DIRECTORS' REPORT
NETIA S.A. GROUP
for the year ended December 31, 2014

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

1 Characteristics of the Netia Group

1.1 The Netia Group structure

The consolidated financial statements as at and for the year ended December 31, 2014 include the financial statements of the Company and the following subsidiaries:

- Internetia Sp. z o.o.
- Netia 2 Sp. z o.o.
- Netia Brand Management Sp. z o.o.
- Telefonia DIALOG Sp. z o.o. Group.

The financial statements of the Telefonia DIALOG Sp. z o.o. Group include the financial statements of Telefonia DIALOG Sp. z o.o. and its wholly-owned subsidiary Petrotel Sp. z o.o.

Changes within the Netia Group's structure

Sale of Uni-Net

On February 6, 2014 the Company's subsidiary Internetia Holding Sp. z o.o. sold all shares in Uni-Net Poland Sp. z o.o. ("Uni-Net") constituting 100% of the shares in the share capital of Uni-Net and representing 100% of the votes at the meetings of shareholders of Uni-Net for PLN 1,476 (PLN 322 net of cash sold).

Mergers with subsidiaries

On June 30, 2014 the Company merged with its wholly-owned subsidiaries Centrina Sp. z o.o., Dianthus Sp. z o.o., InterNetia Holdings Sp. z o.o. and Net 2 Net sp. z o.o. The merger was carried out through the transfer of the acquired companies' assets to Netia (merger by acquisition) without any increase in Netia's share capital and without any share exchanges.

1.2 Information on basic products and services

The Netia Group provides various telecommunication services, including fixed-line voice telephony, fixed-access Internet, data transmission services and television services. On January 24, 2014 Netia announced a divisional split of its operations between two distinct Business Units: Business to Business (B2B) and Business to Consumers (B2C).

Within the B2C segment Netia Group provides services based on Netia's own infrastructure (copper network, Ethernet network, HFC, PON) as well as based on regulated access (LLU, BSA, WLR). Services for individual customers are sold mainly in packages consisting of voice telephony, broadband data transmission and TV services based on adaptive IP (so called 3-play). Netia provides also mobile services based on a Mobile Service Provider Agreement ("MVNO") with P4 Sp. z o.o. ("P4"), enabling Netia to buy mobile services wholesale from P4 and resell them as Netia branded mobile services.

Netia's offer includes also a wide variety of value added services, for example, Chmura Osobista – personal cloud, antivirus software Bezpieczny Internet, assistance services Pomoc w Domu, Netia WiFi FON – access to over 14 mln hot spots around the world thanks to cooperation with FON, which support ARPU levels (average revenue per user) and customer base loyalization. Netia Group customers can use technologically advanced devices, such as Netia Spot - wireless router allowing access to worldwide FON network and Netia Player – innovative multimedia set-top-box giving customers access to a wide range of TV channels, VOD services, internet application as well as possibility to play own multimedia files. Both devices constitute basic element of multimedia home platform, using broadband Internet access for content distribution to household users. Within B2C services are tailored to meet the needs small and medium size enterprises, those running their businesses in the office, at a point of sale or from home. Small and medium size enterprises are also provided with packages offered by the Netia Group.

Netia offers a broad selection of voice services, from traditional solutions such as analogue lines, digital lines with PBX support to the most innovative IP telephone services with hosted PABX. The IP telephone service is a state-of-the-art comprehensive solution using the Next Generation Network (NGN) technology, video communications (videoconference services with HD quality), videomonitoring, Fram Relay and MPLS. For companies using internet in their business solutions, we offer the Data Center service. This is an ideal place for installing dedicated application servers and web servers requiring a fast and reliable internet connection. In case a company requires access to an infrastructure in a service model, Netia offers a Cloud Computing service along with designing and developing innovative wireless networks (WLAN).

The Netia Group also offers wholesale services (including the wholesale termination or transit of in-bound traffic, ducts, dark fiber and co-location services), services based upon intelligent networks (free phone, split charge and premium rate services) and provides broadband Internet access with xDSL, Ethernet, cable and fiber technology. These services are offered over Netia's own copper or fiber networks and, selectively, over network facilities leased from other operators.

Until February 2014 the Netia Group has also been 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 Netia Group's revenues in 2014 and 2013 are presented below:

	Year ended December 31, 2014	Share in total revenues	Year ended December 31, 2013	Share in total revenues
	(PLN)	%	(PLN)	%
Direct voice, including:	668,780	40.0%	809,188	43.1%
Monthly fees	*504,266*	*30.1%*	*588,397*	*31.4%*
Calling charges	*164,293*	*9.8%*	*220,223*	*11.7%*
Other	*221*	*0.0%*	*568*	*0,0%*
Indirect voice	12,531	0.7%	19,203	1.0%
Data	684,707	40.9%	724,721	38.6%
Interconnection revenue	69,936	4.2%	85,288	4.6%
Wholesale services	99,872	6.0%	107,003	5.7%
Other telecommunication revenue	134,427	8.0%	122,189	6.5%
Telecommunication revenues	**1,670,253**	**99.8%**	**1,867,592**	**99.5%**
Radio communication services	205	0.0%	2,863	0.2%
Other services	3,581	0.2%	5,561	0.3%
Total revenue	**1,674,039**	**100.0 %**	**1,876,016**	**100.0 %**

1.3 Sales market (not in thousands)

The Netia Group operates on the telecommunications services market with its predominant focus on fixed broadband, fixed telephony, FTA (free to air) and pay TV content distribution as well as mobile convergent offers. The sales market for these products has recently been becoming increasingly homogenous with multi-play integrated offers playing a major part in consumer preferences.

Following fixed telecommunications market liberalization in 2006 and introduction of services based on bit-stream access (BSA), wholesale line rental (WLR), and local loop unbundling (LLU) the Netia Group is able to offer internet access and voice services, nationwide, via the incumbent's copper network. In 2008 Netia acquired Tele2 Polska, a fixed line telephony operator mainly rendering services via WLR to its residential customers. In 2011 Netia further increased its scale through the acquisitions of Telefonia Dialog and Crowley Data Poland alternative operators, the first of which mainly operates on its own proprietary network in voice, TV and broadband segments as well as in WLR segment while the second operates mainly in corporate and SoHo/SME segment. All acquisitions contribute significantly to the Netia Group's attained scale of operations in the Polish telecommunications services market in both the residential clients and corporate customers' segments.

The fixed broadband services market increased from around 6.7 million services at 2013 year end to 6.8 million services at the end of 2014. The penetration of fixed broadband reached 49% of households in 2014 and is expected to continue to grow. Fixed line telephony services decreased from approximately 7.9 million lines at the end of 2013 to 7.7 million at the end of 2014 and are continuing to shrink. The penetration of fixed line telephony in Poland was approximately 55% of households at the end of 2014. The pay TV market in Poland slight decreased from 11.3 million services at 2013 year end to 11.2 million services at the end of 2014 , mainly dominated by cable and satellite DTH ("DTH") offerings.

Although some market share has been lost during 2014, the Netia Group maintained its position as the leading alternative for broadband services to the national telecom operator (Orange Polska SA). The Netia Group's broadband subscriber base decreased to 789.876 at December 31, 2014 from 848.909 a year earlier. The Netia Group estimates that its share of total broadband market subscribers has decreased from 12.7% to 11.5% during the past twelve months. Furthermore, at December 31, 2014 the Netia Group had 1.329.916fixed line telephony subscribers of which 48% were connected over own proprietary networks, while 583.836 were served over WLR access and 107.249 were served over LLU voice over IP. The Netia Group estimates that its share of total fixed voice telephony market has decreased from 18,8% to 17.4% during the past twelve months. The loss of market-share is for the most part due to a 2012 Management decision to stop aggressively marketing WLR and BSA services to new customers due to falling margins caused by market retail price reductions, making such expansion no longer economically attractive. Instead Management is focused on the retention of the previously acquired WLR and BSA base plus expansion of services provided directly over the Netia Group's own access network or over LLU

The Netia Group has its own access networks built out in areas covering approximately 16% of households in Poland. At the end of 2014, Netia served 406.631 broadband customers using the wholly owned copper, Ethernet and fiber networks. The country-wide backbone network and the ability to upgrade the existing access network allows the Group to broaden its operations, simultaneously obtaining independence from the networks of other operators and the regulatory regime. Simultaneously, the Netia Group continues to invest significant capital expenditure into a modernization of its own copper and Ethernet networks converting last miles into NGA ("Next Generation Access") standard allowing the customers to receive high speed broadband and attractive TV content. As of December 31, 2014 the Netia Group had approximately 1.7 million homes passed on NGA networks including Telefonia Dialog (PON, FTTB, VDSL). Cumulatively, the Netia Group had circa 2.1 million TV ready homes passed (IPTV and streaming TV) where it can render 3play services.

As of December 31, 2014, Ethernet networks acquired by the Netia Group since mid-2007 provided broadband access to a total of 103.657 mostly residential customers with approximately 621 thousand homes passed in total. During 2014 the Netia Group hasn't acquired any Ethernet networks.

Netia is currently focused on upgrading Ethernet networks to NGA standards already acquired and will therefore likely acquire new networks at a much slower rate than seen in the past.

At the end of 2014 Netia provided TV services to 137.322 customers as compared to 120.321 customers as at December 31, 2013. The Netia Group constantly expands its TV offering with new content and functionalities and additionally upgrades its own access networks, including NGA upgrades on own copper network ("VDSL") and Ethernet networks ("FTTB"), with a view to develop the offsetting revenue stream from 3play services (voice + broadband Internet + TV) for its Residential customers. The TV services are rendered by Netia both in IPTV and smooth streaming technology, which expands the availability of its 3play bundle offer outside the IPTV network, combining high quality of TV signal with lower bandwidth requirements.

Netia had over 700 unbundled nodes at December 31, 2014, passing nearly 5 million homes. Netia served 149.092 customers over LLU as at December 31, 2014 as compared to 169.912 at December 31, 2013.

The Netia Group runs its operations within one geographical area, that is the territory of Poland.

1.4 Development perspectives for the Netia Group's operations

Growth prospects (not in thousands)

Following the acquisitions of Telefonia Dialog and Crowley Data Poland in December 2011, the Netia Group increased its scale of operations by over 30% in terms of revenues and more than 40% in terms of total services. Moreover, with an ambitious amount of synergies being extracted from integrating operations, the Netia Group realized significant growth in operational profitability together with capital expenditure optimization and thus a progressive free cash flow increase (as a percentage of sales) in both 2012 and 2013.

However, while the integration synergies in the following years exceeded the preliminary estimates, thus allowing Netia Group to generate significant operating free cash flows of approximately 300 million PLN per year, the economic slowdown observed alongside tougher competition and pricing pressure from the competitors, especially in the Residential market segment, resulted in a visible weakening of 2014 operating results in terms of revenues and the number of services (RGUs – Revenue Generating Units), which was partly compensated in terms of profitability thanks to a wide scale of savings across the entire Netia Group. In particular, the negative market trends were visible in 2014 in the fixed-line voice telephony, which had been experiencing customer losses due to fixed-to-mobile substitution, while the fixed-broadband market became relatively stagnant. The above mentioned trends were especially evident among the regulated access services (WLR, BSA, LLU). The TV product line, though performing relatively more strongly, especially towards the end of 2014 on the partly integrated HFC networks which were acquired from UPC Polska, remains subscale and though contributes to top line, its main target is to retain residential customer base and bundle services. Deterioration of trading conditions continued to be particularly noticeable in the off-network services, which suffered significantly from shrinking margins and from which Netia again retreated, as in the previous year, in terms of seeking to aggressively acquire new customers. As a result of above and due to continued downwards repricing on the Business market segment (B2B), Netia Group recorded a 11% drop in sales in 2014. Due to further cost optimization, including Netia Lite and Netia Lite 2.0. projects, Netia Group plans to achieve savings at the EBITDA level totaling approximately several dozens of millions PLN, mostly in the areas of efficiency, headcount and commercial processes. Part of these savings was achieved already in 2014, contributing to just a 10% decline in Adjusted EBITDA. Netia Group aims to stabilize revenues in both B2C and B2B business units thanks to bundling services, developing new products for data transmission and Data Center services, and introducing changes to the sales commissions policy.

2015 will be a year of continuous focus on greater on-network sales of higher speed broadband and TV services in the Residential market segment (B2C). The main focus in the Business segment (B2B) will be put on Data Center and Cloud services and further bundling of products within the offered service platforms, including convergent voice and data transmission services. Continuing the successful implementation of this revised commercial approach has the potential to stabilize financial performance of the Residential segment. Given the on-going strong performance of the B2B segments (combining the Corporate, SME and Carrier sub-segments), Netia expects them to be the main growth engine in the nearest future and intends to focus strongly on developing services for its business customers.

Operationally, in the past years Netia Group constantly expanded its TV offering with a new content and functionalities and additionally upgraded its own access networks, including NGA upgrades on own copper network ("VDSL") and Ethernet networks ("FTTB"), with a view to develop the offsetting revenue stream from 3play services (voice + broadband Internet + TV) for its Residential customers. Thanks to the infrastructure upgrade the Netia Group may offer its customers a competitive Internet Protocol Television ("IPTV") product, Streaming TV and Video on Demand ("VOD") from various content providers within one integrated TV platform (Netia Player). As at December 31, 2014, the Company covered in total 1.7 million households with its NGA networks, inclusive of the acquired HFC network of the former Aster cable operator. Moreover, Netia Group covered in total 2.1 million TV ready homes passed within its network coverage based on versatile access technologies. Management's priority for 2015 in this area is to increase our customer base penetration with multi-play services, including TV and over-the-top ("OTT") solutions by both targeting new customers in our coverage areas as well as cross-sell to the existing customer base. The commercial launch of 3-play services over the HFC networks in Warsaw and Kraków in late August 2014 was very successful, with 19k services connected by the end of the year, of which 93% were 2-play and 3-

play bundles, being the Company's mid-term target under the updated Strategy 2020, which was presented by the Management Board to the Supervisory Board in November 2014. Netia does not plan any significant NGA upgrades during 2015 as the Company intends to focus solely on commercial efficiency and utilization of existing NGA resources, with a view to increase penetration of multiplay services in its own network.

The second cornerstone of Netia's updated Strategy 2020 is related to maintaining, and building whenever possible, its position in the Business segment. We will focus on the most attractive areas in the Corporate segment, aiming to improve profitability while limiting incremental capital expenditure among the traditional product areas, such as voice or broadband services. In parallel, Netia Group will aim to expand a range of more advanced data transmission products, Cloud and Data Center services based on the planned new investments in these areas in 2015. In the Carrier segment the goal is to increase the utilization of existing capacity and other assets by selectively pursuing projects that require limited investment and which are considered a reasonable risk for the returns available, including international transit traffic.

Given the challenges faced on the residential market and the comparative strengths of the very different business market unit where Netia generates two-third of its cash flows, Management took the decision to reorganize the group around two divisions, Business-to-Business ("B2B") and Business-to-Consumer ("B2C") with effect from Q2 2014. Under this reorganization, previously Group-wide functions with customer-facing relationships are to be divided between B2B and B2C, supported by single network, IT and support functions. Management believes this long-term change should lead to more focused teams delivering stronger commercial performance in both B2B and B2C whilst finding new opportunities for efficiency gains which had been largely exhausted under the previous functional structure. Additionally, under the ongoing Transformation Program Netia is currently identifying network assets and infrastructure which can be directly attributed to the respective divisions and customer groups in B2C and B2B. Upon finalization in mid Q2 2015, this project is expected to ensure higher strategic flexibility in terms of Netia Group assets and more efficient allocation of economic resources to the specific investment and commercial projects.

New technologies (not in thousands)

Continuous changes in the telecommunication market and expansion of Netia's client base, together with acquisitions of Ethernet ISPs, Crowley and Dialog networks results in dynamic development of Netia backbone network capacity. While use of modern technology allows to fully utilize the potential of Netia's own and leased fibre infrastructure, it also makes it possible to expand geographically.

Development of broadband access networks, which are indispensable to provide broadband Internet services, is realized both by capacity upgrades of existing BSA and LLU points of interconnect with Orange Polska S.A. and the construction of new points of interconnect enabling access to Orange Polska S.A. IP DSLAM-s. In 2011 Netia completed its investment in construction of LLU access nodes in the Orange Polska S.A. network with 713 nodes unbundled as at December 31, 2012. This LLU network gives Netia access to almost 5.0 million Orange Polska S.A. access lines Poland–wide. Implementation of modern technologies in LLU nodes enables delivery of advanced services requiring broadband access (i.e TV, VoD, VoiP, MPLS). Investments in regulated access has now been slowed down as the number of customers is no longer growing and, according to Management's analysis, all potentially profitable LLU nodes have already been rolled out.

In parallel to investments based on Orange Polska S.A. infrastructure, Netia continues to develop own broadband access in copper infrastructure throught implementation of NGA (Next Generation Access Network) based on VDSL2 technologies allowing increase of bandwidth delivered to the customer by several times, up to 80Mb/s. Acquisition of Ethernet networks is followed by gradual upgrades of their infrastructure aimed at providing multimedia services, which includes exchanging the access equipment in order to enable remote management and automatic service provisioning of new services in these networks. As a result of upgrades Netia Ethernet networks built in FTTB (Fiber To The Building) technology are able to deliver up to 100Mb/s capacity to each customer.

The acquired copper access networks of Dialog will be additionally developed in VDSL and FTTH technologies, depending on technical and economic conditions in given locations. To defend market position as a service provider, in parallel to investments in its network infrastructure Netia also develops competencies and systems around modern, IP based multimedia and communication services such as IPTV, VoD, CDN, etc.) dedicated to residential and business markets, respectively. IP/MPLS core infrastructure acts as a common denominator for all delivery scenarios, unifies deployment process and lowers development and network maintenance costs. Netia also continues to invest in CPE dedicated to its customers, such as Netia Spot (WiFi router) and Netia Player.

In 2015, an important investment project will be to continue to integrate the CATV access network acquired from UPC Polska Sp. z o.o. (approximately 400 homes passed) into the Netia core network. This modern CATV network enabled Netia to launch commercially 2-Play and 3-Play offerings essentially identical to those being offered over Netia's VDSL and FTTH networks. Thus these attractive service offerings allow Netia to build a stable TV and broadband on-net customer base in two of Poland's richest markets, Warsaw and Kraków.

2 Major factors for the activities of the Netia Group

2.1 Major risks and threats related to the operational activities

Risk of changes to the Netia Group's strategy

On November 4, 2014 the Supervisory Board of Netia acknowledged an update of Strategy 2020 key directions presented by the Company's Management Board and the Management Team composed of key Directors. The Group's strategy currently focuses on introducing stability into Netia's financial performance in the B2C segment through an uptake of clients and an increase of the penetration of multi play offers on its own proprietary networks, including NGA upgraded assets, as well as pursuing chances to improve the top line trend in the B2B segment through a transformation of the product portfolio and competences. Simultaneously, Netia will focus on a more profound split of network infrastructure dedicated to B2C and B2B segments. Therefore, currently the strategic direction of the Netia Group is fully defined, however, no assurance can be given that this will not change in the future. Furthermore, Netia may seek to introduce new elements to strategy that might materially change expected cash flows or modify the risk profile of the Netia Group.

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

Currently, Netia is not controlled by any strategic investors, and its shares are held by a large number of shareholders. Neither Netia's corporate documents nor the provisions of Polish law provide for any serious restrictions to the possibility of changes in control over the Company in the event of third parties acquiring a considerable number of shares. Thus, such changes of control may materially affect the composition of the Company's Supervisory Board and the Management Board and, in turn, the strategy and business activity of the Netia Group. Due to the above, the Company cannot guarantee that any adopted strategy of the Netia Group will be pursued in accordance with its initial objectives.

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

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

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

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

Technological risk

The telecommunications sector is an area witnessing dynamic technological changes. In designing and expanding its networks, the Netia Group uses the latest technical solutions. However, it is not possible to predict how the Netia Group's operations may be affected by technological advances in the field of wireless, mobile transmission, voice services over Internet, voice services based on cable television telephony and multimedia services provided over Internet by third-party – OTT (Over The Top). In particular, the business activities of the Netia Group may be affected by the trend to provide voice and Internet access services via wireless or portable platforms, with wireless broadband access and fourth generation mobile cellular telephone systems equipped with IP. Due to the difficulties in predicting future regulatory environment and exact market potential, Netia may sometimes invest in technologies that ultimately do not deliver the expected returns. When such a situation occurs, it can have a negative impact on our results and financial condition.

Risks related to the uptake of new services and the financial returns available from investment in upgraded networks

Since 2011, Netia has been upgrading broadband speeds to its copper and Ethernet ("ETTH") networks and adding television and content services to its offering. Whilst these investments have delivered promising results, no assurance can be given that these upgrade investments will deliver a satisfactory financial reurn.

The speed of roll-out and relative performance of fast mobile broadband networks (such as HSDPA and LTE), the speed of upgrade of cable networks and the incumbent's own investment plans is likely to have a significant impact on the relative attractiveness of our broadband and television offers and sales results. Furthermore, our content services may turn out to be inferior to those of key competitors and we may not be able to meet sales targets or ARPU targets as a result.

Risk associated with property rights

In order to deliver services to its customers, Netia has properties leased or used through "rights of way" easements. In some cases legal titles to the properties are unclear or Netia may be unaware of the defects of these titles. As a result, Management can give no assurance that legal issues or challenges will not occur from time to time. This may result in Netia incurring significant costs to protect its rights or to move its infrastructure. Similarly, the leases may unexpectedly be cancelled by lessors with the result that Netia incurs significant expenses to relocate its network elements.

Foreign currency risk

Approximately 30% of Netia's annual capital investment program and up to 10% of typical operating expenses are either invoiced in foreign currencies or are invoiced in Polish Złoty based on price lists expressed in foreign currencies. Netia operates a Risk Management Committee that decides, from time to time, to hedge these exposures to foreign currency risks and if so, the proportion of the exposure to be hedged. Whilst Netia's hedging activities are designed always to reduce Netia's exposure to earnings volatility through changes in exchange rates (i.e. Netia does not speculate), we can give no assurance that entering into hedging transactions will result in higher earnings or cash-flows than if we had not hedged the Company's currency exposures.

Interest rate risk

Netia's long term borrowings are all Polish Zloty denominated and the interest paid depends on floating WIBOR rates and a margin that is dependent on the Netia Group's financial leverage. To mitigate the risk of higher WIBOR rates leading to worse financial results, Netia's Risk Management Committee may decide to swap some or all interest rate risk into fixed rates coupons. Whilst Netia's hedging activities are designed always to reduce Netia's exposure to earnings volatility through changes in interest rates (i.e. Netia does not speculate), we can give no assurance that entering into hedging transactions will result in higher earnings or cash-flows than if we had not hedged the Company's interest rate exposures.

The level of profits and distributable reserves in Netia S.A. may differ materially from those of the Netia Group

With the acquisition of Dialog Group and Telefonia Dialog Sp. z o.o. in particular, the Netia Group has acquired a material profitable subsidiary that Netia does not intend to merge into Netia S.A. over the medium term for operational reasons. As a result, projections show that a significant part of the Netia Group's earnings will accrue to Telefonia Dialog Sp. z o.o.

In these circumstances the level of distributable reserves in Netia S.A., which stood at PLN 497,947 on December 31, 2014 and the result for the year for Netia S.A. which was a profit of PLN 275,646 in 2014, are likely to diverge from those of Netia Group as a whole. Whilst Netia shall take reasonable steps to ensure that profits and cash flows flow up to the parent company over time, Management can provide no assurance that Netia S.A. will always be in a position to pay a dividend or make other distributions to shareholders when the Netia Group as a whole records a net profit for a given year as the commercial code provisions regarding distributions (payment of dividend or advances for dividend) are applicable to the issuer, Netia S.A., and not to the Group as a whole.

Netia S.A.'s earnings have historically been highly volatile and continued volatility may inhibit the Company's ability to pay dividends in predictable amounts in the future

Net profits and losses of Netia S.A. have historically been very volatile with significant profits and losses recorded in different years due to various non-cash accounting issues that depend critically on Management's judgments about the Netia Group's future prospects. These non-cash accounting issues are principally:

- Annual impairment testing net book values of goodwill and non-current assets against Management's latest cash flow projections for the business,
- Estimates of future economic lives of non-current assets, which has a direct impact on the annual depreciation and amortization charges that constitute the Netia Group's largest single expense,
- Valuation of deferred tax assets, which is also critically dependent on Management's projections of future profitability.

Changes in the business, legal or regulatory environment can lead to material changes in Management's estimates and lead to material fluctuations in the above three non-cash items between years.

If Netia S.A. records a net loss in a given year this reduces distributable reserves and this may lead to Management being unable to pay a dividend in respect of such a year. Management has in the past sought to mitigate this risk by requesting from shareholders a multi-year authority to buy back shares, which can be done, via an attractive tender offer, as an alternative to a traditional dividend. Management may seek to use this method of distributing funds to shareholders again in the future.

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

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

Risk of dependence on third party providers in providing services to our customers.

Our commercial performance depends partly on our ability to attract and retain our customers by providing high quality services and we rely on various third party providers for important elements of the value chain such as sales, customer activation, network maintenance, information technology development and certain customer care processes. If any of these third party providers fail to maintain the capacity and quality of the services that they provide to Netia, or fail or refuse to respond quickly to Netia's changing requirements, our customers may experience poorer service which could adversely affect the perceived reliability of our services and, therefore, adversely impact our brand, reputation and market share. From time to time, in order to mitigate such risks, we may seek to change key third partner providers or to insource the services they provide, particularly where such services are provided by resources that Netia previously outsourced to a given third party provider. Changes of such scale entail significant operational risks and Management can provide no assurance that, in the event of poor performance by a thrid party provider that necessitates a significant reorganization of the way that the Netia Group delivers its services to customers, that material costs or material deterioration in commercial performance due to the disruption that results will not occur.

Risk resulting from processing personal data in ongoing activities of Netia Group's companies

In connection with providing telecommunications services and basing on the terms set in the relevant provisions, in particular in the Polish Telecommunication Law and in the The Act on the Protection of Personal Data, companies of the Netia Group process the personal data of the subscribers. Regarding authorization coming from the law and the consents of the subscribers, the processing of the personal data is a part of the ordinary activity of the companies of the Netia Group.

Despite the fact that the companies of the Netia Group use any means available by law to protect the client's personal data with the utmost care and in the accordance with the requirements of the applicable law, such cases as the risk of the human error, the intentional act of the third party, the technical failure or another special circumstances may occur, so it cannot be foreclosed that the data would be exposed and consequently also used inappropriately, what would lead to the breach of the law.

We cooperate with external, independent from the Netia Group, enterprises and contractors, suppliers, call centers and despite the utmost care of the companies of the Netia Group in the selection of the business partners it cannot be assured that within the scope of the supplies of that partners would not occur events which may expose and consequently, also inconsistent with the provisions of the law use of that data.

Breach of the law on the protection of the personal data of the subscribers by the companies of the Netia Group or by one of our partners may result in imposing the financial penalties, damage of the reputation and worsen the commercial results of the Netia Group.

Risk resulting from changes in the Telecommunications Law

The current Telecommunications Law Act came into force on September 3, 2004, except for certain regulations that came into force on January 1, 2005 in result of implementation of so-called "2002 directives package". On July 6, 2009, the act on the amendment of the Telecommunications Law and other acts entered into force. The purpose of the above-mentioned amendment was to further harmonize Polish provisions with the legal framework of the European Union.

A further amendment of the Telecommunications Law entered into force on July 20, 2010. According to this latest amendment, the definition of "subscriber" was changed, so that it now covers also users of services who have not concluded a written contract for the provision of telecommunications services. After the entry of this law into force, the obligations of telecommunications undertakings with regard to the conclusion, amendment, and performance of contracts apply to these users as well. Netia, as well as other telecommunications entrepreneurs, was obliged to adjust its standard client contracts to the new requirements within six months following the entry of the amendment into force.

On June 2, 2011, an amendment of the Telecommunications Law came into force, with regard to provisions concerning rules for verification whether fees for telecommunications access calculated by an operator with significant market power on the basis of justified or incurred costs are correct.

Pursuant to the amended law, as far as imposition of obligation to set fees on the basis of justified costs is concerned, in the absence of the auditor's opinion on the consistency of an annual regulatory accounting statement and the results of cost calculation with the binding regulations, or in case of a negative opinion or a qualified positive opinion, as well as in case of occurrence of significant discrepancies between the amount of fees calculated by an operator and established by the President of UKE on the basis of an auditor's opinion, the President of UKE establishes the amounts of fees for telecommunications access or their maximum or minimum levels, using methods specified in a decision designating an operator as holding significant market power and imposing an obligation to calculate fees for telecommunications access taking account of justified costs recovery.

As far as obligation to calculate fees on the basis of incurred costs is concerned, in a decision designating an operator as holding significant market power the President of UKE specifies methods of verification and calculation of fees. In order to verify whether the fees set by an operator on whom an obligation to calculate fees on the basis of incurred costs was imposed are correct, the President of UKE may apply the methods of fees verification specified in this decision. If the executed verification reveals that the amount of fees set by an operator is incorrect, the President of UKE establishes the amount of fees or their maximum or minimum level taking account of the promotion of efficiency and sustainable competition as well as the assurance of maximum benefits for end users. The fees shall be established in a separate decision.

Management Board is unable to assure neither that application of the amended regulations will not affect the costs of activity of the companies from the Netia Group, nor that whether – and when, as well as in what way – it will ensure the change of the amount of fees for telecommunications access to be borne by Netia after the end of this period.

On December 4, 2011, the amendment of the Telecommunications Law entered into force pursuant to which premium rate services providers were obliged, inter alia, to provide their subscribers with the right to block access to these services free of charge. On May 4, 2012 new regulations have entered into force obliging the providers of these services to inform subscribers that the limit of payments due for such services that was established by them in their contracts was exceeded. The Management Board is unable to assure that the regulations after coming into force will be uniformly interpreted by the regulatory bodies and that this interpretation will allow for provision of premium rate services without requiring increase of costs of adjustment of the companies from the Netia Group to the obligations stipulated therein.

On July 17, 2010 the act „for the support of the development of telecommunications networks and services" (hereinafter referred to as "the Act on Development") entered into force. One of the goals of the act is to improve the investment process in telecommunications infrastructure. It authorizes municipalities to construct infrastructure and telecommunications networks, to make it available, and to provide telecommunications services in areas where the demand of end users is not satisfied by commercially provided access to telecommunications services. In such a case, subject to consent of the President of UKE, Internet access services can be provided for prices lower than market prices, and even for free, if the provision of services in a given area under such preferential conditions will not lead to a distortion of effective and equal competition.

Furthermore, if in order to satisfy group needs of the municipal community, the making available of the infrastructure and provision of services is entrusted to a telecommunications entrepreneur, and due to economic conditions the performance of this activity in a given area will not be financially profitable, the entrepreneur may use the municipal infrastructure for fees that will not recover its full construction cost. The cost borne due to the provision of telecommunications services in that area can be partially co-financed by the municipality.

The Act on Development imposed the following obligations on the selected groups of entities:

- real estate owners, real estate perpetual usufructuaries and real estate administrators – the obligation to ensure access to the building as well as to the place in a building in which the cables supplied to the premises in the building are gathered; the access is to be ensured in order to ensure telecommunications and to the benefit of telecommunications entrepreneur which supplied the building with the public telecommunications network;

- owners of the telecommunications ducts situated on the real estate or in the building – the obligation to make the telecommunications ducts accessible for telecommunications undertaking which has no possibility to use another, existing telecommunications ducts;

- owner of telecommunications cable supplied to or distributed within the building – the obligation to make the whole or a part of this cable accessible for telecommunications undertaking in case the supply of another telecommunications cable to the building is not possible;

In case no agreement describing the conditions for access to the infrastructure is executed, the President of UKE may, upon a motion of any of the parties, issue a decision substituting the agreement.

The Management Board is unable to assure that the agreements on the access to infrastructure, concluded by companies from the Netia Group in the scope of ownership rights to the cable and ducts infrastructure as well as the rights concerning real estate, will be in each case established with interested telecommunications undertaking in accordance with the principle of freedom of contract, without the necessity to settle the technical or financial conditions of co-operation by the President of UKE.

Under the Act on Development the President of UKE is also authorized to issue a decision obliging an operator authorized to use assigned frequencies in an area indicated by the President of UKE in a specified manner.

The Act on Development introduces the possibility of new sources of competition for Netia from municipalities and other interested entities and the risk of overbuild of our existing networks.

On October 12, 2012 Sejm passed an amendment to the Act on Development, also amending the Telecommunications Law in the area of co-usage of infrastructure. The amendment came into force on December 16, 2012. The aim of the amendment is to streamline the process of building telecommunication networks, in particular regional broadband networks and sharing real estate and buildings in order to install telecommunication infrastructure, but the amendment introduces more rigorous conditions that determine exercising obligation of gaining access to the real estates and the existing connections and the telecommunication infrastructure in the buildings by operators. New regulation amended also other Telecommunications Law regulation, regarding access to the infrastructure.

The Management Board is unable to assure that, in spite of intentions of legislator to facilitate investment process, the changes to the provisions will not cause opposite effects and will not cause difficulties in constructing telecommunication networks and the use of infrastructure belonging to other entities.

On November 16, 2012, the Sejm passed amendments to the Telecommunications Act and some other acts including the Act on Development (hereinafter referred to as "Amendment"), aiming to implement the amendments of the 2002 Directives package, that entered into force in the EU in December 2009 and were to be transposed until May 2011. Most of the new regulations came into force on January 21, 2013. The Amendment, among other issues, forbids to enter into a first agreement to provide telecommunications services for private persons longer than 24 months and obliges telecommunications entrepreneurs to extend their offer addressed to end users to include no longer than 12 month contracts. The Amendment allowed to conclude contracts electronically using the form available on the website of the service provider. At the same time the Amendment broadens the obligatory content of contract for the provision of telecommunications services, and creates obligations with regard to network safety, including the prevention of unsolicited communications (spam).

Telecommunications undertakings were required to adjust the conditions of the contracts, including these stipulated in rules and regulations concerning the provision of publicly available telecommunications services or in price list of telecommunications services within 5 months of coming the Amendment into force, i.e. until June 21, 2013.

The Amendment regulated also specified principles of responsibility of telecommunications undertakings for delay in number portability or for number portability incompatibly with the will of the subscriber. In case of porting the number breaching the deadline established in Telecommunications Law, the undertaking that the subscriber is terminating the contract with , is obliged to pay the compensation in the amount of ¼ of the total monthly fees calculated according to the bills for the last three settlement periods, unless the impossibility to port the number occurred due to the reasons related to IT system managed by the President of UKE. In case when the porting the number has not occurred due to the reasons related to the current service provider, he is entitled to reimbursement of paid compensation in whole or in part from the entity responsible for the delay. In case of porting the number without consent of the subscriber, the subscriber is entitled to compensation from the new service provider in the amount of ½ of the average monthly fees calculated according to the bills for the last three settlement periods for each day from the activation of the number in the new network.

The Management Board is unable to assure that regulation on principles of responsibility of undertakings who take part in number portability process, will not cause the abuse of these regulations, and in effect will not became the grounds for disputes related to enforcement of claims, including recourse claims between operators or service providers, rising from possible faults in realization of subscriber right to port numbers.

The Amendment also introduces new obligations regarding protection of telecommunications secrecy, network security, including acting against distribution of unsolicited content by service users. It excludes the obligation of the President of UKE to assign undertaking obligated to provide universal service. This competence now depends on decision of the President of UKE, based on the evaluation of availability, quality and affordability of the set of universal services in a given area. In case of lack of offers which met the conditions of contest for the undertaking assigned to realize the obligation to provide universal service or individual services, the President of UKE will assign a telecommunications undertaking providing such service or services, taking into account its economic and technical ability to provide these services on given area, ensuring availability of services and the need to support the fair and effective competition. In the decision obligating to provide universal service the President of UKE can impose on assigned undertaking an obligation to apply special tariffs for this service, maximum prices or unified tariffs.

The Management Board is unable to assure that none of the companies of the Netia Group will be obligated to provide universal service on any area of Poland and, in that case, that such company will not be forced to provide such service on unprofitable conditions requiring financing the cost of provided universal services, on given area until reimbursement of such cost in the amount of subsidy determined by the President of UKE in other decision.

The Amendment granted the President of UKE new competence to establish in a decision imposing obligation to provide conditions of access to the infrastructure, set forth therein, in case of need to ensure effective competition. The Amendment obligates telecommunications undertaking being the addressee of such decision to provide access to infrastructure under conditions which cannot be worse than conditions set forth in such decision. In case when the contract for access to the infrastructure will not be concluded within 30 days of filing the motion for access to the infrastructure, the President of UKE, acting ex officio or in effect of filing the motion, can issue decision which replaces the contract, as was possible before the Amendment.

In the Management Board opinion the real market needs determined by state of development of effective competition, most of all require interference of the President of UKE in the purpose of enforcement of telecommunications access related to regulated services, provision of which is obligation the telecommunications undertaking holding SMP position on relevant markets. The Management Board is unable to assure that any of the companies of the Netia Group will not be obligated to provide access to its infrastructure under unprofitable conditions.

The Amendment of the Telecommunications Law reduces the data retention period to 12 months, increases the information obligations with regard to subscribers as well as extends the obligation to transfer data concerning telecommunications activity of a given telecommunications undertaking to the President of UKE. The Amendment also extends the obligation to provide facilities for disabled persons onto all telecommunication undertakings.

The Amendment also changed the rules of calculating (and provided increase) of maximum rates for the use of radio frequencies, however draft government regulation setting realistic rates do not provide a significant increase in relation of frequencies used by the companies of Netia Group.

The Management Board is unable to assure that in the future rates for the use of radio frequencies by the companies of the Netia Group will not increase by a larger amount nor that the amended rules for establishing the fees for extending the reservation of frequencies will not cause increase cost of provided services related to the frequencies used by the companies of Netia Group on the base of reservation which will require in the near future extending for the further period of time. The Management Board believes that most of the changes described above are likely to result in increased costs of running the business for the Netia Group.

In September 2013 consultations on the "Regulation of the European Parliament and of the Council laying down measures concerning the European single market for electronic communications and to achieve a Connected Continent, amending Directives 2002/20/EC, 2002/22/EC and Regulations (EC) No 1211/2009 and (EU) No 531/2012" (the Regulation, prepared by the European Commission) were carried out in Poland. According to the draft Recommendation the aim of the proposal is creating a Single Market for the electronic communications, the development of competition and an increase in telecommunication investments in the EU. Achieving those aims is planned by: introducing "Single EU authorization", i.e. authorisation in the host Member State of the paneuropean electronic communication provider that allows to provide services in the whole EU without any additional authorization, and also introducing the new regulatory obligation of the smp electronic telecommunication provider, i.e. "European virtual access product" that, with the discretion of National Regulatory Authority, may be used in place of existing wholesale obligations of NGA networks. The Regulation also introduces, for every electronic communications provider, new obligation of providing Assured service quality (ASQ) connectivity products. The Regulation also introduces regulations protecting end-users.

On April 3, 2014 the European Parliament voted on the amendments to the Regulation. In particular, the European Parliament decided to delete the "European virtual access product" and the "Assured service quality connectivity products" (ASQ) from the Regulation. However, the European Parliament significantly expanded consumer rights in the Regulation.

In case of issuing the Regulation, it would have a direct effect in the legal systems of the EU Member States.

At this stage of work on regulations concerning Single Market, the Management Board cannot foresee whether and when the new rules will come into force and what will be their final provisions. Consequently the Management Board cannot foresee whether the drafted regulations may cause an increase in costs or otherwise create new commercial risks for the Group and, if so, in what order of magnitude.

On January 17, 2014 the Government sent to the Parliament a draft of the bill on consumers rights, changing the permissible modes of concluding contracts with consumers away from business premises. The bill was passed by the Parliament on the May 30, 2014 and subseuently signed by the president on the June 17,2014. The bill entered into force on December 25, 2014. The Management Board cannot foresee whether the entry into force of the bill will not increase the cost of providing telecommunication services.

On February 24, 2014 the Minister of Administration and Digitalization issued the Regulation on the telecommunication complaints. The Regulation came into force on June 8, 204. On March 26, 2014 the Minister of Administration and Digitalization issued the Regulation on the specific requirements for providing facilities for people with disabilities by the providers of the public telephone services. In order to determine the performance of the duties set in the Regulation, on May 16, 2014 Netia and Dialog joined to the Agreement with the Minister of Administration and Digitalization on the conduct of the pilotage of installing the communication system with deaf people using portable induction loops in the selling units serving the end-users and providing the information about the usage level of the facilities for the disabled people. The Regulation came into force on the October 10, 2014.

The Management Board cannot assure that exercising duties set in the abovementioned Regulations will not lead to increase the costs of providing the telecommunication services another than incurred directly to adapt the Netia Group Companied to the new provisions.

On May 15, 2014 the Directive 2014/61/EU of the European Parliament and of the Council of 15 May 2014 on measures to reduce the cost of deploying high-speed electronic communications networks was issued. The deadline for the implementation of the directive into the national law is set on the January 1, 2016. The aim of the directive is to facilitate investments in the modern telecommunication infrastructure. In particular the directive extends the scope of the access to the infrastructure also on the other infrastructure than telecommunication one. In order to reduce the cost of the of investments in telecommunication infrastructure the directive introduced the requirement of coordination of the building works, that is supposed to be carried out with taking into account the current telecommunication investments needs. With the powers laid down in the directive, in the scope of the access to the infrastructure, there is risk of putting on the telecommunication companies (including companies from the Netia Group), regulatory duties. The directive obliges the telecommunication companies to prepare passportisation of the network. The directive authorizes the Member States to oblige telecommunication companies to provide access to the telecommunication infrastructure to other companies, not only telecommunication ones. The Management Board cannot assure that implementing of the directive into the polish legal system will not affect the costs of providing telecommunication services by the companies of the Netia Group and that the costs will not outweigh the benefits coming from the investments opportunities.

The government is also working on a draft statute on the local self-government and some other regulations, amending the definition of the building in the meaning of the property tax law. These changes may result in cables constituting part of Netia's network being qualified as buildings and become subject to significant annual property taxes. Such a change, if implemented, would materially increase the taxes and fees position in Netia's operating expenditures.

At this stage of the legislation process the Management Board cannot foresee whether the draft regulations would come into force and whether they would raise operating of costs of companies of the Netia Group.

Risks resulting from the obligation to provide 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.

(All amounts in thousands, except as otherwise stated)

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 about granting Orange Polska SA subsidies 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 and Internetia 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 7,006. 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	34
2007	10,816	63
2008	9,168	80
2009	11,964	3,199
2010	13,857	2,834
2011	1,789	788
	53,853	**6,997**

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

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

Risks related to holding a position of SMP

The President of the UKE issued the decision, whereby it has designated Netia, Dialog and Petrotel, as telecommunications operators holding significant market power in the market for call termination in its fixed public telephone network, in the area of the network where the termination is executed. At the same time, UKE imposed regulatory obligations that relate to:

- providing access to the network (including the use of network elements and associated facilities to the extent they are used to provide call termination services in the fixed public telephone network of Netia, Dialog and Petrotel),
- non-discrimination (obligation not to discriminate between telecommunications operators with regard to telecommunications access to the call termination services in its fixed public telecommunications network, in particular to offer the same conditions in comparable circumstances, as well as to offer the services and to provide the information on the conditions not less favorable than used within own enterprise or in relations with affiliates);
- transparency (comprising the publication of the information in matters concerning provision of telecommunications access with regard to the provision of call termination services in the fixed public telecommunications network of Netia, Dialog and Petrotel, on technical specifications of networks and telecommunications equipment, network characteristics, terms and conditions of the services and of the use of networks, as well as on the fees).

In the performance of the obligation imposed on Netia, Dialog and Petrotel, in the above mentioned decisions of the President of the UKE, Netia, Dialog and Petrotel published information on the conditions of telecommunications access with regard to call termination services in the fixed public telephone network of Netia by posting them on the internet site of Netia, at:
http://www.netia.pl/files/netia_dla_korporacji/InterConnect/InterConnectoferta_ic_netii_28062013.pdf

Dialog at:
http://dialog.pl/sites/default/files/files/download/Informacja_w_sprawie_dost%C4%99pu_telekomunikacyjnego_do_sieci_Telefonii_DIALOG.pdf

and Petrotel at:
http://www.petrotel.pl/images/pomoc/regulaminy_dokumenty/New_UKE.pdf

The published documents contain information as required in the Decision of the President of the UKE, necessary for the preparation by the interested entrepreneurs of an application pertaining to the provision of telecommunications access with regard to call termination services in the fixed public telephone network of Netia, Dialog and Petrotel.

The President of UKE is obliged to notify the assessment of the market analysis to the European Commission not less often than every 3 years. Given that this period lapsed, the President initiated a procedure in the market for the termination of calls in Netia's and Dialog's network, in order to evaluate whether there are reasons to uphold, amend, or waive Netia's and Dialog's regulatory obligations.

On February 28, 2014 the President of UKE issued the decision to discontinue the administrative proceedings on the determination of the relevant market and maintain, amend or repeal the regulatory obligations of the Netia and Dialog in the markets for call termination in the fixed public telephone network of the Netia and Dialog.

No assurance can be given as to whether Netia, Dialog or Petrotel will not be obliged to perform some other duties set out in the Telecommunications Law imposed on a telecommunications operator holding significant market power in the market with respect to call termination services in the fixed public telephone network, or whether in the future a significant market power of another company of the Netia Group in this market is not determined or whether a significant market power of any company of the Netia Group in another wholesale market is not determined, as well as that any company of the Netia Group will not be subject to regulatory obligations specified in Telecommunications Law.

The President of UKE began works on the new BU-LRIC model for termination services in the fixed networks, what may directly affect the termination rates in the networks of the Netia Group in the future.

Interconnection rates depend on the policy of UKE

The President of UKE issued a decision amending the agreement between Netia and Orange Polska S.A. on interconnection of networks in which it established the level of asymmetry of rates for call termination on Netia's network in relation to the rates for call termination on Orange Polska S.A. 's network. According to the above-mentioned decision, rates for the services became symmetrical by January 1, 2014 in tariff period O1[1], i.e. business hours.

The President of UKE issued decision by virtue of which it established the rules of asymmetry for termination of calls in the Dialogs' network in relation to rates for termination of calls in the network Orange Polska S.A. and symmetry of those rates since January 1, 2014 in tariff period O1. Despite the fact that Dialog appealed against this decision to SOKIK, symmetrical rates for these services are applied by Dialog. Despite the fact that the Management Board is convinced of validity of the appeal, there is no certainty whether it will be accepted by the Court.

Orange Polska S.A. also appealed against this decision, demanding symmetry of termination rates or, alternatively asymmetry of termination rates differentiated in three tariff periods, instead of one tariff period. Despite the Management Board is convinced that there are no grounds for this appeal, there is no certainty whether it will be rejected by the Court.

Orange Polska S.A. filed an application to the President of UKE for amendment of rates for call termination in Netia's and Dialog's public fixed telephone networks by differentiation of the amounts of rates for each tariff period. The President of UKE by virtue of issued Decision refused the change of the Contracts pursuant to the applications of Orange Polska S.A. Orange Polska S.A. filed complaints against those decisions. On September 25, 2014 SOKiK repealed the decision of the President of UKE about the dispute between Netia and Orange Polska S.A. Netia filed an appeal against this judgment. Despite the fact, that the decisions were issued in accordance with previous regulatory practice, the Management Board cannot assure that the court will finally dismiss the Orange Polska S.A. appeals as well as decision refusing the change of FTR in Netia network and that the decisions will remain in force.

Orange Polska S.A. also filed with the President of UKE for the issuance of decision:
1) replacing the change of the contract on interconnection between Netia and Orange Polska S.A., by setting a flat rate for termination of calls of Netia's network in the amount symmetric to the rates of termination of calls in Orange Polska S.A.;
2) replacing the change of the contract on interconnection between Dialog and Orange Polska S.A. , by setting a flat rate for termination of calls of Dialog's network in the amount symmetric to the rates of termination of calls in Orange Polska S.A.;
3) replacing the change of the contract on interconnection between Netia and Orange Polska S.A. through making fees symmetric for use of Netia's infrastructure for the purposes of connection of the network to the fees for the use of Orange Polska S.A. infrastructure.

By the virtue of decisions of June 21, 2012, the President of UKE dismissed the Orange Polska S.A.'s applications for setting flat rates for termination of calls to Netia's and Dialog's networks. Orange Polska S.A. has submited appeals against the President of UKE decisions to SOKiK. Netia and Dialog filed the court letters regarding Orange Polska S.A. appeals. On the October 3, 2014 SOKiK dismissed Orange Polska S.A. appeal. Orange Polska S.A. filed an appeal against this judgment.

Orange Polska S.A. also submitted appeal against the decision of the President of UKE on conditions (and fees) of use of Dialog's infrastructure for the purposes of connection of the network. SOKIK dismissed Orange Polska S.A. appeal. Also appeale to the Court of Appeal was dismissed.

The Management Board believes that currently there are no grounds for application of rates for termination of calls in the networks of the companies of the Netia Group and use of their infrastructure for the purposes of the connection of the networks at the amount as claimed by Orange Polska S.A. One cannot assure, however, that the amount of these rates will not be changed in the future (by the decision of the President of UKE or court ruling).

Orange Polska S.A. has also filed with the President of UKE for the issuance of decision replacing the change of the contract on interconnection between Netia and Orange Polska S.A. which includes defining fees for number portability. Orange Polska S.A. has also filed with the President of UKE for the issuance of decision replacing the contracts for telecommunications access with Netia, Dialog and Petrotel in order to adjust interconnection rules to the current Orange Polska S.A. reference offer providing frame terms of telecommunications access with regard to calls initiation and termination, wholesale access to Orange Polska S.A. network, access to subscribers lines in the mode ensuring both full and shared access, as well as access to subscriber lines through telecommunications network loops intended for the purposes of sale of broadband data transmission services. In the course of negotiation both Netia and Dialog demanded inclusion in the negotiated contract regulatory obligations imposed on Orange Polska S.A., as well as the rules and conditions on telecommunications access which already exist on the grounds of contracts and decisions issued by the President of UKE. Finally, in the April and May 2013, Netia and Dialog concluded the agreement with Orange Polska S.A. ("SOR Agreements") which is limited to the Orange Polska S.A. services. The Management Board cannot assure that concluding the agreement will lead the President of UKE to the discontinuance of the proceedings.

On September 29, 2014 the President of UKE issued the decision finishing dispute between Orange Polska S.A. and Netia. The President of UKE refused to change the contract so far as the case concerned services provided by Netia fot Orange Polska S.A. and set the rate for number portability from Netia network to the Orange Polska S.A. network. The dispute between Dialog and Orange Polska SA was finished by the decision issued by the President of UKE on November 12, 2014.

On October 1, 2014 the President of UKE issued a decision refusing to amend the agreement between Netia and Orange Polska S.A. on the transit services in the Netia network. Orange Polska SA has appealed against this decision to SOKiK. The Management Board is convinced that the decision was correct, however it cannot assure that the decision will be maintained by the court.

On October 17, 2014 Orange Polska SA asked the President of UKE for issiuing the decision changing the contract with Netia by introducing the contractual penalty regime which is described in the decision of the President of UKE approving the OR's changes.

[1] O1 – tariff period from 8:00 up to 18:00 on working days

Although the Management Board is convinced that statements filed in proceedings started as a result of Orange Polska S.A. motions filed to the President of UKE or as a result of that Orange Polska SA appealed against the decision of the President of UKE to the court, were legitimate, it cannot assure that the conditions of telecommunications access related to each of regulated services, established in accordance with Orange Polska S.A. current reference offer or as an effect of the court's judgment will not be less attractive for the Netia Group's companies than conditions which are now in force and that terms and conditions of regulated services will not become less favorable and the costs of Orange Polska S.A. regulated services will not increase or the revenues from the services provided by the Natia in it's own networks will not decrease.

Risk of changes of UKE decisions and changes in UKE's approach to regulations

The conditions of performing telecommunications services by the Netia Group are in part set out in decisions issued by the President of UKE and most of them are immediately enforceable. The Management Board is unable to exclude the risk that the decisions will not be reversed or amended by the court nor that the terms of telecommunications access established therein will not be changed by the President of UKE during the period within which the Netia Group's companies make use of the regulatory conditions introduced by such decisions. The Management Board cannot assure, that in such a case, costs of providing services by the Netia Group will not increase and that operators providing wholesale services based on such decisions will not raise the claims against the Netia Group.

On February 1, 2012 a new President of UKE was appointed for a five year term of office and on April 15, 2012, a new Vice President of UKE.

On November 27, 2012 the President of UKE published the regulatory strategy for the term of office – "Regulatory Strategy until 2015" (hereinafter "Strategy"). According to the Strategy the main goal of the President of UKE is the improvement of service's quality and the development of new generation telecommunications infrastructure (NGN, NGA) of high bandwidth for the purposes of counteracting the digital exclusion and executing the Digital Agenda in relation to Poland. The President of UKE plans to execute its prerogatives stemming from Telecommunications Law, including in particular market analysis, in particular markets for call termination in each undertaking's network, the review of regulatory obligations imposed on undertakings and symmetry of fixed terminations rates (FTR) and mobile termination rates (MTR).

At this stage of realizing the strategy of the President of UKE, taking also into account the general area of interest of new President of UKE, it cannot be assured whether and to what extent in the period of time set forth in the Strategy the conditions of telecommunications access will be changed, as well as the obligations imposed on companies of Netia Group, in particular on markets for call termination on fixed networks. One cannot exclude the possibility that unless some of decisions issued by the President of UKE will lead to growth on fees for telecommunications access and new risks and challenges for the companies of Netia Group, not foreseen elsewhere in these risk factors.

Risks relating to the relationship between retail prices and regulatory access rates

On October 22, 2009 the President of UKE and Orange Polska S.A. signed an agreement laying down rules for the performance by Orange Polska S.A. of obligations with regard to telecommunications access ("The Settlement Agreement between the President of UKE and Orange Polska S.A. "). The Settlement Agreement provides that the fees for individual services in the scope of telecommunications access that follow from the applicable reference offers will be valid until December 31, 2012. This general rule in effect froze the cost of unbundled local loop services and wholesale line rental voice services.

On the basis of a draft understanding, constituting an appendix to the Settlement Agreement between the President of UKE and Orange Polska S.A., Netia and Orange Polska S.A. executed a separate understanding ("Understanding") on the December 23, 2009. The Understanding provides that the rates for specific services in the scope of telecommunications access, arising from reference offers, shall be binding until December 31, 2012. As the Understanding has not been noticed by any party, it was prolonged for unspecified period of time.

The wholesale rates for broadband access (BSA) were established at a fixed level taking account of retail prices in Orange Polska S.A. offer binding on October 10, 2009. Possible further decrease of rates established in the above manner, as well as wholesale rates paid to Orange Polska S.A. since implementation of new speeds to its BSA Offer, are controlled by a margin squeeze test („MS test") and price squeeze test („PS test"), rules for carrying out of which were established by the President of UKE ("MS/PS test").

Netia was surprised that Orange Polska S.A.'s new prices for the lowest transmission speeds received positive results on the margin squeeze tests carried out by the President of UKE. In view of the President of UKE's opinion that the Orange Polska S.A. retail offers examined with the use of the the MS test do not constitute price discrimination of Alternative Operators and may be used with the current wholesale fees for BSA services, i.e. the fees calculated on the basis of a "retail-minus" methodology but expressed in nominal values, Netia has had its costs verified by an independent auditor, and after simulating the margin squeeze test, using the audited costs. On the basis of the received outcome of the test it still seems surprising that the Orange Polska S.A. retail offers for the lowest transmission speeds should pass the margin squeeze test.

On February 9, 2011, the President of UKE published "The position of the President of UKE on the detailed methods of providing price squeeze and margin squeeze tests" (the Position) indicating amendments to the MS/PS Test procedure that were introduced after carrying out consultations with the market players.

Within the amended MS test procedure, an operator that passed his relevant cost data to the President of UKE for the purposes of carrying out of MS test is provided with access to information on average costs accepted for the test. After market launch of a retail offer that underwent the MS test, an operator that passed his relevant cost data to the President of UKE was also granted right to access data included in Orange Polska S.A. application for carrying out of the MS test, i.e.: the price accepted for the test, as well as the validity period of an agreement concluded on the basis of this offer. Upon motion of such an operator the President of UKE is obliged to carry out the MS test concerning Orange Polska S.A. retail offer one more time.

If the MS test outcome indicates that the relation between prices included in the retail offer launched into the market and wholesale rates applied by Orange Polska S.A. (regarding Orange Polska S.A. regulatory obligations) is discriminatory towards operators using wholesale services, then, according to the changed rules of MS test procedure, Orange Polska S.A. is obliged to withdraw this retail offer from the market. In case of non-performance of this obligation by Orange Polska S.A. prices set out in it will constitute a basis for calculation of wholesale rates on the basis of "retail-minus" methodology.

In the opinion of the Management Board, the amendments to the procedure of the MS test, comparing with the previously binding procedure, increase protection of operators using Orange Polska S.A. network, including Netia, against price discrimination.

Netia submitted to the President of UKE its cost data regarding the fiscal year 2010 for the purpose of MS test concerning examination of new Orange Polska S.A. retail offers. The submitted data are based on the results of the auditor's verification of the correctness of methodology applied for these costs calculation. The President of UKE considered them actual and reliable, accepted them and decided that they will be taken into account in the process of application to MS and PS tests. Similarly, Netia submitted to the President of UKE its cost data regarding the fiscal year 2011.The President of UKE considered them actual and reliable.

After having conducted with market participants subsequent agreements concerning the procedure of conduct of MS test, the President of UKE decided on January 24, 2012 not to introduce major modifications in the existing procedure. The introduced changes do not affect the rules for applying the MS test.

On June 22, 2012, the President of UKE published the Statement amending the rules of performing the PS tests. In the Statement President of UKE stated that in the process of analysis the Orange Polska S.A.'s retail offers which have no equivalent in wholesale regulated services, the Orange Polska S.A.'s wholesale costs shall be taken into account. In President of UKE opinion, such costs, as audited are reliable. KIGEiT communicated to the President of UKE that Orange Polska S.A.'s cost data relating to services that are beyond the scope of reference offer are in fact the projected costs and are not audited, while the alternative operators accessing the Orange Polska S.A. network should have guaranteed possibility at least to respond to the data projected by Orange Polska S.A. KIGEiT took legal actions to change the statement of the President of UKE, but in each and every case the President of UKE has refused to consider of KIGEiT's demands. KIGEiT has also submitted to the European Commission for intervention against changing MS/PS tests procedure without any consultation with alternative operators, including Netia.

In January, 2013, the President of UKE launched the consultation of next amendment of statement on rules regarding MS and PS tests. The proposed amendments considered inter alia acceptable range of modification of Orange Polska S.A. retail offer tested with MS/PS test, which does not require retesting, conducting test on the grounds of Orange Polska S.A. data and deadlines for providing prices of new retail services.

KIGEiT, which participated in consultation, objects to the draft amendments of MS/PS test. The President of UKE didn't take into account KIGEiT's proposals and didn't introduce into the Statement proposals prepared by KIGEiT.

On March 22, 2013 the President of UKE published an amended Statement of the President of UKE. In the Statement the President of UKE confirmed that PS tests shall be performed basing on Orange Polska S.A. costs data. The President of UKE also accepted that Orange Polska S.A. shall not be obliged to file the motions for MS tests when the new retail offer is the modification of already existing offer. The President of UKE also stated that the PS tests result shall not be published.

Also on March 22, 2013 the President of UKE published the "Statement of the President of UKE in detailing the procedure of "Time to Market". The TTM is the process which serves in providing the new Orange Polska S.A. wholesale services, described in the Orange Polska S.A.'s reference offer. In the new TTM process the President of UKE introduced a new appeal procedure, which is applied in case when Orange Polska S.A. objects to the President of UKE statement regarding regulatory character of the new wholesale service. The President of UKE also limited the participation of alternative operators in the first phases of TTM. The President of UKE established also the dates of PS test in connection with dates of launching of Orange Polska S.A. new wholesale services to the market.

The Management Board cannot assure that TTM Process will sufficiently guarantee Netia's non-discrimination against Orange Polska S.A. regarding former Retail Arm of the Orange Polska S.A. and will allow Netia to introduce new retail services basing on Orange Polska S.A. wholesale services in the same time Orange Polska S.A. retail services are introduced into the market.

Between January 14, 2014 and January 28, 2014 the President of UKE carried out the consultation process of the Statement. A favorable draft change is being implemented by the Regulator in that only one PS test will be carried out for retail offer of the Orange Polska S.A., in case of the absence of the equivalent service in the Orange Polska S.A. reference offer, regarding the regulatory obligations which was imposed on Orange Polska S.A.

KIGEiT was active during the consultations process of the President of UKE Statement, submitting many proposals of amendments in the MS/PS test, in order to tighten up the rules of the allocation of the Orange Polska S.A. wholesale costs that are equivalent of the retail services provided in the Orange Polska S.A. bundles, including accounting rules and protection of the reasonable margin for the alternative operators.

On February 20, 2014 the President of UKE issued a modified Statement on the detailed methods of conducting the Margin Squeeze and Price Squeeze Tests. The President of UKE partially accepted the postulates proposed by KIGEiT in the Statement. In particular the President of UKE determined that only the first MS/PS test on detail service based on the new wholesale service would be conducted basing on the costs of the Orange Polska S.A. Further MS/PS tests on detail services based on the same wholesale service will be conducted basing on the costs incurred by the Alternative Operators. The solution adopted by the President of UKE is advantageous from the point of view of the development of the retail services basing on the BSA service provided by the Orange Polska S.A.

On January 30, 2015, the President of UKE issued a modified Statement on the detailed methods of conducting the Margin Squeeze and Price Squeeze Tests. The introduced changes are not significant but at this stage it's impossible to predict how they will affect the effects for applying the MS test.

KIGEiT filed complaints to SOKiK against the results of the MS/PS Tests carried out by the President of UKE indicating that they lead to determine rates for the BSA service, what should take form of the administrative decision. So far SOKiK rejected KIGEiT complaints twice. KIGEiT appealed to the Court of Appeal. Despite the Management Board is convinced about rightness of the KIGEiT arguments it cannot assure that the Court of Appeal will repeal the judgments of the SOKiK.

The Management Board is also unable to assure that the MS/PS test procedures currently implemented and their possible future amendments will sufficiently guarantee Orange Polska S.A. price non-discrimination and effective protection against narrowing Netia's margin which can lead to loss of profits, cash flows or Netia market share. The Management Board is unable to assure that the President of UKE acceptance of Orange Polska S.A. retail offers on the grounds of MS/PS tests effects, and offering such services by Orange Polska S.A. will not cause loss of Netia's and Dialog' share in net connections and decrease of growth rate and thus will not cause risk of non-reaching our strategic and financial objectives.

Risks related to amendments to reference offers

Beyond reach of Netia's own network, provision of telecommunications services by the Netia Group is conditional upon access to the network of Orange Polska S.A. According to the Telecommunication Law and the decisions of the President of UKE, having in mind regulatory obligations imposed on the Orange Polska S.A., Orange Polska S.A. is obliged to provide telecommunications access to telecommunications entrepreneurs, such as Netia, to its network and to offer frame terms and conditions of contracts on telecommunications access to its network for particular wholesale services, not worse than the terms and conditions specified in Orange Polska S.A. reference offers approved by the President of UKE.

On September 29, 2010, by virtue of a decision of the President of UKE, a new "Reference offer providing frame terms of telecommunications access with regard to calls initiation and termination, wholesale access to Orange Polska S.A. network, access to subscribers lines in the mode ensuring both full and shared access, as well as access to subscriber lines through telecommunications network loops intended for the purposes of sale of broadband data transmission services" was introduced (hereinafter referred to as the "RO"). The RO laid down frame terms of contracts for all kinds of telecommunications services that are currently used by Netia under contracts and decisions issued upon reference offers. The RO superseded all currently valid reference offers, apart from the offer for the lease of telecommunications fibers.

The RO introduced new solutions to cooperation of network providers, so far not included in telecommunications access regulations, including:

1) unification of rules and timeframes of regulated services provision;
2) regulation of terms of broadband service access (BSA) with IP DSLAM technology;
3) introduction of electronic form of communication with Orange Polska S.A. in the form of IT System Interface into the network providers cooperation.

The RO also introduced significant increases in the fees for fixed line number portability.

KIGEiT and Orange Polska S.A. filed for re-consideration of the case concluded by issuance of RO.

Upon such reconsideration, on April 5, 2011, the President of UKE issued a decision by virtue of which it amended the RO by reducing several fees, i.e.:

a) due to LLU services provision, inter alia due to:

- connection of subscriber's line to Orange Polska S.A. network within launch of the Non-active Line - from PLN 63.4 to 39.48 (not in thousands);
- launch of service provided on the Active Line (switch-over of a pair of cables, servicing of orders for line) - from PLN 55.51 to 46.98 (not in thousands);
- service deactivation (switch-over of a pair of cables, servicing) - from PLN 21.21 to 18.28 (not in thousands);
- as well as due to number portability in such a way that its present amount remained not higher than the one binding prior to issue of the RO;

b) as well as BSA, inter alia due to:

- launch of service on the Subscriber's Line - from PLN 40.98 to 38.68 (not in thousands);
- change of Service Options – from PLN 45.22 to 34.07 (not in thousands);
- Service deactivation - from PLN 40.98 to 38.68 (not in thousands).

The RO does not provide for a fee due to cooperation between operators.
The procedure of MS/PS test was amended, according to the position of the President of UKE of February 9, 2011.

Orange Polska S.A. introduced an appeal against the decision approving RO. WSA stated that the decision is in fact decision on regulatory obligations, therefore the competent court should not be administrative court but common court. The KIGEiT, the President of UKE and Orange Polska S.A. appealed against this ruling. NSA reversed the decision of WSA, but WSA against issued the same ruling. The KIGEiT appealed again against this ruling. The WSA judgment, regarding inadmissibility of judging in the administrative courts was appealed by KIGEiT. NSA again revered WSA judgment. On March 3, 2014 WSA dismissed Orange Polska S.A. complaint approving RO.

By a decision of September 4, 2011, the President of UKE amended the RO with regard to conditions for BSA telecommunications access with use of VDSL technology.

The Management Board cannot assure that the conditions established in the RO by the decision of the President of UKE will not be in future amended or reversed.

Due to the fact that the RO regulates the terms and rules of co-operation of Orange Polska S.A. with other telecommunications undertakings differently than compared to the binding relations with Netia, the Management Board cannot assure that the agreed terms on which Netia uses access to the network of Orange Polska S.A. will not be changed or deteriorated in the future with the aim to ensure competitiveness comparing with other alternative operators.

In 2011 Orange Polska S.A. filed with the President of UKE a draft offer setting out frame terms of LLU services provision with regard to FTTx access. The offer that will be approved of by the President of UKE in this scope will make up frame terms of using LLU stipulated in the RO. Orange Polska S.A. also applied for amendment of the RO in the scope of BSA access including as regards application of Ethernet level, and also for modification of the BSA service in option with "up to 10 Mbit/s" and "up to 80 Mbit/s" and canceling options: 1, 2 and 6 Mbit/s. Orange Polska S.A. amended its application and withdrew it in relation to cancelation of 1, 2 and 6 Mbit/s options. The President of UKE conducted the consultation proceeding regarding the amendment of the RO in relation to BSA modification in option with "up to 10Mbit/s" without canceling options: 1, 2 and 6 Mbit/s.

In November and December of 2013 the President of UKE carried out the consultation process of the draft decision amending the reference offer. KIGEiT send position about the draft decisions. Consulted draft decisions of the President of UKE on the amending the reference offer include the increase of some fees paid to the Orange Polska S.A. and decrease of others. In March and April, 2014 the President of UKE proceeded the consolidation process of the abovementioned decisions before the European Commission.
Finally, on May 30, 2014 the President of UKE issued the decision implementing into RO BSA service with "up to 80 Mbit/s" speed.
On June 2, 2014 the President of UKE issued the decision amending RO, inter aliai, in terms of:
- implementing BSA service on the Ethernet access level,
- implementing BSA service with "up to 10 Mbit/s" speed,
- implementing access to the fibre infrastructure of the Orange Polska S.A.,
- implementing access to the pillars, towers, masts and surfaces of the Orange Polska S.A.,
- changes of some rates paid to the Orange Polska S.A. for the BSA services.

KIGEiT submitted to the President of UKE request to reconsider the decisions from May 30, 2014 and from June 2, 2014. KIGEiT drew attention of the President of UKE on too high rates for the access to the Orange Polska S.A. fiber infrastructure and the procedures that may hinder alternative operators' access to the telecommunication access in this scope.

The Management Board cannot assure that the President of UKE will meet with KIGEiT's requests and that implementation of the decisions from May 30, 2014 and from June 2, 2014 will not lead to rise or to loss of profitability of services provided by Netia as well as cash flows and loss of market share.

The Management Board cannot assure that rules of the access to LLU service built with the fiber technology will prove to be sufficient for ensuring Netia the opportunity the use of access to fiber local loop in Orange Polska S.A. 's network on a mass scale.

Orange Polska S.A. applied also for approval of its reference offer with regard to leased lines. Ultimately the President of UKE made minor modifications to an offer in the scope of using of analog lines. This change is not expected to significantly affect the conditions of doing business by Netia.

Orange Polska S.A. also filed the motion to the President of UKE to amend the leased lines reference offer on leasing lines between Ethernet nodes. At this stage of the proceeding, the Management Board cannot assure whether the amendment would affect providing services by the companies from the Netia Group.

Moreover, on January 31, 2012, the President of UKE obliged Orange Polska S.A. to change RO, i.a. in the scope of liquidation of tariff periods O1, O2, and O3 (it also concerns calculation of flat rate interconnection) and definition of fees for number portability. In consequence, the changed RO in accordance with the decision of the President of UKE may raise costs of using services of termination of calls in Orange Polska S.A.'s fixed network by companies of the Netia Group. In the proceeding regarding the amendment of the offer in relation to origination and termination in Orange Polska S.A., network, including the fees for services provided on these markets, the growth in fees for connection termination and for flat interconnection rate is provided. KIGEiT has appealed against this resolution as far as liquidation of tariff periods O1, O2 and O3 is concerned. On July 15, 2013 the President of UKE upheld the decision of January 31, 2012. On July 19, 2013 KIGEiT appealed against the decision of the President of UKE. On May 5, 2014 the WSA (administrative court) dismissed the appeal of KIGEiT. KIGEiT will assess whether to appel to the Supreme Administrative Court after being served with the judgment together with its justification.

Orange Polska S.A. has also filed an application to the President of UKE for amendment of RO in relation to premium rate services provided within wholesale access to Orange Polska S.A. network (WLR).

On May 26, 2014 the President of UKE modified the RO in relation to the premium rate services provided within WLR service. The President of UKE introduced new wholesale rate of 0,05 PLN/month (not in thousands) for the subscribers, that are using retail services based on the WLR service, that use blockades to the phone calls to the premium rate services. KIGEiT requested the President of UKE to reconsider the decision. KIGEiT alleged no reasons for the introduction of the fee. The Management Board cannot assure that the President of UKE will take into account KIGEiT's comments and whether and in what extent the change of the RO will affect the ability of providing retail services based on the WLR service by the companies of the Netia Group.

Orange Polska S.A. has also filed an application to the President of UKE for amendment of RO in relation to Orange Polska S.A. liability, including in particular the issue of penalty clauses. According to the Orange Polska S.A. application the conditions regarding Orange Polska S.A. liability for providing the regulated services would be limited. On October 21, 2013 the President of UKE announced consultations of the decision amending RO partially accepting the Orange Polska S.A. proposition. In March 2014 the President of UKE conducted the consolidation process before the European Commission. On June 18, 2014 the President of UKE issued the decision modifying RO in relation to the penalty clauses, mitigating Orange Polska S.A. liability rules. KIGEiT requested the President of UKE to reconsider the decision. Although the Management Board is convinced that the the decision from June 18, 2014 was not justified, the Management Board cannot assure that the President of UKE will take into account KIGEiT's remarks and finally that in the future the terms and conditions of regulatory services provided by Orange Polska S.A. which are used by Netia Group's companies shall not become unfavorable.

On Janaurry 7, 2015 Orange Polska SA filed to the President of UKE the motion for RO's changes approval due to regulatory obligations changes on market 5 which had been introduced by the decisions issued by the President of UKE on October 7, 2014.

On June 12, 2013 the President of UKE issued the decision approving the instruction about the Orange Polska S.A. regulatory accounting in 2011 and the description of services cost calculating in the 2013. KIGEiT disagreed with the decision of the President of UKE and filed complaint to the WSA.

On November 13, 2013 the President of UKE issued the he decision approving the instruction about the Orange Polska S.A. regulatory accounting in 2012 and the description of services cost calculating in the 2014. KIGEiT disagreed with the decision of the President of UKE and filed complaint to the WSA. On September 15, 2014 WSA rejected KIGEiT's complaint indicating that the decision on the regulatory accounting is the decision about regulatory obligations and should be under jurisdiction of the SOKiK. KIGEiT, of the trial carefulness, filed complaint to the SOKiK. KIGEiT also complained to the NSA against the judgment of the WSA.

On June 5, 2014 the President of UKE issued the decision approving the instruction about the Orange Polska S.A. regulatory accounting in 2013 and the description of services cost calculating in the 2015. KIGEiT disagreed with the decision of the President of UKE and filed complaint to the WSA.

The Management Board cannot assure that the complaints will be included and the decisions will be repealed and that the decisions will not worsen price conditions of the regulated wholesale services provided by the Orange Polska S.A. for the companies from the Netia Group.

Risks related to the decisions of the President of UKE on the service of termination of calls in mobile networks (hereinafter referred to as "MTRs") (not in thousands)

In January and February 2009 the President of UKE issued temporary decisions ("Temporary decisions") amending agreements on the interconnection of networks concluded by Netia and Dialog with Polska Telefonia Cyfrowa S.A., Netia and Polkomtel Sp. z o.o. as well as Netia and Polska Telefonia Komórkowa Centertel Sp. z o.o. by lowering the mobile termination rates (MTRs) in public mobile telephone networks of the above-mentioned mobile networks operators to the level of PLN 0.2162 per minute. In June and July 2009 the President of UKE issued decisions (which replaced the above-mentioned temporary decisions) on the amendment of the interconnection agreements ("Final decisions"), concluded by Netia and Dialog with the above-mentioned operators, by setting the MTR at the level of PLN 0.1677 per minute. The same MTR was defined by President of UKE in the decision amending agreements on the interconnection of networks concluded by Petrotel with Polkomtel Sp. z o.o.

Polska Telefonia Komórkowa Centertel Sp. z o.o., Polkomtel Sp. z o.o. and Polska Telefonia Cyfrowa S.A. appealed against the temporary decisions of the President of UKE.

The following decisions were validly repealed:

1) Temporary and final decisions amending MTRs stipulated in the agreement between Polska Telefonia Cyfrowa S.A. and Netia.
2) Temporary and final decision changing MTR rates specified in the contract between Polska Telefonia Cyfrowa S.A. and Dialog.
3) Temporary and final decisions amending MTRs set in the Agreement between Polkomtel and Petrotel.

The Supreme Court accepted to hear the cassation of the Netia on the final decision changing MTR rates with Polska Telefonia Cyfrowa and the cassation of the Petrotel on the temporary decision changing MTR rates with Polska Telefonia Cyfrowa. Dialog filed the cassation on the final decision changing MTR rates with Polska Telefonia Cyfrowa.

In 2011 the agreements with Polska Telefonia Komórkowa Centertel Sp. z o.o., Polkomtel Sp. z o.o. and Polska Telefonia Cyfrowa S.A. (hereinafter the "MTR Agreement") were concluded. MTR Agreements were concluded by most of Alternative Operators being members of the KIGEiT, including Netia and Dialog. According to the MTR Agreement the forementioned mobile operators confirmed MTRs paid in accordance with the President of UKE decisions and limited the possibility of requesting retrospective claims. As a result of these agreements Polska Telefonia Komórkowa Centertel Sp. z o.o. and Polkomtel Sp. z o.o withdrew their appeals and these proceedings were discontinued.

Despite the fact that MTR Agreement was concluded between Netia, Dialog and Polska Telefonia Cyfrowa S.A., the Management Board cannot also assure that Polska Telefonia Cyfrowa S.A. shall not make claims related to the results of the abovementioned proceedings. The Management Board cannot predict the result of proceeding regarding such claims. Also, it cannot be excluded that Polkomtel sp. z o.o. will issue claims against Petrotel.

Along with other market participants, Netia, Dialog and Petrotel have made significant cuts in its customer tariffs for calls to mobile operators on the basis of the Regulator's MTR decision. In the event that the court raises the MTR rates once more, companies of the Netia Group will be unlikely to be able to pass on the higher costs to its customers through higher tariffs. No assurance can be given that possible damages claims against the State Treasury would be granted by the courts.

The President of UKE issued decisions stipulating the amount of MTRs to be paid to Polska Telefonia Komórkowa Centertel Sp. z o.o., Polkomtel Sp. z o.o. and Polska Telefonia Cyfrowa S.A.: as of July, 1, 2011 – at the level of PLN 0.1520 per minute and as of July 1, 2012 – at the level of PLN 0.1223 per minute, as well as the amount of MTRs to be paid to P4 Sp. z o.o., calculated on the basis of an index of asymmetry in relation to the remaining rates. Moreover, these decisions stipulate investment obligations of individual mobile networks operators in the so called "white areas", i.e. areas with low population density, excluded from GSM network coverage.

In MTR Agreements concluded by Netia and Dialog with mentioned mobile network operators the MTR provided by abovementioned decisions were confirmed.

On December 14, 2012, the President of UKE issued decisions establishing MTR (hereinafter referred to as "MTR Decisions") at the level of PLN0.0826/minute and as of July 1, 2013 at the level of PLN 0,0429/minute. The new financial settlements stemming from these decisions were adopted in agreement amendments between Netia and Dialog with Polkomtel Sp. z o.o., PolskaTelefonia Komórkowa Centertel Sp. z o.o and Polska Telefonia Cyfrowa S.A. then only as regards the first of the MTR rates at the level of PLN 0,0826/minute, which is effective until June 30, 2013. The amended contract between Netia and P4 Sp. z o.o. provides also the MTR level of PLN 0,0429/minute, effective from July 1, 2013.

Finally, agreements implementing MTRs at the level of 0.0429 PLN/minute from July 1, 2013 were concluded also with Polkomtel Sp. z o.o., PTK Centertel Sp. z o.o. and T-Mobile Polska S.A. (earlier Polska Telefonia Cyfrowa S.A., hereinafter "T-Mobile).

In case of suspension, repeal or change of the President of UKE decision setting the level of the MTRs of Polkomtel sp. z o.o. and in case of loss of binding force of the decision of the President of UKE setting the level of MTR of PTK Centertel sp. z o.o., the binding applicable rate with those operators would be 0,0826 PLN/minute, unless application of that rate would be impossible due to the duty of application of another rate resulting from the decisions of the President of UKE or the judgment of the court. In January 2014, the court refused to suspend the enforceability of the decision establishing the amount of the rates for call termination in the MTR Polkomel Sp. z o.o. and T-Mobile.

The Management Board also cannot assure that in case of filing the appeals against mentioned decisions providing MTR PLN 0,0826/minute and PLN 0,0429/minute, the court will not suspend the enforcement of these decisions at any stage of the court proceeding or will not finally reverse or change these decisions and that such suspension, reversal or change will not affect the financial settlements with mobile operators and set them differently than in the agreements with those operators and these operators will not pursue the claims against Netia and Dialog.

In case the mobile operators potentially obtain final court orders against the Netia Group's companies the Management Board cannot assure that the Netia Group's companies' regress claims against the State Treasury will be successful.

On June 19, 2013 T-Mobile asked the President of UKE to explain doubts regarding whether T-Mobile is obliged to apply regulatory obligations imposed in the MTR Decision, including the level of the MTR rate set by the President of UKE, for a calls initiated from A – catalogue subscriber number, from the number range used by states that are not members of the EU and terminated in the T-Mobile mobile network. On August 20, 2013 the President of UKE issued decision refusing to resolve T-Mobile doubts. Due to the unclear justification of the decision, KIGEiT filed with the President of UKE an application to reconsider the decision, challenging the justification of the decision. T-Mobile also filed an application to reconsider the decision. On November 29, 2013 the President of UKE upheld the decision refusing to clarify the content of the decision.

On September 4, 2013 Polkomtel asked the President of UKE to explain doubts whether the MTR Decision of the President of UKE imposing regulatory obligations on Polkomtel, including the level of the MTR, oppose applying rates for calls termination in mobile public Polkomtel network other than set in the schedule set out in that decision, in case the call terminated in the Polkomtel network was initiated outside the European Union. On December 5, 2013 the President of UKE issued the decision refusing to resolve Polkomtel doubts. Polkomtel filed to the President of UKE an application to reconsider the decision. On April 18, 2014 the President of UKE issued the decision upholding the decision from December 5, 2013

Although the Management Board is convinced that T-Mobile and Polkomtel questions are unjustified, the Management Board cannot assure that the final decisions of the President of UKE and their verification by the courts will not have an impact on the level of rates charged by these MNOs for calls from the number range used by the states that are not members of the EU and terminated in these operators' mobile networks. In the event that differential MTR rates are introduced, Netia may incur significant costs to enable proper management of such traffic through its network.

Risk related to reversal of President of UKE decisions stipulating conditions of the access to IN services in Netia and Dialog networks for mobile networks users

The President of UKE issued decisions stipulating conditions of access to IN services in Netia and Dialog networks for Polska Telefonia Cyfrowa S.A. and Polkomtel Sp. z o.o. users.

The Court of Appeal in Warsaw reversed these decisions stipulating access to IN services in Netia and Dialog networks for Polska Telefonia Cyfrowa S.A. users. Netia and Dialog have received the justifications of the rulings. Netia and Dialog submitted cassation complaints against the judgments of the Court of Appeal. The Supreme Court agreed to hear the cassation appeals. In Dialog case, the Supreme court asked the Court of Justice of the European Union questions on the issue of the obligation to provide consultation and consolidation process during the administrative proceeding of solving operators disputes. For the time of answering that question the Supreme Court suspended Netia proceeding. The Management Board cannot assure that the ruling reversing the decision shall be issued.

Polkomtel Sp. z o.o. has also appealed against the decisions stipulating conditions of the access to IN services in Netia and Dialog networks for users of Polkomtel Sp. z o.o. network. Due to the agreement worked out between Dialog and Polkomtel Sp. z o.o., Polkomtel Sp. z o.o. withdrew the appeal and asked to terminate the proceedings. SOKiK decided to discontinue the case.

The Management Board cannot assure that agreements stipulating conditions of the access to IN services in Netia and Dialog networks for Polska Telefonia Cyfrowa S.A. and Polkomtel Sp. z o.o. users will be concluded, and if these enterprises shall not make claims related to results of mentioned proceedings. The Management Board cannot predict the result of proceeding regarding any eventual claims.

Risks related to the analysis of relevant markets

According to the amended Telecommunications Law, the President of UKE performs an analysis of telecommunications services market („relevant market") not less often than every 3 years notifies to the European Commission the draft of the decision in which upholds, modifies or waives regulatory obligations imposed on an entrepreneur, who as a result of a previous analysis has held a significant market power.

Orange Polska S.A. holds significant market power in individual wholesale markets countrywide and is obliged, in particular, to provide telecommunications access to other entrepreneurs, under non-discriminatory terms.

On December 30, 2010, the President of UKE issued a decision defining a market, in which Orange Polska S.A. was so far obliged to provide access to local loop or a local sub-loop in copper technology, as a market of wholesale (physical) access to network infrastructure service provision (including full and shared access) in a fixed location, designated Orange Polska S.A. as holding a significant market power on the relevant market, as well as imposed regulatory obligations on Orange Polska S.A.

By virtue of the President of UKE decision Orange Polska S.A. was obliged to maintain telecommunications access to local loop and sub-local loop, as well as to provide access to the telecommunications ducts or to dark fibers, and - in case of lack of possibility of access provision for an operator applying for access to the above elements of infrastructure – to provide access to local loop and local sub-loop using fiber technology.

So far Orange Polska S.A. had an obligation to calculate costs and set telecommunications fees taking account of justified costs. This was replaced in the decision by an obligation to set fees taking account of incurred costs. The method Orange Polska S.A. is obliged to apply, allows for recovery of costs actually incurred in the process of telecommunications access provision and not justified costs i.e. costs that a hypothetical telecommunications undertaking would incur if it operated on a fully competitive market, with scope of activity and demand for its services comparable to those specific for an actually existing telecommunications undertaking obliged to run costs calculation.

In the opinion of the Management Board the amendment of the imposed obligation concerning method of calculation of costs of telecommunications access provision introduced by the President of UKE's decision is premature. No circumstances arose on the market that could justify application of the method of costs calculation taking account of incurred costs and not justified costs.

KIGEiT filed an appeal with SOKiK against the President of UKE's decision of December 30, 2010. On December 4, 2013 SOKiK repealed KIGEiT's appeal. KIGEiT appealed from the SOKiK judgment from December 4, 2013.

On September 11, 2013 European Commission published "Commission recommendation on consistent non-discrimination obligations and costing methodologies to promote competition and enhance the broadband investment environment". One of the key elements of the Recommendation is setting month rate for access to the copper local loop on the level of 8 – 10 euro. The Management Board cannot assure how the Recommendation will affect the regulatory policy of the President of UKE and whether the implementation of the Recommendation to the Polish regulatory environment will affect the costs of the Netia Group for the usage of the regulated wholesale services provided by Orange Polska S.A.

On April 28, 2011 the President of UKE issued a decision holding Orange Polska S.A. (Orange Polska S.A) as having a significant market power in the market for provision of wholesale broadband access services in the whole of Poland with the exception of 11 municipalities. The analysis of the President of UKE included the national market, within which regulatory obligations of Orange Polska S.A. in the areas of separate groups of municipalities were differentiated. The decision also provides for change of obligation to establish telecommunications access fees according to cost calculation, from the method based on justified costs to incurred costs. Eleven municipalities were excluded from the national market area. Orange Polska S.A. appealed against the decision. On August 29, 2013 SOKiK repealed Orange Polska S.A. appeal. KIGEiT also appealed against the decision, pointing the improper deregulating of the area of the 11 municipalities. On February 4, 2014 SOKiK repealed KIGEiT's appeal. KIGEiT appealed from the SOKiK judgment from February 4, 2014.

Ultimately the President of UKE terminated the proceedings leading to the repeal of the regulatory obligations on the area of the 11 Polish municipalities.

Beginning in February 2013 the President of UKE has conducted a periodic analysis of Market 5 – the market of the wholesale broadband access. On May 14, 2014 the President of UKE began administrative proceeding on Market 5 analysis and he prepared and conducted consultation and consolidation proceeding on the drafts of the deregulating decision, i.e. repealing existing obligations of the Orange Polska S.A. on Market 5 in the area of 76 municipal areas, including, inter alia, big cities, such as Warsaw, Wrocław, Bydgoszcz, Lublin and decision stating that in the rest of the country there is still no effective competition. Accordingly, outside of the 76 municipal areas, Orange Polska S.A. retains significant market power and the obligations of non-discrimination, telecommunication access, preparing and using the RO and regulatory accounting do not change. On the September 1, 2014 the President of UOKiK accepted draft decisions prepared by the President of UKE.

Finally, on the October 7, 2014 the President of UKE issued:

(i) the decision stating that on Market 5 on the territory of 76 municipalities there is effective competition, therefore Orange Polska S.A. is not bind by any obligatory regulations other than maintaining telecommunication access to the subscriber lines until the expiry of the agreements between AOs and the subscribers but no longer than 24 months from the day of delivery the decision of the President of UKE to the Orange Polska S.A, and

(ii) the decision stating that in the territory of Poland with the exception of the 76 municipalities the significant market power operator in Market 5 is Orange Polska S.A. and he imposed the obligation to calculate wholesale rates with "justified costs", not incurred. At the same time the President of UKE resigned from existing tool to control prices and imposed the obligation of non-discrimination, access, preparing and using the reference offer and the obligation of regulatory accounting.

In consequence the usage of the BSA service by the companies of the Netia Group will be significantly hampered, according to the decision of the President of UKE excluded from the regulations. It is likely that abovementioned decisions would worsen the possibilities of performing broadband services by the Netia Group, in particular that after the date of the termination of agreements, but not longer than 24 months after delivery the decision to the Orange Polska S.A. companies of the Netia Group would lose the possibility to use the BSA service in this area on temporary conditions. Orange Polska S.A. presented a proposition for cooperation on the commercial terms.

The Management Board cannot assure that commercial terms of using BSA service offered by Orange Polska S.A. and migration to LLU service will provide sufficient competing opportunities for Netia and Dialog in the market of the Internet broadband access on the deregulated area and the Management Board cannot assure that the rates for the access to the BSA service, set by the Orange Polska S.A. in the accordance with the regulatory obligations in the rest of the Poland, will not increase in the future and that the relation between wholesale and retail prices used by the Orange Polska S.A. in the future will not limit possibilities of competing with the Orange Polska S.A. in the market of the Internet broadband access in Poland for the companies of the Netia Group.

KIGEiT issued complaints to SOKiK against abovementioned decisions from October 7, 2014 requesting their repeal or imposing on the Orange Polska S.A. regulatory obligations in the whole Poland.

Despite the fact that the Management Board is convinced of validity of the issued complaints, the Management Board cannot assure that they will be accepted by SOKiK and Orange Polska S.A. will be obliged to provide BSA services in the whole Poland.

On October 16, 2012 the European Commission began consultation on telecoms markets Recommendation. The Management Board cannot assure that change of the telecoms markets Recommendation as a result of applying it by Regulatory Body in Poland, will not lead to an increase in the cost of telecommunications access or decrease of conditions of telecommunications access. On October 9, 2014 the European Commission published new Commission Recommendation on relevant product and service markets within the electronic communications sector susceptible to ex ante regulation in accordance with Directive 2002/21/EC. The Management Board cannot assure that the President of UKE will not resign from analyzing, deleted from the Recommendation, the market of call originating and that possible change of regulating of the relevant markets will not worsen the conditions of using the regulated wholesale products provided by the Orange Polska S.A. for the Netia Group companies and will not result in the increase of rates for the telecommunication services or will not cause decrease of rates of interconnect services provided by the companies of Netia Group.

On December 5, 2013 BEREC began consultation of the draft Common Position on the geographical aspects of market analysis. On December 5, 2012 BEREC published the new Common Position. The Management Board cannot assure that publication of the final Common Position and its implementing by the Polish Regulator would not lead to worsen of the condition of using telecommunication access services.

On March 4, 2014 and next on November 26, 2014 the President of UKE began consultation process of the decisions repealing regulatory obligations from the Orange Polska S.A. on the following four retail relevant markets:

- Publicly available local and/or national telephone services provided at a fixed location for residential customers.
- Publicly available international telephone services provided at a fixed location for residential customers.
- Publicly available local and/or national telephone services provided at a fixed location for non-residential customers.
- Publicly available international telephone services provided at a fixed location for non-residential customers.

KIGEiT presented positions to the President of UKE in which KIGEiT opposed to the deregulation of the abovementioned markets. The Management Board cannot assure that UKE will take into account the position of the KIGEiT and won't repeal the regulatory obligations of the Orange Poland S.A. on the abovementioned relevant markets. The Management Board cannot assure that the repeal of the regulatory obligations of the Orange Poland S.A. and deregulation of the abovementioned retail markets will not lead to a deterioration of the competing conditions with Orange Poland S.A. by the Companies of the Netia Group.

Risks related to the signing of the 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 agreed 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.

Risks arising from the presumption of the powers of the organizations for the collective administration of the rights of authors of neighboring rights

The Law on Copyrights and Related Rights defined (hereinafter referred to as "Law on Copyrights") a presumption, that the organizations for the collective administration of the rights of authors of neighboring rights (hereinafter referred to as "OZZ") are entitled to give consent (grant license) to rebroadcast TV channels via cable networks and are entitled to collect remuneration for the hereinabove rebroadcasting in scope of the copyrights managed by certain OZZ. Tables of remuneration of the use of works or objects of related rights covered with collective management are established on the percentage basis in relation to the gross revenue earned by the operator from the rebroadcasting of the TV channels and are approved by the Copyrights Commission (Komisja Prawa Autorskiego; hereinafter referred to as "KPA") upon the application for the approval submitted by OZZ to KPA. KPA is also entitled to settle disputes connected with concluding of the contracts between OZZ and cable network operators.

The obligation of obtaining from OZZ the channels' rebroadcasting license following from The Law on Copyrights and Related Rights is contrary to the legal regulations of the EU Directive No 93/83/EWG. EU legislator compulsory excluded the said obligation in case where the cable networks operators are granted with this license directly by the TV channels' broadcasters. According to the constitutional principle of the EU law dominance over the Polish law, there is no need to obtain the additional OZZ's license in scope of the rights already granted directly by the broadcasters. Bearing in mind the practice of dealings in Poland, the Management Boards may not guarantee that the above mentioned UE law principle shall apply to Dialog, Netia and Petrotel. However, this contradiction in law does not exclude the statutory, resulting from The Law on Copyrights and Related Rights, obligation imposed upon the rebroadcasting operators to pay the so-called additional remuneration of the use of works or objects of related rights covered with collective management for the benefit of OZZs.

As regards the TV channels' rebroadcasting, it is Polish Filmmakers Association (hereinafter referred to as "SFP") that is widely entitled to represent the producer's rights and is involved in collective copyright management. However, as long as it is not proved which works or objects of related rights are covered with collective management by Authors' Association "ZAIKS" and others OZZ, it is not possible to determine the scope of the hereinabove presumption arising from The Law on Copyrights and Related Rights and if in case of the TV channels' rebroadcasting without the agreement with Authors' Association "ZAIKS" or other OZZ, on the basis of the Polish law, OZZs shall be entitled to request abandonment of further TV channels' rebroadcasting by Netia, Dialog or Petrotel effectively and payment of the compensation in the amount of triple amount of the remuneration due OZZ.

KPA had determined the remuneration of the use of works or objects of related rights covered with collective management of SFP in the amount of 1.6% and covered with collective management of Authors' Association "ZAIKS" in the amount of 0.6% (in UPC's case) and 0.9% (in Sat-Film case), but Commission judgments were appealed. In consequence the said remunerations in amounts defined by KPA are not in force.

Polish Chamber for Electronic Communication ("PIKE") has started negotiations with certain OZZs, including SFP and ZAiKS, to conclude the general agreement. OZZs have proposed the remuneration amounting to jointly is 4% of revenues from rebroadcasting. Moreover, SFP and ZAIKS, applied jointly to KPA to approve the table of remuneration amounting to 3.3% and other OZZs taking part in negotiations with PIKE amounting to 1,1 % of revenues from rebroadcasting. KPA refused to approve these tables of OZZs' remuneration and OZZs appealed against KPA's decision to the court. At this stage, the Management Board cannot foresee the result of neither of these proceedings nor the negotiations of the general contract conducted by PIKE, in particular it is not possible to predict the amount of OZZ's remuneration, which will be defined, whether it will higher or lower than jointly 4% and whether and how this fact could influence settlement conditions between Netia, Dialog and Petrotel and OZZs.

According to the agreement currently in force, Dialog pays for the benefit of SFP the remuneration in the amount 2.2% of revenue earned by Dialog from rebroadcasting of the TV channels. The agreement between Dialog and Authors' Association "ZAIKS" is terminated, however Dialog paid in favour of Authors' Association "ZAIKS" the advance payments in the amount 0.6% of revenue earned by Dialog from rebroadcast of the TV channels and this OZZ accepted these payments till May 2012. Dialog also terminated the agreement with ZPAV (The Polish Society of the Phonographic Industry) effective on May 31, 2011. Simultaneously ZPAV didn't accept the proposed advance payments in the amount of 0.06% and in June 2012 requested to Dialog to cease all non-contractual payments as it shall be returned into Dialog's bank account. In order to avoid payment fees for rebroadcasting some works to both Artists Performing Music and Music-Verbal Works Association SAWP (hereinafter the SAWP) and Union of Performing Artist STOART (hereinafter the STOART) Dialog has served notices of termination with respect to agreements establishing current settlement rules with these organizations. Establishing the rights to represent by SAWP and STOART the property rights to works rebroadcasted by Dialog will require to point relevant organization by KPA and, in dispute cases, pursuing the mediation proceedings by KPA. In March 2012 SAWP took legal action against Dialog in order to conclude a settlement on payment of the remuneration in the amount of 48 PLN as a compensation of non-contractual use of works or objects of related rights covered with collective management during a period from 1st of September 2011 until February 29, 2012. Dialog proposed the percentage rate according to art. 110 of The Law on Copyrights and Related Rights as it takes into account the income amount of the use of works. This proposal was rejected by SAWP and as a consequence SAWP suggested the rate exclusively with reference to the number of subscribers. SAWP denied to accept the SAWP's advance payments in the amount of 25% of the expected remuneration and declared that such payments shall go toward the SAWP's claims and the lack of the SAWP's written declaration to conclude the agreement on SAWP's conditions shall be treated as the lack of will to respect the rights represented by SAWP that will force SAWP to pursue claims through the courts together with statutory interest.

In May 2013 the copy of the statement of claim of SAWP was delivered to Dialog, pursuant to the art. 105 par. 2 of the Law of the Copyrights, to provide information necessary to determine the level of remuneration and rates claimed by SAWP. Dialog submitted response to the statement of claim challenging the entire claim of SAWP. Moreover, Dialog applied for STOART to be joined to the proceedings, due to the fact that the scope of the rights represented by SAWP and STOART overlap and both these OZZ claim the right for remuneration for the use by Dialog of the same kind of works – artistic music and word-and-music performances, in the same field of exploitation (rebroadcasting).

In its sentence of 11th of April 2014 the Court ordered that Dialog shall supply SAWP with the information about what kind of tv channels were rebroadcasted in the period between 1st of September 2011 until 30th of April 2013 and the amount of the revenue earned by Dialog from this title. Dialog has appealed against this decision on June 30, 2014. Despite the fact that the Management Board is convinced of validity of the appeal, the Court of Apeals dismissed it in part and changed the Court's decision in this way, that also imposed on Dialog an obligation to supply SAWP with the information about the amount of the subscribers of tv channels. Dialog is considering filing the cassation complaint.

SAWP has also called Netia to conclude a license agreement. In the Management Board's opinion there is no legal obligation to sign the contract. Despite this,, Netia is conducting dialog with SAWP.

In the Management Board opinion, the SAWP claims in relation to the number of subscribers are in contrast with the position which was presented by SAWP together with other OZZ during the negotiations of the general contract between them and PIKE. The OZZ, including SAWP, proposed the jointly rate of 4% of revenue received from rebroadcasting of the works, the copyrights of which they represent. At this stage, the Management Board may not foresee the amount of remuneration of OZZ and if the remuneration shall not be higher than jointly 4% of revenue received from rebroadcasting for above mentioned OZZ.

On December 31, 2013 Netia concluded with SFP the agreement on the giving Netia license to rebroadcasting of the TV programs for the payment of 2,2 % of the income for the rebroadcasting. Netia also conducts negotiations with ZAiKS in order to regulate the compensation rules for rebroadcasting of TV channel in the scope of copyrights that ZAiKS manages. ZAiKS suggested Netia the payment of 1,1 % of the income for the rebroadcasting. The Management Board cannot assure that the negotiations will end with concluding the contract with ZAiKS and the payment, concerning the rule that rebroadcasting TV channels by Netia is being done only on demand of the user of the service. This manner of providing TV services means that the subject of the settlements with SFP shall be rebroadcasting that occurs sporadically, not permanently, as in the case of CATV operators.

Even though Netia doesn't provide activity in TVC technology and Management Board is convinced of that the amounts of compensation demanded by OZZ are unjustified, it couldn't be guaranteed that Netia , Dialog and Petrotel shall not be obliged to pay to SFP such amount of compensation demanded by OZZ until KPA approves the lower rate of the remuneration or the general contract with PIKE is concluded and the settlement rules with OZZ shall be amended on one of these grounds.

At this stage of Netia's activity of TV channels' rebroadcasting, taking into account the circumstances that it is conducted via IP technology, not cable technology, and taking also under consideration the legal and the factual doubts concerning the scope of the power of each OZZ and also lack of the approved SFP's and ZAIKS's tables of remuneration of the use of works or objects of related rights covered with collective management, it couldn't be predicted what the final part of the revenue earned from providing TV services by Netia, Dialog and Petrotel, they will be obliged to pay to OZZ. However, the Management Board is convinced that, the total final amount of these receivables should be lower than paid to OZZ by cable operators. On the basis of the resolutions of the disputes between cable networks operators and OZZs and tables of remuneration of the use of works or objects of related rights to be approved by KPA, Management Board estimates that total definitive amount of the remuneration to be paid by cable network operators to OZZ may be up to 4% of revenue earned by them.

Under the cinematography law the Polish Film Institute (Polski Instytut Sztuki Filmowej -PISF) summoned Netia and Dialog to pay the remuneration in the amount of 1,5% of revenue earned by Netia and Dialog from fees for an access to TV channels rebroadcasted by Netia and Dialog and from fees for rebroadcasting services. According to the cinematography law of June 30, 2005 the abovementioned remuneration shall be paid by two categories of entities: cable television operators and digital platform operators.

In the Management Board opinion as long as Netia and Dialog rebroadcast TV channels via IP technology both of them are not obliged to pay the abovementioned remuneration demanded by PISF. However the Management Board cannot assure that in case PISF does not share the abovementioned opinion of the Management Board and will sue Netia or Dialog for the abovementioned remuneration starting the court proceedings the court judgment in these cases will be compliant with the abovementioned opinion of the Netia's Management Board and neither Netia nor Dialog will be obliged to pay PISF the demanded remuneration.

Other regulatory risks

The President of the UKE is regularly carrying out inspections of compliance of the companies from the Netia Group with the provisions of the Telecommunications Law and using frequency and numbering conditions. In cases provided for in the Telecommunications Law, the President of UKE may fine the companies from the Netia Group with a fine up to 3% of revenues of the previous calendar year.

The President of UKE has been carrying out several inspections of the use of radio frequencies by Netia Group's companies in accordance with the conditions described in radio permits and proceedings in case of imposing a fine in connection with the irregularities (according to the President of UKE) which have been noted in this scope. On December 28, 2012 the President of UKE issued the decision imposing the fine on the Dialog in the amount of 21 PLN due to breach of the conditions of use of the frequencies stemming from the radio permission. On December 16, 2013 the President of UKE issued decision imposing fine (30 PLN) on Netia for improper work of the radio devices in three locations.

Dialog and Netia filed the appeals against the decisions, raising, inter alia, that the decisions were issued before sending post-audit recommendations. Despite of that fact, Dialog's appeal was dismissed by the court and the decision was maintained in force. Dialog has been considering submitting an appeal. Although the Management Board is convinced of validity of the appeals it cannot assure that the appeals will be definitively accepted and that the decisions will be reversed by the court.

The Management Board cannot assure that the President of UKE will take into account statements submitted by the Netia's Group companies and will discontinue other inspections and proceedings in case of imposing the fine, concerning the using of radio frequencies and in the opposite case that the President of UKE will not impose the higher amount of fine than in the decision issued in Dialog's case.

The Management Board cannot assure that with regard to all inspection procedures UKE agrees that the position of Netia and the activities of the Netia Group are consistent with regulatory requirements and the law to the extent that eliminates the risk of a fine.

President of UKE is also authorized to conduct the mediation proceedings in order to find amicable solution of the disputed interests between the subscribers that are consumers and provider of telecommunication services.

Although strategic aim of Netia Group is special solicitude about comfort of subscribers using or intending to use Netia Group companies services, the Management Board cannot ensure that undertaken efforts made by Members of the Netia Group or other operators acting on their behalf, won't be evaluated by President of UKE as requiring additional benefits for the subscribers, set out in mediation proceeding. However the entering into the mediation proceeding depends on decision made by the Management Board, taking into account point of view of President of UKE justifying such need, is crucial for such decision.

The President of UOKiK is entitled, inter alia, to conduct proceedings concerning compliance of standard terms and conditions applied by the companies belonging to the Netia Group with requirements stemming from the law on protection of competition and consumers, as well as other regulations aiming at protecting consumers' interest. In cases provided for in the law on protection of competition and consumers the President of UOKiK may impose on the companies belonging to the Netia Group a fine amounting up to 10% of their income earned in the preceding calendar year.

The Management Board is unable to assure that within the scope of the explanatory proceedings the President of UOKiK will consider standard terms and conditions applied by the companies belonging to the Netia Group to be compliant with the respective legal requirements, thus excluding the risk of fine imposition.

The business conducted by the companies of the Netia Group is also subject to control by other regulatory authorities and to inspections based on the relevant laws and within the scope of the granted to such authorities. If such regulatory authorities determine that the companies of the Netia Group are not acting in compliance with the respective laws the regulatory authorities may impose various administrative sanctions on the companies of the Netia Group as prescribed in the relevant laws, including monetary fines or orders prohibiting/compelling the companies of the Netia Group to perform certain actions.

The Management Board cannot assure that with regard to all inspection procedures the authorities conducting the control agree that the position of Netia or other companies of the Netia Group and the activities of the Netia Group are consistent with regulatory requirements and the law to the extent that eliminates the risk of a fine and prohibition of performing the activity being a subject of a control.

The President of UKE finished the works on the implementation of the aims of the Memorandum dated October 26, 2012 on the Cooperation for Increasing Quality of Services Provided on the Telecommunications Market. The work involved the parties that signed the Memorandum, including the telecoms business associations, as well as Orange Polska S.A., MNOs, UPC, Exatel, TK Telekom, and the Netia Group. By signing the Memorandum, the President of UKE and the other Signatories obliged themselves to work together to provide to end-users reliable and comparable information on the availability and quality of provided services (Quality of Service – QoS). To date two types of indicators for fixed and mobile networks were identified: "administrative" i.e. "the average waiting time for connection with staff", "invoice correctness" on the rates for telecommunication services, and "technical" i.e. effectiveness of phone connections index and, according to the President of UKE the most important from the net neutrality point of view, the "index of data transfer speed". Other technical indicators, for example "per cent of SMS messages delivered in 10s", according to the nature of services provided in mobile networks, were defined for the MNOs.

The President of UKE sees the Memorandum as implementation of both EU directives and Polish Telecommunications Law, including the creation of uniform conditions of conducting business and using telecommunication services in the EU and also the implementation of the net neutrality principle. Work to date on the Memorandum confirms one of its objectives, i.e. creation by the Initiator (the President of UKE) a regulatory environment friendly for telecommunication operators that promotes the idea of co-regulation of the telecommunications market.

On December 17, 2013 the President of UKE announced consultation of the Final Report of the Memorandum. In the Final Report there is a list of indicators of the quality of services, methods of measurement and rules of publishing of the results of the measures and the way of providing them to the President of UKE. In the January 2014 the President of UKE presented the Final Report of the Memorandum. The Netia Group Companies submitted to the President of UKE declarations to apply the provisions of the Memorandum.

Elaboration of the principles and the methods of measurement indicators of quality of services, according to the Management Board, should preclude further actions of the President of UKE for the same purpose, i.e. for example exercising powers given to the President of UKE in art. 62a of the Polish Telecommunications Law that enable the President of UKE to impose on the telecommunications operator an obligation to use specific methods of measuring data transfer speed. However, the Management Board cannot foresee what will be the policy of the President of UKE in this scope and whether the costs of measurement and publishing indicators of services provided by the Netia Group will not increase.

In August 2013 the Lower House of Parliament ("Sejm") began work on a draft resolution requesting the Minister of Administration and Digitalization to guarantee parents the right to the Internet without pornography. KIGEiT filed to the Minister of Administration and Digitalization a position paper on the case and declared cooperation of the operators from KIGEiT to publish on their websites educational information for parents on how to block access to pornography, also through available on their websites applications for blocking the access.

On September 30, 2014 the President of UKE announced the position on the performance of the obligation to provide co-usage and telecommunication access of the telecommunication infrastructure or public telecommunication network build as regional broadband networks. On October 16, 2014 the President of UKE announced the consultation of the project "Reference Offer for the infrastructural operators on the conditions of providing access to the Regional Broadband Networks". The Management Board cannot assure the services offered with the usage of the regional broadband networks will result in the increase of the competitive broadband services limiting competitiveness of the offer of the Netia Group.

Risk of collective suits

On July 19, 2010, a law on prosecution of claims in collective procedure, which provides for possibility of bringing an action to the court by a group of at least 10 people, came into force. A judgment passed as a result of such a suit regards all the members of such a group. The Management Board cannot exclude risk of bringing such actions against the companies of the Netia Group in the future.

Risk of growth of competition as market converge

The companies of the Netia Group current core offerings are voice telephony, broadband data services and providing tv services over broandband Internet.

After the merger of PTK Centertel and TP S.A., Orange Polska S.A., being the incumbent on the both markets: fixed and mobile, is the main competitor of the Netia Group. Other competitors are alternative operators, cable operators and mobile operators Plus, T-Mobile and Play.

Furthermore, during H1 2014 T-Mobile has acquired business customer focused GTS Central Europe, whose polish subsidiary, GTS Poland, is a key competitor to Netia on the market for business customers. Should T-Mobile Polska and GTS Poland begin providing services together, T-Mobile may, like Orange Polska S.A., acquire the capability to propose convergent fixed-mobile offerings to business customers more effectively than Netia and this could lead to a loss of market share and cash flows for Netia Group.

Also during H1 2014, SAT TV operator, Cyfrowy Polsat, and Plus mobile operator Polkomtel became a single capital group and this may enhance their ability to provide converged offers that Netia is currently unable to replicate.

Fixed operators, including Orange Polska S.A. also offer television and content services and some cable operators now offer quadruple play bundles including mobile telephony. Certain satellite TV operators are responding to the situation by also moving into the resale of fixed telephony and/or broadband thereby further increasing the competition to Netia's core services. Companies of the Netia Group have responded to this competitive pressure and convergence of product offerings by itself offering television services over upgraded networks. However no assurance can be given that this tendency of operators of different types of infrastructure to offer similar multi-service bundles will not lead to the gradual erosion of margins, profitability and cash flows.

In addition, significant new operators may enter the Polish market or mergers between existing market participants may significantly alter the competitive landscape in a way that might materially deteriorate Netia's competitive position.

Risk of competition from Orange Polska S.A. and Orange Polska S.A. obedience to the UKE decisions issued in the matters of the Orange Polska S.A.

Orange Polska S.A. occupied a leading position in Poland among operators offering fixed telephony services and data transmission. After merging of PTK Centertel and Telekomunikacja Polska S.A. and changing name for Orange Polska S.A. in the scope of fixed phone services, Netia Group has to face competition from Orange Polska S.A. in all the geographic areas it operates on. Orange Polska S.A. is a much larger entity than Netia Group and in the fixed part possesses a far broader backbone and access network. In the fixed market, Orange Polska S.A. is engaged in many years' relations with numerous clients that constitute a target client group of Netia Group. Fixed infrastructure exploited by Orange Polska S.A. in the main cities of the country is comparable in terms of advancement of applied technologies to the infrastructure of Netia Group. Orange Polska S.A. may also provide its mobile network services, as well as TV services, in a manner that Netia currently would not be able to copy. One cannot exclude that aggressive competition from Orange Polska S.A. will have a significant adverse effect on Netia Group revenues and its operating activities outcomes.

Orange Polska S.A. is the owner of local access networks (local loops) and offers access to these local loops networks to other operators on terms that in many cases make it unprofitable to connect client to the network. However, since 2006 the Regulator has issued decisions establishing reference offers for access to Orange Polska S.A. networks that currently is regarded by Netia to be commercially profitable, but under condition that the Regulator will protect proper relation between wholesale and retail rates. Due to the above in 2006 and in 2010 Netia signed a cooperation agreement with Orange Polska S.A. enabling Netia to offer Internet access to Orange Polska S.A. clients on the basis of regulatory Orange Polska S.A. wholesale offer called bit stream access. In June 2007 Netia and Orange Polska S.A. concluded networks interconnection agreements that complexly regulate terms of cooperation between operators. This agreement also applies to cooperation with Orange Polska S.A. in the scope previously addressed in separate agreements on networks interconnection concluded by companies from Netia Group, whose rights and obligations Netia entered into under regulations of the code of commercial partnerships and companies. By virtue of the Settlement Agreement Netia acknowledged this rule on January 22, 2010, placing with Orange Polska S.A. a binding statement on regarding the interconnection agreement between Netia and Orange Polska S.A. of June 30, 2007, as the basis for serving all of the Netia services users in the scope of networks interconnection. In January 2007 the President of UKE issued a decision on amendment of interconnection agreement between Orange Polska S.A. and Premium Internet – a company belonging to Netia Group (which in 2008 merged with Tele 2 Polska, the latter in February 2009 merged with Netia), in the scope of wholesale line rental (WLR). The decision of the President of UKE introduced a basis for a new form of access to Orange Polska S.A. network enabling Netia Group to offer voice services to Orange Polska S.A. clients. In October 2008 a WLR decision in favor of Netia was issued, as well. Moreover, in April 2007 Netia concluded an agreement with Orange Polska S.A. on full and shared local loop unbundling, with use of which Netia Group offers voice and data transmission services, interactive TV services (IPTV) and in the future plans to pay other different value-added services. Operational cooperation with Orange Polska S.A. aiming at provision and maintenance of such services for end users based on regulatory decisions requires closer cooperation than it used to be in the past.

The Settlement Agreement between the President of UKE and Orange Polska S.A. expired at the end of 2012. The Management Board is not able to guarantee that Orange Polska S.A., in the scope of previous Orange Polska S.A. activity, will cooperate on an adequate level of engagement, nor that the regulatory body will react forcing Orange Polska S.A. to realize the cooperation. Moreover, we are unable to give assurance that change of market situation, future court judgments or regulatory body decisions will not cause that currently existing possibilities of services provision for clients through use of Orange Polska S.A. access networks to be no longer profitable from the commercial point of view.

The competition pressure of Orange Polska S.A. increased in the territory of 76 municipalities covered by the abovementioned decisions from October 7, 2014, because according to the President of UKE and Orange Polska S.A., BSA service is not regulated in that area and there is no obligation for Orange Polska S.A. to conduct MS/PS Tests for the retail services.

Possible future competition from new generation networks

The most modern fixed line telephony networks being deployed around Europe by incumbent operators and by cable TV operators utilize fiber to the curb (FTTC), fiber to the building (FTTB) or fiber to the home (FTTH) to significantly increase bandwidth delivered to the end user. New built Networks based on IP protocols may gradually eliminate the traditional telephony equipment and copper access cables and will replace it by fiber optic cables and new generation optical transmission systems. Moreover, many incumbents are lobbying to receive relief from regulatory obligations for a period of time in order to improve their returns from such large investments. In the future it may also become possible for public authorities or public/private partnerships to gain access to investment subsidies that could lead to new sources of competition from NGN networks. New generation networks (NGNs), if deployed in Poland, could materially deteriorate the economic returns Netia plans to earn from regulatory access products such as bitstream, WLR and LLU. The Management Board can give no assurance that NGN networks will not be deployed in Poland by entities having access to public funding not available to Netia and, if this does occur, whether the regulator will ensure alternative network operators such as Netia enjoy fair access to such a network on acceptable economic terms.

In September 2013 Orange Polska S.A. announced the commercial launch of retail services based on the FTTH network. On November 29, 2013 Orange Polska S.A. concluded the agreement with Netia on providing Netia wholesale access to the FTTx network. On June 2, 2014 the President of UKE modified RO in relation to the FTTx infrastructure of the Orange Polska S.A. The Management Board cannot assure that Orange Polska S.A.'s obligations, which are described in the agreement and in the RO, would allow Netia to provide profitable and competitive retail services on conditions in the scope of using the telecommunications access.

Competition from cellular mobile telephone operators

In recent years, services offered by cellular telephone operators have negatively affected wire line telephone operators. This stems largely from mobile substitution, whereby subscribers choose to make telephone calls using their mobile phones in preference over fixed telephones, resulting either in less traffic or disconnections for fixed line operators. Mobile substitution becomes more pronounced as mobile tariffs decline, as they have in recent years, converging with traditionally lower cost fixed line tariffs. Similar substitution effects may also apply to broadband services, given the increased take-up of mobile broadband services offered by mobile operators.

Since 2008, certain Polish mobile operators have been marketing fixed internet access services via the fixed access network of Orange Polska S.A., on the basis of regulated bitstream access decisions. This represents a significant new source of competition for market share in the fixed broadband market. The Management Board cannot assure that the technological development of the mobile access to the Internet would not cause the partial loss of the Netia in the income from providing broadband services.

On October 10, 2014 the President of UKE announced the auction for frequency reservation of 800 MHz and 2,6 GHz. Those frequencies allow providing mobile access to the Internet in the LTE technology. The Management Board cannot assure that after launching services on those frequencies that services will not limit competitiveness of the retail Internet access services provided by the companies of the Netia Group.

Competition from cable operators

Over the last several years, competition for voice and Internet services has increased from cable television operators. Triple play bundles (voice telephony, Internet access and cable television) have proven to be particularly challenging. Interactive TV services (IPTV) delivered by Companies of Netia Group offers fixed line telephone operators the ability to compete directly with cable television operators. The market importance of IPTV and related services (such as video on demand) is continually being analyzed in the context of Netia's strategy to expand its share of the broadband market. The Company is working on solutions to provide profitable TV services to its customers and expects that such services should reduce churn and improve profits per customer. However no assurance can be given that Netia will be successful in implementing a profitable TV service business model. Should such services be insufficiently well received by our existing and potential customers, it may adversely affect our revenues and margins in the future.

Market consolidation

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

Whilst acquisitions of large scale telecommunications businesses are not crucial to the Company's strategy, Netia continues to closely monitor the situation of all its main altnet competitors and may choose to try to acquire one or more of these competitors in the future if the opportunity arises. Some acquisitions may consume a considerable portion of Netia's financial resources and no assurance can be given that expected synergies from such acquisitions will be reached as planned. In particular, acquisitions of other telecommunications enterprises or infrastructure are also likely to result in new regulatory risks or Netia Group companies' legal obligations, which cannot be predicted at the moment of acquisition and may increase costs of running the business for the Netia Group.

Certain potential acquisition targets, should they become available for sale, would require Netia to raise significant amounts of financial indebtedness and/or to issue new shares or equity related instruments, including debt instruments, in order to fund a transaction. The Management Board cannot guarantee that such funding will be available when needed on acceptable terms or that such an acquisition would not significantly increase the funding risk profile of the Netia Group.

Moreover, should we be outbid by a competitor on any particular large acquisition opportunity, our position as the leading alternative operator on the Polish telecommunications market and the strategic advantages that this position creates may be materially affected.

WiMAX license requirements

On October 27, 2005 Netia WiMax S.A. (merged with Netia in 2006) and Netia WiMax II S.A. (merged with Netia in 2008) received the reservations of the 3.6-3.8 GHz frequencies, which are used to provide telecommunication services based on the WiMAX technology. The terms of licenses issued to the Company's former subsidiaries require them to meet annual connected capacity milestones in the future, as measured at the end of each year, subject to demand in the territory and population of Poland. Considering changes in the telecommunications market and, in particular, the advent of regulated access to the fixed line network of the incumbent fixed line operator, Orange Polska S.A., the Company submitted applications to change future territorial and population coverage commitments for WiMax and on October 31, 2007 and on December 13, 2011 the Polish regulator issued decisions reducing the initial milestones. The Management Board can give no assurance that there will not arise any adverse circumstances which cannot be foreseen on the current stage of the construction of base stations and that they will not impede the fulfillment of the milestones established. In the event that reservation obligations are not met by an operator, the UKE has the power to limit or confiscate the reservation, if the entrepreneur is not able to assure effective use of possessed right. However, historically such measures have rarely been used.

Tax regulations and their interpretation

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

Dispute over Corporate Income Tax (CIT) paid for 2003 (not in thousands)

In February 2010 the Director of the Tax Chamber in Warsaw ("Tax Chamber Director") issued a decision ("Decision") according to which Netia's corporate income tax due for the year 2003 was set at PLN 34.2 million plus penalty interest of approximately PLN 25.3 million. The decision closed proceedings related to Netia's appeal of a decision of the Director of the Tax Control Office in Warsaw ("UKS Director") according to which Netia's corporate income tax due for the year 2003 was set at PLN 58.7 million plus penalty interest amounting to PLN 41.3 million.

The decision of the Tax Chamber Director was issued despite legal arguments presented by the Company, which claimed that the conclusions delivered by the Tax Control Office were incorrect and groundless. According to the Tax Chamber Director and the UKS Director, Netia understated its taxable income by PLN 247.5 million by excluding from its revenues the accrued and not received interest from loans granted by Netia in earlier years to subsidiaries which subsequently merged with Netia on December 31, 2003. The Director of UKS, as the first instance tax authority, claimed in its earlier decision that Netia understated its taxable income by PLN 303 million.

The Tax Chamber Director's decision, which partially upheld the decision of the UKS Director, was enforceable as a decision of the second instance tax authority. The liability of PLN 59.6 million was settled in February 2010, from which PLN 1.3 million was subsequently conceded by the Tax Authority as overpayment.

Netia received opinions from several independent tax and legal advisors, as well as tax law experts, which concluded that the claims of the Directors of the Tax Control Office and the Tax Chamber have no legal grounds. Accordingly, following the payment of the PLN 58.3 million and having recourse to two levels of independent administrative courts in which to obtain a positive ruling, the Management Board took the position during 2010 that recovery through the courts is virtually certain and therefore did not recognize the Tax Chamber's decision as a taxation expense for the financial year ended December 31, 2010 and instead treated funds paid over to the tax authorities as an overpayment of tax.

However, having heard Netia's appeal of the decision of the Tax Chamber Director, on 15 March 2011 the Voivodeship Administrative Court ("WSA") in Warsaw announced a judgment with respect to the Decision and the Court dismissed the Company's claim in its entirety.

Consequently, in the first quarter of the year 2011, the Company recognized the taxes and related penalty interest already paid in 2010 as an income tax expense relating to the year 2003 of PLN 58,325 thousands.

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

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

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

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

According to Netia, the decisions of the UKS Director and the Tax Chamber Director are in conflict with the relevant tax regulations.
In addition to major procedural faults, Netia believes that the tax authorities' decisions incorrectly interpret and apply a number of material regulations. According to the Company and, in the Company's opinion, supported by the judgment of the NSA the following are the most important deficiencies:

(1) Incorrect interpretation, that Company rendered services on non-market conditions. The authorities decided to involve an expert which will issue an opinion on economic terms of the transactions.
(2) Incorrect assumption of the transactions' comparability with Millenium Communications. The court highlighted the year of the transaction with MC and indicated that as the Company did not received any significant repayment from MC and incurred significant costs of court proceedings, it should not be expected that in the case of the related companies the outcome of proceedings would be different and the Company was pointing out the market conditions.
(3) The tax losses for 2000-2002 were incorrectly offset by the tax authorities in calculating the tax due.

On October 10, 2013, the WSA annulled the Decision of the Director of the Tax Chamber in its entirety.

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

On June 24, 2014 NSA issued a decision rejecting the arguments presented by Netia and, as a result, the WSA decision of 10 October 2013 became binding. As a result the second instance decision of the Director of the Tax Chamber has been removed from legal circulation while the original first instance decision is now once again in force before the Director of the Tax Chamber and once again awaits its review while taking into account the subsequent binding decisions and the justifications of the WSA and the NSA. 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 nil.

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 incorporated 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 thousand on January 8, 2015 which brings to a close a dispute with the tax authorities over 2003 CIT.

2.2 Factors and events having a significant influence on the operations of the Netia Group and the financial results achieved in 2014

Operational data (not in thousands)

Broadband

Broadband subscribers of Netia Group decreased by 7% to 789,876 at December 31, 2014 from 848,909 a year earlier. Netia estimates that its total fixed broadband market share was approximately 11.5% versus 12.7% at December 31, 2013. Slow market growth and tougher price competition, including cable operators offering multiplay bundles, is reflected in the performance. Management is focusing on its own network and bundled services rather than regulated access or total services sold in order to defend gross margins. Of the total broadband customers served at December 31, 2014, 51% received service over Netia's own access infrastructure as compared to 47% at December 31, 2013.

Netia Group provides its broadband services using the following technologies:

Number of broadband ports	2014	2013
xDSL and FastEthernet over Netia's own fixed-line network	394,265	386,787
Bitstream access	234,153	276,857
WiMAX Internet	12,366	15,353
LLU	149,092	169,912
Total	**789,876**	**848,909**

Broadband ARPU was PLN 56 in Q4 2014 as well as in Q4 2013.

Broadband SAC was PLN 174 as compared to PLN 164 in Q4 2013.

Ethernet network operators

As of December 31, 2014, Netia's Ethernet networks provided broadband access to a total of 103,657 mostly residential customers as compared to 110,754 customers at December 31, 2013, with approximately 621,000 homes passed. Netia is currently focused on upgrading Ethernet networks already acquired and therefore will likely acquire new networks at a much slower pace than seen in the past, if at all. There were no additions of Ethernet networks completed during 2014.

NGA network development

As at December 31, 2014, Netia covered in total 1,706,000 households with its NGA networks, including 380,000 HFC HPs cover by the former Aster cable network, 176,000 PON HPs, 897,000 VDSL HPs and 253,000 Ethernet FTTB HPs. During Q4 2014 Netia expanded its NGA coverage by approximately 122,000 HPs (being 110,000 HFC HPs, 3,000 FTTB HPs and 9,000 PON HPs). Moreover, at December 31, 2014 Netia covered a further 404,000 TV ready HPs. Combined with NGA ready HPs, all of which can deliver TV services, Netia had 2,110,000 TV ready HPs in its proprietary network coverage.

Once all upgrade projects are completed, inclusive of the recent acquisition of cable networks from UPC Polska, Netia expects to cover in total approximately 1,726,000 NGA HPs which can be reached with 3play service bundles (TV + fixed NGA broadband + fixed voice). Management is presently focusing on optimizing sales, provisioning and maintenance processes around TV services in addition to constant development of the content offering and service functionalities.

TV services

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

The number of active TV services in Netia grew to 137,323 as at December 31, 2014 up by 14% from 120,321 as at December 31, 2013.

Netia added 3,384 TV services net in Q4 2014 (inclusive of a one-time adjustment in presentation of the 'Multiroom' TV services), compared to 1,619 services added in Q2 2014 thanks to launching services over the former Aster network and developing TV services in streaming technology, which fully compensated for disconnections resulting from the planned gradual downsizing of IPTV-based services.TV penetration has now reached a satisfactory 35% of the on-net broadband base and the key objective for 2015 is to increase TV sales to completely new customers for Netia, both over upgraded NGA networks and over the former Aster cable TV network acquired during 2013.

TV ARPU was PLN 38 in Q4 2014 as compared to PLN 37 in Q4 2013.

(All amounts in thousands, except as otherwise stated)

Mobile services

The mobile broadband customer base totaled 19,758 at December 31, 2014 as compared to 26,397 at December 31, 2013.

Mobile broadband ARPU was PLN 28 in Q4 2014 as compared to PLN 27 in Q4 2013. Mobile voice services totaled 26,111 at December 31, 2014 as compared to 42,120 at December 31, 2013.

Mobile voice ARPU was PLN 30 in Q4 2014 as compared to PLN 29 in Q4 2013.

Voice lines (own network and WLR)

Voice lines totaled 1,331,486 at December 31, 2013 as compared to 1,488,610 at December 31, 2013. In Q4 2013 Netia recorded a net decrease of 40,931 voice lines versus 30,655 voice lines in Q4 2013. The Company expects the number of fixed voice lines to continue to decline, mainly due to clients churning from traditional direct voice and WLR services.

Netia is steadily growing its base of relatively low cost VoIP customers, principally in the business segments (mainly business or individual customers provided with LLU access and Ethernet network).

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

Number of voice lines	**2014**	**2013**
Traditional direct voice	495,579	532,639
Voice over IP*(excl. LLU)*	133,554	98,833
WiMAX voice	11,268	11,983
WLR	583,836	728,693
LLU voice over IP	107,249	116,462
Total	**1,331,486**	**1,488,610**

Voice ARPU per WLR line was PLN 43 in Q4 2014 as compared to PLN 45 in Q4 2013.

Voice ARPU per Netia network subscriber line was PLN 34 in Q4 2014 as compared to PLN 39 in Q4 2013.

Blended voice ARPU was PLN 38 in Q4 2014 as compared to PLN 42 in Q4 2013.

Indirect voice

CPS lines (carrier pre selection) totaled 51,151 at December 31, 2014 as compared to 55,922 at December 31, 2013. Netia is focused on the conversion of CPS customers to WLR and is not actively acquiring new CPS customers. CPS clients are not reflected in the total voice subscriber base of 1,331,486 clients as at December 31, 2014.

Indirect voice ARPU per CPS line was PLN 17 in Q4 2014 as compared to PLN 24 in Q4 2013. Tariff reductions, reduced call volumes and conversion of higher ARPU customers to Netia's WLR or LLU offers are responsible for the progressive ARPU decline.

2.3 Agreements essential for the Netia Group's operations

A four-year agreement with Ericsson

On August 14, 2012, Netia together with its subsidiaries signed a four-year managed services contract with Ericsson replacing the existing managed services contract signed on August 12, 2010. The contract covers the maintenance and management of the Netia Group's networks, as well as supporting the provision of services to Netia Group's residential and business customers. Whilst similar in scope to the previous agreement, the new agreement covers managed services for the Dialog Group and Crowley networks and, in addition, modifies certain pricing and operational parameters (KPIs) concerning the provision of services by Ericsson to the Netia Group. Based on the agreement 188 of the Netia Group's employees were transferred to Ericsson on the basis of art. 23^1 of the Labour Code. The cooperation with Ericsson will influence the reduction of maintenance and employment costs, more effective and integrated handling and management of Netia Group's networks and its service delivery. While the extended cooperation with Ericsson represents a material long term commitment on the part of Netia Group, Management does not expect it to have a material impact on profitability or cash flows of the Group over the life of the contract.

3 Financial condition of the Netia Group

3.1 Consolidated statement of financial position

As at December 31, 2014, non-current assets amounted to PLN 2,407,968 (83% of total assets) as compared to PLN 2,620,649 at the end of 2013 (89% of total assets). The main change within non-current assets relates to depreciation and amortization charge of PLN 423,992. The above change was partially offset by capital expenditures of PLN 245,719 incurred during the year ended December 31, 2014.

Current assets at December 31, 2014 in the amount of PLN 482,730 increased by 52% as compared to PLN 316,987 at the end of 2013. The change was mainly attributable to the increase in the Company's income tax receivables and cash balance as at December 31, 2014 as compared to the end of 2013.

As at December 31, 2014, the equity amounted to PLN 2,242,617, comprising 78% of total equity and liabilities and increased by 2% as compared to PLN 2,204,504 at the end of 2013. The main changes are the dividend payment of PLN 146,123 and the consolidated total income of PLN 181,636 in the year ended December 31, 2014 (the main factors influencing the net result are described in point "Factors and events having a significant influence on the operations of the Netia Group [2.2]").

Non-current liabilities amounted to PLN 249,740 and decreased as compared to PLN 316,738 at the end of 2013, mainly due to refinancing of bank loan. The long-term part of the term loan as of December 31, 2014 amounted to PLN 200,534 as compared to PLN 257,211 as at the end of the prior year.

As at December 31, 2014, current liabilities amounted to PLN 398,341 and decreased as compared to PLN 416,394 at the end of 2013, mainly due to refinancing of bank loan (decrease of short term borrowings by 21%) and due to the reversal of negative valuation of derivative financial instruments.

3.2 Consolidated income statement (not in thousands)

Revenue decreased by 11% YoY to PLN 1,674,039 for 2014 from PLN 1,876,016 in 2013. The B2C operating segment decreased by 13% or PLN 143,826 and the B2B segment by 8% or PLN 56,129. The decline in revenues was driven by a 7% YoY decline in services provided (RGUs) and by falls in mobile termination rates (MTRs) which contributed approximately 23% of the revenue decline. RGU declines continued to be concentrated in the B2C (Home) sub-segment and in fixed voice services and lower margin WLR services in particular. RGUs in the B2B segment increased year-on-year by 5% and 16,391. The proportion of RGUs delivered on-network has increased from 46% to 51% in the twelve months to December 31, 2014.

Telecommunications revenue decreased by 11% YoY to PLN 1,670,253 in 2014 from PLN 1,867,592 in the prior year. Data revenue as a share of total telecommunications revenue increased YoY from 39% to 41% and direct voice revenue declined over the same period from 43% to 40%. Other telecommunications revenue, which includes TV and mobile services, increased between the compared periods by 10% or PLN 12,238 to PLN 134,427 in 2014 from PLN 122,189 in 2013 and represented 8% of total revenue versus 7% in the prior year. Data revenue decreased by 5% or PLN 40,014 to PLN 684,707 from PLN 724,721 in 2013, mainly due to the lower number of BSA services. Revenues from interconnect and carrier services combined were down by 12% to PLN 169,808 from PLN 192,291 in 2013 following the introduction of lower MTRs in January 2013 and again in July 2013. Direct voice revenue decreased by 17% and PLN 140,408 to PLN 668,780 from PLN 809,188 in 2013, driven by a 7% decrease in the voice subscriber base and the drop in the number of WLR services in particular and an on-net ARPU decrease of 14%. Indirect voice services (CPS) revenue decreased by 35% or PLN 6,672 as a result of decreasing customer numbers and falling ARPUs.

Cost of sales decreased by 8% YoY to PLN 1,163,117 from PLN 1,265,342 for 2013 and represented 69% of total revenue as compared to 67% in the prior year.

Network operations and maintenance cost decreased by 9% to PLN 538,573 from PLN 593,399 for the prior year due to fewer off-net RGUs generating regulated access fees.

Interconnection charges decreased by 17% to PLN 166,215 in 2014 as compared to PLN 201,301 for 2013, due mainly to falling MTRs.

Depreciation and amortization related to cost of sales decreased by 3% to PLN 349,463 as compared to PLN 359,562 in 2013 following the reassessment of useful lives of the Netia Group's fixed assets in Q1 2014, resulting in a reduction of some depreciation rates.

Taxes, frequency fees and other expenses decreased by 15% to PLN 58,832 in 2014 as compared to PLN 68,893 for 2013 mainly as a result of lower cost of office space rentals.

Restructuring costs related to cost of sales increased to PLN 2,875 from PLN 629 for 2013, reflecting in the current year the costs of headcount reduction under the N^2 and Netia Lite projects.

Salaries and benefits related to the cost of sales decreased by 5% to PLN 30,631 from PLN 32,175 for 2013.

Gross profit for 2014 was PLN 510,922 as compared to PLN 610,674 for 2013. Gross profit margin was 30.5% for 2014 and 32.6% for 2013.

Selling and distribution costs decreased by 14% YoY to PLN 308,984 from PLN 358,526 for previous year and represented 18% of total revenue as compared to 19% in 2013. Lower direct acquisition costs from fewer gross additions and lower advertising spending were the main drivers of the decreasing costs.

Advertising and promotion cost decreased by 39% YoY to PLN 23,726 for 2014 as compared to PLN 39,080 for 2013 as a result of limited advertising campaigns and lower costs of both broadcasting and production of new TV commercials.

Impairment of receivables was lower by PLN 13,913 mainly as the current year benefited from the settlement with Orange Polska S.A. resulting in forgiveness of mutual liabilities, provision releases due to improving bad debt recovery performance and sale of overdue receivables.

Depreciation and amortization related to selling and distribution cost decreased by 23% to PLN 38,957 from PLN 50,519 in 2013 following the reassessment of useful lives of the Netia Group's fixed assets in Q1 2014, resulting in a reduction of some depreciation rates.

Billing, mailing and logistics costs decreased by 30% YoY to PLN 19,744 from PLN 28,237 due to integration synergies and greater use of electronic billing solutions.

Third party commissions decreased by 21% YoY to PLN 17,997 from PLN 22,854 due to lower gross additions, particularly in voice services.

Salaries and benefits related to selling and distribution cost decreased by 2% to PLN 118,346 from PLN 120,468 in 2013.

Outsourced customer service cost decreased by 10% YoY to PLN 12,883 from PLN 14,375 due to extracting integration synergies and increased use of internal customer care resources.

Other expenses related to selling and distribution were higher by 7% and PLN 4,526 mainly on increased cost of TV content for a higher base of TV customers.

Restructuring costs related to selling and distribution increased to PLN 5,181 from PLN 1,456 in 2013, reflecting in 2014 the costs of headcount reduction under the N^2 and Netia Lite projects.

General and administration costs increased by 12% YoY to PLN 200,621 from PLN 179,186 for 2013 and represented 12% of total revenue as compared to 10% for 2013. Higher restructuring cost related to headcount restructuring in connection with the N^2 and Netia Lite projects, higher depreciation and amortization on additional software, and migration of Dialog's customer data bases to Netia were the main cost drivers.

Restructuring costs related to general administration increased to PLN 22,308 from PLN 1,546 in 2013, reflecting mainly provisions for the headcount optimization process in connection with the N^2 and Netia Lite projects and payments to the outgoing members of the Management Board who resigned from their positions in 2014.

Depreciation and amortization related to general administration increased by 19% or PLN 5,659 in connection with amortization of additional computer software and licenses.

Other costs related to general administration cost increased by 20% or PLN 5,833.

IT cost increased by 9% or PLN 1,489 in connection with the integration projects such as migration of Dialog's customer data bases to Netia, completed in April 2014.

Office and car maintenance costs increased by 5% or PLN 842 between the periods mainly as a result of provisions for releasing part of office space prior to the expiry of rental contracts.

Salaries and benefits related to general administration cost decreased by 15% to PLN 65,435 from PLN 77,193 in 2013.

Professional services costs decreased by 15% or PLN 1,392.

Other income, net of other expenses was a gain of PLN 157,196 versus a prior year gain of PLN 10,454 driven by settlement with Orange Polska S.A. in the amount of PLN 148,241, income relating to the government grants and reversal of provisions which offset an impact of the impairment charges of PLN 7,369 and PLN 2,503 booked during 2014 basing on the decisions to discontinue maintaining one of the existing mobile platforms and using Dialog's trademark, respectively.

Other gains/(losses), net were a loss of PLN 1,146 from a gain of PLN 9,343 in 2013 on significantly lower gain on sale of impaired receivables.

Adjusted EBITDA was PLN 493,151, down by 10% from PLN 550,855 for 2013. Adjusted EBITDA margin was 29.5% as compared to 29.4% in 2013.

Unusual items excluded from the Adjusted EBITDA were PLN 88,208 of net gains in 2014 and PLN 18,102 of net expenses in 2013. Including a net gain on settlement with Orange Polska in PLN 146,682 in 2014, headcount restructuring costs of PLN 34,622 in 2014 and PLN 3,631 in 2013, the Dialog Group and Crowley integration costs of PLN 7,863 in 2014 and PLN 9,500 in 2013, impairment charges totalling PLN 9,872 in 2014, comprising PLN 2,503 recorded in Q1 2014 upon the decision to discontinue using Dialog's trademark and PLN 7,369 recorded in 2014 upon the resignation from maintenance of one of mobile platforms, versus an impairment charge of PLN 431 in 2013, cost of Netia Lite and N^2 projects of PLN 3,100 and PLN 2,856, respectively, recorded in 2014, a decrease in provision for universal service obligation of PLN 150 recorded in 2013, the costs of M&A projects of PLN 161 in 2014 and PLN 618 in 2013 and PLN 2,603 impairment charge on valuation of investment property recorded in 2013, ***EBITDA*** was PLN 581,359 for 2014 as compared to PLN 532,753 for the prior year. EBITDA margin was 34.7% as compared to 28.4% for 2013.

Depreciation and amortization was PLN 423,992, a decrease of 4% YoY as compared to PLN 439,994 in 2013 following full depreciation of certain assets and liquidation in 4Q 2013 of certain obsolete assets.

Operating profit (EBIT) was PLN 157,367 as compared to an operating profit of PLN 92,759 for 2013. Excluding unusual items described above of PLN 88,208 of net gains 2014 and PLN 18,102 of costs in 2013, Adjusted EBIT was PLN 69,159 profit for 2014 versus PLN 110,861 profit for 2013.

Net financial cost was PLN 30,955 as compared to net financial cost of PLN 28,339 for the prior year and the change is driven by the loss on terminating the interest rate swap (IRS) contracts.

Income tax benefit of PLN 48,421 was recorded in 2014 as compared to income tax charge of PLN 18,130 for 2013. The change in tax position was mainly due to receipt by the Company of the CIT 2003 refund with interest.

Net profit was PLN 174,833 for 2014 versus net profit of PLN 46,290 for 2013.

3.3 Consolidated statement of cash flows

Net cash generated from operating activities by Netia Group amounted to PLN 623,396 as compared to PLN 575,271 in 2013. The increase was principally due to a fall in working capital employed.

Net cash used for the purchase of fixed assets and computer software was PLN 245,719 and was lower by 13% than PLN 281,826 in the prior year.

Other significant cash outflow items during 2014 in Netia Group included refinancing of bank loan by the earlier payment of PLN 375,000 and drawing a new bank loan of PLN 300,000 (and PLN 65,000 of loans repaid according to the schedule for 2014), 29,630 PLN of interests and fees paid and PLN 146,123 of dividend payment. As a result net cash used in financing activities in 2014 amounted to PLN 265,177 as compared to PLN 327,050 of net cash used in financing activities in 2013.

Cash and cash equivalents at the end of 2014 amounted to PLN 207,305 as compared to PLN 93,356 as of December 31, 2013.

3.4 Financial resources management and assessment of the possibility of executing the planned investments

Total adjusted free cash flow in 2014 fell by 9% to PLN 281mln. Nevertheless, Management expects Netia to continue be free cash flow positive in the medium term, subject to the impact of any or all risk factors indicated in section "Major risks and threats related to the operational activities". According to the adopted strategy, the Company selectively considers potential consolidation possibilities on the telecommunication market. The decision basis in this area is economic and operational assessment of the impact of such decision on the Company's financial results. 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 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.

A detailed description of risks related to the Netia Group's financial instruments has been presented in the consolidated financial statements (Note 4).

3.5 Loans Agreements

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, the value of these outstanding loans at amortised cost was PLN 300,538.

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.

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.

3.6 Bonds issued and warranties and collaterals granted

Bonds issued

The Company did not issue any bonds except for those described in Note 6.1 Transactions with related parties.

Warranties and collaterals granted

Netia Group did not grant any warranties or collaterals in 2014, except for described in Note 3.5 Loans Agreements.

4 The Company's supervisory or governing authority

4.1 Rights of the Supervisory and Management Board's members

According to the Company's Statute the bodies of the Company are the General Shareholders' Meeting ("GSM"), the Supervisory Board and the Management Board.

GSM operates in accordance with the rules set forth in the Commercial Companies Code and the Company's Statute. GSM decides in matters provided for in the Commercial Companies Code, and in particular regarding decisions on the division and distribution of profit. No approval of the GSM is required for the purchase or sale of the right of real estate ownership, the right of perpetual usufruct or share in such right, without limitations upon the value of such transaction. The Company has not adopted any by-laws of the GSM. Amendments of the Company's Statute need to be adopted by 3/4 majority of the votes cast. Pursuant to the Statute of the Company, resolutions on a Company merger, Company dissolution or transfer of the Company's enterprise or a material part thereof are adopted by a 3/4 majority of the votes cast. Resolutions on withdrawing the Company's shares from public trading, or on de-listing the Company's shares from the Warsaw Stock Exchange, or on a merger having the same effects, are adopted by a 4/5 majority of the votes cast with those voting representing at least ½ of the Company's share capital.

According to the Company's statutes the Management Board submits proposed GSM resolutions for a prior opinion of the Supervisory Board of the Company not later than ten days prior to the scheduled date of the GSM. However, in practice GSM draft resolutions are presented to the Supervisory Board in the earlier term in order to obtain the Supervisory Board's opinion prior to publishing them on the Company's corporate website. If the Supervisory Board fails to give its opinion on any proposed resolution at least one day before the scheduled date of the GSM, the Supervisory Board is deemed to have not given its opinion. A negative opinion or the lack of an opinion of the Supervisory Board does not hinder the adoption of such resolution by the GSM.

The Shareholders may participate in the GSM and exercise their right to vote in person or by proxies. The Statute of the Company provides that the GSM may adopt By-Laws of the GSM to specify the rules governing the operation thereof. The GSM was on-line broadcasted over the Internet, recorded and published on the Company's website. Shareholders could participate in the GSMs via electronic communications means according to the detailed rules of such manner of Shareholder participation in the GSM determined by the Management Board.

The Supervisory Board shall consist of up to 9 members. According to the Commercial Companies Code the number of members of the Supervisory Board shall be not less than 5 (due to the fact that Netia is a public company). Members of the Supervisory Board shall be elected and dismissed by the GSM for a term of office of 5 years. One member of the Supervisory Board shall be appointed and dismissed by holders of series A1 shares. At all times at least two of the Supervisory Board members shall be "independent". The Chairperson and the Vice-Chairperson of the Supervisory Board are elected by the Supervisory Board from amongst the members of the Supervisory Board. The *Vice-Chairperson* of the Supervisory Board performs the functions of the Chairperson of the Supervisory Board set forth in the Statute of the Company in case the mandate of the Chairperson of the Supervisory Board expires for any reason until a new Chairperson of the Supervisory Board is elected, as well as during their illness or when they are temporarily unable to fulfil their duties. The *Chairperson* has the casting vote in the event of a deadlock among the members of the Supervisory Board. In addition, the Chairperson has the right to call and preside over meetings of the Supervisory Board and other procedural rights normally associated with such office.

The competency of the Supervisory Board shall include general supervision of the activities of the Company. Resolutions of the Supervisory Board shall be required in matters provided for in the Commercial Companies Code and:

a) presentation to the Company's GSM of a written report on the results of the Supervisory Board's examination of the Company's financial statements, Management Board report and Management Board's recommendations with respect to the distribution of profits or coverage of losses;
b) the issuance of by-laws for the Management Board and the appointment and removal of the members of the Management Board, setting or changing the compensation and defining other terms and conditions of employment of the Management Board members, as well as setting and changing any incentive plan for the Management Board members and other key employees;
c) approval of business plans and budgets for the Company;
d) granting consent for any transaction whose value exceeds the PLN equivalent of EUR 1,250 in a single or a series of related transactions, or in the course of one year in the case of agreements entered into for unlimited duration or for periods longer than one year;
e) making any investments in or financing the activities of companies whose core and actual scope of business activity does not include telecommunications activity;
f) consent to the commencement, settlement, assignment, compromise or release of any claim of or against the Company in excess of the PLN equivalent of EUR 600 in a single or series of related acts or the equivalent amount in PLN or other currencies;
g) consent to the adoption of a performance stock option plan in accordance with § 5A of the Statute;
h) appointment of the expert auditor to audit the Company's financial statements;
i) provided that the value of the Company's obligations exceeds the PLN equivalent of EUR 100, the conclusion by the Company of any contracts with an Affiliate shall; require the approval of at least one of the independent members. For the purposes of this point, an "Affiliate" shall mean: (i) a member of the Management Board or Supervisory Board of the Company or the cousin or relative of up to the second degree of such member, or an entity controlled by such person or their cousin or relative of up to the second degree; (ii) a shareholder holding shares entitling it to at least 5% of votes at the General Meeting; or (iii) an entity controlled by, controlling or under common control with the persons listed under (i) and (ii); (iv) an entity in which the

Company has, directly or indirectly, any equity stakes or voting powers. "Control" shall mean the possibility of exerting influence, whether direct or indirect, on the management or business policy of the controlled entity through holding voting shares in such entity, under a shareholders' agreement, an agreement for official receivership of votes (umowa syndykowania głosów) or in any other similar manner, even if not connected with a written agreement. For the purposes of the above definition, "control" shall not apply to any companies controlled by Netia S.A.

According to the Statute no resolution of the Supervisory Board shall be required with regards to the matters defined in sections d)-f) and i) above if they relate to:
a) the sale of services and products of the Company as well as sale of obsolete equipment within the ordinary course of business;
b) expenditures within the scope of the Company's current business plan or budget approved by the Supervisory Board.

According to the Statute no resolution of the Supervisory Board shall be required with regards to transactions made with companies in which the Company holds, directly or indirectly, more than 50% of votes and shares in the share capital or making investments in such companies.

According to the Statute the Meetings of the Supervisory Board are convened at least once every quarter. The Chairperson also convenes meetings of the Supervisory Board at the written request of the Management Board of the Company or any member of the Supervisory Board. In 2014 the Supervisory Board held 14 meetings.

The Management Board of the Company shall consist of up to 10 members. The Supervisory Board shall decide on the number of Management Board members. The Management Board members shall be appointed and dismissed by the Supervisory Board for a term of office of 5 years.

The Management Board shall manage the activities of the Company, shall adopt resolutions necessary for performance of tasks and shall represent the Company before courts, authorities, offices and third parties. The Management Board shall handle the matters, which are not within the exclusive competence of the GSM or the Supervisory Board. Two members of the Management Board acting together or one member of the Management Board acting together with a commercial proxy (prokurent) shall be authorised to make declarations and to sign on behalf of the Company.

The members of the Management Board do not have any rights related to deciding about the issue or redemption of the Company's shares.

4.2 Management Board and Supervisory Board in 2014

Management Board

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.

On November 21, 2013 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.

Supervisory Board

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.

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.

4.3 Supervisory board's standing committees

The Supervisory Board may elect permanent or ad hoc committees which shall act as collective advisory and opinion forming bodies of the Supervisory Board. Ad hoc committees are elected on an on-going basis, depending on the Supervisory Board's needs. Members of a committee are elected by the Supervisory Board from amongst its members. There is one permanent Committee within the Supervisory Board, i.e. Audit Committee.

Audit Committee:

As at December 31, 2014, the Audit Committee consisted of:
- Katarzyna Iwuć,
- Tadeusz Radzimiński,
- Przemysław Głębocki.

The duties of the Audit Committee include advising the Supervisory Board on issues of proper implementation of the budget and financial reporting standards and internal audit of the Company and the capital group (as defined in the Accounting Act dated 29 September 1994, as amended), including the overall and comprehensive review of the Company's annual and periodic financial statements, both unconsolidated and consolidated, analysing the Company's authorised auditor's letters to the Management Board, monitoring the integrity of the financial information provided by the Company, cooperating with external and internal auditors of the Company, as well as with the Company's departments responsible for audit and checking, reviewing internal control and risk management systems. The Audit Committee meetings are held at least once every quarter prior to the Company's publication of the financial statements.

The principles, scope and methods of operation of the Supervisory Board Committees have been regulated in detail in the By-laws of the Supervisory Board of Netia SA.

4.4 System for controlling share option plans (not in thousands)

New Plan

On May 26, 2010, the Annual Shareholders Meeting resolved to adopt a set of rules, 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, each option authorising its holder to receive, free of charge, up to ½ of a subscription warrant issued by the Company with the latest possible exercise date of May 26, 2020 (the "New Plan"). Each warrant entitles its holder to subscribe for one series L share for the nominal value of PLN 1, which shall be paid by the Company or its subsidiaries. In order to enable to satisfy the claims arising from the exercise of the options under New Plan, the Shareholders Meeting resolved to authorize the issuance of up to 13,626,837 series L shares.

The New Plan participants are entitled to exercise their stock options on the condition that they continue their engagement with the Netia Group until the vesting date of the stock options (subject to change of control events and the termination of their engagement by the Netia Group without material cause) and the fulfilment of the business criteria set by the Supervisory Board for each year of the New Plan. In the event of termination by the Company, unvested options are retained prorata to the period worked during the vesting period. The proportion of the stock options exercised versus the number of stock options granted shall be equal to the lower of: 100% or the actual performance of the objectives set out as part of the performance criteria approved by the Supervisory Board and applicable in the financial year in which the stock options were granted. Each year within the period following the publication of the financial statements of the Company for the previous financial year and prior to the date of the Annual General Meeting of the Company, the Supervisory Board adopts a conditional resolution in which it determines the performance level of the business criteria for the previous financial year. The resolution of the Supervisory Board enters into force upon the approval of the financial statements of the Company and the Netia Group by the Annual General Meeting of the Company. Such conditional resolution of the 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 came into force on June 19, 2012 and resulted in the cancellation of 41.1% of options granted in 2011. A conditional resolution of 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.

(All amounts in thousands, except as otherwise stated)

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

On June 17, 2014, as a result of a dividend payment, 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 new strike prices of the options range between PLN 4.12 to PLN 5.58.

4.5 Remuneration paid and payable to the members of the Management Board and the Supervisory Board in 2014

The compensation and related cost of remuneration (including bonuses paid or accrued) of members (current and former) of the Company's Management and Supervisory Board are presented below:

	PLN
Remuneration of members of the Management Board	
Adam Sawicki	1,009
Paweł Szymański	242
Mirosław Godlewski	825
Jonathan Eastick	918
Tom Ruhan	622
Tomasz Szopa	631
Mirosław Suszek	618
	4,865

Remuneration of members (current and former) of the Supervisory Board in 2014:

	PLN
Bogusław Kułakowki	40
Nicolas Maguin	47
George Karaplis	45
Ewa Pawluczuk	47
Stan Abbeloos	43
Raimondo Eggink	47
Tadeusz Radzimiński	90
Jacek Czernuszenko	63
Jerome de Vitry	47
Przemysław Głebocki	44
Katarzyna Iwuć	44
Zbigniew Jakubas	19
Cezary Smorszczewski	51
Mirosław Godlewski	24
	651
Remuneration of members of management boards of subsidiaries	347
Total	**5,863**

The members of the Company's Management and Supervisory Boards do not collect any additional remuneration for being members of the authorities of the subsidiaries.

In addition, the members of the Management participate in a scheme which consists of awarding bonuses in the form of Netia's shares, under which some of them have received share options.

New Plan (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 in the consolidated financial statements). 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 are presented below:

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

For 2014 the Supervisory Board set performance goals based on the following key performance indicators:

- B2B Data Revenue
- Number of TV services

As at the date of this Directors' Report the supervisory Board was yet to meet to decide on the proportion of 2013 granted options to be retained until vesting by the Management Board members.

The following changes in the number of options granted to members of the Management Board under New Plan occurred during the year ended December 31, 2014:

	At the beginning of the period	Granted	Forfeited	Resignation from Management Board	At the end of the period
Mirosław Godlewski	1,502,015	123,600	(345,000)	(1,280,615)	-
Jonathan Eastick	751,008	278,098	(172,500)	(856,606)	-
Tom Ruhan	751,008	278,098	(172,500)	(856,606)	-
Mirosław Suszek	581,670	278,098	(172,500)	(687,268)	-
Tomasz Szopa	-	278,098	-	(278,098)	-
Adam Sawicki	-	400,000	-	-	400,000
Total	**3,585,701**	**1,635,992**	**(862,500)**	**(3,959,193)**	**400,000**

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.

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

The Company recognizes the cost of share-based awards to employees (including share options and RSU) over the vesting period. Due to the above the cost of options granted to the members (current and former) of the Management Board recorded in the year ended December 31, 2014 is as follows:

	Year ended December 31, 2014
	PLN
Mirosław Godlewski	673
Jonathan Eastick	427
Tom Ruhan	494
Mirosław Suszek	(293)
Tomasz Szopa	27
Adam Sawicki	48
	1,376

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.

Restricted Stock Units (not in thousands)

The Company's Extraordinary General Shareholders Meeting held on July 26, 2010 approved changes of the rules of remunerating the Supervisory Board members dated April 9, 2009. The change of the rules was effective from the day the resolution was adopted.

Due to the changes of rules of remunerating the Supervisory Board Members approved by the Extraordinary General Shareholders Meeting on July 26, 2010, each independent Supervisory Board Member receive an annual grant of 15,000 Restricted Stock Units ("RSU"). The first annual RSU grant was made on July 27, 2010 and subsequent grants will occur on the same date in the following years. One third of each grant vests 12, 24 and 36 months after the grant date. One RSU corresponds to one ordinary share in the Company having a value equal to the market price of the Company's shares.

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 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 held by members of the Company's Supervisory Board 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 cost of RSU recorded in the year ended December 31, 2014 amounted to PLN 966 thousands (PLN 1,240 thousands in 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).

4.6 Shares held by members of the Management Board and Supervisory Board of the Netia Group

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.

4.7 Changes in the basic management principles of the Netia Group

Changes in the Management Board and Supervisory Board

Changes in the Management Board and Supervisory Board were discussed in point 4.2 above.

Legal and organizational changes

There were no material legal or organizational changes made within the Netia Group during 2014 with the exception of mergers between four subsidiaries and the sale of a company as described in 1.1. The Netia Group structure.

On January 24, 2014 Netia announced a divisional split of its operations between two distinct Business Units: Business to Business (B2B) and Business to Consumers (B2C), with a view to best support the needs of its business and residential customers and the Company's key strategic objectives. 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.

Each Business Unit is responsible for business goals realization within own budgets, including providing new, innovative and user-friendly products to their customers and constant improvement of service delivery. This organizational change results in the maximal possible simplification of internal procedures and processes, clear accountability for execution of each of strategic targets and thus the maximization further improvement of the Group's financial performance.

5 Major Shareholders and share capital

5.1 Shareholders holding more than 5% of the votes at the General Shareholders' Meeting of Netia (not in thousands)

Based on the most recent information presented to the Company by its shareholders, as at the date of filing this report, significant blocks of the Company's shares were held by the following entities (the ownership interest and the number of votes are calculated on the basis of the number of shares constituting the Company's share capital as at November 14, 2014):

Mennica Polska SA and its subsidiary Mennica Polska Spółka Akcyjna Tower Spółka Komandytowo Akcyjna

On May 5, 2014 Mennica Polska SA informed that the ownership of Netia's shares held by Mennica Polska SA and its subsidiary Mennica Polska Spółka Akcyjna Tower Spółka Komandytowo Akcyjna has exceeded the threshold of 5% of the total number of votes at Netia's General Meeting of Shareholders. Mennica Polska SA and its subsidiary Mennica Polska Spółka Akcyjna Tower Spółka Komandytowo Akcyjna held a total of 17,400,000 of the Company's shares constituting 5.00% of the Company's share capital and representing 5.00% of the total number of votes at the General Shareholders' Meeting.

On July 11, 2014 Mennica Polska SA informed that Mennica Polska SA and its subsidiary Mennica Polska Spółka Akcyjna Tower Spółka Komandytowo Akcyjna had increased their holdings of the Company's shares from 17,400,000 held on May 5, 2014 constituting 5.0013% of the Company's share capital and carrying 5.0013 % of the total number of votes at the General Shareholders' Meeting of the Company to 45,277,789 constituting 13.01% of the Company's share capital and carrying 13.01% of the total number of votes at the General Shareholders' Meeting of the Company.

On October 23, 2014 Mennica Polska SA informed that Mennica Polska SA and its subsidiary Mennica Polska Spółka Akcyjna Tower Spółka Komandytowo Akcyjna had increased their holdings of the Company's shares from 45,277,789 held on July 11, 2014 constituting 13.01% of the Company's share capital and carrying 13.01% of the total number of votes at the General Shareholders' Meeting of the Company to 55,293,375 constituting 15.88% of the Company's share capital and carrying 15.88% of the total number of votes at the General Shareholders' Meeting of the Company.

Subsidiaries of SISU Capital Fund Limited

Subsidiaries of SISU Capital Fund Limited held a total of 44,336,534 of the Company's shares constituting 12.74% of the Company's share capital and representing 12.74% of the total number of votes at the General Shareholders' Meeting. The Company has received no information concerning changes in the number of shares held by Subsidiaries of SISU Capital Fund Limited since February 25, 2011.

FIP 11 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych

On April 29, 2014 Fundusze Inwestycji Polskich TFI SA managing an investment fund FIP 11 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych ("FIP 11") informed the Company that FIP 11 had increased its holdings of the Company's shares from 16,358,136 held on April 24, 2014 constituting 4.70% of the Company's share capital and carrying 4.70 % of the total number of votes at the General Shareholders' Meeting of the Company to 17,451,136 constituting 5.02% of the Company's share capital and carrying 5.02% of the total number of votes at the General Shareholders' Meeting of the Company.

On July 11, 2014 the Company was informed that FIP 11 had increased its holdings of the Company's shares from 17,451,136 held on April 29, 2014 constituting 5.02% of the Company's share capital and carrying 5.02 % of the total number of votes at the General Shareholders' Meeting of the Company to 34,863,800 constituting 10.02% of the Company's share capital and carrying 10.02% of the total number of votes at the General Shareholders' Meeting of the Company.

ING Otwarty Fundusz Emerytalny

On April 24, 2014 ING Otwarty Fundusz Emerytalny informed that ING Otwarty Fundusz Emerytalny had decreased its holdings of the Company's shares from 57,868,901 held by ING Otwarty Fundusz Emerytalny on April 16, 2014 and constituting 16.63% of the Company's share capital and carrying 16.63% of the total number of votes at the General Shareholders' Meeting of the Company to

33,273,518 constituting 9.56% of the Company's share capital and carrying 9.56% of the total number of votes at the General Shareholders' Meeting of the Company.

Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK

Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK held a total of 20,243,646 of the Company's shares constituting 5.82% of the Company's share capital and representing 5.82% of the total number of votes at the General Shareholders' Meeting. The Company has received no information concerning changes in the number of shares held by Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK since May 22, 2012.

PZU OFE „Złota Jesień"

Otwarty Fundusz Emerytalny PZU „Złota Jesień" held a total of 19,266,613 of the Company's shares constituting 5.54% of the Company's share capital and representing 5.54% of the total number of votes at the General Shareholders' Meeting. The Company has received no information concerning changes in the number of shares held by Otwarty Fundusz Emerytalny PZU „Złota Jesień" since January 13, 2013.

Navicorp Trust Polska Spółka z ograniczoną odpowiedzialnością 3 S.K.A. (the "Navicorp")

On May 16, 2014 Navicorp informed that the ownership of Netia's shares held by Navicorp has exceeded the threshold of 5.00% of the total number of votes at Netia's General Meeting of Shareholders. Navicorp held a total of 17,395,540 of the Company's shares constituting 5.00% of the Company's share capital and representing 5.00% of the total number of votes at the General Shareholders' Meeting.

5.2 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).

5.3 Agreements which could lead to changes in shareholding proportions in the future (not in thousands)

On the basis of the Plan 2011, the Company may issue up to 27,253,674 share options to the Management Board and employees of Netia. Each option enables the New Plan participant to receive, free of charge, up to ½ of a subscription warrant issued by the Company with the latest possible exercise date of May 26, 2020. Each warrant entitles its holder to subscribe for one series L share for the nominal value e. i PLN 1 zł, which shall be paid by the Company or its subsidiaries. In order to satisfy the claims arising from the exercise of the options under New Plan, the Shareholders Meeting resolved to authorize the issuance of up to 13,626,837 series L shares.

5.4 Holders of all securities which grant special control rights in relation to the Company

Mr. Andrzej Radzimiński holds 1,000 (not in thousands) series A1 shares which give him the right to appoint and dismiss a member of the Supervisory Board.

5.5 Limitations on the transfer of ownership rights to the Issuer's securities and limitations on exercising the voting rights carried by the Issuer's shares

Netia's corporate documents do not contain any limitations, which significantly limit changes in the control of the Issuer as a result of third parties' purchasing substantial amounts of shares.

Each Netia share carries one vote at the GSM. There are no limitations on exercising the voting rights from the Company's shares.

Mr. Andrzej Radzimiński holds 1,000 (not in thousands) series A1 shares which give him the right to appoint and dismiss a member of the Supervisory Board.

5.6 Dividends, share buybacks and distribution policy

Dividends

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

As at the date of filing this report, Management did not propose a dividend payment in respect to the financial year ended December 31, 2014.

Distribution policy

Whilst the Netia Group is cash generative, high depreciation charges in the near term and the on-going possibility of impairment charges from annual impairment tests make net earnings of the Company relatively volatile. In these circumstances, the Management Board's intention is to make distributions to the shareholders as regularly as legally possible.

Depending on the evolution of distributable reserves in Netia, which stand at PLN 497,947 and represent the key constraint on future distributions, Management may use dividends or offers to purchase shares directed to all shareholders or capital redemptions to facilitate payments these funds to shareholders. As at the date of filing this report, Management did not propose a dividend payment in respect to the financial year ended December 31, 2014. Management will allow leverage to climb toward 1.0 x Adjusted EBITDA in support of this policy.

In line with this distribution policy:

i) A dividend may be proposed by Management for payment.

ii) Management may seek a further multi-year share buy-back authorization from the GSM to allow for other forms of distribution via share buy-back should this be necessary.

6 Other information.

6.1 Transactions with related parties

Bonds issued

On February 6, 2014 Dialog purchased 8 NN series registered bonds issued by Netia, each of a nominal value of PLN 10,000 and of a total nominal value of PLN 80,000 and with maturity date falling on May 6, 2014.

On March 3, 2014 Dialog purchased 5 OO series registered bonds issued by Netia, each of a nominal value of PLN 10,000 and of a total nominal value of PLN 50,000 and with maturity date falling on June 3, 2014.

On March 12, 2014 Netia Brand Management purchased 5 PP series registered bonds issued by Netia, each of a nominal value of PLN 5,000 and of a total nominal value of PLN 25,000 and with maturity date falling on March 12, 2019.

On May 6, 2014 Dialog purchased 8 RR series registered bonds issued by Netia, each of a nominal value of PLN 10,000 and of a total nominal value of PLN 80,000 and with maturity date falling on August 6, 2014.

On June 3, 2014 Dialog purchased 5 SS series registered bonds issued by Netia, each of a nominal value of PLN 10,000 and of a total nominal value of PLN 50,000 and with maturity date falling on September 3, 2014.

On June 10, 2014 Dialog purchased 5 TT series registered bonds issued by Netia, each of a nominal value of PLN 10,000 and of a total nominal value of PLN 50,000 and with maturity date falling on September 10, 2014.

On June 10, 2014 Netia Brand Management purchased 2 UU series registered bonds issued by Netia, each of a nominal value of PLN 5,000 and of a total nominal value of PLN 10,000 and with maturity date falling on June 10, 2019.

On August 6, 2014 Dialog purchased 8 WW series registered bonds issued by Netia, each of a nominal value of PLN 10,000 and of a total nominal value of PLN 80,000 and with maturity date falling on November 6, 2014.

On September 3, 2014 Dialog purchased 5 XX series registered bonds issued by Netia, each of a nominal value of PLN 10,000 and of a total nominal value of PLN 50,000 and with maturity date falling on December 3, 2014.

On September 10, 2014 Dialog purchased 5 ZZ series registered bonds issued by Netia, each of a nominal value of PLN 10,000 and of a total nominal value of PLN 50,000 and with maturity date falling on December 10, 2014.

On November 6, 2014 Dialog purchased 8 A1 series registered bonds issued by Netia, each of a nominal value of PLN 10,000 and of a total nominal value of PLN 80,000 and with maturity date falling on February 6, 2015.

(All amounts in thousands, except as otherwise stated)

On December 3, 2014 Dialog purchased 5 A2 series registered bonds issued by Netia, each of a nominal value of PLN 10,000 and of a total nominal value of PLN 50,000 and with maturity date falling on March 3, 2015.

On December 18, 2014 Netia Brand Management purchased 2 A3 series registered bonds issued by Netia, each of a nominal value of PLN 10,000 and of a total nominal value of PLN 20,000 and with maturity date falling on December 18, 2019.

As a result of this bond issuance and earlier issuance, Netia S.A. had PLN 480,000 of bonds outstanding as at December 31, 2014 comprising PLN 380,000 to Dialog and PLN 100,000 to Netia Brand Management.

Other transactions with related parties

The following transactions were concluded between the Company and its subsidiaries during 2014:
- sale and purchase of telecommunications services;
- sale and purchase of other services (rental and book-keeping services) to subsidiaries;
- sale and purchase of fixed and intangible assets.

A detailed list of transactions with subsidiaries has been presented in the Company's financial statements (Note 36).

Other transactions with subsidiaries have been described in points 3.6 "Loans, warranties and collaterals granted" and 6.1 "Remuneration paid and payable to the members of the Management Board and the Supervisory Board in 2014".

6.2 Guidance for 2015

No guidance for 2015 has been published as at the date of filing this report.

6.3 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.

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 (PLN)	Year ended December 31, 2013 (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**

6.4 Compliance with corporate governance rules

The Company complies with the corporate governance rules as presented in the document entitled "Code of Best Practice for WSE Listed Companies" which is the appendix to Resolution No. 12/1170/2007 of the WSE Supervisory Board dated 4 July 2007 (with subsequent changes). The above mentioned rules are available on the website of Warsaw Stock Exchange: http://www.corp-gov.gpw.pl.

The Management Board of the Company represents that in 2014 the Company complied with the corporate governance rules stated in the document entitled "Code of Best Practice for WSE Listed Companies**".** The Management Board of the Company declares that it appreciates the importance of corporate governance rules provided in that document and the role played by those rules in enhancing the transparency of stock exchange listed companies, and it has exercised duly diligent efforts that those rules be observed in Netia to the greatest extent possible. With the reservation of the explanations presented below in this point (A), according to the Management Board's best knowledge none of the rules stated in the "Code of Best Practice for WSE Listed Companies" was breached by the Company during 2014. All rules were applied by the Company according to the wording presented in the above mentioned document.

With respect to the recommendation on the remuneration policy defined in section I of the "Code of Best Practice for WSE Listed Companies", the Management Board of the Company informs that remuneration in the Company, except for the remuneration of the Management and Supervisory Board members, is established according to the internal regulations (i.a. Rules of Remuneration and payment grid indicating remuneration limits for certain grades).

Remuneration and other employment conditions for each member of the Management Board are adopted individually by the Supervisory Board.

The principles of the Supervisory Board remuneration are described in the Rules of Remunerating of the Supervisor Board which were adopted by the General Shareholders' Meeting. In 2014 there was binding Stock Option Plan adopted by the Supervisory Board on February 25, 2011 based on the resolution of the Annual Shareholders' Meeting dated May 26, 2010, describing general rules of granting options for Company's shares to, among others, Management Board members, employees and collaborators of the Company. The remuneration of the Management and Supervisory Board members, as well as other provisions granted to such persons in the given financial year are described in the financial statement for such year. The Management Board represents that the Company has a transparent remuneration policy.

In reference to the recommendation on a balanced proportion of women and men in management and supervisory functions, the Management Board of the Company emphasizes that knowledge, experience, competences and skills necessary to perform a certain functions within the Company are the crucial criteria for appointment of the Supervisory and Management Board members. Following the criteria described above helps to appoint such members who are able to ensure an effective functioning of the Company as well as execution of its targets, strategy and business plan.

Description of the basic features of the internal control and risk management, in relation to the process of preparing financial statements and consolidated financial statements

The Management Board of the Company is responsible for the internal control system at the Company and for the effectiveness thereof in the process of preparing financial statements and interim reports which are made and published by the Company. Therefore the Netia Group has implemented controls to ensure that financial reporting is reliable. Those controls are tested and assessed on effectiveness by internal audit, finance department managers and external auditors. The financial department headed by the Chief Financial Officer – Management Board member, is responsible for the preparation of the financial statements and interim reports of the Company.

The financial data which is the basis for the financial statements and interim reports are taken from the Company's monthly financial and management reporting. Once the accounts for each calendar month are closed the mid level and senior management at the financial department headed by the Chief Financial Officer – Management Board member jointly analyse the financial results of the Company as compared to the assumptions made in the budget. All identified errors are corrected in the Company's books without delay in accordance with the accounting policy adopted by the Company. The Company applies the rule of independent review of the published financial reports whether or not such review or audit is required by law.

The quarterly reports, interim statements and financial data which is the basis of the reports are reviewed by the Company auditor. The review applies in particular to the adequacy of financial data and the scope of the required disclosures. The results of the quarterly review or audit are presented by the auditor to the management of the Company financial department at summary meetings and to the Audit Committee. After the review or audit is completed, the financial statements and interim reports are delivered to the members of the Company's Audit Committee. Moreover, prior to the Management Board's approval of the interim financial statements for publication, the Chief Financial Officer – Management Board member presents the Audit Committee with important aspects of a quarterly/annual financial statement, particularly with changes in the accounting principles, if any, important revaluations or accounting opinions, material disclosures and business transactions. The interim financial statements are approved for publication after acceptance by the Audit Committee. Moreover, the auditors present the Audit Committee with information on any shortcomings of the control mechanisms which they established in the course of auditing the financial statements. Any recommendations made after a review of risk management procedures and internal control mechanisms are gradually implemented.

6.5 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.