company to company, and by itself provides no grounds for comparison with other companies;
Headcount	• full time employment equivalents;

HFC networks	•	Hybrid fiber-coax cable TV networks of former Aster cable operator in Warsaw and Cracow, which were acquired by Netia from UPC Polska in May 2013. Netia is working on connecting these cable networks to its backbone network with a view to provide NGA-based services, including high speed Internet access and TV services.
Indirect voice revenues	•	telecommunications revenues from the services offered through Netia's prefix (1055) or Tele2 Polska's prefix (1061) to customers being subscribers of other operators. Indirect access services include the following traffic fractions: domestic long-distance (DLD) calls, international long distance (ILD) calls and fixed-to-mobile calls;
Interconnection charges	•	payments made by Netia to other operators for origination, termination or transfer of traffic using other operators' networks;
Interconnection revenues	•	payments made by other operators to Netia for origination, termination or transfer of traffic using Netia's network, netted against the cost of traffic termination;
Local Loop Unbundling (LLU)	•	a type of regulatory broadband access enabling provision of broadband service by an altnet to customers connected by a copper line owned by the incumbent. The altnet installs DSLAM equipment at the incumbent's local network node and connects it to its own backbone network. The altnet may offer broadband and voice service to any customer connected by the incumbent's copper line to the given node. The altnet can offer an unrestricted range of services and pays the incumbent space rental and monthly fees per customer line used.
Next Generation Access (NGA) networks	•	Fixed-line access networks which consist wholly or in part of optical elements and which are capable of delivering broadband access services with enhanced characteristics (such as higher throughput) as compared to those provided over already existing not upgraded to VDSL copper networks. Netia deploys NGA services over such technologies as VDSL, ETTH, PON, HFC, which allow for high speed Internet access (25 Mbps or higher)
Professional services	•	costs of legal, financial and other services (excluding insurance and taxes and fees, which are presented separately) provided to Netia by third parties;
Other telecommunications services revenues	•	revenues from TV, mobile voice and mobile data services, revenues from provisioning Internet dial-in services for Netia's indirect customers (based on a call-back principle and an access number (0-20)); revenues from provisioning free-phone, split-charge and premium rate services (i.e., 0-800, 0-801 and 0-70x type services), netted against the cost of revenue sharing; as well as other non-core revenues;
Radiocommunications revenue	•	revenues from radio-trunking services provided by Netia's subsidiary, UNI-Net Poland Sp. z o.o.;
Subscriber line	•	a connected line which became activated and generated revenue at the end of the period;
Voice ARPU	•	average monthly revenue per direct voice line during the period; ARPU is obtained by dividing the amount of monthly revenues from direct voice services (excluding installation fees) by the average number of subscriber lines, in each case for the referenced three-month period;
Wholesale Line Rental (WLR)	•	a type of regulatory voice access enabling provision of voice service by an altnet to customers connected by a copper line owned by the incumbent. The altnet connects to the incumbent's voice network and charges the customer for both line rental and calls made. The incumbent receives a payment for line rental plus call origination fees and keeps all interconnection revenues from incoming calls.
Wholesale services	•	revenues from providing commercial network services such as voice termination, incoming Voice over Internet Protocol (VoIP), telehousing and collocation as well as backbone-based services.

Conference call on the Q1 2014 results

Netia management will hold a conference call to review the results on May 15, 2014 at 09:00 AM (UK) / 10:00 AM (Continent) / 04:00 AM (Eastern).

Dial in numbers:
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(US) +1 212 999 6659

Replay number:
(UK) +44 20 8196 1998
Passcode: 7597572#

A link to an audio recording of the conference call for replay on a later date will be posted on Netia's investor website (www.investor.netia.pl)

For further information, please contact Anna Kuchnio at +48 22 352 2061, email: anna_kuchnio@netia.pl.

Some of the information contained in this news release contains forward-looking statements. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward-looking statements as a result of various factors. Netia undertakes no obligation to publicly update or revise any forward-looking statements.