2014

Quarterly Financial Report

Containing:

- Independent auditor's review report
- Interim condensed consolidated financial statements as at and for the three-month period ended March 31, 2014

www.investor.netia.pl

NETIA

pwc

Report on review of interim financial statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Netia S.A. and its subsidiaries (the 'Group') as of March 31, 2014 and the related interim condensed consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the three-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 "Interim financial reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

PricewaterhouseCoopers Sp. z o.o.

PricewaterhouseCoopers Sp. z o.o.

May 14, 2014

Warsaw, Poland

PricewaterhouseCoopers Sp. z o.o.,
Al. Armii Ludowej 14, 00-638 Warsaw, Poland
T: +48 (22) 523 4000, F: +48 (22) 523 4040, www.pwc.com

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As at and for the three-month period ended March 31, 2014

Index to the interim condensed consolidated financial statements

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at March 31, 2014

(All amounts in thousands, except as otherwise stated)

	Note	March 31, 2014 (PLN)	December 31, 2013 (PLN)	Convenience Translation March 31, 2014 (EUR)
ASSETS				
Non-current assets				
Property, plant and equipment	5	1,923,691	1,956,680	461,173
Intangible assets	6	516,785	538,340	123,891
Investment property	7	27,016	27,142	6,477
Deferred income tax assets	15	91,114	92,501	21,843
Available for sale financial assets		116	116	28
Prepaid expenses and accrued income		5,601	5,544	1,343
Derivative financial instruments	9	256	326	61
Total non-current assets		**2,564,579**	**2,620,649**	**614,816**
Current assets				
Inventories		2,296	2,664	550
Trade and other receivables		188,192	191,000	45,116
Current income tax receivables		3,864	5,258	926
Prepaid expenses and accrued income		25,431	24,638	6,097
Derivative financial instruments	9	34	33	8
Financial assets at fair value through profit and loss		26	25	6
Restricted cash		-	13	-
Cash and short term deposits	8	124,611	93,356	29,873
Total current assets		**344,454**	**316,987**	**82,576**
Total assets		**2,909,033**	**2,937,636**	**697,392**

Mirosław Godlewski
President of the Company

Jonathan Eastick
Member of the Management Board
Chief Financial Officer

Tom Ruhan
Member of the Management Board

Mirosław Suszek
Member of the Management Board

Tomasz Szopa
Member of the Management Board

Warsaw, Poland
May 14, 2014

(All amounts in thousands, except as otherwise stated)

	Note	March 31, 2014 (PLN)	December 31, 2013 (PLN)	Convenience Translation March 31, 2014 (EUR)
EQUITY				
Share capital	10	347,911	347,911	83,406
Supplementary capital		1,720,488	1,720,488	412,458
Retained earnings		93,266	82,313	22,359
Other components of equity		55,444	53,792	13,292
Total equity		**2,217,109**	**2,204,504**	**531,515**
LIABILITIES				
Non-current liabilities				
Borrowings	11	257,800	257,211	61,803
Provisions		1,822	1,876	437
Deferred income tax liability	15	14,454	17,746	3,465
Deferred income		30,886	34,175	7,404
Derivative financial instruments	9	2,101	2,587	504
Other long term liabilities		4,436	3,143	1,063
Total non-current liabilities		**311,499**	**316,738**	**74,676**
Current liabilities				
Trade and other payables		193,616	231,718	46,416
Derivative financial instruments	9	5,444	6,449	1,305
Borrowings	11	127,465	126,866	30,558
Current income tax liabilities		90	57	22
Provisions		14,106	11,265	3,382
Deferred income		39,704	40,039	9,518
Total current liabilities		**380,425**	**416,394**	**91,201**
Total liabilities		**691,924**	**733,132**	**165,877**
Total equity and liabilities		**2,909,033**	**2,937,636**	**697,392**

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended March 31, 2014 (PLN)	Three-month period ended March 31, 2013 (PLN)	Convenience Translation Three-month period ended March 31, 2014 (EUR)
CONDENSED CONSOLIDATED INCOME STATEMENT				
Revenue		**434,371**	**490,690**	**104,133**
Cost of sales		(292,555)	(328,994)	(70,135)
Gross profit		**141,816**	**161,696**	**33,998**
Selling and distribution costs		(76,257)	(93,604)	(18,281)
General and administration costs		(45,599)	(45,665)	(10,932)
Other income		3,719	2,345	892
Other expenses	12	(2,854)	(76)	(684)
Other (losses)/ gains, net	13	(141)	2,576	(34)
Operating profit		**20,684**	**27,272**	**4,959**
Finance income	14	1,052	1,844	252
Finance costs	14	(5,603)	(9,256)	(1,343)
Profit before income tax		**16,133**	**19,860**	**3,868**
Income tax charge	15	(5,180)	(6,716)	(1,242)
Profit		**10,953**	**13,144**	**2,626**
Earnings per share (expressed in PLN per share)				
- basic		0.03	0.04	0.01
- diluted		0.03	0.04	0.01

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended March 31, 2014	Three-month period ended March 31, 2013	Convenience Translation Three-month period ended March 31, 2014
		(PLN)	(PLN)	(EUR)
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
Profit		**10,953**	**13,144**	**2,626**
Interest rate cash flow hedges	9	850	(132)	204
Foreign exchange rate cash flow hedges (equipment and construction contracts)	9	179	1,774	43
Income tax relating to components of other comprehensive income		(220)	(343)	(53)
Other comprehensive income to be reclassified to profit or loss in subsequent periods		**809**	**1,299**	**194**
TOTAL COMPREHENSIVE PROFIT		**11,762**	**14,443**	**2,820**

(All amounts in thousands, except as otherwise stated)

					Other components of equity			
	Note	Share capital	Supplementary capital	Retained earnings	Employee share option scheme	Hedging reserve	Other reserve	Total
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2014		**347,911**	**1,720,488**	**82,313**	**21,573**	**(6,151)**	**38,370**	**2,204,504**
Profit for the period		-	-	10,953	-	-	-	10,953
Other comprehensive income		-	-	-	-	809	-	809
Total comprehensive income		-	-	10,953	-	809	-	11,762
Employee share option scheme:								
- value of services provided	10	-	-	-	843	-	-	843
Balance as at March 31, 2014		**347,911**	**1,720,488**	**93,266**	**22,416**	**(5,342)**	**38,370**	**2,217,109**

(All amounts in thousands, except as otherwise stated)

						Other components of equity			
	Note	**Share capital**	**Treasury shares**	**Supplementary capital**	**Retained earnings**	**Employee share option scheme**	**Hedging reserve**	**Other reserve**	**Total**
		(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
Balance as at January 1, 2013		**386,281**	**(106,814)**	**2,060,076**	**(62,432)**	**19,173**	**(9,764)**	**9,775**	**2,296,295**
Profit for the period		-	-	-	13,144	-	-	-	13,144
Other comprehensive income		-	-	-	-	-	1,299	-	1,299
Total comprehensive income		-	-	-	13,144	-	1,299	-	14,443
Repurchase of own shares		-	(15,888)	-	-	-	-	-	(15,888)
Employee share option scheme:									
- value of services provided		-	-	-	-	513	-	-	513
Balance as at March 31, 2013		**386,281**	**(122,702)**	**2,060,076**	**(49,288)**	**19,686**	**(8,465)**	**9,775**	**2,295,363**

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended March 31, 2014 (PLN)	Three-month period ended March 31, 2013 (PLN)	Convenience Translation Three-month period ended March 31, 2014 (EUR)
Cash flows from operating activities:				
Profit		**10,953**	**13,144**	**2,626**
Adjustments for:				
Depreciation and amortization	5, 6, 7	105,294	111,349	25,241
Impairment charges for specific individual assets	5, 6	2,854	67	684
Deferred income tax (benefit)/charge	15	(2,125)	3,628	(509)
Interest expense and fees charged on bank loans	14	5,410	8,655	1,297
Other interest charged		33	92	8
Share-based compensation	10	755	608	181
Fair value (gains)/ losses on derivative financial instruments	9	(270)	366	(65)
Fair value (gains)/ losses on financial assets / liabilities		(1)	-	-
Foreign exchange losses / (gains)		60	(39)	14
Loss on disposal of fixed assets		54	1,154	13
Gain on sale of subsidiary	14	(286)	-	(69)
Changes in working capital	17	(1,630)	30,848	(391)
Net cash provided by operating activities		**121,101**	**169,872**	**29,030**
Cash flows from investing activities:				
Purchase of fixed assets and computer software		(84,551)	(71,628)	(20,270)
Proceeds from sale of fixed assets		169	332	41
Sale of subsidiary, net of cash sold	4	322	-	77
Receipts from treasury bonds / notes		-	50	-
Net cash used in investing activities		**(84,060)**	**(71,246)**	**(20,152)**
Cash flows from financing activities:				
Transfer to restricted cash for repurchase of shares		-	(129,000)	-
Repurchase of own shares		-	(15,888)	-
Finance lease payments		(132)	(747)	(32)
Proceeds from borrowings		-	50,000	-
Government grants received		29	-	7
Payments of interests, fees and interest rate swap settlements relating to bank loans		(5,951)	(28,677)	(1,426)
Net cash used in financing activities		**(6,054)**	**(124,312)**	**(1,451)**
Net change in cash and cash equivalents		**30,987**	**(25,686)**	**7,427**
Exchange gains / (losses) on cash and cash equivalents		**(60)**	**39**	**(14)**
Cash and cash equivalents at beginning of period		93,356	123,951	22,381
Cash and cash equivalents at end of period	8	**124,283**	**98,304**	**29,794**

1. The Company and the Netia Group

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

The interim condensed consolidated financial statements of Netia S.A. for the three-month period ended March 31, 2014 comprise the Company and its subsidiaries, were approved for issuance by the Company's Management Board on May 14, 2014 and were subject to a review by an independent auditor.

The Company and its subsidiaries (together, the "Netia Group") is the largest alternative fixed-line telecommunication operator in Poland. The Netia Group provides various voice telephony, data transmission, television, mobile voice and broadband services. The Group's services are provided to customers by two sales organizations. The business-to-business ("B2B") sales force targets large corporates, small and medium sized enterprises ("SMEs") and other telecommunication operators and the business-to-consumer ("B2C") sales force targets residential and small business customers.

Between inception and 2005, services were principally provided over copper access networks built by the Netia Group. Starting from 2006, the Netia Group has also been providing voice and broadband services using WIMAX technology running over 3.6 – 3.8 GHz frequencies that were acquired by the Group in 2005.

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

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

The Netia Group also expanded the footprint of its own network and broadband customer base by acquiring local fast ethernet operators. Since the beginning of 2007, the Netia Group acquired 37 (not in thousands) such operators with a total of 129,808 (not in thousands) active customers. Additionally, the Netia Group acquired 10,723 (not in thousands) customers and related local access networks from other Ethernet operators without purchasing shares in encorporated companies.

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

Netia introduced televison services into its offering during 2011 and is gradually upgrading its copper and ethernet access networks using VDSL and fibre to the building (FTTB) technology to deliver faster broadband. The upgraded networks better support high bandwidth services such as television and related content services.

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

In 2013 Netia acquired a cable TV network covering 446,000 (not in thousands) homes passed in Warsaw and Kraków from UPC Polska Sp. z o.o. (UPC). The network was acquired without any retail subscribers and Netia intends to integrate it with its existing network and offer similar TV, broadband and fixed voice telephony services as are offered over its copper and fiber networks.

Until February 2014 the Netia Group was also engaged in the installation and supply of specialized mobile radio communication services (public trunking) in Poland through its subsidiary UNI-Net Poland Sp. z o.o. (established in May 2009 through a corporate separation from UNI-Net Sp. z o.o. and sold in 2014).

The Company's ordinary shares have been listed on the Warsaw Stock Exchange ("WSE") since July 2000. The Company's shares are currently a component of the WIG30 and WIG30TR indexes comprising the WSE's 30 biggest and most liquid stocks. The Company is subject to periodic reporting requirements under the Polish regulations regarding reporting for companies listed on the WSE.

Going concern

As at March 31, 2014, the Group's equity amounted to PLN 2,217,109 and the Netia Group had negative net working capital of PLN 35,971 inclusive of cash available of PLN 124,611. As at March 31, 2014 the Netia Group had senior secured debt of PLN 384,937. In addition, the Netia Group had a further PLN 200,000 of undrawn senior secured debt facilities available for the financing of capital expenditures and operating expenses of the Netia Group and for payments to shareholders of the Company. Netia's operations were free cash flow generative in 2013 and in the first quarter of 2014 and Management expects this to continue over the medium term. Based on this position, the Management does not believe that events or conditions exist which may cast significant doubt on the Company's ability to continue as a going concern.

2. Summary of significant accounting policies

Basis of preparation

Following European Union regulations, commencing January 1, 2005 Netia as a public company in Poland prepares consolidated financial statements, as required by the Accounting Act of September 29, 1994 (Journal of Laws of 2013, No. 330 with later amendments, "the Accounting Act") in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). As of March 31, 2014, in light of the current process of IFRS endorsement in the EU and the nature of the Netia Group's activities, there is no difference between IFRS applied by the Netia Group and IFRS endorsed by the EU.

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2013, except for new accounting standards adopted as of January 1, 2014. These interim condensed consolidated financial statements do not include all the information and disclosures required in complete sets of financial statements and should be read in conjunction with the audited December 31, 2013 consolidated financial statements and the related notes.

Certain Group entities (acquired in 2013) keep books of accounts in accordance with accounting policies specified in the Accounting Act and regulations issued based on that Act ("Polish Accounting Standards"). The consolidated financial statements include a number of adjustments not included in the books of account of the Group entities, which were made in order to bring the financial statements of those entities into conformity with IFRS.

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

All Euro amounts shown as supplementary information in the consolidated financial statements have been translated from PLN only as a matter of arithmetic computation using the official rate of the National Bank of Poland at March 31, 2014 of PLN 4.1713 to EUR 1.00. These amounts are included for the convenience of the reader only. Such translation should not be construed as a representation that the PLN amounts have been or could be converted into Euros at this or any other rate.

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

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

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

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

Changes in estimates

In the three-month period ended March 31, 2014 the Netia Group reassessed the useful lives of its software, fixed telecommunication network, telecommunications equipment and machinery and equipment and in consequence, for certain non-current assets the remaining period over which they will be depreciated was extended or shortened and depreciation rates were changed accordingly.

(All amounts in thousands, except as otherwise stated)

The following table summarizes main changes in these estimates:

Non-current assets	Main changes in the period of depreciation	Decrease in the depreciation charge recognized in current period	Relevant increase in the depreciation charge for the remaining useful life
		(PLN)	(PLN)
Software	- useful lives of certain assets were shortened until the end of 2014	17	(17)
Fixed telecommunications network	- useful lives of certain assets were extended until the end of 2019 or 2024 and useful lives of certain assets were shortened until the end of 2014	(788)	788
Telecommunications equipment	- useful lives of certain assets were extended until the end of 2015, 2017 and 2019 and useful lives of certain assets were shortened until the end of 2014	(2,152)	2,152
Machinery and equipment	- useful lives of certain assets were extended until the end of 2014 and 2015	(181)	181
Office equipment	- useful lives of certain assets were extended until the end of 2015 and 2017 and useful lives of certain assets were shortened until the end of 2014	(11)	11
Total impact		**(3,115)**	**3,115**

New standards, interpretations and amendments to existing standards

Adoption of new accounting standards, interpretations and amendments

In 2014 Netia Group has adopted following new accounting standards, interpretations and amendments to existing standards:

- IFRS 10 "Consolidated Financial Statements", which supersedes IAS 27 and SIC-12 "Consolidation – Special Purpose Entities", effective for annual periods beginning on or after 1 January 2013. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when entity controls one or more other entities. In the EU effective at the latest for annual periods beginning on or after January 1, 2014.

- Amendments to IFRS 10, IFRS 11 and IFRS 12 "Transition Guidance" - effective for financial years beginning on or after 1 January 2013. In the EU effective at the latest for annual periods beginning on or after January 1, 2014.

- IFRS 12 "Disclosure of Interests in Other Entities" effective for annual periods beginning on or after 1 January 2013. IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. In the EU effective at the latest for annual periods beginning on or after January 1, 2014.

- IFRS 11 "Joint Arrangements" effective for annual periods beginning on or after 1 January 2013. IFRS 11 establishes principles for financial reporting by parties to a joint arrangement and supersedes IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". In the EU effective at the latest for annual periods beginning on or after January 1, 2014.

- Amendments to IAS 27 reissued as IAS 27 "Separate Financial Statements", effective for annual periods beginning on or after 1 January 2013. Consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10. In the EU effective at the latest for annual periods beginning on or after January 1, 2014.

- Amendments to IAS 28 reissued as IAS 28 "Investments in associates and Joint Ventures", effective for annual periods beginning on or after 1 January 2013. The amendments were issued for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12. In the EU effective at the latest for annual periods beginning on or after January 1, 2014.

- Amendments to IAS 32 "Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities". In the EU effective for annual periods beginning on or after 1 January 2014.

- Amendments to IFRS 10, IFRS 12 and IAS 27 "Investment Entities" (issued on 31 October 2012) – effective for financial years beginning on or after 1 January 2014.

- Amendments to IAS 36 "Recoverable Amounts Disclosures for Non-Financial Assets" (issued on 29 May 2013) – effective for financial years beginning on or after 1 January 2014.

- Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" (issued on 27 June 2013) – effective for financial years beginning on or after 1 January 2014.

The adoption of the above new accounting standards, interpretations and amendments did not have a significant impact on these interim condensed financial statements.

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

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2014 and have not been adopted early:

- IFRS 9 "Financial Instruments", effective date postponed by IASB without proposing potential deadline for endorsement. IFRS 9 is the Phase 1 of the Board's project to replace IAS 39. IFRS 9 improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. This standard has not yet been endorsed by the EU.

- IFRIC 21 "Levies" – effective for financial years beginning on or after 1 January 2014. The interpretation has not yet been endorsed by the EU.

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (issued on 21 November 2013) – effective for financial years beginning on or after 1 July 2014. The amendments have not yet been endorsed by the EU.

- Annual Improvements to IFRSs 2010-2012 – some amendments effective for financial years beginning on or after 1 July 2014 and some effective prospectively for transactions occurring on or after 1 July 2014. The amendments have not yet been endorsed by the EU.

- Annual Improvements to IFRSs 2011-2013 – effective for financial years beginning on or after 1 July 2014. The amendments have not yet been endorsed by the EU.

- IFRS 14 Regulatory Deferral Accounts – effective for financial years beginning on or after 1 January 2016. The amendments have not yet been endorsed by the EU.

- Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation"– effective for financial years beginning on or after 1 January 2016. The amendments have not yet been endorsed by the EU.

- Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations – effective for financial years beginning on or after 1 January 2016. The amendments have not yet been endorsed by the EU.

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

3. Segment information

Following a sales force reorganization that was effective from July 1, 2013, for management purposes the Netia Group is organized into business units based on their customer segments, and has two reportable operating segments, as follows:

- Business-to-consumer ("B2C"),
- Business-to business ("B2B").

Starting from the third quarter of 2013 the Netia Group modified retrospectively the presentation of its operating segments, which were reorganized into two main divisions: B2B (comprising the previous Corporate and Carrier segments and the SME component of the previous SOHO/SME segment) and B2C (comprising the previous Residential segment and the SOHO component of previous SOHO/SME segment). Moreover, the previous Corporate segment and SME sub-segments are now presented jointly as a new Business sub-segment. The previous segments monitored by the Management were as follows:

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

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

Group subsidiaries Petrotel and Uni-Net (sold on February 6, 2014) are assigned to the unallocated segment as they operate as separate organizations from the rest of the Netia Group.

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

With effect from the beginning of the second quarter of 2014, the Netia Group began operating as two functionally organised business units serving the B2B and B2C customer segments, both supported by a single network organisation and support functions. This reorganisation is expected to result in material changes to the segment information presented above once fully implemented and reflected retrospectively in the first quarter of 2014 and in 2013 comparative information. Whilst revenue trends will not be affected, costs will shift from the unallocated segment to the business units, resulting in significant changes to the Adjusted EBITDA margins of each segment.

(All amounts in thousands, except as otherwise stated)

The following tables present revenue and profit / (loss) information regarding the Netia Group's operating segments for the three-month periods ended March 31, 2014 and 2013, respectively:

	Home	SOHO	**B2C**	Business	Carriers	**B2B**	**Total reportable segments**	Unallocated	Total
	(PLN)	(PLN)	**(PLN)**	(PLN)	(PLN)	**(PLN)**	**(PLN)**	(PLN)	(PLN)
Three-month period ended March 31, 2014									
Revenue from external customers	212,330	40,630	**252,960**	135,140	39,214	**174,354**	**427,314**	7,057	434,371
Adjusted EBITDA	58,713	16,197	**74,910**	67,680	18,863	**86,543**	**161,453**	(27,013)	134,440
Integration costs	-	-	**-**	-	-	**-**	**-**	(1,776)	(1,776)
Restructuring costs	-	-	**-**	-	-	**-**	**-**	(3,641)	(3,641)
Impairment loss	-	-	**-**	-	-	**-**	**-**	(2,503)	(2,503)
Reorganization costs	-	-	**-**	-	-	**-**	**-**	(542)	(542)
EBITDA	58,713	16,197	**74,910**	67,680	18,863	**86,543**	**161,453**	(35,475)	125,978
Depreciation and Amortization	(18,328)	(10,030)	**(28,358)**	(55,350)	(7,477)	**(62,827)**	**(91,185)**	(14,109)	(105,294)
Operating profit / (loss)	40,385	6,167	**46,552**	12,330	11,386	**23,716**	**70,268**	(49,584)	20,684
Finance income/ (costs), net	-	-	**-**	-	-	**-**	**-**	(4,551)	(4,551)
Income tax charge	-	-	**-**	-	-	**-**	**-**	(5,180)	(5,180)
Profit / (Loss)	40,385	6,167	**46,552**	12,330	11,386	**23,716**	**70,268**	(59,315)	10,953
Capital expenditure	12,383	1,859	**14,242**	14,950	4,710	**19,660**	**33,902**	20,654	54,556

(All amounts in thousands, except as otherwise stated)

	Home	SOHO	**B2C**	Business	Carriers	**B2B**	**Total reportable segments**	Unallocated	Total
	(PLN)	(PLN)	**(PLN)**	(PLN)	(PLN)	**(PLN)**	**(PLN)**	(PLN)	(PLN)
Three-month period ended March 31, 2013									
Revenue from external customers	244,163	41,634	**285,797**	147,732	48,804	**196,536**	**482,333**	8,357	490,690
Adjusted EBITDA	57,347	14,386	**71,733**	79,628	19,749	**99,377**	**171,110**	(29,105)	142,005
Expenses incurred on mergers and acquisitions	-	-	**-**	-	-	**-**	**-**	(271)	(271)
Integration costs	-	-	**-**	-	-	**-**	**-**	(2,229)	(2,229)
Restructuring costs	-	-	**-**	-	-	**-**	**-**	(884)	(884)
EBITDA	57,347	14,386	**71,733**	79,628	19,749	**99,377**	**171,110**	(32,489)	138,621
Depreciation and Amortization	(19,054)	(9,720)	**(28,774)**	(50,330)	(17,130)	**(67,460)**	**(96,234)**	(15,115)	(111,349)
Operating profit / (loss)	38,293	4,666	**42,959**	29,298	2,619	**31,917**	**74,876**	(47,604)	27,272
Finance income/ (costs), net	-	-	**-**	-	-	**-**	**-**	(7,412)	(7,412)
Income tax charge	-	-	**-**	-	-	**-**	**-**	(6,716)	(6,716)
Profit / (Loss)	38,293	4,666	**42,959**	29,298	2,619	**31,917**	**74,876**	(61,732)	13,144
Capital expenditure	13,546	1,394	**14,940**	15,441	4,743	**20,184**	**35,124**	10,775	45,899

(All amounts in thousands, except as otherwise stated)

Unallocated revenues comprise mainly revenues from Petrotel and the Uni-Net radio communication business. A reconciliation of earnings before interest and tax ("EBIT") for reportable segments to profit is provided as follows:

	Three-month period ended March 31, 2014	**Three-month period ended March 31, 2013**
	(PLN)	(PLN)
Operating profit for reportable segments	70,268	74,876
Operating profit for Petrotel business	615	1,267
Operating profit/ (loss) for the Uni-Net radio communication business	25	(175)
General fixed costs (incl. administration, IT, professional services)	(32,874)	(36,101)
Reorganization and restructuring costs	(3,641)	(884)
Integration costs	(1,776)	(2,229)
Other operating income	196	3,629
Depreciation and amortization of unallocated assets (excluding Petrotel and Uni-Net)	(12,129)	(13,111)
Financial costs, net	(4,551)	(7,412)
Income tax charge	(5,180)	(6,716)
Profit	**10,953**	**13,144**

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

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

Sale of Uni-Net

On February 6, 2014 the Company's subsidiary Internetia Holding Sp. z o.o. sold all shares in Uni-Net Poland Sp. z o.o. constituting 100% of the shares in the share capital of Uni-Net and representing 100% of the votes at the meetings of the shareholders of Uni-Net for PLN 1,476 (PLN 322 net of cash sold). The gain realized by Netia Group amounts to PLN 286 (see Note 14).

(All amounts in thousands, except as otherwise stated)

5. Property, plant and equipment

Current period:

	Buildings (PLN)	Land (PLN)	Fixed telecommunications network (PLN)	Telecommunications equipment (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at January 1, 2014	112,678	10,583	2,602,216	2,473,961	147,040	90,932	1,533	122,898	5,561,841
Additions	-	-	55	15	8	99	-	48,971	49,148
Transfers	12	-	11,196	20,639	964	317	-	(33,128)	-
Sale of Uni-Net	(752)	-	(11)	(5,829)	(965)	(542)	-	-	(8,099)
Disposals	-	-	(776)	(1,005)	(1)	(214)	(70)	(191)	(2,257)
Other movements	-	-	52	(258)	198	8	-	-	-
Gross book value as at March 31, 2014	111,938	10,583	2,612,732	2,487,523	147,244	90,600	1,463	138,550	5,600,633
Accumulated depreciation as at January 1, 2014	44,579	-	1,199,083	1,529,348	94,853	69,256	1,362	-	2,938,481
Depreciation expense	1,556	-	34,568	39,885	2,287	2,360	55	-	80,711
Sale of Uni-Net	(671)	-	(10)	(5,453)	(855)	(538)	-	-	(7,527)
Disposals	-	-	(20)	(755)	(1)	(156)	(63)	-	(995)
Other movements	-	-	40	(180)	135	5	-	-	-
Accumulated depreciation as at March 31, 2014	45,464	-	1,233,661	1,562,845	96,419	70,927	1,354	-	3,010,670
Accumulated impairment as at January 1, 2014	6,746	-	359,458	272,452	14,311	4,368	16	9,329	666,680
Impairment charge for specific assets	-	-	-	-	-	-	-	351	351
Sale of Uni-Net	(73)	-	(1)	(264)	(110)	(4)	-	(1)	(453)
Disposals	-	-	-	(170)	-	(2)	-	(134)	(306)
Other movements	-	-	9	(53)	43	1	-	-	-
Accumulated impairment as at March 31, 2014	6,673	-	359,466	271,965	14,244	4,363	16	9,545	666,272
Net book value as at January 1, 2014	61,353	10,583	1,043,675	672,161	37,876	17,308	155	113,569	1,956,680
Net book value as at March 31, 2014	**59,801**	**10,583**	**1,019,605**	**652,713**	**36,581**	**15,310**	**93**	**129,005**	**1,923,691**

(All amounts in thousands, except as otherwise stated)

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

Comparative period:

	Buildings (PLN)	Land (PLN)	Fixed telecommunications network (PLN)	Telecommunications equipment (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at January 1, 2013	116,625	7,860	2,515,679	2,388,304	137,503	88,958	2,173	113,786	5,370,888
Additions	-	-	-	123	85	113	-	35,625	35,946
Transfers	41	-	11,998	17,749	724	388	-	(30,900)	-
Disposals	-	-	(177)	(2,978)	(43)	(95)	(66)	(10)	(3,369)
Other movements	-	-	6,890	(7,390)	520	(73)	53	-	-
Gross book value as at March 31, 2013	116,666	7,860	2,534,390	2,395,808	138,789	89,291	2,160	118,501	5,403,465
Accumulated depreciation as at January 1, 2013	41,120	-	1,059,797	1,380,467	84,589	66,393	1,536	-	2,633,902
Depreciation expense	1,679	-	34,076	42,239	2,340	2,088	140	-	82,562
Disposals	-	-	(96)	(1,842)	(14)	(63)	(42)	-	(2,057)
Other movements	-	-	582	(1,000)	419	(22)	21	-	-
Accumulated depreciation as at March 31, 2013	42,799	-	1,094,359	1,419,864	87,334	68,396	1,655	-	2,714,407
Accumulated impairment as at January 1, 2013	7,322	-	359,456	277,100	13,980	4,720	18	8,086	670,682
Impairment charge for specific assets	-	-	-	-	-	-	-	67	67
Disposals	-	-	(23)	-	-	(1)	-	-	(24)
Other movements	-	-	(190)	106	83	1	-	-	-
Accumulated impairment as at March 31, 2013	7,322	-	359,243	277,206	14,063	4,720	18	8,153	670,725
Net book value as at January 1, 2013	68,183	7,860	1,096,426	730,737	38,934	17,845	619	105,700	2,066,304
Net book value as at March 31, 2013	**66,545**	**7,860**	**1,080,788**	**698,738**	**37,392**	**16,175**	**487**	**110,348**	**2,018,333**

(All amounts in thousands, except as otherwise stated)

6. Intangible assets

Current period:

			Licences				Computer software costs			
	Goodwill	Trademark/ other	Local telecommunication licenses / permits	Data communications and internet licenses / permits	Domestic long-distance licenses / permits	WiMAX licenses	Computer software	Capital work in progress	Customer relationships	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Gross book value as at January 1, 2014	359,904	18,310	432,823	7,417	107,354	20,329	476,482	14,844	226,233	1,663,696
Additions	-	-	-	-	-	-	208	5,198	-	5,406
Transfers	-	-	-	-	-	-	3,242	(3,242)	-	-
Sale of Uni-Net	-	-	-	-	-	-	(412)	-	-	(412)
Gross book value as at March 31, 2014	359,904	18,310	432,823	7,417	107,354	20,329	479,520	16,800	226,233	1,668,690
Accumulated amortization as at January 1, 2014	-	13,483	291,051	1,539	76,052	9,456	335,762	-	140,375	867,718
Amortization expense	-	1,117	4,661	-	1,838	352	8,917	-	7,572	24,457
Sale of Uni-Net	-	-	-	-	-	-	(406)	-	-	(406)
Accumulated amortization as at March 31, 2014	-	14,600	295,712	1,539	77,890	9,808	344,273	-	147,947	891,769
Accumulated impairment as at January 1, 2014	79,203	-	115,549	5,878	13,231	974	42,604	-	199	257,638
Impairment charge for assets *	-	2,503	-	-	-	-	-	-	-	2,503
Sale of Uni-Net	-	-	-	-	-	-	(5)	-	-	(5)
Accumulated impairment as at March 31, 2014	79,203	2,503	115,549	5,878	13,231	974	42,599	-	199	260,136
Net book value as at January 1, 2014	280,701	4,827	26,223	-	18,071	9,899	98,116	14,844	85,659	538,340
Net book value as at March 31, 2014	**280,701**	**1,207**	**21,562**	**-**	**16,233**	**9,547**	**92,648**	**16,800**	**78,087**	**516,785**

* The impairment charge of PLN 2,503 was recorded upon the decision to discontinue using Dialog's trademark.

(All amounts in thousands, except as otherwise stated)

6. Intangible assets (cont'd)

Comparative period:

			Licences				Computer software costs			
	Goodwill	**Trademark/ other**	**Local telecommunication licenses / permits**	**Data communications and internet licenses / permits**	**Domestic long-distance licenses / permits**	**WiMAX licenses**	**Computer software**	**Capital work in progress**	**Customer relationships**	**Total**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
Gross book value as at January 1, 2013	359,904	18,266	432,823	7,417	107,354	20,329	437,725	6,200	226,233	1,616,251
Additions	-	-	-	-	-	-	-	9,951	-	9,951
Transfers	-	-	-	-	-	-	9,382	(9,382)	-	-
Disposals	-	-	-	-	-	-	(446)	-	-	(446)
Gross book value as at March 31, 2013	359,904	18,266	432,823	7,417	107,354	20,329	446,661	6,769	226,233	1,625,756
Accumulated amortization as at January 1, 2013	-	8,969	271,194	1,539	68,701	8,047	298,245	-	104,450	761,145
Amortization expense	-	1,174	5,873	-	1,838	352	9,602	-	9,445	28,284
Disposals	-	-	-	-	-	-	(415)	-	-	(415)
Accumulated amortization as at March 31, 2013	-	10,143	277,067	1,539	70,539	8,399	307,432	-	113,895	789,014
Accumulated impairment as at January 1, 2013	79,203	-	115,549	5,878	13,231	974	42,617	-	199	257,651
Disposals	-	-	-	-	-	-	(17)	-	-	(17)
Accumulated impairment as at March 31, 2013	79,203	-	115,549	5,878	13,231	974	42,600	-	199	257,634
Net book value as at January 1, 2013	280,701	9,297	46,080	-	25,422	11,308	96,863	6,200	121,584	597,455
Net book value as at March 31, 2013	**280,701**	**8,123**	**40,207**	**-**	**23,584**	**10,956**	**96,629**	**6,769**	**112,139**	**579,108**

7. Investment property

On March 23, 2012 the Company and Tilia SKA, a Company related to Ghelamco Group signed a conditional purchase agreement to sell Netia's land totalling 23,600 m2 (not in thousands) in Warsaw at Poleczki 13 and two buildings located thereon. Consequently, from March 31, 2012, property of PLN 26,105 (reclassified from investment property), land of PLN 631 (reclassified from land) and infrastructure of PLN 34 that was intended to be sold to Tilia SKA were presented as assets held for sale. The sale agreement with Tilia SKA was not finalized and on March 31, 2013 the Company ceased to classify these assets as held for sale and instead presented them as investment property. The depreciation charge that would have been recognized through March 31, 2013 had the assets not been classified as held for sale amounted to PLN 503 and decreased net book value of the investment property as of March 31, 2013.

At the end of the year ended December 31, 2013 the Company transformed its rights of perpetual usufruct of plots relating to the investment property into freehold land. The costs of the transformation amounted to PLN 3,803 and increased the book value of the investment property.

The fair value of this property after the transformation was estimated by an independent, professionally qualified valuer at PLN 27,142 as at January 23, 2014, resulting in recognition of an impairment charge of PLN 2,603.

	Three-month period ended March 31, 2014	Three-month period ended March 31, 2013
	(PLN)	(PLN)
Gross book value at the beginning of the year	36,589	-
Reclassification from assets held for sale	-	32,786
Gross book value at the end of the period	36,589	32,786
Accumulated depreciation at the beginning of the year	6,084	-
Reclassification from assets held for sale	-	5,256
Depreciation expense	126	503
Accumulated depreciation at the end of the period	6,210	5,759
Accumulated impairment at the beginning of the year	3,363	-
Reclassification from assets held for sale	-	760
Accumulated impairment at the end of the period	3,363	760
Net book value at the beginning of the year	27,142	-
Net book value at the end of the period	**27,016**	**26,267**

8. Cash, short term deposits and restricted cash

	March 31, 2014	December 31, 2013
	(PLN)	(PLN)
Cash and short term deposits	124,611	93,356

	March 31, 2014	December 31, 2013
	(PLN)	(PLN)
Restricted cash	-	13

As at December 31, 2013, restricted cash in the amount of PLN 13 represented collateral securing payments to vendors.

For the purpose of the statement of cash flow cash and cash equivalents as at March 31, 2014 and December 31, 2013 comprise the following:

	March 31, 2014	December 31, 2013
	(PLN)	(PLN)
Cash and short term deposits	124,611	93,356
Bank overdrafts (see Note 11)	(328)	-
Cash and cash equivalents	**124,283**	**93,356**

(All amounts in thousands, except as otherwise stated)

9. Financial instruments

Derivative financial instruments

Derivative financial assets:	March 31, 2014	December 31, 2013
	(PLN)	(PLN)
Interest rate swap contracts	290	359
	290	**359**
Of which:		
Current	34	33
Non-current	256	326

Derivative financial liabilities:	March 31, 2014	December 31, 2013
	(PLN)	(PLN)
Forward contracts	1,722	2,295
Interest rate swap contracts	5,823	6,741
	7,545	**9,036**
Of which:		
Current	5,444	6,449
Non-current	2,101	2,587

Forward contracts

In order to mitigate the currency risk related to the planned payments to be made under equipment and construction contracts which are indexed to foreign currencies the Company entered into several forward transactions to purchase USD and EUR for periods consistent with currency transaction exposures, generally up to 12 months. For these forward contracts hedge accounting was applied. Net fair value losses on forward contracts recognized in the hedging reserve in equity as of March 31, 2014 amounted to PLN 1,033 (PLN 861, net of tax). Net fair value gains on forward contracts recognized in other comprehensive income on these contracts in the three-month period ended March 31, 2014 amounted to PLN 179 (PLN 145, net of tax). During the three-month period ended March 31, 2014, 173 of net cash losses on closed forward contracts were capitalized, and the ineffective portion of open forward contracts of PLN 10 was recorded as finance costs.

Furthermore, in order to mitigate the currency risk related to the planned payments to be made under commercial contracts associated with various types of operating expense which are linked to foreign currency, the Company entered into several forward transactions to purchase USD and EUR for periods consistent with currency transaction exposures, generally up to 12 months. For these forward contracts hedge accounting was not applied. During the three-month period ended March 31, 2014, PLN 270 of fair value gains on open forward contracts were recorded as finance income.

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

	Hedged nominal amount	Hedged nominal amount	Fair value			
			Asset	Liability	Other comprehensive (loss)/income	Financial (costs)/income
	(EUR)	(USD)	(PLN)	(PLN)	(PLN)	(PLN)
As at March 31, 2014						
Forward transactions related to equipment and construction contracts	3,740	3,700	-	(915)	179	-
Forward transactions related to commercial contracts	2,750	3,630	-	(807)	-	270
As at March 31, 2013						
Forward transactions related to equipment and construction contracts	3,740	5,580	151	(850)	1,774	-
Forward transactions related to commercial contracts	2,750	2,010	98	(375)	-	607
Other forward transactions to purchase currency	3,690	-	5	(411)	-	(345)
Other forward transaction to sell currency	(3,690)	-	-	(21)		(21)
As at December 31, 2013						
Forward transactions related to equipment and construction contracts	3,740	3,740	-	(1,218)	1,422	-
Forward transactions related to commercial contracts	2,750	3,630	-	(1,077)	-	(131)

Interests rate risk hedging instruments

In 2012 the Company entered into interest rate swap ("IRS") contracts hedging interest rate risk associated with interest payments in the amount of fifty per cent of all amounts projected to be outstanding under the Term Loan and on May 29, 2013 the Company entered into further interest rate swap contracts increasing the hedged interest rate risk to seventy five per cent of all amounts projected to be outstanding under the Term Loan (See Note 11 Borrowings). For these IRS contracts hedge accounting was applied. As at March 31, 2014 net fair value losses on IRS contracts recognized in the hedging reserve in equity amounted to PLN 5,533 (PLN 4,481, net of tax). Net fair value gains on IRS contracts recognized in other comprehensive income in the three-month period ended March 31, 2014 amounted to PLN 850 (PLN 688, net of tax). During the three-month period ended March 31, 2014, PLN 1,143 of net realized cash losses on IRS contracts increased interest costs.

10. Shareholders' equity

Share capital (not in thousands)

At March 31, 2014 and December 31, 2013, the Company's share capital consisted of 347,909,774 ordinary shares and 1,000 series A1 shares with a par value of PLN 1 per share. Each ordinary share has one vote at the shareholders' meeting. The holder of 1,000 series A1 shares has the right to nominate one member of the Supervisory Board. The majority of votes of the Supervisory Board elect the Management Board. All shares issued by the Company were fully paid and registered in the National Court Registry by the date of signing these consolidated financial statements.

Distributable reserves

In accordance with the Polish Code of Commercial Companies of 15 September 2000 (Journal of Laws of 2000, No. 94, item 1037 as amended) only those reserves, which relate to net profits of individual companies shown in their statutory financial statements, are available for distribution to shareholders. As at March 31, 2014, the distributable reserves of Netia S.A. amounted to PLN 370,110.

Stock options (not in thousands)

On May 26, 2010, the Annual Shareholders Meeting resolved to adopt a set of rules ("New Plan"), to be administered by the Company's Supervisory Board until 26 May 2020, for the issuing of up to 27,253,674 share options to the Management Board and employees of Netia Group, each option authorising its holder to receive up to half of one series L share for a subscription price equal to the nominal value of the shares in the Company i.e. PLN 1, such subscription price to be paid by the Company or its subsidiaries. The options will be granted by the Supervisory Board in tranches. Each tranche of the options will be exercised within the periods established by the Supervisory Board, however, not earlier than three years following the date of the grant thereof. In order to satisfy the claims arising from the exercise of the options under the New Plan, the Shareholders Meeting resolved to authorize the issuance of up to 13,626,837 series L shares.

As at March 31, 2014 and December 31, 2013, the total number of options approved by the Supervisory Board and issued under the New Plan was 10,991,000. Out of these approved options 7,265,231 options were outstanding as at March 31, 2014 and 7,322,068 were outstanding as at December 31, 2013. As at March 31, 2014, the remaining contractual life of the outstanding options was 6.2 years. The outstanding options are exercisable until May 26, 2020. Upon exercise of the options, Netia will issue to each exercising participant the number of shares representing such participant's financial gain resulting from the exercise of the options, being the difference between the market price of the Company's shares as of the date of exercise of the options and the strike price of the options, limited to half of one series L share for each option exercised. The participant will not be required to pay the strike price.

On June 28, 2013 the Supervisory Board of Netia adopted a resolution on decreasing by PLN 0.16 the strike price of all existing options issued to the Management Board members and the employees of the Company and its subsidiaries in connection with the New Plan. This decrease of the strike price of all the existing options granted to the participants of the New Plan was necessary to neutralize the impact of the acquisition by the Company on May 28, 2013 of 16,012,630 of its shares for the price of PLN 8 per share in the performance of the share buy-back program conducted by the Company. The purchase by the Company of its own shares on the terms described above had a proforma impact on the market value of the Company's shares equivalent to a dividend payment and therefore it resulted in a decrease of the market value of the Company's shares and a corresponding decrease of the value of all the existing options granted to the participants of the New Plan. The plan makes specific provisions for the reduction of strike prices to neutralize the effect of dividend payments on the value of the plan and, furthermore, authorizes the Supervisory Board to make adjustments to the plan to neutralize the impact of unusual or one-off events, such as this repurchase of shares. The new strike prices of the options range between PLN 4.54 and PLN 6.00.

The Company recognizes the cost of share-based awards to employees (including share options) over the vesting period and the fair value of options is determined using a binomial pricing model and taking into account business performance criteria in the financial year in which the options were granted. The cost of New Plan options recorded in the three-month periods ended March 31, 2014 and 2013 amounted to PLN 842 thousands and PLN 513 thousands, respectively.

In the three-month periods ended March 31, 2014 and 2013 the following changes took place in the number of options granted under the New Plan:

	Three-month period ended March 31, 2014		**Three-month period ended March 31, 2013 (restated*)**	
Options	**Average strike price**	**Options**	**Average strike price**	**Options**
At the beginning of the period	5.11	7,322,068	5.69	5,405,404
Granted	-	-	4.54	1,725,000
Terminated	4,69	(56,837)	5.28	(74,900)
At the end of the period	**5.11**	**7,265,231**	**5.42**	**7,055,504**

* average strike price has been decreased by PLN 0.16

The New Plan participants are entitled to exercise their stock options on the condition that they continue their engagement with the Netia Group until the vesting date of the stock options (subject to change of control events and the termination of their engagement by the Netia Group without material cause) and the fulfilment of the business criteria set by the Supervisory Board for each year of the New Plan. In the event of termination by the Company, unvested options are retained prorata to the period worked during the vesting period. The proportion of the stock options exercised versus the number of stock options granted shall be equal to the lower of: 100% or the actual performance of the objectives set out as part of the performance criteria approved by the Supervisory Board and applicable in the financial year in which the stock options were granted. Each year, within the period following the publication of the financial statements of the Company for the previous financial year and prior to the date of the Annual General Meeting of the Company, the Supervisory Board adopts a conditional resolution in which it determines the performance level of the business criteria for the previous financial year. The resolution of the Supervisory Board enters into force upon the approval of the financial statements of the Company and the Netia Group by the Annual General Meeting of the Company. A conditional resolution of the Supervisory Board regarding the performance criteria for the 3,669,000 options granted in 2012 was taken on February 26, 2013 and the performance level was determined at 68.6%. The resolution of the Supervisory Board came into force on June 28, 2013 and resulted in the cancellation of 31.4 % of options granted in 2012.

The amount of the reduction for the 3,669,000 options granted in 2013 is dependent on the Supervisory Board's assessment of performance against the agreed criteria for 2013. The resolution of the Supervisory Board shall enter into force upon the approval of the financial statements of the Company and the Netia Group by the Annual General Meeting of the Company. A conditional resolution of Supervisory Board regarding the performance criteria for 2013 was taken on March 6, 2014 and the performance level was determined at 50.0%.

11. Borrowings

	March 31, 2014	December 31, 2013
	(PLN)	(PLN)
Bank loans	384,937	384,077
Bank overdraft	328	-
	385,265	**384,077**
Of which:		
Current	127,465	126,866
Non-current	257,800	257,211

Bank loans

On September 29, 2011, Netia and Internetia Sp. z o.o. (the “Borrowers”) executed a loan agreement (the “Agreement”) with Rabobank Polska S.A. (the “Facility Agent”), BNP Paribas S.A., BRE Bank S.A., Raiffeisen Bank Polska S.A. and Raiffeisen Bank International AG (jointly with the Facility Agent, the “Lenders”), whereunder the Lenders agreed to extend to the Borrowers a term facility maturing in five years with a total of PLN 650,000, designated for the Company to acquire 19,598,000 (not in thousands) shares in Dialog, constituting 100% of its share capital, and a PLN 50,000 revolving facility for general operating purposes. The term loan was drawn on December 16, 2011 and the revolving loan was drawn on December 15, 2011. According to the agreement, the term loan is to be repaid in 10 equal semi-annual instalments of PLN 65,000 each. The maturity date falls on November 30, 2016. The revolving loan was repaid in full on March 15, 2012. In 2012 the Company repaid PLN 130,000 of instalments and further PLN 130,000 was repaid in 2013. On March 7, 2013 the Company again drew down the revolving loan of PLN 50,000, repaying it in full once more on July 8, 2013 and then cancelled the revolving facility on July 9, 2013.

As at March 31, 2014 the value of these outstanding loans at amortised cost was PLN 384,937.

The term loan accrues annual interest at the rate of 3M WIBOR plus a margin established depending on the level of debt relative to the Group’s profitability. The terms and conditions of the Agreement comply with market practice and are not different from the terms and conditions generally applied to such types of agreements. The borrowing is measured at amortized cost using an effective interest rate, which as of March 31, 2014 was 5.7%. Total transaction costs included in the calculation of the effective interest rate amounted to PLN 10,611.

To secure the Lender’s claims under or related to the Agreement, the Borrowers agreed to establish in favour of the Lenders mortgages, financial and registered pledges and to to grant relevant submissions to execution. The repayment of the loan is secured by the following the mortgage over certain Company’s rights of perpetual usufruct at ul. Poleczki 13 in Warsaw, registered pledge over collection of movables and rights of the Company and registered and financial pledges over shares in Internetia sp. z o.o., Netia Brand Management sp. z o.o., Telefonia Dialog sp. z o.o. and Petrotel sp. z o.o. Additionally, Internetia sp. z o.o., Netia Brand Management Sp. z o.o. and Telefonia Dialog sp. z o.o., each of them, established security in the form of registered pledges over collection of movables and rights and granted the submission to execution for the benefit of each of the Lender. The maximum secured amount with respect to the applicable pledges, mortgages and submission to executions does not exceed PLN 1,476,750.

On March 8, 2012, Netia entered into an overdraft credit facility agreement with BRE Bank S.A. of PLN 50,000. The facility may be disbursed for general operating purposes of the Company. The Company is entitled to become indebted under the overdraft credit facility agreement in the period between March 12, 2012 and May 29, 2014. The terms and conditions of the agreement comply with market practice and are not different from the terms and conditions generally applied to such types of agreements. The outstanding balance of the overdraft credit as at March 31, 2014, amounted to PLN 328.

On June 20, 2013, the Company and Internetia Sp. z o.o. (the “Original Guarantor”), Netia Brand Management Sp. z o.o. (the “Additional Guarantor”) and Dialog (the “Additional Guarantor”) executed an annex to the Agreement with the Lenders under which the Lenders agreed to extend to the Borrower an additional PLN 200,000 amortising five year term facility, designated for the financing of capital expenditures and operating expenses of the Netia Group and for payments to shareholders of the Company (the “Additional Loan Facility”). The Additional Loan Facility can be drawn until December 20, 2014. According to the annex, the terms and conditions of the Additional Loan Facility including the interest and margin are essentially the same as set forth in the Loan Agreement. To secure the Lenders' claims under or related to the Additional Loan Facility the Borrower and the Guarantors agreed to establish in favour of the Lenders mortgages, registered pledges and to make relevant representations on submission to enforcement.

(All amounts in thousands, except as otherwise stated)

As of March 31, 2014 and as of the date of these financial statements the Company has not drawn any loan under the Additional Loan Facility. Transactions costs and commitment fees of PLN 2,901 were deferred as of March 31, 2014.

12. Other expenses

	Three-month period ended March 31, 2014 (PLN)	Three-month period ended March 31, 2013 (PLN)
Impairment charges for specific individual fixed and intangible assets (see Note 5, 6)	(2,854)	(67)
Other	-	(9)
	(2,854)	**(76)**

13. Other (losses)/ gains, net

	Three-month period ended March 31, 2014 (PLN)	Three-month period ended March 31, 2013 (PLN)
(Loss)/ gain on sale of impaired receivables	(2)	3,369
Gain/ (loss) on sale of fixed assets	77	(704)
Net foreign exchange gains / (losses)	(216)	(89)
	(141)	**2,576**

14. Finance income and finance costs

Finance income

	Three-month period ended March 31, 2014 (PLN)	Three-month period ended March 31, 2013 (PLN)
Interest income on cash and cash equivalents	495	1,237
Gain on sale of Uni-Net	286	-
Fair value gains on open forward contracts hedging commercial exposures (see Note 9)	270	607
Fair value gains on equity securities	1	-
	1,052	**1,844**

Finance costs

	Three-month period ended March 31, 2014 (PLN)	Three-month period ended March 31, 2013 (PLN)
Interests and fees charged on bank loans	(5,410)	(8,655)
Interests and fees charged on overdraft	-	(110)
Amortization of finance lease liability	(24)	(60)
Amortization of provisions	(9)	(32)
Net foreign exchange losses	(97)	(17)
Fair value losses on other open forward contracts	-	(366)
Ineffective portion of cash flow hedges (see Note 9)	(10)	(2)
Other finance costs	(53)	(14)
	(5,603)	**(9,256)**

(All amounts in thousands, except as otherwise stated)

15. Corporate income tax

	Three-month period ended March 31, 2014	Three-month period ended March 31, 2013
	(PLN)	(PLN)
Current income tax	(7,305)	(3,088)
Deferred income tax benefit/(charge), net	2,125	(3,628)
Income tax charge	**(5,180)**	**(6,716)**

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

As of December 31, 2013 the Management updated its previous year's assessment regarding the recognition of deferred income tax. The new assessment concluded that the Netia Group expects that future taxable profits will be generated based on the 2014 budget and long term business plan covering the period until 2018. Management's assessment also considered factors such as: the stability and trend of past earnings, the nature of the business and industry, and the economic environment in which the Netia Group is located.

As at March 31, 2014 Netia Group had net deferred income tax asset of PLN 76,660. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred income tax liabilities of PLN 14,454 presented in the consolidated statement of the financial position as of March 31, 2014 relate to net deferred income tax liabilities recognized in Netia and one of its subsidiaries (after intercompany eliminations).

	March 31, 2014	December 31, 2013
	(PLN)	(PLN)
Deferred income tax assets	91,114	92,501
Deferred income tax liabilities	14,454	17,746
Deferred income tax assets, net	**76,660**	**74,755**

Deferred income tax assets and liabilities recognized on temporary deductible and taxable differences, without taking into consideration the offsetting of balances, are as follows:

	March 31, 2014	December 31, 2013
	(PLN)	(PLN)
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	88,795	86,975
- Deferred income tax assets to be recovered within 12 months	47,922	50,869
	136,717	137,844
Deferred income tax liabilities:		
- Deferred income tax liabilities to be recovered after more than 12 months	19,552	20,068
- Deferred income tax liabilities to be recovered within 12 months	40,505	43,021
	60,057	63,089
Deferred income tax assets, net	**76,660**	**74,755**

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

	March 31, 2014	December 31, 2013
	(PLN)	(PLN)
Deferred income tax assets:		
- Tax losses	45,231	50,879
- Accrued expenses	22,658	17,907
- Impairment provisions for receivables	7,503	7,386
- Depreciation and impairment	59,683	59,534
- Forward and IRS contracts	1,433	1,717
- Other	209	421
	136,717	137,844
Deferred income tax liabilities:		
- Depreciation and impairment	47,495	49,810
- Accrued revenue	5,675	5,909
- Interest	402	443
- Forward contracts	55	68
- Other	6,430	6,859
	60,057	63,089
Deferred income tax assets, net	**76,660**	**74,755**

(All amounts in thousands, except as otherwise stated)

Deferred income tax recognized in equity as at March 31, 2014 in the amount of PLN 220 relates to the hedging reserve. The deferred income tax recognized in equity as at December 31, 2013 in an amount of PLN 849 relates to movements in the hedging reserve and actuarial gains recognised in other comprehensive income.

Deferred income tax assets are recognized for deductible temporary differences and tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. As of March 31, 2014, the Netia Group had total net deductible temporary differences of PLN 766,400 and unutilised tax loss carry-forwards of PLN 243,237 (total potential deferred income tax asset net of PLN 191,831).

The Netia Group did not recognize deferred income tax assets of PLN 984 relating to tax losses of PLN 5,180 of the Company's subsidiaries, due to insufficient likelihood of future taxable profits necessary to realize these tax losses before they expire. These unrecognized tax losses of the Netia Group available for use as at March 31, 2014 will expire in the following years: PLN 2,737 in 2014, PLN 1,053 in 2015, PLN 237 in 2016, PLN 16 in 2017, PLN 579 in 2018 and PLN 558 in 2019.

Furthermore, due to the lack of conclusive evidence of future taxable profits, the Netia Group did not recognize deferred income tax assets of PLN 114,187, relating to deductible temporary differences of PLN 600,984 as follows:

	Timing differences (PLN)	Potential deferred income tax asset (PLN)
Depreciation and impairment	548,958	104,302
Trademark	37,153	7,059
Deferred income	7,152	1,359
Other	7,721	1,467
	600,984	**114,187**

The Polish tax system has restrictive provisions for grouping of tax losses for multiple legal entities under common control, such as those of the Netia Group. Thus, each of the Company's subsidiaries may only utilize its own tax losses to offset taxable income in subsequent years. Losses are not indexed to inflation. Tax losses are permitted to be utilized over five years with a 50% utilization restriction per annum.

16. Dividends per share

Management elected to propose a dividend payment in respect to the financial year ended December 31, 2013 of PLN 0.42 per share amounting to PLN 146,123.

Netia's distributable reserves are disclosed in Note 10.

17. Supplemental disclosures to consolidated cash flow statement

Changes in working capital components:

	Three-month period ended March 31, 2014 (PLN)	Three-month period ended March 31, 2013 (PLN)
Receivables	3,880	25,194
Inventories	342	424
Prepaid expenses	(480)	2,997
Provisions, accruals and payables[1]	(1,761)	2,209
Restricted cash	13	(183)
Deferred income	(3,624)	207
	(1,630)	**30,848**
Out of which:		
Change in long -term position	*(2,456)*	*1,469*

[1] This position excludes movements in investment payables.

Supplemental disclosures to operating activities:

	Three-month period ended March 31, 2014 (PLN)	Three-month period ended March 31, 2013 (PLN)
Income taxes paid	(5,755)	(3,538)
Interest received	495	1,236

(All amounts in thousands, except as otherwise stated)

18. The Management Board and Supervisory Board

Management Board

On November 21, 2013 the Supervisory Board appointed Mr. Tomasz Szopa as member of the Management Board, effective February 3, 2014.

Due to the above change as at March 31, 2014 the Company's Management Board consisted of the following members:

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

On February 19, 2014, the President of the Company's Management Board, Mirosław Godlewski, in agreement with the Supervisory Board, decided to stand-down from his position leading the Company's Management Board and shall remain in his position while the Supervisory Board identify his replacement but not longer than until August 31, 2014.

On April 22, 2014 the Supervisory Board of the Company appointed Mr. Adam Sawicki as President of the Company's Management Board and Chief Executive Officer, effective June 2, 2014.

Supervisory Board

On January 13, 2014 the Extraordinary General Meeting of the Company appointed Mr. Bogusław Kułakowski as an independent member of the Supervisory Board.

Due to the above change as at March 31, 2014 the Company's Supervisory Board consisted of the following members:

- George Karaplis – Chairman,
- Stan Abbeloos,
- Jacek Czernuszenko,
- Raimondo Eggink,
- Bogusław Kułakowski
- Nicolas Maguin,
- Ewa Pawluczuk,
- Tadeusz Radzimiński,
- Jerome de Vitry.

19. Related party transactions

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

As March 31, 2014 and December 31, 2013 the total number of options held by members of the Company's Management Board under the New Plan was 3,585,701, of which 677,351 had vested as of March 31, 2014 and none of which had vested as of December 31, 2013. Strike prices for the options granted to the Management Board range between PLN 4.54 and 6.00 per share (after strike price reductions by PLN 0.16 in 2013). The market price of the Company's shares March 31, 2014 was PLN 5.10 per share.

The movements in the number of options held by members of the Company's Management Board in the three-month periods ended March 31, 2014 and March 31, 2013 are presented below:

Options	**Three-month period ended March 31, 2014**	**Three-month period ended March 31, 2013**
At the beginning of the period	3,585,701	2,402,351
Granted	-	1,725,000
At the end of the period	**3,585,701**	**4,127,351**

A further 1,235,992 options were granted to Members of the Company's Management Board on April 10, 2014 (see Note 22 "Subsequent Events").

As at March 31, 2014 Mr. Mirosław Godlewski - the Company's President of the Management Board - held 1,502,015 options, 338,675 of which had vested. As at December 31, 2013 Mr. Mirosław Godlewski held 1,502,015 options, none of which had vested.

As at March 31, 2014 Mr. Jonathan Eastick - a member of the Company's Management Board - held 751,008 options, 287,500 of which had vested. As at December 31, 2013 Mr. Jonathan Eastick held 751,008 options, none of which had vested.

As at March 31, 2014 Mr. Tom Ruhan - a member of the Company's Management Board - held 751,008 options, 287,500 of which had vested. As at December 31, 2013 Mr. Tom Ruhan held 751,008 options, none of which had vested.

As at March 31, 2014 Mr. Mirosław Suszek - a member of the Company's Management Board - held 581,670 options, none of which had vested. As at December 31, 2013 Mr. Mirosław Suszek held 581,670 options, none of which had vested.

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

As at March 31, 2014 and December 31, 2013, the Company's President of the Management Board, Mr. Mirosław Godlewski, together with a company closely related to Mr. Mirosław Godlewski, held 777,385 and 577,385 shares of the Company, respectively.

As at March 31, 2014 and December 31, 2013, Mr. Jonathan Eastick, a member of the Company's Management Board, held 460,000 and 429,114 shares of the Company, respectively.

As at March 31, 2014 and December 31, 2013, Mr. Tom Ruhan, a member of the Company's Management Board, and a company closely related to Mr. Tom Ruhan held 529,790 and 529,790 shares of the Company, respectively.

Participation Units in the Value Creation Transactional Bonus Scheme (not in thousands)

On April 25, 2012, the Supervisory Board approved a new bonus plan known as the Change of Control Transaction Bonus Scheme (CoCTB) for the Company's Management Board Members. The plan was renamed Value Creation Transactional Bonus Scheme ("VCTB") on June 28, 2013. The VCTB is a cash settled share based bonus scheme under which up to 11,400,000 Participation Units (PUs) may be issued to Management Board Members. Each PU has a strike price of 7,00 zloty per share and a term of 36 months commencing on December 31, 2012. The strike price adjusts upward over time by one percent per month from 31 January 2013 and is reduced by any dividends or dividend equivalents paid out by the Company ("the Adjusted Strike Price"). In the event that an investor or consortium of investors holds at least 90 % of Netia's equity on or prior to December 31, 2015 ("Trigger Event"), each PU shall be worth the positive difference between the acquisition price paid in a successful tender offering that secures the 90 % share-holding and the Adjusted Strike Price. For the purpose of calculating the value of the PU, the acquisition price is capped at 10 zloty per share. Should a Trigger Event occur after December 31, 2012 and prior to the expiration of the PUs on December 31, 2015, the Company shall pay the cash equivalent of the value of the PUs to each participating Management Board Member who was fulfilling his duties and has not resigned from his position prior to such Trigger Event. See also Note 21.

As at March 31, 2014, the members of the Management Board held Participation Units in the Value Creation Transactional Bonus Scheme as follows:

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

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

See also: Possible liabilities under the Value Creation Transactional Bonus Scheme in Note 21.

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

As March 31, 2014 and December 31, 2013, Mr. Raimondo Eggink – a member of the Company's Supervisory Board – held 38,143 and 38,143 shares of the Company, respectively.

As at March 31, 2014 and December 31, 2013, Mr. Nicolas Maguin – a member of the Company's Supervisory Board – held 20,311 and 20,311 shares of the Company, respectively.

As at March 31, 2014 and December 31, 2013, Mr. Tadeusz Radzimiński – a member of the Company's Supervisory Board – held 9,537 and 19,072 shares of the Company, respectively.

Restricted Stock Units (not in thousands)

As at March 31, 2014 and December 31, 2013, the total number of Restricted Stock Units ("RSU") granted to the members of the Company's Supervisory Board was 780,000 and 760,000, respectively. RSUs entitle the holder to receive additional cash remuneration equal to the value of restricted stock units, which corresponds to the market price of the Company's shares. The vesting period for the RSU ranges from 12 to 36 months after the grant date. The Company recognizes the cost of cash-settled share-based payment transactions (including RSU) over the vesting period by accruing cost provisions pro-rata to elapsed time and the market price of the Company's shares. The cost of RSU recorded in the three-month period ended March 31, 2014 amounted to PLN 62 thousands (PLN 95 thousands in the three-month period ended March 31, 2013).

On January 13, 2014 the Extraordinary General Meeting of the Company appointed Mr. Bogusław Kułakowski as an independent member of the Supervisory Board. On the day he was appointed to the Supervisory Board, Mr. Kułakowski received 50,000 RSUs which vest on the third anniversary date of his appointment.

(All amounts in thousands, except as otherwise stated)

Changes in the number of RSU held by members of the Company's Supervisory Board in three-month period ended March 31, 2014 are presented below:

	December 31, 2013	RSUs granted	RSUs exercised	March 31, 2014
Stan Abbeloos	95,000	-	-	95,000
Jacek Czernuszenko	65,000	-	-	65,000
Raimondo Eggink	110,000	-	-	110,000
George Karaplis	80,000	-	-	80,000
Bogusław Kułakowski	-	50,000	-	50,000
Nicolas Maguin	110,000	-	-	110,000
Ewa Pawluczuk	110,000	-	-	110,000
Tadeusz Radzimiński	110,000	-	(30,000)	80,000
Jerome de Vitry	80,000	-	-	80,000
Total RSU	**760,000**	**50,000**	**(30,000)**	**780,000**

Management Board remuneration

Compensation and related costs associated with members of the Company's Management Board during the three-month periods ended March 31, 2014 and 2013 amounted to PLN 2,825 and PLN 1,862, respectively. The costs in the three-month period ended March 31, 2014 include accrued costs of a one-off payment of PLN 1,200 payable to the President of the Management. In addition, the gross cost of share-based payments in the amounts of PLN 431 and PLN 258 was recognized in the respective periods.

Compensation and related costs associated with members of the Management Boards of the Company's subsidiaries during the three-month periods ended March 31, 2014 and 2013 amounted to PLN 74 and PLN 258, respectively. These amounts were paid to certain employees of the Netia Group who are neither past nor present members of the Management Board of Netia S.A.

Supervisory Board remuneration

Compensation and related costs associated with members of the Company's Supervisory Board during the three-month periods ended March 31, 2014 and 2013 amounted to PLN 231 and PLN 210, respectively.

Compensation and related costs associated with members of the Supervisory Boards of the Company's subsidiaries during the three-month periods ended March 31, 2014 and 2013 amounted to nil and PLN 2, respectively.

Incidental expenses of the Supervisory Board Members reimbursed by the Company amounted to PLN 56 and PLN 70 during the three-month periods ended March 31, 2014 and 2013, respectively, and mainly related to travel and accommodation.

Other transactions with related parties

During the three-month periods ended March 31, 2014 and 2013, respectively the Netia Group has not been a party to any other material transactions, or proposed transactions, apart from transactions mentioned above, in which any member of the key management personnel or close members of their families, had or was to have a direct or indirect material interest.

20. Commitments

Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognized in the consolidated financial statements amounted to PLN 42,329 as at March 31, 2014 and PLN 14,634 as at December 31, 2013 of which, PLN 10,254 and PLN 1,639 respectively, related to the planned acquisition of intangible assets.

21. Contingencies

Universal services

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

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

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

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

Following Orange Polska SA requesting the Regulator to reconsider her decisions, on September 7, 2011, the President of UKE upheld the decisions awarding subsidies towards incurred costs of universal service for years 2006-2009.

On January 10, 2012, the President of UKE issued decisions by virtue of which Orange Polska SA was awarded subsidies towards incurred costs of several services falling within the scope of universal service for 2010 amounting to PLN 55,102 due to provision of facilities for customers with disabilities as well as provision of telephone services with use of public pay phones. Following Orange Polska SA requesting the Regulator to reconsider, this decision was upheld on April 11, 2012.

Orange Polska SA appealed the decisions of the President of UKE to the Voivodship Administrative Court (further "WSA"). WSA dismissed the complaints of Orange Polska SA against the decisions granting the subsidies towards costs of provision of universal service in 2006 – 2010 and Orange Polska SA has appealed the WSA decisions to the Supreme Administrative Court (further "NSA").

On December 5, 2013 NSA repealed the judgments of the WSA dismissing the appeals about granting Orange Polska SA subsidies for the years 2006 and 2007 and remanded both cases for reconsideration to the WSA.

The Management Board is convinced of the validity of the issued decisions, but cannot assure that the Orange Polska SA appeals will be dismissed and that the awarded subsidies shall not be increased.

In total, Orange Polska SA was awarded PLN 122,096 for the provision of universal service within the years 2006-2010.

On September 20, 2013 the President of UKE, after re-consideration of the case, issued a decision granting Orange Polska SA subsidy towards costs of provision of universal service in the period from January 1, 2011 till May 8, 2011 amounting to 14,903 PLN.

On October 21, 2013 KIGEiT appealed against the abovementioned decision to the WSA. While the Management Board is convinced of the defective nature of the issued decision, it cannot assure that the decision will be repealed by the WSA and that a subsidy for 2011 shall not be finally granted.

On March 20, 2014 the President of UKE issued a decision establishing that enterprises are obliged to subsidise the cost of universal service for the year 2006 by contributing in the amount of 0,0018992546 % of their 2006 revenues. Netia and Dialog sent to the President of UKE a request to reconsider the decision. Should the rate be upheld, the provision which was made to cover the potential Netia Group companies' share in the subsidy for universal service provided in 2006 would be sufficient.

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

The total amount of potential obligation of Companies of the Netia Group, estimated by the Management Board taking into account their market shares in 2006 – 2011, decisions of the President of UKE, in which the amounts of subsidies towards the costs of providing universal service in years 2006 – 2011 were granted in the total amount of PLN 136,999 and estimated amount of potential subsidy to the cost of USO, is PLN 7,006. The Companies of the Netia Group have made a provision for this amount to cover potential obligations under the subsidy for universal service provided in the years 2006 – 2011.

Should Orange Polska SA prevail in any of the aforementioned litigation, the USO liability in respect to 2006 – 2011 could still rise materially above the amount provided to date.

On the basis of the full amount of subsidies claimed by Orange Polska SA and of the Company's estimations concerning revenues of telecommunications services providers that may participate in subsidies towards universal services, the amount of subsidy towards universal service that might conceivably be claimed by Orange Polska SA from the Netia Group amounts to approximately PLN 54,002 for the period from 2006 until 2011 inclusive as follows:

	Maximum subsidies	**Provision**
	PLN	*PLN*
2006	6,293	34
2007	10,862	63
2008	9,202	80
2009	11,964	3,199
2010	13,888	2,840
2011	1,793	790
	54,002	**7,006**

Pursuant to the decision of the President of UKE designating Orange Polska SA to provide universal service the above obligation of Orange Polska SA expired as of May 8, 2011. To date no undertaking has been obliged to provide USO from May 9, 2011 onwards and, according to the published position of the President of UKE, will not be. Nevertheless, on October 16, 2012 the President of UKE began consultations on a new model of USO.

On January 28, 2014 the President of UKE commenced consultations on the Report "The status and the assessment of availability, quality of service and affordability of services included in the universal service".

At this stage of the Regulatory work on the model, the Management Board cannot assure that the President of UKE would not aim to change to a new model of USO, and in such a case that it would not be associated with additional costs to be incurred by Netia Group.

Tax contingent liability

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

Overpayment of tax (not in thousands)

On August 17, 2009 Company received a decision of the Director of the Tax Control Office in Warsaw ("UKS Director") according to which Netia's corporate income tax due for the year 2003 was set at PLN 58.7m plus penalty interest.

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

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

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

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

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

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

On June 25, 2013 the NSA Court in Warsaw set aside the appealed judgment of the WSA upholding the decision of the Director of the Tax Chamber in Warsaw in its entirety and remanded the case for reconsideration back to to the first-instance court.

On October 10, 2013, the WSA annulled the Decision of the Director of the Tax Chamber in its entirety. In connection with the judgment so rendered, the Tax Chamber Director is required to reconsider the Company's appeal against the Decision of the UKS Director, taking into account the legal assessment and recommendations contained in the judgments of the WSA and the NSA as to how to proceed with the matter.

Having received the ruling of the WSA, on 30 December 2013, the Company filed a cassation appeal against the judgment of the WSA due to the justification of the judgment of the court not fully reflecting the position presented by the Company during the WSA proceedings. The Tax Chamber did not lodge an appeal to NSA in respect to this judgment.

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

However, it is not clear to the Management Board what steps the tax authorities may decide to take to defend their position and therefore it is not possible to estimate how long it may take for proceedings to be finalised.

Possible liabilities under the Value Creation Transactional Bonus Scheme(VCTB) (not in thousands)

Following a decision of the Supervisory Board on April 25, 2012, four of the current five members of Netia's Management Board have been awarded Participation Units (PUs) in a cash paid bonus scheme known as the Value Creation Transactional Bonus Scheme (VCTB) (see also Note 19). As of the date of these financial statements, a total of 9,500,000 from a possible 11,400,000 PUs have been allocated to the Management Board Members.

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

The PUs will expire without value if there is no Trigger Event on or prior to December 31, 2015 or if the Management Board Member to whom they are allocated resigns prior to the Trigger Event or if the Trigger Event occurs at a price below the Adjusted Strike Price, which stood at 7.95 on March 31, 2014. Conversely, had a Trigger Event occurred for an acquisition price of 10 zloty or above occurred on March 31, 2014 and with all four Management Board Members still performing their duties at the Company on the day of the Trigger Event, the maximum possible liability incurred by the Company would have been 19,475,000 PLN. This amount will fall towards zero as December 31, 2015 approaches without a Trigger Event occurring and as the Adjusted Strike Price increases towards 10 zloty per share. In calculating the Adjusted Strike Price as at March 31, 2014, Management has applied the same 16 groszy reduction that the Supervisory Board elected to apply to the Company's outstanding stock options in order to neutralise the impact of the offer to repurchase shares as its effect was similar to that of a dividend payment.

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

Possible liabilities under the New Plan

According to the New Plan (see also Note 10), in the event of a tender to purchase all of the remaining shares in the Company is announced and as a result of such tender any "person" or "group of persons acting in concert" comes into possession, directly or indirectly, of at least 80% of the total outstanding voting securities of the Company ("Change of Control"), each of the option holders shall have the right to demand to exchange his stock options which are non-vested for a cash consideration

Given that Netia is not presently controlled by any single large investor and given that Management is not in possession of information concerning the circumstances under which existing large shareholders may consider disposing of their shares in the Company, it is not possible for Management to make a reliable estimate of the likelihood of a Change of Control occurring until May 20, 2020. Accordingly, Management is presently unable to reliably estimate the fair value of the contingent liability to settle issued options in cash as would otherwise be required in accordance with IFRS 2, Share Based Payments.

(All amounts in thousands, except as otherwise stated)

22. Subsequent events

Options granted under New Plan (not in thousands)

On April 10, 2014 the Supervisory Board of the Company granted stock options for year 2014 to the Management Board, Mr. Mirosław Godlewski, President of the Management Board, was granted 123,600 stock options (no reduction in Mr. Godlewski's options shall be made due to pro-rata time served rules of the stock option plan upon his resignation), and Messrs. Jonathan Eastick, Tom Ruhan, Mirosław Suszek and Tomasz Szopa were granted 278,098 stock options each. The strike price for the options granted to the Management Board equals PLN 5.00 and the earliest vesting date is April 10, 2017.

On April 24, 2014 the Management Board of the Company granted to employees of the Netia Group stock options under New Plan in the total amount of 1,772,000. The strike price for the options granted to employees equals PLN 5.05 and the earliest vesting date is April 24, 2017.

The final exercise date for all granted stock options is May 26, 2020. Furthermore, these stock options may be cancelled in whole or in part depending on the Netia Group's performance against business criteria set for 2014 by the Supervisory Board.

Appointment of President of the Company's Management Board and Chief Executive Officer

On April 22, 2014 the Supervisory Board of the Company appointed Mr. Adam Sawicki as President of the Company's Management Board and Chief Executive Officer, effective June 2, 2014.

Resignation of the Company's Management Board member

On May 14, 2014 Mr. Mirosław Suszek, the Netia Group's Chief Technology Officer, informed the Company's Supervisory Board of his resignation from his position on the Company's Management Board with effect from July 31, 2014.