

NETIA GROUP
COMMENT ON THE FINANCIAL REPORT
FOR THE FIRST QUARTER OF 2015

(All amounts in thousands, except as otherwise stated)

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

1. The Netia Group's structure

The interim condensed consolidated financial statements as at and for the three-month period ended March 31, 2015 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.
- Telefonía DIALOG Sp. z o.o. Group.

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

2. 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 May 13, 2015):

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

Mennica Polska SA and its subsidiary Mennica Polska Spółka Akcyjna Tower Spółka Komandytowo Akcyjna held a total of 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. Company has received no information concerning changes in the number of shares held by Mennica Polska SA and its subsidiary Mennica Polska Spółka Akcyjna Tower Spółka Komandytowo Akcyjna since October 23, 2014.

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 17, 2015 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 40,542,845 held on April 14, 2015 constituting 11.65% of the Company's share capital and carrying 11.65% of the total number of votes at the General Shareholders' Meeting of the Company to 67,516,173 constituting 19.40% of the Company's share capital and carrying 19.40% of the total number of votes at the General Shareholders' Meeting of the Company.

ING Otwarty Fundusz Emerytalny

ING Otwarty Fundusz Emerytalny held a total of 33,273,518 of the Company's shares 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. The Company has received no information concerning changes in the number of shares held by ING Otwarty Fundusz Emerytalny since April 24, 2014.

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.

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3. Changes in shares and share options held by members of the Company's Management Board and Supervisory Board (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 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. A conditional resolution of the Supervisory Board regarding the performance criteria for the 3,669,000 options granted in 2012 was taken on February 26, 2013 and the performance level was determined at 68.6%. The resolution of the Supervisory Board came into force on June 28, 2013 and resulted in the cancellation of 31.4% of options granted in 2012.

A conditional resolution of Supervisory Board regarding the performance criteria for the 3,669,000 options granted in 2013 was taken on March 6, 2014 and the performance level was determined at 50.0%. The resolution of the Supervisory Board came into force on May 21, 2014 and resulted in the cancellation of 50.0% of options granted in 2013. A resolution of Supervisory Board regarding the performance criteria for the 3,407,992 options granted in 2014 was taken on March 10, 2015 and the performance level was determined at 43.78%. The resolution of the Supervisory Board shall enter into force upon the approval of the financial statements of the Company and the Netia Group by the Annual General Meeting of the Company and will result in the cancellation of 56.22% of options granted in 2014.

Furthermore, Netia's Supervisory Board decided to waive the continuation of the plan starting from 2015, in particular to discontinue granting the stock options in 2015 and in subsequent years. The plan remains in force with regard to rights acquired by its participants prior to the above resolution of the Supervisory Board.

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 proforma 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 New 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 strike price of the options granted to Management Board members amounted to PLN 4.86.

In the three-month periods ended March 31, 2015 the following changes took place in the number of options held by members of the Management Board under the New Plan:

<i>Three-month period ended March 31, 2015</i>	<u>Number of options</u>
At the beginning of the period.....	400,000
Terminated.....	<u>(400,000)</u>
At the end of the period	<u>-</u>

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The following changes in the number of options granted to members of the Management Board occurred during the three-month period ended March 31, 2015:

<i>Three-month period ended March 31, 2015</i>	At the beginning of the period	Terminated	At the end of the period
Adam Sawicki.....	400,000	(400,000)	-
Total.....	400,000	(400,000)	-

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

As at March 31, 2015 and December 31, 2014 Mr. Mirosław Godlewski - a member of the Company's Supervisory Board - held 658,807 options, none of which had vested.

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

As at March 31, 2015 none of the Members of the Management Board held shares of the Company. 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 March 31, 2015 and December 31, 2014 Mr. Mirosław Godlewski - a member of the Company's Supervisory Board - held 52,979 shares of the Company.

As at March 31, 2015 and December 31, 2014 Mr. Tadeusz Radzimiński - a member of the Company's Supervisory Board - held 9,537 shares of the Company.

4. Legal proceedings

Netia Group is not engaged in any court disputes or other arbitration proceedings in which the individual value of the subject of the dispute exceeds 10% of equity.

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

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 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

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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 return.

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 Zloty 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 Telefonía 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 Telefonía Dialog Sp. z o.o.

In these circumstances the level of distributable reserves in Netia S.A., which stood at PLN 484,427 on March 31, 2015 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

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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 third 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.

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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 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 – under certain conditions for free or for prices lower than market prices - telecommunications services in areas where the demand of end users is not satisfied by commercially provided access to telecommunications services.

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.

Therefore, the Act on Development introduced the possibility of new sources of competition for the companies from the Netia Group from municipalities and other interested entities.

Since its entry into force, the Telecommunications Law, as well as the Act on Development have been repeatedly amended. The most recent and extensive amendment was passed by Sejm on November 16, 2012 (hereinafter referred to as "the Amendment"). It aimed 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, forbade to enter into a first agreement to provide telecommunications services for private persons longer than 24 months and obliged telecommunications entrepreneurs to extend their offer addressed to end users to include contracts concluded for no longer than 12 months. The Amendment allowed to conclude contracts electronically using the form available on the website of the service provider. At the same time the Amendment broadened the obligatory content of contract for the provision of telecommunications services, and created 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 introduced certain changes to handling portability of numbers assigned to subscribers when changing service providers. First of all, as of January 21, 2013, service providers are obliged to port an assigned number within 1 business day of the date indicated in a newly concluded contract as the start-up date for the provision of services. Pursuant to the new provisions, handling of number portability is to be fully executed by means of an IT system, i.e. a Location and Information Platform with a Centralized Data Base (PLI CBD), and telecommunications undertakings are obliged to adjust their IT systems to cooperate with the PLI CBD system. The companies from the Netia Group are currently engaged into the process of implementation of the above requirement. Despite the delayed announcement by the President of UKE of the data necessary for enabling proper communication of IT systems of operators with PLI CBD, the Management Board is unable to assure that the President of UKE will accept expectations of telecommunications undertaking regarding postponement of their obligations within this scope. Should the President of UKE fail to do so, the Management Board is unable to assure that, despite best efforts of the companies from the Netia Group, the cooperation of their IT systems with PLI CBD will commence on time and to the extent enabling proper realization of number portability. As a consequence, the Management Board is unable to assure that subscribers will not bring claims against the companies from the Netia Group, nor that any inspections or administrative proceedings aiming to impose financial penalties on these companies due to potential delays will not be initiated, nor that, in case of their initiation, the competent authority will take into account the delayed handling of the necessary data regarding PLI CBD to the telecommunications undertakings as a circumstance exonerating them from liability for potential faults resulting from the above delay.

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 $\frac{1}{4}$ 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 $\frac{1}{2}$ 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 become 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 introduced new obligations regarding protection of telecommunications secrecy, network security, including acting against distribution of unsolicited content by service users. It excluded 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

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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 of the telecommunications undertaking holding SMP position on relevant markets. However, the Management Board is unable to assure that none of the companies from the Netia Group will be obligated to provide access to its infrastructure on unprofitable terms.

The Amendment of the Telecommunications Law reduced the data retention period to 12 months, increased the information obligations with regard to subscribers as well as extended the obligation to transfer data concerning telecommunications activity of a given telecommunications undertaking to the President of UKE. The Amendment also extended 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, the government Regulation on annual rates for the use of radio frequencies that came into force on January 1, 2014 as a result of the Amendment, as a rule does not provide a significant increase in relation to rates for frequencies used by the companies from the 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 December 25, 2014 an act on consumer rights changing the permissible modes of concluding contracts with consumer away from business premises came into force. Pursuant to the joint standpoint of the President of UKE and the President of UOKiK, telecommunications undertakings concluding contracts for provision of telecommunications services with subscribers being consumers are bound both by the provisions of the Telecommunications Law regarding rules on conclusion and amendment of contracts with subscribers and by the provisions of the act on consumer rights, and should apply these provisions accordingly, so that none of them were breached. The Management Board is unable to assure that exercising of obligations arising from the above legal act will not entail increase of costs of providing telecommunications services, other than those incurred directly to adjust the companies from the Netia Group to new provisions.

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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, 2014. 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 of the costs of providing the telecommunication services another than incurred directly to adapt the Netia Group Companies 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 implementation will take form of an amendment to the Act on Development, and the guidelines for the amendment act are to be submitted to the government by the Minister of Administration and Digitalization in the II quarter of 2015. 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 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 Sejm 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 (on April 8, 2015, the draft bill was directed for first reading to the Commission for Local Self-government and Regional Policy) the Management Board cannot foresee whether the draft regulations would come into force and whether they would raise operating costs of companies of the Netia Group.

Risks resulting from the regulation of obligation to provide universal services

The telecommunications law stipulates that the obligation to provide universal service should be imposed 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 a decision by virtue of which Orange Polska SA was awarded subsidy 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.

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

Orange Polska SA appealed the decisions of the President of UKE to the Voivodship Administrative Court (further "WSA"). WSA dismissed

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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, it cannot assure that decisions for the years 2006 – 2010 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.

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 subsidize 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, by the decision of October 10, 2014 the index for 2006 was set on the level 0,0018499671% of the income. Netia, Dialog and Interneta 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. By the date of approval of the present financial statement of the Netia Group, the companies from the Netia Group have not received a decision on this matter. However, despite lack of legal validity of the decisions establishing the amounts of subsidies towards universal service, including the decision for year 2006, as well as despite submission of appeals against the decisions establishing the index of share in the subsidies towards universal service for year 2006, the President of UKE initiated proceedings on setting the amount of share of Netia, Dialog and Interneta in the subsidies to the universal service for year 2006.

The Management estimates the total amount of potential obligation of Companies of the Netia Group to subsidize the cost of USO at PLN 6,998. This estimate takes into account their market shares in 2006 – 2011 and decisions of the President of UKE, in which the amounts of subsidies towards the costs of providing universal service in years 2006 – 2011 were granted in the total amount of PLN 136,999. The Companies of the Netia Group have made a provision for this amount to cover potential obligations under the subsidy for universal service provided in the years 2006 – 2011.

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

On the basis of the full amount of subsidies claimed by Orange Polska SA and of the Company’s estimations concerning revenues of telecommunications services providers that may participate in subsidies towards universal services, the amount of subsidy towards universal service that might conceivably be claimed by Orange Polska SA from the Netia Group amounts to approximately PLN 53,853 for the period from 2006 until 2011 inclusive as follows:

	<u>Maximum subsidies</u>	<u>Provision</u>
	<i>PLN</i>	<i>PLN</i>
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	6,998

Pursuant to the decision of the President of UKE designating Orange Polska SA to provide universal service the above obligation of Orange Polska SA expired as of May 8, 2011. Since then no new telecommunications undertaking obliged to provide universal service has been designated.

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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 reasonably priced in the whole Poland, what implies lack of the indications to begin the procedure to appoint the undertaking designated 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 decisions, whereby it has designated Netia, Dialog and Petrotel, as telecommunications operators holding significant market power in the market for call termination in their fixed public telephone networks, 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 networks of these companies by posting them on the internet sites:

- of Netia, at:

http://www.netia.pl/files/netia_dla_korporacji/InterConnect/InterConnectoferta_ic_netii_28062013.pdf

- of Dialog at:

http://www.netia.pl/files/netia_dla_korporacji/informacja_ws_dostpu_do_sieci_telefonii_dialog_sp_z_o_o.pdf

- and of Petrotel at:

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

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

The President of UKE began works on the new BU-LRIC model – the cost model of an effective operator - for termination services in the fixed networks, what may directly affect the termination rates in the networks of the companies of the Netia Group in the future. Despite the fact that, according to statements of the President of UKE, the implementation of the termination rates in fixed networks based on the prepared BU-LRIC FTR model should not take place in 2015, one cannot assure that the President of UKE will not carry out a new analysis of the market for call termination in fixed networks of telecommunications undertakings, including Netia, Dialog and Petrotel, and will not impose obligations to apply FTR rates calculated on the basis of the prepared model in the amount that would exclude maintaining the revenues reached by the companies from the Netia Group on the basis of the previous rates.

The President of UKE does not exclude, as well, imposition in SMP decisions of a general regulatory obligation from Article 44 of the Telecommunications Law (i.e. an obligation not to apply exaggerated rates), and setting forth a timetable for the reduction of rates in a separate position paper, according to the practice already employed by the President of UKE in case of reduction of termination rates in public mobile telecommunications networks.

- a. to avoid differentiation of FTR between the traffic incoming from the EU and from outside of the EU.

No assurance can be given that 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 that in the future a significant market power of another company of the Netia Group in this market will not be determined or that a significant market power of any company of the Netia Group in another wholesale market will not be determined, as well as that no company of the Netia Group will be subject to regulatory obligations specified in Telecommunications Law.

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

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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 O1¹, 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 Dialog's 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 virtue of decisions of June 21, 2012, the President of UKE dismissed 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. submitted appeals against the President of UKE decisions to SOKiK. On October 3, 2014, SOKiK dismissed Orange Polska S.A. appeal concerning the decision issued for Orange Polska S.A. and Dialog. Orange Polska S.A. filed an appeal against this judgment. On November 17, 2014, SOKiK dismissed Orange Polska S.A. appeal concerning the decision issued for Orange Polska S.A. and Netia. Orange Polska S.A. filed an appeal against this judgement.

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. Orange Polska S.A. appeal 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.

On September 29, 2014 the President of UKE issued the decision finishing dispute between Orange Polska S.A. and Netia. The President of UKE: (i) refused to change the contract so far as the case concerned the establishment of conditions for the provision of services by Netia for Orange Polska S.A.; (ii) set the fee for number portability from Netia's network to the network of Orange Polska S.A.; (iii) decided to discontinue the administrative proceedings concerning the establishment of conditions for the provision of services by Orange Polska S.A. for Netia. The dispute between Dialog and Orange Polska SA was finished by a similar decision issued by the President of UKE on November 12, 2014. The proceedings concerning dispute between Orange Polska S.A. and Petrotel are in progress.

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.

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

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In October 2014 Orange Polska SA motioned to the President of UKE for issuing decisions amending the agreements Orange Polska S.A. – Dialog and Orange Polska S.A. – Netia, by introducing the contractual penalty regime which is described in the decision of the President of UKE approving the OR's amendment.

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 Netia in its own networks will not decrease.

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

The conditions of performing wholesale telecommunications services to 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 be reversed or amended by the court nor that the terms of telecommunications access established therein will 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.

The post of the President of UKE is currently occupied, with the term of office expiring in January 2017, by Magdalena Gaj, and the positions of deputy presidents are held by Lidia Kozłowska (since April 15, 2012) and Karol Krzywicki (since September 15, 2014).

On November 3, 2014 the President of UKE published on its website a summary of the current state of realization of the regulatory strategy for years 2012-2015 (hereinafter "Strategy"). Among one of the main achievements of the President of UKE the document names the decisions of October 7, 2014, on deregulation of the market for broadband access to the Internet in 76 municipalities. According to the President of UKE the deregulation will bring benefits for consumers and operators in terms of increase of investment and competitiveness rates. In the opinion of the President of UKE the Strategy is currently at the advanced stage of realization. The final summary of the realization of the Strategy is to be published upon its termination, i. e. after December 2015.

At this moment it is impossible to predict what basic goals the Regulator will set in the strategy adopted for the next period. One cannot exclude the possibility that at least some of these regulatory goals will lead to growth of 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 regulated 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 provided 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.

Wholesale prices applied by Orange Polska S.A. are controlled by the margin squeeze test (the "MS test") and the price squeeze test (the "PS test"). The procedures for conducting the above-mentioned tests ("MS/PS tests") are described and periodically modified by the President of UKE.

Therefore, 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.

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In the opinion of the Management Board, the abovementioned amendments to the MS test procedure, as compared to the previously binding procedure, have increased the protection of operators using the network of Orange Polska S.A., including Netia, against price discrimination.

On June 22, 2012, the President of UKE published another Statement amending the rules of performing the PS tests. In the abovementioned Statement President of UKE stated that in the process of analysis of Orange Polska S.A.'s retail offers which have no equivalent in wholesale regulated services, Orange Polska S.A.'s wholesale costs shall be taken into account. In the opinion of the President of UKE such costs are reliable as they were examined. KIGEiT took available legal actions to change the statement of the President of UKE (by indicating that the data is not audited and that alternative operators shall – at least – have the chance to give their opinion on this data), but in each and every case the President of UKE refused to consider KIGEiT's demands.

On March 22, 2013 the President of UKE published another amendment to the 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.

In the opinion of the Management Board the TTM Process does not sufficiently guarantee Netia's non-discrimination against Orange Polska S.A. regarding former Retail Arm of the Orange Polska S.A. and it does not guarantee Netia the introduction of 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.

On February 20, 2014 the President of UKE issued another 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 another 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;

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- 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, i.a. by reducing several fees for LLU and BSA services. The decision is already valid.

RO was subsequently subject to other amendments approved by subsequent decisions issued by the President of UKE and described in detail below. The Management Board cannot assure that also the terms of access currently established in the RO will not be in future amended or reversed. Due to the fact that the RO often 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 equal conditions of competition comparing with other alternative operators.

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

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 (not in thousands)/month for use of blockades to the phone calls to the premium rate services by subscribers of retail services based on the WLR service. KIGEiT requested the President of UKE to reconsider the decision. KIGEiT alleged no reasons for the introduction of the fee. On April 22, 2015 the President of UKE launched consultations of the draft decision amending the decision of May 26, 2014. The consulted draft decision introduces certain amendments but maintains the abovementioned wholesale fee. The consultation process will last for 30 days. After conducting analysis of the draft decision KIGEiT will consider submission of a position paper.

The Management Board cannot assure that as a result of the final decision issued by the President of UKE the abovementioned wholesale fee will not be maintained, and, consequently, the terms on which Netia uses regulated services provided by Orange Polska S.A. on the basis of RO will not be deteriorated.

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 alia, 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 a request to reconsider the decisions of May 30, 2014 and of June 2, 2014. KIGEiT drew attention of the President of UKE to excessively high rates for access to the Orange Polska S.A. fiber infrastructure and the procedures that may hinder alternative operators' telecommunications access in this scope. Requests to reconsider the abovementioned decisions were also submitted by Orange Polska S.A.

As a result of the requests of KIGEiT and Orange Polska S.A. to reconsider the decision of May 30, 2014, between January 15, 2015 and February 14, 2015 the President of UKE carried out consultations of the draft decision amending the decision of May 30, 2014. The consulted draft decision includes among other things reduction of fees paid to the Orange Polska S.A. for BSA service in option with "up to 80 Mbit/s". In the course of the consolidation proceedings, the European Commission did not express any reservations to the draft decision.

As a result of the requests of KIGEiT and Orange Polska S.A. to reconsider the decision of June 2, 2014, between March 5, 2015 and April 4, 2015, the President of UKE carried out the consultation process of the draft decision amending the decision of June 2, 2014. The consulted draft decision partially repeals and changes the decision of June 2, 2014 of the President of UKE and in the other part keeps the provisions of the abovementioned decision untouched.

On April 7, 2015 Netia submitted a written position paper in the consultation process.

The Management Board cannot assure that Netia's reservations will be taken into account in the final decision issued by the President of UKE and that the terms on which Netia uses regulated services provided by Orange Polska S.A. on the basis of RO will not be deteriorated. Moreover, the Management Board cannot assure that the terms of access to LLU, including local sub-loop constructed in the fibre technology, will make it possible for Netia to compete with Orange Polska SA within the coverage area of the LLU nodes constructed by Netia,

On June 18, 2014 the President of UKE issued the decision modifying RO in relation to the penalty clauses, mitigating Orange Polska S.A. contractual liability rules relating to regulated services provided by Orange Polska S.A. (particularly within the scope of a catalogue and an amount of contractual penalties). KIGEiT and Orange Polska S.A. requested the President of UKE to reconsider the decision. As a result of these requests between December 9, 2014 and January 8, 2015 the President of UKE carried out consultations of a draft decision amending the decision of June 18, 2014. In principle, the consulted draft decision is to maintain the decision of June 18, 2014. KIGEiT submitted to the President of UKE a position in the consultation proceedings in which it supported its previous reservations to the amendment of methodology of calculation and reduction of the amount of contractual penalties, as well as asked for explaining a significant number of doubts in the draft decision. In the consolidation process the European Commission did not express any reservations to the draft decision.

The Management Board is convinced that the amendment of RO consisting in the reduction of contractual penalties will lead to restriction of competition and, as such, should not be introduced. Nevertheless, the Management Board cannot assure that the

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President of UKE will take into account the position of KIGEiT and that the terms on which Netia uses regulated services provided by Orange Polska S.A. on the basis of RO will not be deteriorated.

On February 26, 2015 after carrying out consultation and consolidation proceedings, the President of UKE issued a decision amending RO in the part relating to tools used for sending billing data concerning WLR service, through:

- enabling usage by telecommunications operators of one of two tools used for sending billing data i.e. ISI server or FTP server,
- introducing a procedure related to sending billing data in case of a break-down of one of the two tools used for sending these data.

In principle, the decision meets expectations of the alternative operators.

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 the so called Flat Interconnection Rate, PSI) and setting of fees for number portability. The amendment of the RO in accordance with the decision of the President of UKE may in consequence raise costs of using call termination services in Orange Polska S.A.'s fixed network by companies of the Netia Group. In the proceedings regarding the amendment of the RO in relation to the market for origination and termination of calls in Orange Polska S.A. network, including the fees for services provided on these markets, the growth in fees for call termination in Orange fixed network as well as for settlements based on Flat Interconnection Rate is probable. KIGEiT appealed against this decision 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 August 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. On September 5, 2014, KIGEiT appealed against this judgment to the Supreme Administrative Court.

On January 7, 2015 Orange Polska SA requested the President of UKE to approve another amendment of the RO resulting from changes in regulatory obligations on market 5 which had been introduced by the decisions issued by the President of UKE on October 7, 2014.

Netia's access to Orange Polska SA telecommunications infrastructure is also enabled based on the Leased Lines Framework Offer. The abovementioned framework offer was also subject to several amendments, including amendments of May 30, 2012 and September 27, 2012. The amendments did not have significant impact on Netia's business. On April 7, 2015, at the request of Orange Polska S.A. the President of UKE initiated proceedings regarding another amendment of the abovementioned offer. The requested changes concern procedural aspects of enabling access to Orange Polska leased lines. KIGEiT has been informed by the President of UKE of initiation of these proceedings and is currently assessing whether to request access to the proceedings.

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. WSA repealed the decision. The judgment is final.

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. NSA repealed this court decision and remanded the case to WSA for reconsideration.

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. KIGEiT will assess whether to appeal to the Supreme Administrative Court after being served with the judgment together with its justification.

Despite being sure of the validity of the above complaints, the Management Board cannot assure that the decisions will be repealed and that they will not worsen price conditions of the regulated wholesale services provided by 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 interconnection agreements 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.

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3) Temporary and final decisions amending MTRs set in the Agreement between Polkomtel and Petrotel.

The Supreme Court accepted to hear the cassation of Netia on the final decision changing MTR rates of Polska Telefonia Cyfrowa and the cassation of Petrotel on the temporary decision changing MTR rates of Polkomtel. Dialog filed the cassation on the final decision changing MTR rates of Polska Telefonia Cyfrowa. The seating of the court to decide on whether to accept to hear the cassation or not is dated on May 20, 2015.

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 also concluded between Netia, Dialog and Polska Telefonia Cyfrowa S.A., the Management Board cannot assure that Polska Telefonia Cyfrowa S.A. shall not make claims related to the results of the abovementioned judicial 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.

In May and June 2011, 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 abovementioned rates. Moreover, these decisions stipulated 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. The new MTRs were binding until December 31, 2012.

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 PLN 0,0826/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 annexes to the agreements concluded by Netia and Dialog with Polkomtel Sp. z o.o., Polska Telefonia Komórkowa Centertel Sp. z o.o., Polska Telefonia Cyfrowa S.A. and P4 sp. z o.o.

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 networks of Polkomtel Sp. z o.o. and T-Mobile. On May 4, 2015 SOKiK repealed the decision of the President of UKE establishing the amount of MTR rates for call termination in the network of Polkomtel Sp. z o.o., in the part specifying the amount of the MTR rate and the cost calculation model on the basis of which the President of UKE established its amount. KIGEiT will consider filing an appeal against the judgment of SOKiK.

The Management Board cannot assure that as a result of filing the appeals against mentioned decisions providing for 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.

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

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

Following the appeal filed by T-Mobile Polska S.A., the Court of Appeal in Warsaw reversed the decisions stipulating access to IN services in Netia and Dialog networks for T-Mobile Polska S.A. users. Netia and Dialog submitted cassation complaints against the judgments of the Court of Appeal. The Supreme court suspended both proceedings and asked the Court of Justice of the European Union (CJEU) questions on the issue of the obligation to provide consolidation process during administrative proceedings for solving operators disputes. On April 16, 2015, the CJEU pronounced judgement in the given case (C-3/14). According to the judgement, consolidation process is necessary when obligations imposed in a decision of the President of UKE may affect trade between Member States. According to the CJEU, it is for the Supreme Court to evaluate whether the decisions appealed to national court in fact do affect trade.

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At this stage, the ruling of the Supreme Court resulting from the judgement of the CJEU, may not be foreseen. The Management Board cannot however exclude the possibility that the Supreme Court will uphold the rulings of the Court of Appeal reversing the decisions for Netia and Dialog.

Moreover, the Management Board cannot assure that agreements stipulating conditions of access to IN services in Netia and Dialog networks for T-Mobile Polska S.A. users will be concluded, and that this enterprise shall not make claims related to results of the abovementioned proceedings. The Management Board cannot predict the result of proceedings 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 dismissed KIGEiT's appeal. KIGEiT appealed from the SOKiK judgment from December 4, 2013. On February 16, 2015 the Appeal Court dismissed the appeal. KIGEiT will consider filing a cassation appeal.

On April 28, 2011 the President of UKE issued a decision holding 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 provided 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. Orange did not appeal against this judgment. 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. On March 15, 2015, the Appeal Court dismissed the appeal. KIGEiT will assess whether to file a cassation appeal after being served with the judgment together with its justification.

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

On October 7, 2014 the President of UKE issued:

- (i) the decision stating that on Market 5 – the market for the provision of wholesale broadband access- 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.

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In consequence the usage of the BSA service by the companies of the Netia Group on the territory of the 76 municipalities will be significantly hampered, as excluded, according to the decision of the President of UKE, from regulation. It is likely that the abovementioned decisions will worsen the possibilities of performing broadband services by the Netia Group, in particular that after the date of the termination of agreements concluded with subscribers in the area of these 76 municipalities, but not later than 24 months after delivery of the decision to Orange Polska S.A., companies of the Netia Group will lose the possibility to use the BSA service in this area on present 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. The Management Board cannot assure that the rates for access to the BSA service, set by Orange Polska S.A. in accordance with its regulatory obligations in the remaining territory of Poland, will not increase in future and that the relation between wholesale and retail prices used by Orange Polska S.A. in future will not limit possibilities of competing with Orange Polska S.A. in the market of the Internet broadband access in the territory of Poland for the companies of the Netia Group.

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

Netia also issued a complaint to SOKiK against the abovementioned decision stating that on Market 5 on the territory of 76 municipalities there is effective competition, requesting its repeal. There is no court ruling in this case yet.

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 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 rules 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 June 5, 2014 BEREC published the new Common Position on the geographical aspects of market analysis. The Management Board cannot assure that application by the Polish Regulator of this Common Position will not lead to increase of costs or worsening of the conditions of using telecommunication access services.

On March 4, 2014 and then on November 26, 2014 the President of UKE began consultation process of the decisions repealing regulatory obligations of 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 (market 3/2003).
- Publicly available international telephone services provided at a fixed location for residential customers (market 4/2003).
- Publicly available local and/or national telephone services provided at a fixed location for non-residential customers (market 5/2003).
- Publicly available international telephone services provided at a fixed location for non-residential customers (market 6/2003).

KIGEiT presented its position papers in these proceedings in which it expressed its opposition to deregulation of the abovementioned markets.

Between February 4, 2015 and February 23, 2015 the President of UKE carried out consolidation proceedings of the abovementioned draft decisions for markets 3-6. The European Commission did not express any reservations to the draft decisions.

The Management Board cannot assure that in case of repeal of the regulatory obligations of Orange Polska S.A. and deregulation of the abovementioned retail markets the conditions for competition of the companies of the Netia Group with Orange Polska S.A. will not be deteriorated.

On 20 March, 2015 the President of UKE commenced consultation proceedings of a draft decision deregulating the wholesale market for leased line transit segments (market 14/2003) and repealing the regulatory obligations of Orange Polska S.A. on the abovementioned market within 90 days after delivery of the decision to Orange Polska S.A.

The Management Board cannot assure that the repeal of the regulatory obligations of Orange Polska S.A. and deregulation of the abovementioned market will not lead to deterioration of the conditions for competition of the companies of the Netia Group with Orange Polska S.A.

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.

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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 (hereinafter referred to as "Law on Copyrights") defined 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/EEG. EU legislator compulsorily 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 EU law principle shall apply to Dialog, Netia, Interneta 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, Interneta 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, Interneta 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. The settlement was not concluded.

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.

In its sentence of April 11, 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 was convinced of validity of the appeal, the Court of Appeals dismissed it in part and changed the Court's decision in this way, that also

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imposed on Dialog an obligation to supply SAWP with the information about the amount of the subscribers of tv channels. Dialog decided not to file 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 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, Internetia 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.

On August 1, 2012, the President of UKE issued the decision on imposing financial penalty in the amount of PLN 10 on Dialog due to violation of the obligation to present UKE with data for the purpose of annual reporting. On April 15, 2015, the Court of Appeal dismissed the appeal filed by the President of UKE against the judgment issued by SOKiK, which reversed the decision on financial penalty for Dialog.

Analogous proceedings against Netia and concerning the imposition of financial penalty are still in progress. The Management Board cannot guarantee that the President of UKE will take Netia's statements under consideration and will decide on discontinuation of the abovementioned proceedings.

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 PLN 21 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 a number of decisions imposing fines on Netia (in the total amount of PLN 30), for improper work of the radio devices in three locations.

Dialog and Netia filed appeals against the abovementioned decisions, raising, inter alia, that the decisions were issued before sending post-audit recommendations. Currently in both cases, following the rulings of SOKiK (in which SOKiK upheld the decisions of the President of UKE), appeal procedures are being conducted. Although the Management Board is convinced of validity of the

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abovementioned 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 exclude that the President of UKE commences other inspection procedures. The Management Board cannot assure that, with regard to all such inspection procedures, the President of 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.

The 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 the Office for Competition and Consumer Protection (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.

Currently, several explanatory proceedings are being conducted by the President of UOKiK against companies from the Netia Group (Netia, Dialog, Interneta, Petrotel). The abovementioned proceedings concern the mechanism of automatic prolongation of subscriber agreements for another defined period. Moreover, two another proceedings against Netia are being conducted by the President of UOKiK. One of them concerns calculation of discounts on the provided services, while the other concerns advertisements of Internet access service quoting maximum transfer speed. The Management Board is unable to assure that the efforts and explanations submitted by the Companies within the abovementioned explanatory proceedings will turn out to be a sufficient ground for the President of UOKiK to close these proceedings and abstain from initiating proceedings aiming to impose financial penalties.

The Management Board is unable to assure that within the scope of all 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.

In January 2014 the President of UKE presented final report on the works conducted on the basis of Memorandum of October 26, 2012, on the Cooperation for Increasing Quality of Services Provided on the Telecommunications Market. The final report has established the set of indicators for quality of service description, the method for performing measurements and the rules for the publication of measurements' results as well as the rules for presenting the measurements' results to the President of UKE. Companies from the Netia Group served the President of UKE with their declarations on the implementation of Memorandum and they present the President of UKE with data for the purpose of controlling the quality of service. The Management Board is unable to assure that no circumstances will arise due to which quality data presented by the companies from the Netia Group will not be sufficient for meeting the quality standards established within 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.

On September 30, 2014 the President of UKE announced the position on the performance of the obligation to provide co-usage and telecommunication access to the telecommunication infrastructure or public telecommunication network built as regional broadband networks. On December 12, 2014 the President of UKE announced the "Reference Offer for the infrastructural operators on the conditions of providing access to the Regional Broadband Networks (RSS)". According to the declaration of the President of UKE, the abovementioned document is just a recommendation and has an auxiliary character. Its purpose is to help the operators of RSS infrastructure with drafting their offers, according to the principles provided for in the statement of September 30, 2014. The Management Board cannot assure that services offered with the usage of the regional broadband networks will not result in the increase of the competitive broadband services limiting competitiveness of the offer of the Netia Group.

The Netia Group, acting through KIGEiT, takes part in public consultations of the draft regulation of the Minister of Administration and Digitalization on the granting of assistance for the development of broadband infrastructure with the Operational Program Digital

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Poland for the years 2014-2020 (hereinafter: "POPC"). The Netia Group, acting through KIGeIT, takes also part in the workshops, organized by the President of UKE and concerning the rules for enabling wholesale access to the infrastructure built from the financial aid within POPC. The abovementioned is a part of the act of July 11, 2014 on rules for the execution of cohesion policy programs financed in the years 2014-2010; the aforementioned act provides for detailed destination, conditions and procedure of granting financial aid by the authority implementing European programs where such aid is designated for the development of broadband Internet access within the POPC.

Current legislative works, the workshops organized by the President of UKE as well as the activity of the Working Group at the Ministry of Administration and Digitalization are aimed at setting the conditions for contests, planned for 3Q2015. The EU funds acquired within the POPC are aimed at the development of broadband Internet access in line with the assumptions as provided for in the Digital Agenda.

The Management Board is conducting up to date analyses of the abovementioned legislative works in terms of possibilities of using the funds from the POPC, as well as their impact on the telecommunications market.

The Management Board cannot assure that the services offered with the use of POPC will not impact (i) the amount of competitive broadband services, limiting the competitiveness of the offer of companies from the Netia Group nor (ii) the creation of competition-based access to infrastructure of another operator, which was built on the basis of POPC funds.

The Polish Chamber of Information Technology and Telecommunications invited KIGeIT to discuss the need to differentiate MTRs basing on the place the call is originated (EU States or not-EU States). KIGeIT has presented its doubts and indicated that this initiative shall also refer to the FTRs. Moreover, KIGeIT has indicated the necessity to conduct market analyses in this scope. The Management Board is conducting up to date analyses of these discussions. The Management Board cannot however exclude the risk that the President of UKE will eventually accept the proposal to differentiate MTRs. In such a case, the risk of rising Netia's Group costs related to wholesale settlements, including the operational costs related to changes of the billing systems and costs related to fraudulent traffic, cannot be excluded.

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 Company 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 broadband 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

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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.

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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.

6. Transactions with related parties

A detailed list of transactions with related parties has been presented in the interim condensed consolidated financial statements of the Netia Group (Note 17) and interim condensed financial statements of Netia (Note 17).

7. Guidance for 2015 (not in thousands)

No guidance for the year ended December 31, 2015 has been published as at the date of filing this report.

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8. Loans, warranties and collaterals

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 March 31, 2015, the value of these outstanding loans at amortised cost was PLN 300,670.

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 March 31, 2015 was 2.65%. 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 March 31, 2015.

9. Other information

Changes in the Management Board of the Company

Changes in the composition of the Management Board were described in Note 16.

Appointment and dismissal of Supervisory Board Member

On April 17, 2015 Mr. Andrzej Radzimiński, exercising his right to appoint and dismiss one member of Netia's Supervisory Board that results from the ownership of 1,000 preferred registered series A1 shares of the Company dismissed Mr. Tadeusz Radzimiński from the position of Netia's Supervisory Board member, and appointed Mr. Stefan Radzimiński as Netia's Supervisory Board member effective as of the day of the Annual Shareholders' Meeting approving the financial statement of Netia for the year 2014.

Issuance of Netia's series L shares (not in thousand)

On April 28, 2015 the NDS registered 10.631 ordinary bearer series L shares of Netia with a nominal value of PLN 1 (one) each, issued under conditional capital increase.

The series L shares were issued due to the exercise of stock options by two persons who hold managerial positions in the structure of the Company (but not Management Board members), who have constant access to inside information and by 4 persons whose employment relations with the Company expired before the acquisition of the abovementioned series L shares.

Netia's issued and outstanding share capital, following this issuance is PLN 348,099,025 and represents 348,099,025 shares, PLN 1 per value per share, each share giving the right to one vote at Netia's general meeting of shareholders.

Loan instalment repayment

On 4 May 2015 the Company repaid in accordance with the loan schedule a capital installment in the amount of PLN 50,000.

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Conclusion of a preliminary agreement to purchase 100 per cent of shares un TK Telekom

On May 8, 2015 the Company has concluded a preliminary agreement of sale of shares of TK Telekom from PKP Group. Netia will pay for TK Telekom PLN 221,857. The transaction will be financed from available credit lines. The conclusion of the Final Contract was made conditional upon obtaining the consent for concentration expressed by the President of the Office of Competition and Consumer Protection. The second precedent condition is the consent of the general assembly of PKP SA.

Warsaw, May 13, 2015