2014

Annual Financial Report

Containing:

- Independent auditor's opinion
- Consolidated financial statements
  as at and for the year ended December 31, 2014

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NETIA

Independent Auditor's Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Netia S.A. and its subsidiaries (the "Netia Group"), which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and far presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Netia Group as at 31 December 2014, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

PricewaterhouseCoopers Sp. z o.o.

PricewaterhouseCoopers Sp. z o.o.

18 February 2015

Warsaw, Poland

NETIA S.A.
CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended December 31, 2014

Index to the consolidated financial statements

NETIA S.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at December 31, 2014

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2014 (PLN)	December 31, 2013 (PLN)	Convenience Translation December 31, 2014 (EUR)
ASSETS				
Non-current assets				
Property, plant and equipment	7	1,820,177	1,956,680	427,040
Intangible assets	8	465,299	538,340	109,166
Investment property	9	26,639	27,142	6,250
Deferred income tax assets	31	87,226	92,501	20,465
Available for sale financial assets		116	116	27
Prepaid expenses and accrued income	12	8,511	5,544	1,997
Derivative financial instruments	14	-	326	-
Total non-current assets		**2,407,968**	**2,620,649**	**564,945**
Current assets				
Inventories	10	2,820	2,664	662
Trade and other receivables	11	168,937	191,000	39,635
Current income tax receivables	31	81,425	5,258	19,104
Prepaid expenses and accrued income	12	20,157	24,638	4,729
Derivative financial instruments	14	2,063	33	484
Financial assets at fair value through profit and loss		23	25	5
Restricted cash	13	-	13	-
Cash and short term deposits	13	207,305	93,356	48,637
		482,730	**316,987**	**113,256**
Total current assets		**482,730**	**316,987**	**113,256**
Total assets		**2,890,698**	**2,937,636**	**678,201**

Adam Sawicki
President of the Company

Paweł Szymański
Member of the Management Board
Chief Financial Officer

Warsaw, Poland
February 18, 2015

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2014 (PLN)	December 31, 2013 (PLN)	Convenience Translation December 31, 2014 (EUR)
EQUITY				
Share capital	15	348,088	347,911	81,667
Supplementary capital		1,606,848	1,720,488	376,991
Retained earnings		226,301	82,313	53,094
Other components of equity		61,380	53,792	14,401
Total equity		**2,242,617**	**2,204,504**	**526,153**
LIABILITIES				
Non-current liabilities				
Borrowings	17	200,534	257,211	47,048
Provisions	16	2,237	1,876	524
Deferred income tax liability	31	14,319	17,746	3,359
Deferred income	20	29,722	34,175	6,973
Derivative financial instruments	14	-	2,587	-
Other long term liabilities	18	2,928	3,143	687
Total non-current liabilities		**249,740**	**316,738**	**58,591**
Current liabilities				
Trade and other payables	18,19	235,712	231,718	55,302
Derivative financial instruments	14	37	6,449	9
Borrowings	17	100,004	126,866	23,462
Current income tax liabilities		-	57	-
Provisions	16	26,860	11,265	6,302
Deferred income	20	35,728	40,039	8,382
Total current liabilities		**398,341**	**416,394**	**93,457**
Total liabilities		**648,081**	**733,132**	**152,048**
Total equity and liabilities		**2,890,698**	**2,937,636**	**678,201**

(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2014 (PLN)	Year ended December 31, 2013 (PLN)	Convenience Translation Year ended December 31, 2014 (EUR)
CONSOLIDATED INCOME STATEMENT				
Revenue	21	**1,674,039**	**1,876,016**	**392,755**
Cost of sales	22	(1,163,117)	(1,265,342)	(272,885)
Gross profit		**510,922**	**610,674**	**119,870**
Selling and distribution costs	23	(308,984)	(358,526)	(72,492)
General and administration costs	24	(200,621)	(179,186)	(47,069)
Other income	26	168,496	15,728	39,531
Other expenses	27	(11,300)	(5,274)	(2,651)
Other gains / (losses), net	28	(1,146)	9,343	(269)
Operating profit		**157,367**	**92,759**	**36,920**
Finance income	29	4,627	3,885	1,086
Finance costs	29	(35,582)	(32,224)	(8,348)
Profit before income tax		**126,412**	**64,420**	**29,658**
Income tax benefit / (charge)	31	48,421	(18,130)	11,360
Profit		**174,833**	**46,290**	**41,018**
Earnings per share (expressed in PLN per share)				
- basic	32	0.50	0.13	0.12
- diluted	32	0.50	0.13	0.12

NETIA S.A.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 31, 2014

(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2014 (PLN)	Year ended December 31, 2013 (PLN)	Convenience Translation Year ended December 31, 2014 (EUR)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
Profit		**174,833**	**46,290**	**41,018**
Interest rate cash flow hedges	14	6,382	3,039	1,497
Foreign exchange rate cash flow hedges (equipment and construction contracts)	14	2,166	1,422	508
Income tax relating to cash flow hedges	31	(1,625)	(848)	(381)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**6,923**	**3,613**	**1,624**
Re-measurement gains on a defined benefit plan	16	(131)	105	(31)
Income tax relating to re-measurement gains on a defined benefit plan	31	11	(1)	3
Net other comprehensive incomenot to be reclassified to profit or loss in subsequent periods		**(120)**	**104**	**(28)**
Other comprehensive income for the year, net of tax		**6,803**	**3,717**	**1,596**
TOTAL COMPREHENSIVE INCOME		**181,636**	**50,007**	**42,614**

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

(All amounts in thousands, except as otherwise stated)

	Note	Share capital	Supplementary capital	Retained earnings	Other components of equity: Employee share option scheme	Other components of equity: Hedging reserve	Other components of equity: 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		-	-	174,833	-	-	-	174,833
Other comprehensive income		-	-	(120)	-	6,923	-	6,803
Total comprehensive income		-	-	174,713	-	6,923	-	181,636
Dividend	15, 33	-	(115,398)	(30,725)	-	-		(146.123)
Employee share option scheme:								
- value of services provided	15	-	-	-	2,605	-	-	2.605
- issuance of series L shares	15	177	1.763		(1,940)			-
Cost of issuance		-	(5)		-			(5)
Balance as at December 31, 2014		**348,088**	**1,606,848**	**226,301**	**22,238**	**772**	**38,370**	**2,242,617**

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

NETIA S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2014

(All amounts in thousands, except as otherwise stated)

	Note	Share capital	Treasury shares	Supplementary capital	Retained earnings	Other components of equity: Employee share option scheme	Other components of equity: Hedging reserve	Other components of equity: 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		-	-	-	46,290	-	-	-	46,290
Other comprehensive income		-	-	-	104	-	3,613	-	3,717
Total comprehensive income		-	-	-	46,394	-	3,613	-	50,007
Coverage of Netia's 2012 net loss		-	-	(84,400)	94,175	-	-	(9,775)	-
Coverage of Netia's loss on merger		-	-	(4,176)	4,176	-	-	-	-
Repurchase of own shares		-	(144,198)	-	-	-	-	-	(144,198)
Redemption of own shares		(38,370)	251,012	(251,012)	-	-	-	38,370	-
Employee share option scheme:									
- value of services provided		-	-	-	-	2,400	-	-	2,400
Balance as at December 31, 2013		**347,911**	**-**	**1,720,488**	**82,313**	**21,573**	**(6,151)**	**38,370**	**2,204,504**

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

(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2014 (PLN)	Year ended December 31, 2013 (PLN)	Convenience Translation Year ended December 31, 2014 (EUR)
Cash flows from operating activities:				
Profit		**174,833**	**46,290**	**41,018**
Adjustments for:				
Depreciation and amortization	7, 8, 9	423,992	439,994	99,475
Reversal of impairment charges for specific assets	7	-	(1,415)	-
Impairment charges for specific individual assets	7, 8	11,300	5,184	2,651
Deferred income tax charge	31	233	8,400	55
Interest expense and fees charged on bank loans	29	35,311	30,681	8,284
Other interest charged		138	259	32
Share-based compensation	15, 36	(476)	3,068	(111)
Fair value (gains)/ losses on financial assets / liabilities		2	(10)	-
Fair value (gains)/ losses on derivative financial instruments		(2,148)	131	(504)
Foreign exchange (gains)/ losses		(131)	47	(31)
Loss on disposal of fixed assets		4,027	6,358	945
Gain on sale of subsidiary		(286)	-	(67)
Changes in working capital	34	(23,399)	36,284	(5,489)
Net cash provided by operating activities		**623,396**	**575,271**	**146,258**
Cash flows from investing activities:				
Purchase of fixed assets and computer software		(245,719)	(281,826)	(57,649)
Proceeds from sale of fixed assets		996	956	233
Transfer from restricted cash		-	2,051	-
Sale of subsidiary, net of cash		322	-	76
Repurchase of treasury bonds / notes		-	50	-
Net cash used in investing activities		**(244,401)**	**(278,769)**	**(57,340)**
Cash flows from financing activities:				
Government grants received		1,157	3,089	271
Proceeds from borrowings	17	350,000	50,000	82,115
Dividend paid	15	(146,123)	-	(34,283)
Repurchase of own shares		-	(144,198)	-
Finance lease payments		(581)	(2,024)	(136)
Loan payments	17	(440,000)	(180,000)	(103,231)
Payments of interests, fees and interest rate swap settlements relating to bank loans		(29,630)	(53,917)	(6,951)
Net cash used in financing activities		**(265,177)**	**(327,050)**	**(62,215)**
Net change in cash and cash equivalents		**113,818**	**(30,548)**	**26,703**
Exchange losses on cash and cash equivalents		**131**	**(47)**	**30**
Cash and cash equivalents at beginning of period		93,356	123,951	21,904
Cash and cash equivalents at end of period	13	**207,305**	**93,356**	**48,637**

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

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 consolidated financial statements of Netia S.A. for the year ended December 31, 2014 comprise the Company and its subsidiaries. A list of the Company's subsidiaries is set out in Note 2.

These consolidated financial statements were approved for issuance by the Company's Management Board on February 18, 2015.

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 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 integrates 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.

(All amounts in thousands, except as otherwise stated)

Going concern

As at December 31, 2014, the Group's equity amounted to PLN 2,242,617 and the Netia Group had net working capital of PLN 84,389 inclusive of cash available of PLN 207,305. As at December 31, 2014 the Netia Group had senior secured debt of PLN 300,538. Netia's operations were free cash flow generative in the year ended December 31, 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. Significant subsidiaries of the Company

The consolidated financial statements include the accounts of the Company's directly or indirectly held subsidiaries:

	Ownership Percentage	
Subsidiary	**December 31, 2014**	**December 31, 2013**
Subsidiaries held directly:		
Centrina Sp. z o.o[1].	N/A	100
Dianthus Sp. z o.o. [1]	N/A	100
Internetia Sp. z o.o.	100	100
InterNetia Holdings Sp. z o.o. [1]	N/A	100
Netia Brand Management Sp. z o.o.	100	100
Net 2 Net Sp. z o.o. [1]	N/A	100
Netia 2 Sp. z o.o.	100	100
Telefonia DIALOG Sp. z o.o.	100	100
Subsidiaries held indirectly:		
Petrotel Sp. z o.o.	100	100
UNI-Net Poland Sp. z o.o. [2]	N/A	100

Shares held by Netia in its subsidiaries give the Company a corresponding share of votes at the shareholders' meetings.

All the Company's subsidiaries are incorporated in Poland.

[1] legally merged with Netia on June 30, 2014
[2] subsidiary sold on February 6, 2014

3. 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 December 31, 2014,,there is no difference between IFRS applied by the Netia Group and IFRS endorsed by the EU.

These consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU, issued and effective as at the time of preparing these consolidated financial statements. The accounting policies used in the preparation of the 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.

Certain Group entities 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.

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 consolidated financial statements are disclosed in Note 5.

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

(All amounts in thousands, except as otherwise stated)

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 December 31, 2014 of PLN 4.2623 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.

Changes in estimates

In the year ended December 31, 2014 the Netia Group reassessed the useful lives of its computer 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.

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
		(PLN)
Software	- useful lives of certain assets were shortened until the end of 2014	58
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	(1,969)
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	(4,426)
Machinery and equipment	- useful lives of certain assets were extended until the end of 2014 and 2015	(435)
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	(27)
Total impact		**(6,799)**

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". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

- IFRS 11 "Joint Arrangements" replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

- IFRS 12 "Disclosure of Interests in Other Entities" applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28, Investments in associates. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

- Amendments to IAS 27 "Separate Financial Statements" resulting from the changes of IFRS 10, Consolidated Financial Statements. Its objective is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

- Amendments to IAS 28 "Investments in associates and Joint Ventures", due to the Board's decision to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates.

- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12. The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period.

- Amendments to IFRS 10, IFRS 12 and IAS 27 "Investment Entities" introducing a definition of an investment entity. Such entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures concerning investment entities.

- Amendments to IAS 32 "Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities". The amendments added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria.

- Amendments to IAS 36 "Recoverable Amounts Disclosures for Non-Financial Assets". The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment.

- Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting". The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one).

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" replacing IAS 39. IFRS 9 introduces one model, according to which financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value and those to be measured subsequently at amortised cost. Classification on initial recognition is driven by the entity's business model for managing the financial assets and the contractual cash flows characteristics. IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. The key change is the requirement to present in other comprehensive income, a significant change in credit risk relating to financial liabilities designated to be measured at fair value through profit and loss. Hedge accounting requirements were amended to align accounting more closely with risk management. This standard is effective for financial years beginning on 1 January 2018. The amendments have 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 Netia Group will apply the amendments to IAS 19 from 1 January 2015.

- Annual Improvements to IFRSs 2010-2012 that consist of changes to seven standards. Improvement concern presentation, recognition and valuation as well as terminology and editorial changes. The Netia Group will apply the improvements from 1 January 2015.

- Annual Improvements to IFRSs 2011-2013 that consist of changes to four standards. Improvement concern presentation, recognition and valuation as well as terminology and editorial changes. The Netia Group will apply the improvements from 1 January 2015.

- IFRIC 21 "Levies" that clarifies the accounting for an obligation to pay a levy that is not income tax. The Netia Group will apply IFRIC 21 from 1 January 2015.

- 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.

- IFRS 15 "Revenue from Contracts with Customers "– effective for financial years beginning on or after 1 January 2017. This standard has not yet been endorsed by the EU.

- Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"– effective for financial years beginning on or after 1 January 2016. The amendments have not yet been endorsed by the EU.

- Amendments to IAS 27 "Equity Method in Separate Financial Statements"– effective for financial years beginning on or after 1 January 2016. The amendments have not yet been endorsed by the EU.

- Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"– effective for financial years beginning on or after 1 January 2016. The amendments have not yet been endorsed by the EU.

- Annual Improvements to IFRSs 2012-2014 – effective for financial years beginning on or after 1 January 2016. The amendments have not yet been endorsed by the EU.

- Amendments to IAS 1 – effective for financial years beginning on or after 1 January 2016. The amendments have not yet been endorsed by the EU.

- Amendments to IFRS 10, IFRS 12 and IAS 28 concerning the exemption from preparing consolidated financial statements by investment entities – 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.

Consolidation

Subsidiaries

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

Indemnification assets and liabilities in business combinations

When an indemnification asset appears during purchase price allocation, it is treated as a separate element purchased by the Netia Group in addition to the business acquired. This asset is not offset against the contingent liability recognised during valuation of the acquired companies. Any amount received under the indemnity is treated as a realisation of that asset and is not adjusted against the cost of the business combination.

Contingent assets are recognized when it is virtually certain that inflow of economic benefits will arise. In situations where the Netia Group has agreed to share the benefits of such contingent assets with the seller, a corresponding liability is also recognized if it is probable that the outflow of future economic benefits will be required.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board. The Management monitors the operating results of its customer segments separately for the purpose of making decisions about resource allocation and performance assessment.

Foreign currency translation

(a) Functional and presentation currency

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.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. As at each reporting day assets and liabilities denominated in foreign currencies are revalued at average exchange rates of the National Bank of Poland prevailing at the date of financial statement.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment in value, plus related inflation adjustment through December 31, 1996. Fixed assets under construction represent the accumulation of costs associated with the construction of telecommunication and data transmission networks and other tangible fixed assets. The Netia Group includes in the construction cost of its networks all eligible borrowing costs and expenditures that are directly attributable to the acquisition or bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Costs relating to the fixed assets under construction are transferred to the related property, plant and equipment account and depreciation begins when they are available for use.

Subsequent costs are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Netia Group and the cost can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Upon purchase, fixed assets are divided into components, which represent items with a significant value and to which a separate useful life can be allocated.

(All amounts in thousands, except as otherwise stated)

Depreciation expense is recorded utilizing the straight-line method over the estimated useful lives of the assets. These lives are summarized as follows:

	Term
Buildings and structures	10 to 40 years
Fixed telecommunications network	15 to 40 years
Telecommunications equipment	5 to 15 years
Machinery and equipment	5 to 12 years
Office machinery and equipment	3 to 10 years
Vehicles	5 to 8 years

Land and fixed assets under construction are not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.
An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.
An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

Investment property

Investment property consists of the property held to earn rentals or for capital appreciation. Investment property is measured at cost less any accumulated depreciation and impairment losses.

Depreciation expense is recorded utilizing the straight-line method over the estimated useful lives of the assets. These lives are summarized as follows:

	Term
Buildings and structures	10 to 40 years
Fixed telecommunications network (as part of the property)	15 to 40 years
Office machinery and equipment (as part of the property)	3 to 10 years

Land is not depreciated.

Non-current assets classified as held for sale

Non-current assets are classified as held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. Those assets are available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets and the sale is highly probable.

Leases

(a) Group as a lessee

Leases where the Netia Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other payables. The interest element of the finance cost is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset. If there is no reasonable certainty that the Netia Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the lease term and its useful life.

Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

(b) Group as a lessor

Leases where a significant portion of the risks and rewards of ownership are retained by the Group (the lessor) are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Intangible assets

(a) Licenses and license fee liabilities

Licenses are stated at cost less accumulated amortization and impairment losses. If payment for the license is deferred beyond normal credit terms, its cost is the net present value of the obligation. The present value of the obligation is calculated using the discount rate which reflects weighted average cost of capital in the Netia Group at the time the license was granted. Any differences between the nominal price of the license and its present value are treated as interest costs. Interest costs are capitalized until substantially all the activities to prepare the asset for its intended use are complete and are then recognized as interest expense over the period of the obligation. Amortization of the license also commences once the related network is capable of operating in the manner intended by management and is calculated on a straight-line basis until the end of the grant period. The amortization period is 12 to 15 years. As at December 31, 2014 the Netia Group possessed only telecommunication licenses.

(b) Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(c) Computer software costs

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortized over their estimated useful lives (up to 5 years).

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Netia Group and that will probably generate economic benefits, exceeding costs, beyond one year, are recognized as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads that may be directly allocated to the cost of preparing the asset for its intended use. Computer software development costs, recognized as assets, are amortized using the straight-line method over their estimated useful lives, not exceeding a period of 5 years.

(d) Customer relationships

Customer relationships acquired separately are measured on initial recognition at cost. The cost of customer relationship acquired in a business combination is recognized at fair value as at the date of acquisition. Customer relationships are amortized using the straight-line method over their estimated useful lives of 3 - 5 years.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses relating to non-financial assets other than goodwill may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. That increased carrying amount cannot exceed the lower of its recoverable amount and the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such a reversal is recognized in the income statement. After such a reversal the depreciation charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial assets

The Netia Group classifies its financial assets in the following categories: available-for-sale financial assets, financial assets at fair value through profit and loss, held-to-maturity investments and loans and receivables.

(a) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless Management intends to dispose of the financial assets within 12 months of the balance sheet date.

(b) Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Financial assets, designated as at fair value through profit or loss at inception, are those that are managed and their performance is evaluated on a fair value basis, in accordance with the Netia Group's documented investment strategy. Information about these financial assets is provided internally on a fair value basis to the Netia Group's key management personnel. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

(d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" in the balance sheet.

Trade receivables are initially recognized at fair value (present value of expected payment) and subsequently are carried at amortized cost using the effective interest method less any impairment loss. Receivables with maturities less than 12 months are not discounted.

Purchase and sales of financial assets are recognized at the trade date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Netia Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets at fair value through profit and loss category are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

The Netia Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Netia Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Netia Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Netia Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, purchases of fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory, or in depreciation in case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Gains and losses arising from changes in fair value of derivatives that economically hedge commercial transactions and were not designated as hedging instruments are presented within finance income / cost.

Inventories

Inventories are stated at the lower of cost and net realizable value, determined on a first-in first-out (FIFO) basis. Net realizable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. If it is probable that the Netia Group will not be able to collect amounts due, according to the original terms of receivables, a provision for impairment is recognized in the income statement within "Selling and distribution costs". The amount of the provision is measured as the difference between the carrying amount of receivables and the present value of expected future cash flows, discounted at the effective interest rate. Any amounts reversed during the period are presented net with the impairment provisions. The carrying amount of the asset is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Cash and short term deposits

Cash and short term deposits include cash in hand, cash at bank and short-term deposits with an original maturity of three months or less. Cash is carried in the balance sheet at nominal value.

Share capital

All shares outstanding issued by the Company are classified as equity. External costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Share-based compensation

In 2014 the Netia Group operated an equity-settled, share-based compensation plan. Under this plan, options are granted to employees and board members of the managing bodies of the Company. Upon exercise of the options, the Company will issue to each exercising participant the number of shares representing the value equivalent to the participant's gain from the exercise of the options. No proceeds are received when the options are exercised.

The Netia Group's option plan, which was accepted by the Annual Shareholders' Meeting on May 26, 2010 and expires on May 26, 2020, provides for vesting over a three year service period subject also to performance against goals set by the Supervisory Board.

The fair value of the employee services received in exchange for the grant of options is recognized as an employee benefit expense with a corresponding increase in other reserves. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the Company revises its estimate of the number of options that are expected to become exercisable based on estimates of leaver rates and fulfillment of performance criteria as applicable to the relevant plan. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to other reserves.

Post-employment benefits

The Netia Group makes contributions to the Government's retirement benefit scheme at the applicable rate during the period based on gross salary payments (the "State Plan").

The State Plan is funded on a pay-as-you-go basis, i.e. the Netia Group is only obliged to pay the contributions as they fall due based upon a percentage of salary and if the Netia Group ceases to employ members of the State Plan, it will have no obligation to pay any additional benefits. The State Plan is a defined contribution plan. The expense for the contributions is charged to the income statement in the same period as the related salary expense.

Employees are legally entitled to severance payments in the form of a one-off payment on retirement in an amount defined in the Labour Code (an average monthly remuneration). These retirement severance payments qualify as a defined benefit plan. The provision recognised in the Netia Group's statement of financial position in respect of retirement severance payments is the estimated present value of this future obligation. This provision is calculated annually by independent actuaries using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income (OCI) in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss (under 'cost of sales', 'administration expenses' and 'selling and distribution expenses') in consolidated statement of profit or loss on the earlier of:

- the date of the plan amendment or curtailment, and
- the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset and is presented as finance cost.

Provisions

Provisions are recognized when the Netia Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Netia Group has recognized provisions for loss on rental contracts, a contract related to voice termination services (onerous contracts) legal claims and restructuring. Costs related to the ongoing activities of Netia Group are not provided in advance. Provisions are not recognized for future operating losses.

Provisions for onerous contracts are recognized when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Provisions for claims (legal, regulatory and contractual) are recognized when, based on all available evidence, it is more likely than not that a present obligation exists at the balance sheet date, the outflow of benefits relating to the claim is probable and it is possible to estimate this reliably.

Provisions for claims are recorded at the estimated value of costs to be incurred. Provisions for onerous contracts are calculated based on the value of future net cash outflows by the termination of a contract. If a contract is concluded for a period exceeding the 12-month period from the balance sheet date, the provision is recorded based on the discounted value of net cash outflows.

Employment restructuring and termination benefits provisions comprise of employee termination payments and are recognized in the period in which Netia Group becomes legally or constructively committed to payment.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Corresponding borrowing costs are recognized in profit or loss in the period in which they are incurred, unless they are capitalized.

Borrowings are derecognized when the obligation under the liability is discharged or cancelled or expires. Where existing borrowings are replaced by others from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

When funds are borrowed specifically to finance an asset or assets, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. When funds are part of a general pool, the eligible amount is determined by applying a capitalisation rate to the expenditure incurred on each asset while it is part of construction in progress The capitalisation rate is the weighted average of the borrowing costs applicable to the general pool after adjusting by the effect of the hedge accounting in case of a designated hedging relationship.

Capitalisation is suspended during periods in which active development is interrupted or when substantially all of the activities necessary to prepare the asset for its intended use are complete.

Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Netia Group's activities. Revenue is shown net of value added tax, rebates and discounts and after eliminated sales within the Group.

Telecommunications revenue includes direct voice products, such as monthly charges and calling charges. Revenue from calling charges is recognized in the income statement at the time a call is made over the Netia Group's network. Telecommunications revenue includes also services other than traditional direct voice, such as indirect voice, data transmission, interconnection, wholesale and other telecommunication services, as well as sales of goods. Other telecommunication revenue comprises intelligent network services, the provision of Internet dial-in services for Netia's indirect customers, Internet callback services, as well as other non-core revenues. Other telecommunication revenues are recognized in the income statement in the period to which the services relate.

Revenues relating to promotional offers are stated net of discounts. For certain commercial offers where customers are offered a free or significantly discounted service over a certain period in exchange for contracting for a fixed period (time-based incentives), the total revenue generated under the contract is spread over the fixed, non cancelable period of the contract, thereby creating accrued income.

Interconnection revenues are derived from calls and other traffic that originate in other domestic or foreign operators' networks but use the Netia Group's network. The Netia Group receives interconnection fees based on agreements entered into with other telecommunication operators. These revenues are recognized in the income statement in the period the services relate to.

Radio communications revenue included revenue from specialized mobile radio service (public trunking), through the Company's subsidiary UNI-Net Poland Sp. z o.o. Service revenues are recorded when the service is provided. Revenue from the sale of equipment is recorded when the equipment is delivered to the customer.

Other services revenue includes revenues from construction services rendered by the Company's subsidiary Petrotel Sp. z o.o.

Deferred income

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

Deferred income also includes government grants relating to property, plant and equipment. Government grants are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Interconnection charges

Interconnection with other telecommunication operators is required to complete calls that originate in but terminate outside of the Netia Group's network or originate outside the network and terminate within it, or are only transferred through the Netia Group's network. The Netia Group pays interconnection charges based on agreements entered into with other telecommunication operators.

Subscriber acquisition costs

Subscriber acquisition costs are recognized as an expense of the period in which they are incurred. Customer premises equipment ("CPE") sold to the customer when installed is expensed as part of the subscriber acquisition costs whereas CPE that remains the property of the Group is capitalized as a fixed asset.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. Interest income on impaired loans is recognized either as cash is collected or on a cost-recovery basis as conditions warrant.

Interest and foreign exchange gains / (losses)

The amounts of interest and foreign exchange gains / (losses), which do not relate to debt and management of cash and cash equivalents are presented at appropriate categories of revenues and operating income/expenses.

Current and deferred income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in Poland where the company's subsidiaries operate and generate taxable income.

Deferred income tax is provided, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes and for tax losses. Currently enacted tax rates are used to determine deferred income tax. The principal temporary differences arise from different valuations of depreciable assets and accruals for tax and accounting purposes.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilized based on the estimated taxable profits to be generated over the following five years. Deferred income tax assets are also recognized for unused tax losses carried forward and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of goodwill, an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, the Company or its subsidiaries have a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable base.

Value Added Tax

Revenues, expenses and assets are recognised net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables, which are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Dividend distribution

Dividend distributions to the Company's shareholders are recognized as a liability in the Netia Group's consolidated financial statements in the period in which the dividends are approved by the Company's General Shareholders' Meeting.

4. Financial risk management

Financial risk factors

The Netia Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk and liquidity risk. The Netia Group's overall risk management program focuses on minimizing potential adverse effects of those risks on the financial performance of the Netia Group. The Netia Group uses derivative financial instruments to hedge certain risk exposure. The Management Board provides written principles for overall risk management, as well as written policies covering specific areas, such as use of derivative financial instruments, credit risk and price risk.

Market risk

- Currency risk:

The Netia Group's revenues and costs are predominately denominated in the Polish Złoty, other than some investment payables, which are denominated in Euro and U.S. Dollars. In order to mitigate the currency risk the Netia Group sometimes holds deposits in Euro and U.S. Dollars for servicing those payments. Furthermore, in the year ended December 31, 2014 the Company entered into several forward transactions to hedge exposure against currency risk related to planned capital expenditures and expected operational expenses which are either payable in foreign currencies or priced in foreign currencies but invoiced in the Polish Złoty.

At December 31, 2014, if the Polish Złoty had weakened (strengthened) by 1% against the Euro with all other variables held constant, consolidated profit for the year ended December 31, 2014 would have been PLN 9 lower (higher), mainly as a result of foreign exchange losses (gains) on translation of Euro denominated trade and investment payables, partially offset by Euro denominated cash deposits and trade receivables, offset by a PLN 184 higher (lower) result on fair value gains (losses) on Euro denominated forward contracts. Furthermore, at December 31, 2014, the hedging reserve in shareholders' equity would have been PLN 171 higher (lower).

At December 31, 2013, if the Polish Złoty had weakened (strengthened) by 1% against the Euro with all other variables held constant, consolidated profit for the year ended December 31, 2013 would have been PLN 37 lower (higher), mainly as a result of foreign exchange losses (gains) on translation of Euro denominated trade and investment payables, partially offset by Euro denominated cash deposits and trade receivables, offset by a PLN 115 higher (lower) result on fair value gains (losses) on Euro denominated forward contracts. Furthermore, at December 31, 2013, the hedging reserve in shareholders' equity would have been PLN 154 higher (lower).

At December 31, 2014, if the Polish Złoty had weakened (strengthened) by 1% against the U.S. Dollar with all other variables held constant, consolidated profit for the year ended December 31, 2014 would have been PLN 41 lower (higher), mainly as a result of foreign exchange losses (gains) on translation of U.S. Dollar denominated trade and investment payables, partially offset by U.S. Dollar denominated cash deposits and trade receivables, offset by PLN 101 higher (lower) result on of fair value gains (losses) on U.S. Dollar denominated forward contracts. Furthermore, at December 31, 2014, the hedging reserve in shareholders' equity would have been PLN 90 higher (lower).

At December 31, 2013, if the Polish Złoty had weakened (strengthened) by 1% against the U.S. Dollar with all other variables held constant, consolidated profit for the year ended December 31, 2013 would have been PLN 5 lower (higher), mainly as a result of foreign exchange losses (gains) on translation of U.S. Dollar denominated trade and investment payables, partially offset by U.S. Dollar denominated cash deposits and trade receivables, offset by PLN 113 higher (lower) result on of fair value gains (losses) on U.S. Dollar denominated forward contracts. Furthermore, at December 31, 2013, the hedging reserve in shareholders' equity would have been PLN 108 higher (lower).

- Interest rate risk:

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term loan and finance lease obligations with floating interest rates. If the market interest rates had been 50 basis points higher/ (lower) during the year ended December 31, 2014, interest costs relating to bank loan and finance lease obligations would have been PLN 2,627 higher/ (lower) and the capitalized interests would have been PLN 281 higher/ (lower). In January 2012 the Company entered into IRS contracts hedging interest rate risk associated with interest payments in the amount of fifty per cent of all amounts projected to be outstanding under the Term Loan 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. The Company entered into the last IRS contracts on July 23, 2014. Due to the earlier payment of PLN 375,000 bank loan, all IRS contracts were closed. The Netia Group decided not to enter into new IRS contracts relating to the new loan. (See Note 14 Other financial instruments).

If the market interest rates had been 50 basis points higher/ (lower) during the year ended December 31, 2013, interest costs relating to bank loan and finance lease obligations would have been PLN 2,213 higher/ (lower) and the capitalized interests would have been PLN 210 higher/ (lower). In January 2012 the Company entered into IRS contracts hedging interest rate risk associated with interest payments in the amount of fifty per cent of all amounts projected to be outstanding under the Term Loan 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 14 Other financial instruments). As a result of these transactions the effect of a 50 basis point higher/ (lower) market interests rate would have decreased from PLN 2,213 higher/ (lower) to PLN 795 higher/ (lower) for interests costs and from PLN 210 higher/ (lower) to PLN 75 higher/ (lower) for capitalized interests. The above analysis holds interests earned on the Group's deposits constant.

(All amounts in thousands, except as otherwise stated)

Credit risk

Credit risk arises from cash and cash equivalents, including deposits with banks, as well as credit exposures to customers, including outstanding receivables.

The Netia Group had no significant concentrations of credit risk throughout the year 2013 and 2014. Cash deposits are limited to high credit quality financial institutions. The Netia Group deposits its cash in banks and financial institutions assessed as credible. The Netia Group has a large number of customers, nationally dispersed, and there are policies in place to ensure that sales of services to significant customers are preceded by appropriate verification of their credit history. For wholesale (in particular international carriers) and large business customers credit rating and scoring tools are used. For these customers transactions are only concluded with recognised, creditworthy counterparties or credit collaterals are established. In addition receivables from the bulk business are managed separately. Retail customers verification and dunning processes are more automatic and base on CRM and billing systems functionalities. Utilization of the usage limits, sales limits and receivables balances are monitored on an ongoing basis and if necessary further business with customer that exceeds its limit is ceased.

Liquidity risk

Management monitors rolling forecasts of the Netia Group's liquidity reserves on the basis of expected cash flow. The Company invests surplus cash in interest bearing current accounts, time deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient cash to service forecasted payments.

The table below analyses the Netia Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted future cash flows, including interests and fees where applicable.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	Net carrying amount
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
As at December 31, 2014						
Trade and other payables excluding statutory liabilities	196,578	442	287	-	197,307	199,483
Bank borrowings	107,515	104,822	102,059	-	314,396	300,538
Total	**304,093**	**105,264**	**102,346**	**-**	**511,703**	**500,021**

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	Net carrying amount
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
As at December 31, 2013						
Trade and other payables excluding statutory liabilities	207,212	1,179	744	-	209,135	212,046
Bank borrowings	146,571	140,578	134,347	-	421,496	384,077
Total	**353,783**	**141,757**	**135,091**	**-**	**630,631**	**596,123**

Fair value of financial assets and liabilities approximates their net carrying amount.

The table below analyses the Netia Group's derivative financial instruments with a negative fair value, that will be settled on a net basis, based on their contractual maturities. The table presents the gross undiscounted cash flows and a reconciliation of those amounts to their carrying amounts.

As at December 31, 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	(PLN)	(PLN)	(PLN)	(PLN)
EUR forward contracts				
Inflows	35.762	-	-	-
Outflows	(35.487)	-	-	-
Net	275	-	-	-
Discounted at the applicable interbank rates	272	-	-	-
USD forward contracts				
Inflows	19.232	-	-	-
Outflows	(17.465)	-	-	-
Net	1.767	-	-	-
Discounted at the applicable interbank rates	1.755	-	-	-
IRS contracts				
Inflows	-	-	-	-
Outflows	-	-	-	-
Net	-	-	-	-
Discounted at the applicable interbank rates	-	-	-	-

As at December 31, 2013	Less than 1 year (PLN)	Between 1 and 2 years (PLN)	Between 2 and 5 years (PLN)	Over 5 years (PLN)
EUR forward contracts				
Inflows	27,200	-	-	-
Outflows	(27,997)	-	-	-
Net	(797)	-	-	-
Discounted at the applicable interbank rates	(788)	-	-	-
USD forward contracts				
Inflows	22,436	-	-	-
Outflows	(23,960)	-	-	-
Net	(1,524)	-	-	-
Discounted at the applicable interbank rates	(1,507)	-	-	-
IRS contracts				
Inflows	6,709	3,622	1,672	-
Outflows	(10,927)	(5,704)	(2,315)	-
Net	(4,218)	(2,082)	(643)	-
Discounted at the applicable interbank rates	(4,154)	(1,991)	(596)	-

Fair value estimation

Disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Netia Group's assets and liabilities that are measured at fair value at December 31, 2014:

	Level 1 (PLN)	Level 2 (PLN)	Level 3 (PLN)	Total balance (PLN)
Assets				
Financial assets at fair value through profit or loss				
- Securities	23	-	-	23
- Derivatives	-	1,089	-	1,089
Derivatives used for hedging	-	974	-	974
Available-for-sale financial assets	-	-	116	116
Total assets	**23**	**2,063**	**116**	**2,202**
Liabilities				
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	17	-	17
Derivatives used for hedging	-	20	-	20
Total liabilities	**-**	**37**	**-**	**37**

The following table presents the Netia Group's assets and liabilities that are measured at fair value at December 31, 2013:

	Level 1 (PLN)	Level 2 (PLN)	Level 3 (PLN)	Total balance (PLN)
Assets				
Financial assets at fair value through profit or loss				
- Securities	25	-	-	25
- Derivatives	-	-	-	-
Derivatives used for hedging	-	359	-	359
Available-for-sale financial assets	-	-	116	116
Total assets	**25**	**359**	**116**	**500**
Liabilities				
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	1,077	-	1,077
Derivatives used for hedging	-	7,959	-	7,959
Total liabilities	**-**	**9,036**	**-**	**9,036**

The fair value of financial instruments traded in active markets (such as equity securities) is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The fair value of forward currency contracts is determined using quoted forward exchange rates at the balance sheet date. Estimated discounted cash flows are used to determine fair value for the remaining financial instruments.

(All amounts in thousands, except as otherwise stated)

The management assessed that cash and short-term deposits, trade receivable, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Capital risk management

The Netia Group's objectives when managing capital are to safeguard the Netia Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Netia Group may return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Netia Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital employed. Net debt is calculated as total borrowings, as shown in the consolidated balance sheet, less cash and cash equivalents. Total capital employed is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The gearing ratio as at December 31, 2014 was 4.0% as compared to 11.7% as at December 31, 2013.

Financial instruments by category

December 31, 2014	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available for sale financial assets	Held to maturity investments	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Financial assets						
Available-for-sale financial assets	-	-	-	116	-	116
Trade and other receivables excluding statutory receivables	167,652	-	-	-	-	167,652
Derivative financial instruments	-	1,089	974	-	-	2,063
Financial assets at fair value through profit or loss	-	23	-	-	-	23
Held to maturity investments	-	-	-	-	-	-
Cash and short term deposits	207,305	-	-	-	-	207,305
Total financial assets	**374,957**	**1,112**	**974**	**116**	**-**	**377,159**

December 31, 2014	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Finance leases	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Financial liabilities					
Finance leases	-	-	-	1,232	1,232
Trade and other payables excluding statutory liabilities	-	-	198,251	-	198,251
Derivative financial instruments	17	20	-	-	37
Borrowings	-	-	300,538	-	300,538
Total financial liabilities	**17**	**20**	**498,789**	**1,232**	**500,058**

December 31, 2013	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available for sale financial assets	Held to maturity investments	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Financial assets						
Available-for-sale financial assets	-	-	-	116	-	116
Trade and other receivables excluding statutory receivables	187,005	-	-	-	-	187,005
Derivative financial instruments	-	-	359	-	-	359
Financial assets at fair value through profit or loss	-	25	-	-	-	25
Held to maturity investments	-	-	-	-	-	-
Restricted cash	13	-	-	-	-	13
Cash and short term deposits	93,356	-	-	-	-	93,356
Total financial assets	**280,374**	**25**	**359**	**116**	**-**	**280,874**

(All amounts in thousands, except as otherwise stated)

December 31, 2013	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Finance leases	Total
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
Financial liabilities					
Finance leases	-	-	-	1,813	1,813
Trade and other payables excluding statutory liabilities	-	-	210,167	-	210,167
Derivative financial instruments	1,077	7,959	-	-	9,036
Borrowings	-	-	384,077	-	384,077
Other financial liabilities	-	-	66	-	66
Total financial liabilities	**1,077**	**7,959**	**594,310**	**1,813**	**605,159**

5. Critical accounting estimates and judgments

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current or next financial year are described below.

(a) Impairment of goodwill and other non-financial assets

The Netia Group tests annually whether goodwill has suffered any impairment and assesses at each balance sheet date whether there is any indication that an asset may be impaired.

For the purpose of impairment testing of goodwill the total amount of goodwill was allocated to the following operating segments as of December 31, 2014:

B2C	**B2B**	**Total reportable segments**	Unallocated	**Total goodwill as of December 31, 2014**
(PLN)	**(PLN**	**(PLN)**	(PLN)	(PLN)
147.144	**124.728**	**271,872**	8,829	280,701

Goodwill in Unallocated represents goodwill assigned to Petrotel. Petrotel has been assigned to the unallocated segment as it continues to operate as a separate organization serving multiple customer segments.

For the purpose of impairment testing of other non-financial assets the Management identified the entire Netia Group excluding the non-current assets of UNI-Net Poland Sp. z o.o. as one cash-generating unit ("CGU").

The recoverable amount of operating segments to which goodwill was allocated and the CGU is determined based on fair value calculations. These calculations use cash flow projections based on assumptions underlying the budget for the next year and the approved updated business plan covering a five-year period. Only currently active projects are included in the projections. Cash flows beyond the five-year period are extrapolated using a long term nominal growth rate of 0.0%, reflecting rising free cash flows at the end of the projection period and long term industry projections for the operations concerned. The discount rate used of 7.3% (9.4% in 2013) is pre-tax and reflects Management assessment of the Company's weighted average cost of capital ("WACC"). In estimating WACC, Management assesses specific risks relating to the Netia Group operations, such as regulatory and technology risks and maintained the specific risk adjustment to the cost of equity at 0.50% in 2014. A lower risk free rate was responsible for the fall in the WACC between years. The post-tax equivalent of the WACC used in fair value calculations is 6.41% (8.39% in 2013).

The impairment test of non-current assets showed that the recoverable amount, before tax, of the CGU was higher by 1,564,502 PLN than its carrying value. As a result no impairment loss has been recognized. With the assumptions made, the results of the test are not sensitive to the reasonable change of key assumptions.

The recoverable amount of operating segments to which goodwill was allocated is higher than their carrying amounts and as a result no impairment loss has been recognized. Sensitivity of the estimated pre-tax WACC of 7.3% applied to the discounted cash flows of each operating segment is summarized in the following table:

	B2C	B2B
The Netia Group would have to recognise an impairment loss on goodwill assigned to segments if the pre-tax WACC of 7.3% had been increased to	**16.4%**	**17.4%**

The results of the impairment test of non-current assets as of December 31, 2013 showed that the recoverable amount, before tax, of the CGU was higher by 386,233 PLN than its carrying value and therefore no further impairment charge as of December 31, 2013 is required.

The determination of impairment of goodwill and non-current assets is based on estimates of a large number of factors, such as changes in the current competitive conditions, expectations of growth in the telecommunications industry, regulated access and interconnection rates, cost of capital, technological obsolescence and other changes in circumstances that indicate an impairment exists. While the estimation of recoverable amount is based on current assessment of telecommunication market conditions and Management's best estimates and judgment, these estimates include a considerable amount of uncertainty. The actual outcome is uncertain and Management estimates may change in the future to reflect changes in the economic, technological and competitive environment, in which the Company operates.

(b) Deferred income tax

As part of the process of preparing the consolidated financial statements, the Management is required to estimate the Netia Group's income taxes. This process involves estimating the Netia Group's actual current tax exposure together with assessing temporary differences resulting from different treatment for tax purposes compared to the accounting treatment, such as the valuation of tangible fixed assets, accruals and provisions. These differences result in deferred income tax assets and liabilities, which are recognized in the consolidated balance sheet.

The deferred income tax calculation is based on the probability that future taxable profit will be available against which temporary differences and the unused tax losses can be utilized. That calculation is based upon Management's estimates, which contain a considerable amount of uncertainty.

The Management is required to assess the likelihood that deferred income tax assets will be recovered from future taxable income, and to the extent the recovery is probable the deferred income tax assets are recognized. Significant management estimates are required in the valuation of the Netia Group's deferred income tax assets. These estimates take into consideration future taxable income projections for a 5 year period, potential volatility in those projections, historical results and ongoing tax planning strategies. Management's assessment also considered such factors as: the stability and trend of past earnings, the nature of the business and industry, the economic environment in which the Netia Group operates and the stability of local legislation.

Based on the above assumptions and Management's assessment of the Netia Group tax position as of December 31, 2014, including tax projections, deferred income tax assets of PLN 87,226 and deferred income tax liabilities of PLN 14,319 were recognized in the consolidated statement of financial position. The Netia Group did not recognize deferred income tax assets of PLN 111,543, relating to deductible temporary differences of PLN 587,067 (see Note 31).

Because of the above and also due to results of final reviews of our tax returns by tax authorities actual results may differ and our estimates may be altered to reflect changes in the economic, technological, regulatory and competitive environment in which the Netia Group operates. Consequently, we may need to adjust the valuation of our deferred income tax assets in the future, which could potentially materially impact our financial position and results of operations.

(c) Useful lives of non-current assets

Non-current assets, consisting primarily of property, plant and equipment and intangibles, comprise a significant portion of the Netia Group's total assets. Changes in the intended use of these assets, technological development and market conditions may cause the estimated period of use or the value of these assets to change. The Netia Group perform internal studies on an annual basis to confirm the appropriateness of its estimates of the economic useful lives for each category of current property, plant and equipment and other non-current assets. In determining the initial and remaining estimated useful life of a fixed asset, Management considers:

- the physical life of the asset;
- the technological life of the asset;
- the lives for similar productive assets; and
- the expected period that benefits will be derived from the asset.

The foregoing estimates and assumptions are inherently uncertain and subject to change, including as a result of factors outside the Netia Group's control. If the estimated useful life is shortened, the Netia Group depreciates or amortizes the remaining value of the asset over the revised remaining life of the asset. Likewise, if the anticipated technological or other changes occur more slowly than expected, the life of the group could be extended based on the life assigned to new assets added to the group. This could result in a reduction of depreciation and amortization expense in future periods. Management's estimates of useful lives affect the amount of gains or losses reported on the disposal or retirement of non-current assets.

(d) Customer relationships

In previous years the Netia Group acquired Dialog Group, Crowley, Tele2 Polska, Pro Futuro and numerous internet service providers or local networks. In the purchase price allocation process the Netia Group identified customer relationships as an intangible asset. The fair value of customer relationships was estimated using the excess earnings method. This method considers the expected present value of the future economic benefits that will flow to an owner of an intangible asset. These analyses require certain assumptions including: the expected annual cash flows, the period in which the economic benefits will flow to the owner and the risk-adjusted discount rate.

6. 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").

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.

(All amounts in thousands, except as otherwise stated)

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 was reflected retrospectively in the segment information presented below. Whilst revenue trends have been not materially affected, costs have shifted from the unallocated segment to the business units, resulting in significant changes to the Adjusted EBITDA margins of each segment.

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

	B2C	**B2B**	Total reportable segments	Unallocated	Total
	(PLN)	**(PLN)**	(PLN)	(PLN)	(PLN)
Year ended December 31, 2014					
Revenue from external customers	**955,462**	**691,765**	**1,647,227**	26,812	1,674,039
Adjusted EBITDA	**219,904**	**288,070**	**507,974**	(14,823)	493,151
Settlement with Orange Polska SA	-	-	-	146,682	146,682
Expenses incurred on mergers and acquisitions	-	-	-	(161)	(161)
Integration costs	-	-	-	(7,863)	(7,863)
Restructuring costs	-	-	-	(34,622)	(34,622)
Impairment loss	-	-	-	(9,872)	(9,872)
"Netia Lite" project				(3,100)	(3,100)
Reorganization costs	-	-	-	(2,856)	(2,856)
EBITDA	**219,904**	**288,070**	**507,974**	73,385	581,359
Depreciation and Amortization	**(114,114)**	**(252,812)**	**(366,926)**	(57,066)	(423,992)
Operating profit	**105,790**	**35,258**	**141,048**	16,319	157,367
Finance income/ (costs), net	-	-	-	(30,955)	(30,955)
Income tax benefit	-	-	-	48,421	48,421
Profit	**105,790**	**35,258**	**141,048**	33,785	174,833
Capital expenditure	**109,110**	**99,212**	**208,322**	23,530	231,852

(All amounts in thousands, except as otherwise stated)

	B2C	B2B	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Year ended December 31, 2013*					
Revenue from external customers	**1,099,288**	**747,894**	**1,847,182**	28,834	1,876,016
Adjusted EBITDA	**244,511**	**319,791**	**564,302**	(13,447)	550,855
Expenses incurred on mergers and acquisitions	-	-	-	(618)	(618)
Integration costs	-	-	-	(9,500)	(9,500)
Restructuring costs	-	-	-	(3,631)	(3,631)
Impairment loss	-	-	-	(3,034)	(3,034)
USO provision	-	-	-	150	150
Reorganisattion costs	-	-	-	(1,469)	(1,469)
EBITDA	**244,511**	**319,791**	**564,302**	(31,549)	532,753
Depreciation and Amortization	**(114,100)**	**(267,505)**	**(381,605)**	(58,389)	(439,994)
Operating profit / (loss)	**130,411**	**52,286**	**182,697**	(89,938)	92,759
Finance income/ (costs), net	-	-	-	(28,339)	(28,339)
Income tax charge	-	-	-	(18,130)	(18,130)
Profit / (Loss)	**130,411**	**52,286**	**182,697**	(136,407)	46,290
Capital expenditure	**89,237**	**101,765**	**191,002**	84,770	275,772

* The comparative segment information was adjusted to reflect the functional reorganization. As a result, as compared to previously reported, EBITDA for the year ended December 31, 2013 in B2C and B2B segments deceased by PLN 43,192 and PLN 62,387, respectively and revenue from external customers for the year ended December 31, 2013 in B2C and B2B segments increased by PLN 2,651 and PLN 1,565, respectively.

The Netia Group operates in one geographical area, which is the territory of Poland. No single customer of the Netia Group is individually material.

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

	Year ended December 31, 2014	Year ended December 31, 2013
	(PLN)	(PLN)
Operating profit for reportable segments (EBITDA)	507,974	564,302
Depreciation for reportable segments	(366,926)	(381,605)
Operating profit for Petrotel business	3,520	4,183
Operating profit/ (loss) for the Uni-Net radio communication business	25	(312)
General fixed costs (incl. administration, IT, professional services)	(27,265)	(30,534)
Reorganization and restructuring costs	(34,622)	(3,631)
Integration costs	(7,863)	(9,500)
Settlement with Orange Polska SA, net	146.682	-
Other operating income/ (loss)	(15,016)	355
Depreciation and amortization of unallocated assets (excluding Petrotel and Uni-Net)	(49,142)	(50,499)
Financial costs, net	(30,955)	(28,339)
Income tax charge	48,421	(18,130)
Profit	**174,833**	**46,290**

(All amounts in thousands, except as otherwise stated)

7. 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	-	197,370	197,547
Sale of Uni-Net	(752)	-	(11)	(5,829)	(965)	(542)	-	-	(8,099)
Transfers	458	-	76,785	127,029	6,426	3,076	-	(213,774)	-
Disposals	(407)	-	(1,819)	(15,341)	(1,529)	(23,666)	(743)	(3,396)	(46,901)
Other movements	(123)	-	58	3,633	(3,588)	23	-	-	3
Gross book value as at December 31, 2014	111,854	10,583	2,677,284	2,583,468	147,392	69,922	790	103,098	5,704,391
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	6,374	-	138,459	162,912	9,343	8,841	147	-	326,076
Sale of Uni-Net	(671)	-	(9)	(5,453)	(855)	(538)	-	-	(7,526)
Disposals	(342)	-	(342)	(10,328)	(1,130)	(21,547)	(735)	-	(34,424)
Other movements	(40)	-	(17)	3,640	(3,599)	17	-	-	1
Accumulated depreciation as at December 31, 2014	49,900	-	1,337,174	1,680,119	98,612	56,029	774	-	3,222,608
Accumulated impairment as at January 1, 2014	6,746	-	359,458	272,452	14,311	4,368	16	9,329	666,680
Sale of Uni-Net	(73)	-	(1)	(264)	(110)	(4)	-	(1)	(453)
Impairment charge for specific assets	-	-	-	-	-	-	-	1,428	1,428
Disposals	(47)	-	(21)	(1,116)	(187)	(1,652)	-	(3,202)	(6,225)
Other movements	2	-	11	(216)	200	3	-	176	176
Accumulated impairment as at December 31, 2014	6,628	-	359,447	270,856	14,214	2,715	16	7,730	661,606
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 December 31, 2014	**55,326**	**10,583**	**980,663**	**632,493**	**34,566**	**11,178**	**-**	**95,368**	**1,820,177**

(All amounts in thousands, except as otherwise stated)

7. 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	-	-	-	530	101	839	-	219,228	220,698
Purchase of operational networks	-	-	7,008	175	-	-	-	-	7,183
Transfers	846	2,723	71,888	120,971	7,835	7,680	56	(211,999)	-
Disposals	(3,990)	-	(425)	(26,864)	(702)	(6,078)	(752)	(398)	(39,209)
Other movements	(803)	-	8,066	(9,155)	2,303	(467)	56	2,281	2,281
Gross book value as at December 31, 2013	112,678	10,583	2,602,216	2,473,961	147,040	90,932	1,533	122,898	5,561,841
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	6,639	-	138,064	168,940	9,433	8,657	448	-	332,181
Disposals	(2,609)	-	(128)	(18,425)	(528)	(5,686)	(655)	-	(28,031)
Other movements	(571)	-	1,350	(1,634)	1,359	(108)	33	-	429
Accumulated depreciation as at December 31, 2013	44,579	-	1,199,083	1,529,348	94,853	69,256	1,362	-	2,938,481
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	-	-	-	-	-	-	-	2,145	2,145
Impairment charge for assets	73	-	1	231	110	4	-	7	426
Reversal of impairment charge for assets	-	-	(10)	(1,715)	(10)	-	-	-	(1,735)
Disposals	(465)	-	(25)	(2,770)	(77)	(366)	(2)	(909)	(4,614)
Other movements	(184)	-	36	(394)	308	10	-	-	(224)
Accumulated impairment as at December 31, 2013	6,746	-	359,458	272,452	14,311	4,368	16	9,329	666,680
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 December 31, 2013	**61,353**	**10,583**	**1,043,675**	**672,161**	**37,876**	**17,308**	**155**	**113,569**	**1,956,680**

The transfers recorded in the year ended December 31, 2014 mainly relate to transfers from fixed assets under construction to fixed assets brought into use.

During the year ended December 31, 2014 the Netia Group recognized specific impairment charges of PLN 1,428 relating to fixed assets under construction bringing its value to the recoverable amount. In 2013 the Netia Group recognized specific impairment charges of PLN 2,145 relating mainly to obsolete telecommunication equipment.

Subsequent costs directly attributable to the acquisition or bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Management amounting to PLN 14,967 and PLN 17,191 were capitalized to fixed assets under construction during the year ended December 31, 2014 and December 31, 2013, respectively. Furthermore the Company capitalized PLN 785 of net cash losses on closed forward contracts and PLN 3,612 of interests costs. In the year ended December 31, 2013 the Company capitalized PLN 2,041 of net cash losses on closed forward contracts and PLN 2,924 of interests costs.

The net carrying value of assets held under finance leases as at December 31, 2014 and December 31, 2013 is presented below:

	December 31, 2014 (PLN)	December 31, 2013 (PLN)
Fixed telecommunications network	-	1,757
Telecommunications equipment	976	2,571
Machinery and equipment	-	-
Vehicles	29	102
	1,005	**4,430**

Acquisition of cable television network

On May 10, 2013 following the receipt of consent from the President of the Office of Competition and Consumer Protection Netia purchased from UPC Polska Sp. z o.o. and UPC Poland Holding B.V. all shares in Centrina Sp. z o.o. ("Centrina") constituting 100% of the shares in the share capital of Centrina and representing 100% of the votes at the meetings of the shareholders of Centrina and all shares in Dianthus Sp. z o.o. ("Dianthus") constituting 100% of the shares in the share capital of Dianthus and representing 100% of the votes at the meetings of the shareholders of Dianthus. Dianthus and Centrina are owners of part of former Aster cable operator's network reaching 446,000 (not in thousands) households in Warsaw and Kraków. The network was acquired without any retail subscribers and Netia integrates it with its existing network and offers similar TV, broadband and fixed voice telephony services as are offered over its copper and fiber networks. The transaction increases the reach of Netia's proprietary network by 18% to 2.9 million (not in thousand) households.

According to the agreement, the possible purchase price for Centrina and Dianthus will be between PLN 6,000 and PLN 21,000 and will depend on the number of customers Netia gains on the acquired network. At the same time Netia obtained a discount on pre-existing operational agreements with UPC with an estimated nominal value of PLN 16,412.

Reflecting the substance of the transaction, the acquisition was accounted for in the consolidated accounts as a purchase of fixed assets and not as a business acquisition. The consideration transferred for the network purchased, including provision for an estimated additional payment of PLN 690 and related transaction costs, amounted to PLN 5,821. The value of fixed assets purchased is PLN 7,183 and the difference of 1,362 PLN relates to net liabilities in purchased subsidiaries as at the acquisition date.

(All amounts in thousands, except as otherwise stated)

8. Intangible assets

Current period:

			Licences				Computer software costs			
	Goodwill	**Trademark**	**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	34,097	-	34,305
Transfers	-	89	-	-	-	-	42,759	(42,848)	-	-
Sale of Uni-Net	-	-	-	-	-	-	(412)	-	-	(412)
Disposals	-	-	-	-	-	-	(2,721)	-	(46)	(2,767)
Other movements	-	-	-	-	-	-	(3)	-	-	(3)
Gross book value as at December 31, 2014	359,904	18,399	432,823	7,417	107,354	20,329	516,313	6,093	226,187	1,694,819
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	-	1,812	18,646	-	7,351	1,410	37,936	-	30,258	97,413
Sale of Uni-Net	-	-	-	-	-	-	(404)	-	-	(404)
Disposals	-	-	-	-	-	-	(2,477)	-	(46)	(2,523)
Other movements	-	-	-	-	-	-	(1)	-	-	(1)
Accumulated amortization as at December 31, 2014	-	15,295	309,697	1,539	83,403	10,866	370,816	-	170,587	962,203
Accumulated impairment as at January 1, 2014	79,203	-	115,549	5,878	13,231	974	42,604	-	199	257,638
Impairment charge for specific assets*	-	2,503	-	-	-	-	7,369	-	-	9,872
Sale of Uni-Net	-	-	-	-	-	-	(5)	-	-	(5)
Disposals	-	-	-	-	-	-	(188)	-	-	(188)
Accumulated impairment as at December 31, 2014	79,203	2,503	115,549	5,878	13,231	974	49,780	-	199	267,317
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 December 31, 2014	**280,701**	**601**	**7,577**	**-**	**10,720**	**8,489**	**95,717**	**6,093**	**55,401**	**465,299**

* Impairment charge of PLN 2,503 was recognized due to the decision of discontinuing of use of Dialog trademark.

(All amounts in thousands, except as otherwise stated)

8. Intangible assets (cont'd)

Comparative period:

			Licences				Computer software costs			
	Goodwill (PLN)	Trademark (PLN)	Local telecommunication licenses / permits (PLN)	Data communications and internet licenses / permits (PLN)	Domestic long-distance licenses / permits (PLN)	WiMAX licenses (PLN)	Computer software (PLN)	Capital work in progress (PLN)	Customer relationships (PLN)	Total (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	-	-	-	-	-	-	11	47,880	-	47,891
Transfers	-	44	-	-	-	-	39,192	(39,236)	-	-
Disposals	-	-	-	-	-	-	(446)	-	-	(446)
Gross book value as at December 31, 2013	359,904	18,310	432,823	7,417	107,354	20,329	476,482	14,844	226,233	1,663,696
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	-	4,514	19,857	-	7,351	1,409	37,929	-	35,925	106,985
Disposals	-	-	-	-	-	-	(412)	-	-	(412)
Accumulated amortization as at December 31, 2013	-	13,483	291,051	1,539	76,052	9,456	335,762	-	140,375	867,718
Accumulated impairment as at January 1, 2013	79,203	-	115,549	5,878	13,231	974	42,617	-	199	257,651
Impairment charge for assets	-	-	-	-	-	-	5	-	-	5
Disposals	-	-	-	-	-	-	(18)	-	-	(18)
Accumulated impairment as at December 31, 2013	79,203	-	115,549	5,878	13,231	974	42,604	-	199	257,638
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 December 31, 2013	**280,701**	**4,827**	**26,223**	**-**	**18,071**	**9,899**	**98,116**	**14,844**	**85,659**	**538,340**

Telecommunication licenses / permits

Prior to the completion of the legal merger of the Company with its operating subsidiaries on December 31, 2003, its subsidiaries held fixed-term permits for the operation of local telecommunication networks on a non-exclusive basis in specified areas throughout Poland. Those permits were obtained through their conversion from telecommunication licenses issued under the regulations of the previous Telecommunication Act. The conversion took place by virtue of the 2001 Telecommunication Act on January 1, 2001. Licenses for telecommunications services in Poland were issued for 15-year periods. The remaining amortization period of the permits is 1 year.

Domestic long-distance licenses / permits

In May 2000, one of the operating subsidiaries currently legally merged into Netia, was granted a domestic long-distance license. The license, currently converted into a permit, covers the entire territory of Poland and enables the Company to provide intercity telecommunication services. The remaining amortization period of the permit is 1 year.

Data communications and internet licenses / permits

In April 1999, one of the operating subsidiaries currently merged into Netia, obtained a data communications license covering the entire territory of Poland. This license was fully impaired in 2003.

WiMAX licenses

On October 27, 2005 the Company's subsidiaries, Netia WiMax S.A. (merged with Netia in July 2006) and Netia WiMax II S.A. (since November 2006 operating under the name "Netia WiMax S.A.", merged with Netia in October 2008), received the reservation of the 3.6-3.8 GHz frequencies, which are used to provide telecommunication services based on WiMAX technology. The license covers the entire territory of Poland and is valid for 15 years. The remaining amortization period of the permit is 7 years.

9. 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 and infrastructure of PLN 34 (reclassified from land) 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. In the year ended December 31, 2014 no additional impairment charge was recognized.

	Year ended December 31, 2014	Year ended December 31, 2013
	(PLN)	(PLN)
Gross book value at the beginning of the year	36,589	-
Reclassification from assets held for sale	-	32,786
Additions	-	3,803
Gross book value at the end of the period	36,589	36,589
Accumulated depreciation at the beginning of the year	6,084	-
Reclassification from assets held for sale	-	5,256
Adjustment for depreciation expense due to reclassification	-	503
Depreciation expense	503	325
Accumulated depreciation at the end of the period	6,587	6,084
Accumulated impairment at the beginning of the year	3,363	-
Reclassification from assets held for sale	-	760
Impairment charge	-	2,603
Accumulated impairment at the end of the period	3,363	3,363
Net book value at the beginning of the year	27,142	-
Net book value at the end of the period	**26,639**	**27,142**

(All amounts in thousands, except as otherwise stated)

10. Inventories

	December 31, 2014 (PLN)	December 31, 2013 (PLN)
Materials	649	1,100
Goods for resale	3,958	3,876
Less provision for impairment charge	(1,787)	(2,312)
Inventories, net	**2,820**	**2,664**

During the years ended December 31, 2014 and 2013 the Netia Group recognized PLN 16,528 and PLN 9,383, respectively as the cost of inventories included in "cost of goods sold".

11. Trade and other receivables

	December 31, 2014 (PLN)	December 31, 2013 (PLN)
Trade receivables	202,673	240,229
Less provision for impairment of trade receivables	(45,959)	(62,040)
Trade receivables, net	156,714	178,189
VAT and other government receivables	1,285	3,995
Other receivables	11,158	8,893
Less provision for impairment of other receivables	(220)	(77)
Other receivables, net	10,938	8,816
	168,937	**191,000**
Of which,		
Current	168,937	191,000
Non-current	-	-

During the year ended December 31, 2014 the provision for impairment of the Netia Group's receivables in the amount of PLN 512 was reversed. The provision for impairment of the Netia Group's receivables recognized during the year ended December 31, 2013 amounted to PLN 13,401 and was included in "selling and distribution costs" in the consolidated income statement.

In addition, as at December 31, 2014 and December 31, 2013 the amounts of PLN 605 and PLN 725, respectively were excluded from other receivables as they were legally reserved for spending on social purposes.

12. Prepaid expenses and accrued income

	December 31, 2014 (PLN)	December 31, 2013 (PLN)
Accrued income relating to promotional offers	22,315	21,945
Transaction costs and commitment fees related to the credit facility (see Note 17)	281	2,526
Rental costs prepaid	1,984	1,463
IT service.	1,166	1,428
Insurance.	1,287	646
Other prepaid expenses.	1,635	2,174
	28,668	**30,182**
Of which,		
Current	20,157	24,638
Non-current	8,511	5,544

13. Cash, short term deposits and restricted cash

	December 31, 2014 (PLN)	December 31, 2013 (PLN)
Cash and short term deposits	207.305	93,356

(All amounts in thousands, except as otherwise stated)

The effective interest rate on short-term bank deposits was 1.96% and 2.45%, respectively for the year ended December 31, 2014 and the year ended December 31, 2013.

In addition, as at December 31, 2014 and December 31, 2013 the amounts of PLN 490 and PLN 902, respectively were excluded from cash and short term deposits as they were legally reserved for spending on social purposes.

	December 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.

14. Other financial instruments

Derivative financial instruments

Derivative financial assets:	December 31, 2014	December 31, 2013
	(PLN)	(PLN)
Interest rate swap contracts	-	359
Forward contracts	2,063	
	2,063	**359**
Of which:		
Current	2,063	33
Non-current	-	326

Derivative financial liabilities:	December 31, 2014	December 31, 2013
	(PLN)	(PLN)
Forward contracts	37	2,295
Interest rate swap contracts	-	6,741
	37	**9,036**
Of which:		
Current	37	6,449
Non-current	-	2,587

Forward contracts

In order to mitigate the currency risk related to the planned payments to be made under fixed assets purchase commitments 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 gains on forward contracts recognized in the hedging reserve in equity as of December 31, 2014 amounted to PLN 953 (PLN 772, net of tax). Net fair value gains on forward contracts recognized in other comprehensive income on these contracts in the year ended December 31, 2014 amounted to PLN 2,166 (PLN 1,755, net of tax). During year ended December 31, 2014 PLN 785 of net cash losses on closed forward contracts were capitalized, and the ineffective portion of open forward contracts of PLN 16 was recorded as finance income.

Furthermore, in order to mitigate the currency risk related to the planned payments to be made under commercial contracts associated with various types of operating expense which are 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 year ended December 31, 2014, PLN 2,148 of fair value gains on open forward contracts were recorded as finance income.

Net fair value losses on forward contracts recognized in the hedging reserve in equity as of December 31, 2013 amounted to PLN 1,213 (PLN 982, net of tax). Net fair value gains on forward contracts recognized in other comprehensive income on these contracts in the year ended December 31, 2013 amounted to PLN 1,422 (PLN 1,152, net of tax). During year ended December 31, 2013 PLN 2,041 of net cash losses on closed forward contracts were capitalized, and the ineffective portion of open forward contracts of PLN 30 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 year ended December 31, 2013, PLN 131 of fair value losses on open forward contracts were recorded as finance costs.

The table below presents outstanding forward transactions, related assets and liabilities, other comprehensive (loss)/income and financial (costs)/income as at December 31, 2014 and for the year then ended:

(All amounts in thousands, except as otherwise stated)

	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 December 31, 2014						
Forward transactions related to equipment and construction contracts	4,040	2,560	974	(20)	2,166	-
Forward transactions related to commercial contracts	4,280	2,890	1,089	(17)	-	2,148
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 17 Borrowings). On July 23, 2014 the Company entered into interest rate swap contracts hedging interest rate risk associated with interest payments in the amount of seventy five per cent of all amounts projected to be outstanding under the Additional Loan Facility (See Note 17 Borrowings). For these IRS contracts hedge accounting was applied.

Due to the loan agreement executed on November 3, 2014 with mBank SA (the facility agent) and Bank Gospodarki Żywnościowej SA designated for repayment of the Company’s debt resulting from the loan agreement dated September 29, 2011 (subsequently amended on December 14, 2011 and June 20, 2013) executed between the Company and the consortium of banks, IRS contracts were closed. Consequently during the year ended December 31, 2014 the realised gains on IRS contracts recognized in other comprehensive income amounted to PLN 6,382 (PLN 5,169, net of tax) and realized loss in the amount PLN 9,485 in the financial costs. As at December 31, 2014 the Company has no open interest rate swaps.

As at December 31, 2013 net fair value losses on IRS contracts recognized in the hedging reserve in equity amounted to PLN 6,382 (PLN 5,169, net of tax). Net fair value gains on IRS contracts recognized in other comprehensive income in the year ended December 31, 2013 amounted to PLN 3,039 (PLN 2,462, net of tax). During the year ended December 31, 2013, PLN 4,366 of net realized cash losses on IRS contracts increased interest costs.

15. Shareholders’ equity

Share capital

At December 31, 2013, the Company’s share capital consisted of 347,909,774 (not in thousands) ordinary shares and 1,000 (not in thousands) series A1 shares with a par value of PLN 1 (not in thousands) per share. Each ordinary share has one vote at the shareholders' meeting. The holder of 1,000 (not in thousands) 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.

On November 14, 2014, the Company issued from its authorized capital 177,620 ordinary bearer series L shares with a nominal value of PLN 1 each, which give the right to 177,620 votes at Netia’s general meeting of shareholders. The Series L Shares were issued due to the exercise of rights attached to 177,620 Series 1 subscription warrants, authorizing their holders to subscribe for the Series L Shares prior to the Company’s shareholders (“Series 1 Warrants”). In connection with the exercise of rights from the Series 1 Warrants, those warrants expired.

As at December 31, 2014, the Company’s share capital amounted to PLN 348,088,394 (not in thousands) and consisted of 348,088,394 (not in thousands) shares with a par value of PLN 1 (not in thousands) per share and giving 348,088,394 (not in thousands) votes at Netia’s General Meeting of Shareholders.

The Company’s share capital as of the date of the approval of these financial statements amounted to PLN 348,088,394 (not in thousands).

According to the most recent information provided to the Company by its shareholders, as at December 31, 2014 the following shareholders held more than 5% of the votes in the General Shareholders Meeting:

	Number of shares (not in thousands)	% of share capital
Mennica Polska and related entities	55,293,375	15.88
SISU Capital Limited and related entities	44,336,534	12.74
FIP 11 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	34,863,800	10.02
ING Otwarty Fundusz Emerytalny	33,273,518	9.56
Aviva OFE	20,243,646	5.82
PZU OFE „Złota Jesień”	19,266,613	5.53
Navicorp Trust Polska	17,395,540	5.00
Shares held by public and other shareholders	123,415,368	35.45
	348,088,394	**100.00**

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 December 31, 2014, the distributable reserve amounted to PLN 497,947.

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, 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. 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 December 31, 2014 and December 31, 2013, the total number of options approved by the Supervisory Board and issued under the New Plan was 14,398,992 and 10,991,000 respectively. Out of these approved options 5,197,172 options were outstanding as at December 31, 2014 and 7,322,068 were outstanding as at December 31, 2013. As at December 31, 2014, the weighted average remaining contractual life of the outstanding options was 5.4 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 (see Note 33). 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.

On June 17, 2014, as a result of a dividend payment (see Note 33), the strike prices of all outstanding options decreased by PLN 0.42. The new strike prices of the options range between PLN 4.12 and PLN 5.58.

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 year ended December 31, 2014 and 2013 amounted to PLN 2,605 thousands and PLN 2,400 thousands, respectively.

In the year ended December 31, 2014 and 2013 the following changes took place in the number of options granted under the New Plan:

	Year ended December 31, 2014		Year ended December 31, 2013 (restated*)	
Options	**Average strike price**	**Options**	**Average strike price**	**Options**
At the beginning of the period	4.69	7,322,068	5.28	5,405,404
Granted	4.64	3,407,992	4.12	3,669,000
Exercised	4.65	(1,148,551)		-
Terminated/cancelled	4.46	(4,384,337)	5.31	(1,752,336)
At the end of the period	**4.86**	**5,197,172**	**4.69**	**7,322,068**

* average strike price has been decreased by PLN 0.42 since previously reported

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

(All amounts in thousands, except as otherwise stated)

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 Supervisory Board regarding the performance criteria for the 3,653,000 options granted in 2011 was taken on April 25, 2012 and the performance level was determined at 58.9%. The resolution of the Supervisory Board came into force on June 19, 2012 and resulted in cancellation of 41.1% options granted in 2011. 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. A conditional resolution of Supervisory Board regarding the performance criteria for the 3,669,000 options granted in 2013 was taken on March 6, 2014 and the performance level was determined at 50.0%. The resolution of the Supervisory Board came into force on May 21, 2014 and resulted in the cancellation of 50.0 % of options granted in 2013. A resolution of Supervisory Board regarding the performance criteria for the 3,407,992 options granted in 2014 is to be made in 2015. The Management estimates that the performance level shall approximate 42.99% and this judgment was applied when recognising the cost of the plan in 2014.

16. Provisions

	December 31, 2014	December 31, 2013
	(PLN)	(PLN)
USO provision	6,998	7,006
Jubilee and post-employment benefits	1,613	1,810
Claims	927	1,809
Loss on rental contract	2,791	1,191
Restructuring	16,751	712
Other	17	613
	29,097	**13,141**
Of which,		
Current	26,860	11,265
Non-current	2,237	1,876

	USO provision	Jubilee and post-employment benefits	Claims	Loss on rental contracts	Restructuring	Other	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
As at January 1, 2014	7,006	1,810	1,809	1,191	712	613	13,141
Recognition and changes in estimates (charged to the income statement)	(8)	206	(339)	2,606	30,293	(596)	32,162
Used during the period	-	(243)	(543)	(1,021)	(14,254)	-	(16,061)
Actuarial net gains recognized in OCI	-	131	-	-	-	-	131
Actuarial net losses charged to the income statement	-	(368)	-	-	-	-	(368)
Interest costs charged to the income statement	-	77	-	-	-	-	77
Discount unwinding (charged to the income statement)	-	-	-	15	-	-	15
Other movements	-	-	-	-	-	-	-
As at December 31, 2014	**6,998**	**1,613**	**927**	**2,791**	**16,751**	**17**	**29,097**

Loss on rental contracts

Provision for loss on rental contracts comprises:

- provision relating to a specific office space contract, which was recognized in 2011 upon the acquisition of Dialog Group. The loss on this rental contract is calculated as the discounted committed rental costs less discounted rental costs at estimated market level and amounts to PLN 76 as of December 31, 2014. The Netia Group expects that the cash outflows relating to this provision will be incurred through 2017;

- provision relating to the excess of office space held in certain locations in Warsaw and Wrocław following acquisitions and restructuring, some of which have been sub-leased at a loss by the Netia Group. The loss on rental contracts is calculated as discounted committed rental costs less discounted revenues expected to be received from sub-lessees. The provision amounts to PLN 2,606 as of December 31, 2014. The Netia Group expects that the cash outflows relating to this provision will be incurred through 2017.

(All amounts in thousands, except as otherwise stated)

Claims

The amounts represent provisions for legal and regulatory claims and for a contractual penalty due to delays in the performance of a contract. In the opinion of the Management the outcome of the outstanding provisions will not give rise to any significant losses beyond the amounts provided. The Netia Group is unable to determine the timing of cash outflows related to legal and regulatory claims with reasonable accuracy.

Restructuring

In connection with the planned changes in the Netia Group's organizational structure announced in December 2014 the restructuring provision was recorded for the announced group redundancies. The provision balance as at December 31, 2014 comprise the provision created for severance payments for employee. The cash outflows relating to this provision are expected to be incurred during 2014.

Jubilee and post-employment benefits

The provision for jubilee bonuses and post-employment benefits payments was calculated by an independent actuary using the projected unit credit method. Provision for post-employment benefits represents mainly the present value of the future obligation of the Company to make severance payments on its employee's retirement, required by the Polish Labour Code and meeting the definition of a defined benefit plan. A valuation was performed using a discount rate of 2.75% and a salary increase rate of 1.1% above inflation of 2.5%. Under the existing legislation, a retirement severance payment in the amount of one-month's average salary will be paid to Netia Group employees upon their retirement.

Universal services obligation

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.

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 has been estimated by the Management Board at PLN 6,998 (the change in the provision amount in 2014 is connected with the sale of the Company's subsidiary Uni-Net), taking into account their market shares in 2006 – 2011 and decisions of the President of UKE, in which the amounts of subsidies towards the costs of providing universal service in years 2006 – 2011 to be borne by the telecommunications market were granted in the total amount of PLN 136,999. 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.

17. Borrowings

	December 31, 2014 (PLN)	December 31, 2013 (PLN)
Bank loans	300,538	384,077
Bank overdraft	-	-
	300,538	**384,077**
Of which:		
Current	100,004	126,866
Non-current	200,534	257,211

Bank loans

As at December 31, 2014 Netia and its subsidiaries had a five-year loan executed on September 29, 2011with 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, consisting of term facility designated to acquire shares in Dialog and a revolving facility.

On November 3, 2014 Netia and its subsidiaries (as guarantors) executed a loan agreement with mBank SA (the facility agent) and Bank Gospodarki Żywnościowej SA whereunder the lenders agreed to extend to Netia a term facility maturing in three years with a total of up to PLN 300,000. The facility is designated for repayment of the Company's debt resulting from the loan agreement dated September 29, 2011 (subsequently amended on December 14, 2011 and June 20, 2013) executed between the Company and the consortium of banks. The remaining amount due from the previous loan agreement was repaid by Netia from its own funds.

Repayments of the new facility are to be spread evenly over six bi-annual instalments, with the final instalment date payable on 3 November 2017.

As at December 31, 2014, and December 31, 2013 the value of these outstanding loans at amortised cost was PLN 300,538 and PLN 384,077, respectively.

The term loans accrue annual interest at the rate of 3M WIBOR plus a margin established depending on the financial covenants and increased costs (as defined in the agreement), that might be incurred due to the requirements of financial regulator from the Great Britain or imposed by the European Central Bank, if such increased costs are incurred. 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 December 31, 2014 was 2.9%. Total transaction costs included in the calculation of the effective interest rate amounted to PLN 777.

(All amounts in thousands, except as otherwise stated)

To secure the Lender's claims under or related to the Agreement, the borrower as well as each guarantor granted the submission to execution for the benefit of each of the lender and each guarantor established financial pledges to the maximum amount of PLN 450,000.

On March 8, 2012, Netia entered into an overdraft credit facility agreement with mBank 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 28, 2015. 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 Company had no outstanding balance under the overdraft credit as at December 31, 2014.

18. Trade and other payables

	December 31, 2014 (PLN)	December 31, 2013 (PLN)
Trade payables	72,814	75,335
Investment payables	34,165	49,985
Accrued expenses (see Note 19)	87,660	78,062
VAT and other taxes	39,157	22,815
Finance lease payments	1,232	1,813
Other payables	3,612	6,851
	238,640	**234,861**
Of which,		
Current	235,712	231,718
Non-current	2,928	3,143

In addition, as at December 31, 2014 and December 31, 2013 the amounts of PLN 1,062 and PLN 1,627, respectively were excluded from other payables as they were legally reserved for social funding purposes.

19. Accrued expenses

	December 31, 2014 (PLN)	December 31, 2013 (PLN)
Construction costs	2,435	3,175
Uninvoiced services	47,552	35,769
Interconnection charges	14,220	13,609
Holiday accrual	5,050	6,422
Employees' bonuses and accrued salaries	13,980	12,483
Rental costs	4,423	6,604
	87,660	**78,062**
Of which,		
Current	85,427	76,752
Non-current	2,233	1,310

20. Deferred income

	December 31, 2014 (PLN)	December 31, 2013 (PLN)
Invoiced income from subscriptions relating to future periods	30,017	33,382
Rental contracts	15,032	17,591
Government grants	16,924	20,045
Other	3,477	3,196
	65,450	**74,214**
Of which,		
Current	35,728	40,039
Non-current	29,722	34,175

Dialog has made significant investments in Passive Optical Networks ("PON") in recent years on the basis that a significant part of the investment would be reimbursed from European Union funds by Polish Agency for Enterprise Development ("PARP"). The grants have been recognized as deferred income, having confirmed that all requirements in the realization phase of the project are fulfilled and having received formal answer from the relevant EU institution clarifying reporting requirements during the project maintenance phase till June 2019.

(All amounts in thousands, except as otherwise stated)

21. Revenue

	Year ended December 31, 2014 (PLN)	Year ended December 31, 2013 (PLN)
Direct voice	668,780	809,188
Monthly fees	*504,266*	*588,397*
Calling charges	*164,293*	*220,223*
Other	*221*	*568*
Indirect voice	12,531	19,203
Data	684,707	724,721
Interconnection revenue	69,936	85,288
Wholesale services	99,872	107,003
Other telecommunication service revenue	134,427	122,189
Telecommunication revenue	**1,670,253**	**1,867,592**
Radio communication services revenue	205	2,863
Other services	3,581	5,561
Revenue	**1,674,039**	**1,876,016**

22. Cost of sales

	Year ended December 31, 2014 (PLN)	Year ended December 31, 2013 (PLN)
Interconnection charges	(166,215)	(201,301)
Network maintenance	(538,573)	(593,399)
Cost of goods sold	(16,528)	(9,383)
Depreciation and amortization	(349,463)	(359,562)
Salaries and benefits	(30,631)	(32,175)
Restructuring	(2,875)	(629)
Taxes, frequency fees and other expenses	(58,832)	(68,893)
	(1,163,117)	**(1,265,342)**

23. Selling and distribution costs

	Year ended December 31, 2014 (PLN)	Year ended December 31, 2013 (PLN)
Advertising and promotion	(23,726)	(39,080)
Third party commissions	(17,997)	(22,854)
Billing, mailing and logistics	(19,744)	(28,237)
Outsourced customer service	(12,883)	(14,375)
Provision for impaired receivables	512	(13,401)
Depreciation and amortization	(38,957)	(50,519)
Salaries and benefits	(118,346)	(120,468)
Restructuring	(5,181)	(1,456)
Other expenses	(72,662)	(68,136)
	(308,984)	**(358,526)**

24. General and administration costs

	Year ended December 31, 2014 (PLN)	Year ended December 31, 2013 (PLN)
Professional services	(8,107)	(9,499)
Information technology services	(17,872)	(16,383)
Office and car maintenance	(16,317)	(15,475)
Depreciation and amortization	(35,572)	(29,913)
Salaries and benefits	(65,435)	(77,193)
Restructuring	(22,308)	(1,546)
Other expenses	(35,010)	(29,177)
	(200,621)	**(179,186)**

(All amounts in thousands, except as otherwise stated)

25. Salaries and benefits

	Year ended December 31, 2014	Year ended December 31, 2013
	(PLN)	(PLN)
Wages and salaries	(179,329)	(192,959)
Social security costs and other benefits	(16,927)	(17,383)
Defined contribution plan (the State Plan)	(14,545)	(15,285)
Provision for retirement severance payment and jubilee awards	37	(504)
Equity-settled share-based compensation	(2,605)	(2,400)
Cash-settled share-based compensation	(966)	(1,240)
Net change in accrual for PIT and social security costs relating to share-based compensation	(77)	(65)
Restructuring	(30,364)	(3,631)
	(244,776)	**(233,467)**

The Netia Group is legally required to make contributions to the Government's retirement benefit scheme in the form of social security payments. The Netia Group is not required to make any contributions in excess of this statutory rate.

26. Other income

	Year ended December 31, 2014	Year ended December 31, 2013
	(PLN)	(PLN)
Reminder fees and penalties	10,569	5,402
Forgiveness of liabilities	657	701
Reversal of impairment charges and provisions	1,492	2,465
Settlement with Orange Polska SA	148,241	-
Recognition of grants	4,438	-
Other operating income	3,099	7,160
	168,496	**15,728**

Settlement with Orange Polska S.A.

On November 5, 2014 Netia Group Companies and Orange Polska S.A. signed of an out-of-court settlement agreement in accordance with the Parties waived claims and undertook to take actions aimed at discontinuation of the relevant court proceedings ("Settlement").

As a result of mutual concessions, the Parties decided to settle their mutual claims by way of Orange Polska S.A. paying Netia Group PLN 145,000. This amount was paid on the date of signing of the Settlement. Under the Settlement Agreement Orange Polska S.A. will, under defined circumstances, pay to Netia an additional amount: such amount will be paid if the fine imposed by the European Commission on Orange Polska S.A. in Case No. COMP/39.525 (EUR 127,554) is decreased to an amount below EUR 112,000 or the decision issued by the European Commission in the above-mentioned case is annulled in its entirety or in the part relating to the imposition of the fine. The additional amount will be equal to either (i) 45% of the difference between EUR 112,000 and the final amount of the fine imposed on Orange Polska S.A. or (ii) EUR 50,400 if the fine is annulled in its entirety.

One of the goals of the Settlement is not to undertake new court proceedings regarding the claims being the subject of the Settlement. In case of undertaking by Netia any legal actions that are contrary to such goal, Netia could be obliged to pay the contractual penalties in the total amount of PLN 25,750.

27. Other expenses

	Year ended December 31, 2014	Year ended December 31, 2013
	(PLN)	(PLN)
Impairment charges for specific individual fixed assets (see Note 7,8, 9)	(11,300)	(5,184)
Other	-	(90)
	(11,300)	**(5,274)**

28. Other gains, net

	Year ended December 31, 2014	Year ended December 31, 2013
	(PLN)	(PLN)
Gain on sale of impaired receivables	(446)	10,331
(Loss)/ gain on disposal of fixed assets	240	(801)
Net foreign exchange losses	(940)	(187)
	(1,146)	**9,343**

(All amounts in thousands, except as otherwise stated)

29. Finance income and finance costs

Finance income

	Year ended December 31, 2014 (PLN)	Year ended December 31, 2013 (PLN)
Interest income on cash and cash equivalents	2,193	3,874
Gain on sale of Uni-Net	286	-
Fair value gains on open forward contracts hedging commercial exposures (see Note 14)	2,148	
Amortization of held to maturity investments	-	1
Other finance income	-	10
	4,627	**3,885**

Finance costs

	Year ended December 31, 2014 (PLN)	Year ended December 31, 2013 (PLN)
Interests and fees charged on bank loans	(25,826)	(30,681)
Interests and fees charged on overdraft	(96)	(131)
Amortization of finance lease liability	(84)	(172)
Amortization of provisions	(54)	(87)
Loss on IRS contracts realization	(9,485)	-
Fair value loss on equity securities	(2)	-
Net foreign exchange losses	93	(868)
Fair value losses on open forward contracts hedging commercial exposures (see Note 14)	-	(131)
Ineffective cash flow hedges (see Note 14)	16	(30)
Finance cost on jubilee and retirement provision	(77)	(84)
Other finance costs	(67)	(40)
	(35,582)	**(32,224)**

30. Net foreign exchange gains / (losses)

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

	Year ended December 31, 2014 (PLN)	Year ended December 31, 2013 (PLN)
Other gains / (losses), net	(940)	(187)
Finance income/ (costs)	93	(868)
	(847)	**(1,055)**

31. Corporate income tax

	Year ended December 31, 2014 (PLN)	Year ended December 31, 2013 (PLN)
Current income tax charge	(32,750)	(9,730)
Current income tax to be returned for the year 2003	81,404	-
Deferred income tax charge, net	(233)	(8,400)
Income tax (charge) / benefit	**48,421**	**(18,130)**

(All amounts in thousands, except as otherwise stated)

Current income tax

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

	Year ended December 31, 2014	Year ended December 31, 2013
	(PLN)	(PLN)
Profit before tax	126,412	64,420
Tax calculated at tax rates applicable to profit	(24,019)	(12,240)
Adjustments in respect of current income tax of previous years	81,404	-
Income and expense not subject to tax / deductible for tax purposes, net	(11,553)	(10,497)
Recognition of previously unrecognized deferred tax asset	(4,777)	7,003
Deductible temporary differences arising during the year for which no deferred tax asset was recognized	-	(8,870)
Recognition of previously unrecognised deferred tax assets on trademark	7,366	7,366
Derecognition of previously recognised deferred tax asset on tax losses and expired tax losses	-	(892)
Income tax (charge) / benefit	**48,421**	**(18,130)**

The corporate income tax rate applicable to the Company and its subsidiaries for 2014 and onwards is 19%.

Deferred income tax

The deferred income tax calculation is based upon the probability that future taxable profit will be available against which temporary differences and unused tax losses 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, 2014 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 2015 budget and long term business plan covering the period until 2019. 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 December 31, 2014 Netia Group had a net deferred income tax asset of PLN 72,907. 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 14,319 presented in the consolidated statement of the financial position as of December 31, 2014 relate to net deferred income tax liabilities recognized in Netia and one of its subsidiaries (after intercompany eliminations).

	December 31, 2014	December 31, 2013
	(PLN)	(PLN)
Deferred income tax assets	87,226	92,501
Deferred income tax liabilities	14,319	17,746
Deferred income tax assets, net	**72,907**	**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:

	December 31, 2014	December 31, 2013
	(PLN)	(PLN)
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	72,412	77,720
- Deferred income tax assets to be recovered within 12 months	56,631	60,124
	129,043	137,844
Deferred income tax liabilities:		
- Deferred income tax liabilities to be recovered after more than 12 months	18,202	20,068
- Deferred income tax liabilities to be recovered within 12 months	37,934	43,021
	56,136	63,089
Deferred income tax assets, net	**72,907**	**74,755**

The movement in deferred income tax assets and liabilities during the period, without taking into consideration the offsetting of balances, is as follows:

(All amounts in thousands, except as otherwise stated)

Current period:

Deferred income tax assets	Tax losses	Impairment provisions for receivables	Depreciation and impairment	Accrued expenses	Interests	Forward contract	Other	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
As at January 1, 2014	50,879	7,386	59,534	17,907	-	1,717	421	137,844
- Credited / (charged) to the income statement	(11,217)	(1,965)	1,048	5,216	123	(1,710)	(296)	(8,801)
As at December 31, 2014	**39,662**	**5,421**	**60,582**	**23,123**	**123**	**7**	**125**	**129,043**

Deferred income tax liabilities	Accrued income	Foreign exchange differences	Depreciation and impairment	Forward contract	Other	Interests	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)		(PLN)
As at January 1, 2014	5,909	14	49,810	68	6,845	443	63,089
- Charged / (credited) to the income statement	(945)	(14)	(4,752)	(1,301)	(1,113)	(443)	(8,568)
- Credited / (charged) to other comprehensive income	-	-	-	1,625	(10)	-	1,615
As at December 31, 2014	**4,964**	**-**	**45,058**	**392**	**5,722**	**-**	**56,136**

The deferred income tax recognized in equity in an amount of PLN 1,615 relates to movements in the hedging reserve and actuarial gains recognised in other comprehensive income.

Comparative period:

Deferred income tax assets	Tax losses	Impairment provisions for receivables	Depreciation and impairment	Accrued expenses	Interests	Forward contract	Other	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
As at January 1, 2013	64,610	8,919	57,394	20,753	2,432	2,472	589	157,169
- Credited / (charged) to the income statement	(13,731)	(1,533)	2,140	(2,846)	(2,432)	(755)	(168)	(19,325)
As at December 31, 2013	**50,879**	**7,386**	**59,534**	**17,907**	**-**	**1,717**	**421**	**137,844**

Deferred income tax liabilities	Accrued income	Foreign exchange differences	Depreciation and impairment	Forward contract	Other	Interests	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)		(PLN)
As at January 1, 2013	8,902	-	57,022	-	7,241	-	73,165
- Charged / (credited) to the income statement	(2,993)	14	(7,212)	(781)	(396)	443	(10,925)
- Credited / (charged) to other comprehensive income	-	-	-	849	-	-	849
As at December 31, 2013	**5,909**	**14**	**49,810**	**68**	**6,845**	**443**	**63,089**

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 December 31, 2014, the Netia Group had total deductible temporary differences of PLN 762,015 and unutilised tax loss carry-forwards of PLN 208,748 (total potential deferred income tax asset of PLN 184,445).

Due to the lack of conclusive evidence of future taxable profits, the Netia Group did not recognize deferred income tax assets of PLN 111,543, relating to deductible temporary differences of PLN 587,067 as follows:

	Timing differences as at December 31, 2014	Potential deferred income tax asset as at December 31, 2014	Timing differences as at December 31, 2013	Potential deferred income tax asset as at December 31, 2013
	(PLN)	(PLN)	(PLN)	(PLN)
Depreciation and impairment	572,893	108,850	546,384	103,813
Trademark	-	-	38,770	7,366
Deferred income	6,427	1,221	8,130	1,545
Other	7,747	1,472	7,995	1,519
	587,067	**111,543**	**601,279**	**114,243**

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.

Dispute concerning corporate income tax ("CIT") paid for the year 2003

On December 29, 2014 a further decision was issued by the Director of the Tax Chamber in Warsaw establishing Netia's corporate income tax ("CIT") obligation for the year 2003 at PLN 0. The Decision was issued after a reconsideration of the case by the Tax Chamber Director following the issuance of the judgment of the Voivodship Administrative Court in Warsaw on 10 October 2013.

The Decision incorporates the argumentation put forward by the Company in the course of the proceedings conducted in this case before administrative courts of the first and second instance. Since the Company paid the tax (with interest) established by the Tax Chamber Director in the reversed decision in February 2010, the Company received PLN 81,495 on January 8, 2015 which brings to a close a dispute with the tax authorities over 2003 CIT. As a result of receiving the decision on December 29, 2014 Netia Group recognized a receivable in the amount of PLN 81,404 and corresponding income tax benefit as at December 31, 2014. As at December 31, 2013, Netia treated the tax paid as a contingent asset.

32. Earnings per share

Basic

Basic earnings per share have been calculated based on the net profit attributable to the equity holders of the Company for each period divided by the weighted average number of shares in issue (reduced by treasury shares) during the year.

	Year ended December 31, 2014 (PLN)	Year ended December 31, 2013 (PLN)
Profit/ (loss) attributable to the equity holders of the Company	174,833	46,290
Weighted average number of ordinary shares in issue, excluding treasury shares (not in thousands)	347,933,646	354,504,029
Basic earnings/ (loss) per share (not in thousands)	0.50	0.13

Diluted

Diluted earnings per share for the net profit/ (loss) attributable to the equity holders of the Company are calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Company had one category of potentially dilutive ordinary shares - the employees' share options (which upon their exercise trigger the issue of the series L shares). For the share options a calculation was made to determine the number of shares that could have been acquired by individuals participating in the share option scheme at fair value (determined as the average market share price of the Company's shares during 2014) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares outstanding was compared with the number of shares that would have been in issue assuming the exercise of the share options.

	Year ended December 31, 2014 (PLN)	Year ended December 31, 2013 (PLN)
Profit/ (loss) attributable to the equity holders of the Company	174,833	46,290
Weighted average number of ordinary shares in issue, excluding treasury shares (not in thousands)	347,933,646	354,504,029
Adjustments for:		
- Share options (not in thousands)	990,371	70,423
Weighted average number of ordinary shares for diluted earnings per share (not in thousands)	348,924,017	354,574,452
Diluted earnings/ (loss) per share (not in thousands)	0.50	0.13

33. Dividends and repurchase of own shares

Management proposed a dividend payment in respect to the financial year ended December 31, 2013 of PLN 0.42 per share amounting to PLN 146,123. The Annual General Shareholders' Meeting of Netia S.A. held on May 21, 2014 resolved to allocate the total net profit for the fiscal year 2013 in the amount of PLN 30,725 and the part of the supplementary capital of PLN 115,398 for the dividend payment for the Company's shareholders. The dividend payment was made on June 17, 2014.

In accordance with the approved distribution policy, the Management Board proposed and the shareholders granted (by approval of resolution 22 at the annual General Shareholders' Meeting held on May 21, 2014) an authorisation to the Company's Management Board to purchase its own shares for the purpose of their redemption pursuant to the procedure set forth in in Art. 362 § 1 point 5 of the Commercial Companies Code (the "Program"). The Annual General Meeting of the Company assigned for the execution of the Program the total amount of up to PLN 200,000 from the supplementary capitals created out of profits in the previous years.

During the execution of the Program the Company may purchase shares in the total amount not exceeding 20% of the Company's share capital in the amount determined as of the last day of the Program execution and the maximum price for the shares in the Company under the Program cannot be higher than 5.50 PLN per share not in thousands).

(All amounts in thousands, except as otherwise stated)

The Management Board must start the Program within a term not longer than two years from the approval of the Program and after the Supervisory Board approval for beginning the Program.

Netia's distributable reserves are disclosed in Note 15.

34. Supplemental disclosures to the consolidated cash flow statement

Changes in working capital components:

	Year ended December 31, 2014 (PLN)	Year ended December 31, 2013 (PLN)
Receivables	(54,426)	52,897
Inventories	(182)	(570)
Prepaid expenses	(977)	17,089
Restricted cash	13	(491)
Provisions, accruals and other payables	40,937	(48,263)
Deferred income	(8,764)	15,622
	23,399	**36,284**

Supplemental disclosures to operating activities:

	Year ended December 31, 2014 (PLN)	Year ended December 31, 2013 (PLN)
Income taxes paid	(27,428)	(14,918)
Interest received	2,196	3,874

Non-cash transactions:

During the year ended December 31, 2014 the Netia Group did not enter into finance lease agreements for telecommunication equipment. The carrying value of assets and liabilities recognized due to these transactions amounted to PLN nil (PLN 327 in 2013).

35. 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.

On February 19, 2014, the President of the Company's Management Board, Mirosław Godlewski, in agreement with the Supervisory Board, decided to stand-down but agreed to stay in his position while the Supervisory Board identified 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. As a result, Mr. Godlewski left the Company's Management Board on May 30, 2014.

On May 14, 2014 Mr. Mirosław Suszek, resigned from his position on the Company's Management Board with effect from July 31, 2014.

On July 31, 2014, Mr. Tomasz Szopa resigned from his position on the Company's Management Board with immediate effect, but continues to be employed by the Netia Group in his position of Managing Director of the B2C Business Unit.

On August 1, 2014, Mr. Tom Ruhan resigned from his position on the Company's Management Board with immediate effect and left the Netia Group.

On August 27, 2014, Mr. Jonathan Eastick resigned from his position as the Company's Management Board member and Chief Financial Officer with effect from August 31, 2014.

On August 27, 2014, the Supervisory Board of the Company appointed Mr. Paweł Szymański to the position of the Company's Management Board Member and Chief Financial Officer with effect from September 1, 2014.

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

- Adam Sawicki – President,
- Paweł Szymański – Chief Financial Officer, Management Board Member.

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.

Mr. George Karaplis resigned from his position as a chairman of the Supervisory Board of the Company with the effect from May 15, 2014.

Mr. Stan Abbeloos resigned from his position as a member of the Supervisory Board of the Company with the effect from May 16, 2014.

Mr. Nicolas Maguin's and Ms. Ewa Pawluczuk's term of office expired on May 21,2014.

On May 21, 2014 the Ordinary General Meeting of the Company resolved that the Supervisory Board will consist of up to seven members. The Ordinary General Meeting of the Company dismissed from the Supervisory Board the following persons: Mr. Jacek Czernuszenko, Mr. Raimondo Eggink, Mr. Bogusław Kułakowski and Mr. Jerome de Vitry and appointed to Netia's Supervisory Board the following individuals: Mr. Jacek Czernuszenko, Mr. Przemysław Głębocki, Mr. Mirosław Godlewski (effective September 1, 2014), Ms. Katarzyna Iwuć, Mr. Zbigniew Jakubas and Mr. Cezary Smorszczewski.

On August 16, 2014, Mr. Jacek Czernuszenko resigned from his position as a member of the Company's Supervisory Board with immediate effect.

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

- Zbigniew Jakubas - Chairman,
- Cezary Smorszczewski - Vice-chairman
- Przemysław Głębocki,
- Mirosław Godlewski
- Katarzyna Iwuć,
- Tadeusz Radzimiński.

36. Related party transactions

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

As at December 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 400,000 and 3,585,701, respectively, none of which had vested as of December 31, 2014 and December 31, 2013. Strike price for the options granted to the Management range between PLN 4.12 and PLN 5.58. per share (after strike price reductions by PLN 0.16 and PLN 0.42, see Note 15). The market price of the Company's shares as at December 31, 2014 was PLN 5.59 per share.

The movements in the number of options held by members of the Company's Management Board in the year ended December 31, 2014 and December 31, 2013 are presented below:

Options	**New Plan Year ended December 31, 2014**	**New Plan Year ended December 31, 2013**
At the beginning of the period	3,585,701	2,402,351
Granted	1,635,992	1,725,000
Forfeited	(862,500)	(541,650)
Resignation from Management Board	(3,959,193)	-
At the end of the period	**400,000**	**3,585,701**

As at December 31, 2014 Mr. Adam Sawicki - the Company's President of the Management Board - held 400,000 options, none of which had vested.

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

As at December 31, 2014 Mr. Mirosław Godlewski - a member of the Company's Supervisory Board - held 658,807 options, none of which had vested.

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

As at December 31, 2014, the Company's President of the Management Board, Mr. Adam Sawicki held 40,000 shares of the Company.

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

As at December 31, 2014 and December 31, 2013 Mr. Mirosław Godlewski - a member of the Company's Supervisory Board - held 52,979 and 577,385 shares of the Company, respectively.

As at December 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 December 31, 2013, the total number of Restricted Stock Units ("RSU") granted to the members of the Company's Supervisory Board was 760,000. RSUs entitled 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 ranged from 12 to 36 months after the grant date.

On May 21, 2014, Annual Shareholders Meeting approved changes of the rules of remunerating the Supervisory Board members dated April 9, 2009. These changes withdrew remuneration by Restricted Stock Units with immediate effect.

Due to their dismissal from the Supervisory Board (see Note 35) as of May 21, 2014 and the termination of Restricted Stock Unit remuneration in accordance with the rules on remuneration with Restricted Stock Units adopted on July 26, 2010, all Supervisory Board's member became authorized to exercise immediately their vested and unvested RSU's.

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

	December 31, 2013	RSUs granted	RSUs terminated	RSUs exercised	December 31, 2014
Stan Abbeloos	95,000	-	(30,000)	(65,000)	-
Jacek Czernuszenko	65,000	-	-	(65,000)	-
Raimondo Eggink	110,000	-	-	(110,000)	-
George Karaplis	80,000	-	(30,000)	(50,000)	-
Bogusław Kułakowski	-	50,000	-	(50,000)	-
Nicolas Maguin	110,000	-	-	(110,000)	-
Ewa Pawluczuk	110,000	-	-	(110,000)	-
Tadeusz Radzimiński	110,000	-	-	(110,000)	-
Jerome de Vitry	80,000	-	-	(80,000)	-
Total RSU	**760,000**	**50,000**	**(60,000)**	**(750,000)**	**-**

The Company recognized the cost of cash-settled share-based payment transactions (including RSU) over the vesting period by accruing cost provisions pro-rata to elapsed time and the market price of the Company's shares. The cost of RSUs recorded in the year ended December 31, 2014 amounted to PLN 966 thousands (PLN 1,240 thousands in the year ended December 31, 2013). Cash payments concerning exercised RSU's amounted to PLN 4,048 thousands in the year ended December 31, 2014 (PLN 572 thousands in the comparable period in 2013).

Management Board remuneration

Compensation and related costs associated with members of the Company's Management Board during year ended December 31, 2014 and December 31, 2013 amounted to PLN 4,865 and PLN 5,410, respectively. In addition, the gross cost of share-based payments in the amounts of PLN 1,376 and PLN 1,326 was recognized in the respective periods.

In addition, amounts paid and payable to former Management Board members in the course of termination of their employment relationship with the Netia Group during year ended December 31, 2014 amounted to PLN 3,753.

Compensation and related costs associated with members of the Management Boards of the Company's subsidiaries during the years ended December 31, 2014 and December 31, 2013 amounted to PLN 347 and PLN 657, respectively. These amounts were paid to certain employees of the Netia Group who were neither past nor present members of the Management Board of Netia S.A.

Additional to the above, in 2013 termination benefits of PLN 30 for the former members of the Management Board of the Company's subsidiaries were recognized as a cost. This amount was paid to certain employees of the Netia Group who were 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 years ended December 31, 2014 and December 31, 2013 amounted to PLN 651 and PLN 936, respectively.

Incidental expenses of the Supervisory Board Members reimbursed by the Company amounted to PLN 113 and PLN 291 during the years ended December 31, 2014 and 2013, respectively, and mainly related to travel and accommodation.

Compensation and related costs associated with members of the Supervisory Boards of the Company's subsidiaries during the years ended December 31, 2014 and December 31, 2013 amounted to PLN nil and PLN 2, respectively. This amount was paid to persons who were neither past or present members of Netia's Management Board.

Other transactions with related parties

During the year ended December 31, 2014 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.

37. Information on the registered audit company

The financial statements of Netia and the consolidated financial statements of the Netia Group for 2014 were audited by PricewaterhouseCoopers spółka z ograniczoną odpowiedzialnością on the basis of a contract concluded on February 28, 2014. The financial statements of Netia and the consolidated financial statements of the Netia Group for 2013 were audited by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa on the basis of a contract concluded on December 4, 2009.

(All amounts in thousands, except as otherwise stated)

The total fees specified in contracts with the registered audit company, payable or paid for the audit and review of the financial statements and for other services are presented below:

Item	**Year ended December 31, 2014**	**Year ended December 31, 2013**
	(PLN)	**(PLN)**
Audit of stand-alone and consolidated financial statements	185	265
Review of stand-alone and consolidated financial statements	115	230
Audit of subsidiaries' financial statements	144	329
Other attest services	239	40
Total	**683**	**864**

38. Commitments

Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognized in the consolidated financial statements amounted to PLN 15,622 as at December 31, 2014 and PLN 14,634 as at December 31, 2013 of which, PLN 653 and PLN 1,639, respectively, related to the planned acquisition of intangible assets.

Operating lease commitments – where the Netia Group is the lessee

As at December 31, 2014 and December 31, 2013 the future minimum payments payable under non-cancellable operating leases were as follows:

	December 31, 2014	**December 31, 2013**
	(PLN)	**(PLN)**
Not longer than 1 year	109,954	99,772
Longer than 1 year and not longer than 5 years	108,438	139,946
Longer than 5 years	60,338	66,398
	278,730	**306,116**

Operating lease arrangements mainly relate to the rental of buildings, land, network and vehicles. The periods of administrative building and land rentals do not exceed 30 years, network rentals range up to 20 years and vehicles are leased for 3 years. Rental costs recognized in the income statement for the years ended December 31, 2014 and December 31, 2013 amounted to PLN 450,393 and PLN 523,569, respectively. These rental costs are partially offset by income from sub-lessees in the amounts of PLN 4,001 and PLN 5,134, respectively.

Operating lease commitments – where the Netia Group is the lessor

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	December 31, 2014	**December 31, 2013**
	(PLN)	**(PLN)**
Not longer than 1 year	31,797	13,914
Longer than 1 year and not longer than 5 years	15,269	37,273
Longer than 5 years	4,334	19,488
	51,400	**70,675**

The Netia Group has entered into several commercial leases on certain parts of its fixed telecommunications network. The periods of network rentals range up to 20 years. The relevant rents recognized in the income statement for the years ended December 31, 2014 and December 31, 2013 amounted to PLN 28,362 and PLN 32,840, respectively. The operating lease agreements do not relate to specific separate assets.

Finance lease commitments

As at December 31, 2014 and December 31, 2013 future minimum lease payments under finance leases together with the present value of net minimum lease payments were as follows:

	December 31, 2014	**December 31, 2013**
	(PLN)	**(PLN)**
Not longer than 1 year	528	607
Longer than 1 year and not longer than 5 years	689	1,212
Longer than 5 years	-	-
Present value of minimum lease payments	**1,217**	**1,819**
Plus amount representing finance charges	104	180
Total minimum lease payments	**1,321**	**1,999**

39. 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 reconsideration of the case on a basis of the Orange Polska SA requesting the Regulator upheld this decision by the decision issued 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. On July 17, 2014 WSA repealed the decisions of the President of UKE. KIGEiT submitted a cassation complaint to the NSA against WSA judgments repealing the decisions of the President of UKE.

On May 13, 2014 the NSA repealed the judgments of the WSA dismissing the Orange Polska S.A. complaints on the decisions of the President of UKE granting Orange Polska SAsubsidies for providing the universal service for the years 2008 and 2009 and remanded the case for the reconsideration to the WSA.

On October 2, 2014 NSA repealed WSA judgments receding Orange Polska S.A. complaint about granting Orange Polska S.A. subsidies for the universal services for the year 2010 and remanded the case back to the WSA.

Although the Management Board is convinced of the validity of the issued decisions, cannot assure that decisions for the years 2006 – 2009 will be finally maintained and the amount of the Netia Group's share in the subsidy to the universal service cost will not be increased.The Management Board cannot assure that the judgement of the WSA dismissing the Orange Polska S.A. complaint for the subsidies for the 2010 year will be maintained by the NSA and as the consequence the share of the Netia Group companies in the cost of the universal service for the year 2010 will not be increased above the current estimate.

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. On September 17, 2014 WSA repealed the decision. While the Management Board is convinced of the defective nature of the issued decision, it cannot assure 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. After reconsidering the case, the index for 2006 was set on the level 0,0018499671% of the income. Netia, Dialog appealed against the abovementioned decisions to the WSA. Should the rate be finally 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 Management estimates the total amount of potential obligation of Companies of the Netia Group to subsidise the cost of USO at PLN 6,998. This estimate takes into account their market shares in 2006 – 2011 and 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. 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 53,853 for the period from 2006 until 2011 inclusive as follows:

	Maximum subsidies	**Provision**
	PLN	*PLN*
2006	6,259	33
2007	10,816	63
2008	9,167	81
2009	11,964	3,199
2010	13,857	2,834
2011	1,790	788
	53,853	**6,998**

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.

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". On May 5, 2014 the President of UKE published the Report "The state and the assessment of the availability, the quality of service and the price accessibility of the services included in the universal service", where the President of UKE stated that all services included in the universal service in the telecommunication market are currently provided with good quality and are reasonable priced in the whole Poland, what implies lack of the indications to begin the procedure to appoint the undertaking appointed to provide universal service. At the same time the President of UKE stipulated that he will continue to monitor providing of the services included in the universal service by the telecommunication companies in Poland.

However the Management Board cannot assure that, in the future, the President of UKE would not aim to change to a new model of USO, and in such a case that it would not cause 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.

Possible liabilities under the New Plan

According to the New Plan (see also Note 15), 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. However, had the Change of Control occurred as at December 31, 2014 when the market price of the Company's shares was PLN 5.59 (not in thousands) per share, the liability to settle in cash all outstanding non-vested options would amount to PLN 3,078.

40. Subsequent events

Resignation of the President of the Management Board

On January 30, 2015, the President of the Company's Management Board, Adam Sawicki, in agreement with the Supervisory Board, decided to resign from his position. Mr. Adam Sawicki shall remain in his position until July 31, 2015.