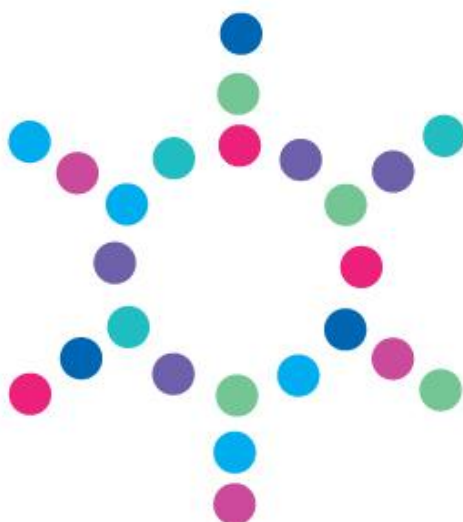


Report on Sustainable Development 2012

Netia SA



N E T I A

Warsaw, 2013

Table of Contents

Part 1 – About our Company	3
1. The most important events in 2012.....	5
1.1 Organisational Structure of Netia Group	5
1.2 Information on basic products and services	7
1.3 Information on customer markets (not in thousand)	9
2. Financial situation of Netia Group.....	18
2.1. Consolidated statement of financial standing.....	18
2.2. Consolidated profit and loss account.....	19
2.3. Consolidated cash flow statement.....	23
3. Organisational profile.....	25
Netia's mission until 2020:.....	25
Vision 2020:.....	25
Our sustainable development strategy.....	26
Netia as the employer	28
Netia as a company offering assistance	30
Netia as a market participant	30
Netia as the customer	32
Netia as the communicator	33
Netia as the neighbour.....	34
4. Awards and distinctions 2012.....	39
Part 2 – About our Report	43
Set of 10 GRI indicators:	43
Contact data	45

Part 1 – About our Company

Letter of the President of the Management Board



Ladies and Gentlemen,

It is already the second time that we present you the sustainable development report of Netia S.A. for year 2012.

2012 was an important year for Netia in terms of many aspects of our business. First of all, within the process of integration with Dialog and Crowley, Netia Group was established – the company combining the experience and diversity of various organisational cultures, different business experience. The new Netia, using the rich experience of various companies, was able to offer many modern, intuition-based services to its clients last year, both in business sector and to individual clients.

In 2012 we were subject to the multi-stage audit, as a result of which we have been once again classified to the index of socially responsible companies, i.e. the RESPECT INDEX.

For the fifth time Netia was also the prize winner for the TOP EMPLOYER, i.e. one of the most desired employers.

The values applied by the company and its employees include: trust, excellence, courage and pride. For years we have been consistently implementing our business strategy and our presence in the group of socially responsible companies confirms that we meet expectations of our investors in the scope going beyond business.

Netia cares for ethics and transparency of its business – the CSR strategy is the inherent component of the Group's strategy.

The report we are making available to you today expresses our commitments and strive for ensuring the best possible impact of our organisation on its surroundings, environment and employees.

Mirosław Godlewski

President of the Board

Netia S.A.

Letter of coordinator of CSR activities



Ladies and Gentlemen,

I am proud and pleased to present you the report on sustainable development of Netia Group for 2012.

2012 was a breakthrough for Netia for many reasons. It was the year of integration of Netia, Dialog and Crowley, thus, the year of considerable organisational and cultural changes for all of us. Nevertheless, and maybe

owing to these changes, we managed to "pass" several difficult exams, having been once again classified to the group of socially responsible companies and obtaining the title of desired employer.

I am pleased that while successfully implementing the business strategy we simultaneously do not forget about the responsibility for our product, for satisfaction of our clients, caring for friendly working environment, and also trying to educate the society in the area of new technology. In 2012 the issue of Net Masters Cup started, the biggest competition on information technology in Poland, and one of the biggest in Europe, organised jointly by Netia and Allegro. The main aims of the project include dissemination of IT education, digital competence and support to the idea of building the information society, as well as searching for and developing new IT talents and promotion of the Polish technical universities. In the current, 6th issue, 2351 teams have registered, i.e. almost 100 thousand participants and the action itself received wide response in the media.

I believe that the report presented below demonstrates the values, rules and activities allowing us to fulfil our commitments towards all our stakeholders: the owners, the market, clients, employees and the society. We are determined to improve continuously and to exceed these expectations.

We are open to any comments and questions you might have.

Małgorzata Babik

Coordinator of CSR activities in Netia Group.

1. The most important events in 2012

(bases on the REPORT ON OPERATIONS OF NETIA S.A. CAPITAL GROUP for the financial year ended on 31 December 2012)

This part contains both the separate financial results of Netia S.A. ("Netia", the "Company", the "Issuer"), and the consolidated financial data of Netia S.A. Capital Group ("Netia Group").

1.1 Organisational Structure of Netia Group

The consolidated financial statement as of the day and the financial year ended on 31 December 2012 covers the financial statements of the Issuer and the following subsidiaries subject to full consolidation:

- InterNetia Holdings Sp. z o.o. Group
- Net 2 Net 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 statement of the InterNetia Holdings Sp. z o.o. Group comprises the financial statements of InterNetia Holdings Sp. z o.o. ("InterNetia Holdings") and its following subsidiaries:

- Internetia Sp. z o.o. and its subsidiaries, STI Sp. z o.o. and Sanetja Sp. z o.o.
- UNI-Net Poland Sp. z o.o.

The financial statement of the Telefonía DIALOG Sp. z o.o. Group comprises the financial statements of Telefonía DIALOG Sp. z o.o. (transformed based on Telefonía DIALOG S.A. on 30 April 2012) and its subsidiary, Petrotel Sp. z o.o. (100% share in the share capital).

Changes in the Netia Group structure

Purchases

On 14 February 2012 Internetia Sp. z o.o. ("Internetia"), the subsidiary of the Company, concluded the agreement on purchasing 42 (not in thousand) shares in the share capital of

the company Elpro-Elektronika Profesjonalna Waldemar Nitka Sp. z o.o. ("Elpro"), of the par value of PLN 1,000 (not in thousand) for each share, constituting 100% of share capital authorising to 100% of votes at the meetings of shareholders. The total price for all the aforementioned shares was estimated at the amount of PLN 2,202.

On 7 March 2012, Internetia, the subsidiary of the Company, concluded the agreement on purchasing 150 (not in thousand) shares in the share capital of the company STI Sp. z o.o. ("STI"), of the par value of PLN 500 (not in thousand) for each share, constituting 100% of share capital authorising to 100% of votes at the meetings of shareholders. The total price for all the aforementioned shares was estimated at the amount of PLN 1.623.

On 29 May 2012, Internetia, the subsidiary of the Company, concluded the agreement on purchasing 100 (not in thousand) shares in the share capital of the company Sanetja Sp. z o.o. ("Sanetja"), of the par value of PLN 100 (not in thousand) for each share, constituting 100% of share capital authorising to 100% of votes at the meetings of shareholders. The total price for all the aforementioned shares was estimated at the amount of PLN 1.556.

Merger of the entities

On 11 May 2012 the merger of the Internetia company with its subsidiaries, Saite Sp. z o.o., Netsystem Sp. z o.o. and ZAX Sp. z o.o. took place. The merger was performed through transfer of the whole assets of the companies acquired to Internetia (merger by acquisition) without raising the Internetia share capital and without exchange of shares.

On 31 July 2012 merger of the company Telefonía Dialog Sp. z o.o. ("Dialog") with its subsidiary, Avista Media Sp. z o.o. ("Avista") took place. The merger was performed through transfer of the whole assets of the company acquired to Dialog (merger by acquisition) without raising the Dialog share capital and without exchange of shares.

On 31 August 2012 merger of Netia with its subsidiary CDP Netia Sp. z o.o. (operating previously under the name Crowley Data Poland Sp. z o.o., "Crowley") occurred. The merger was performed through transfer of the whole assets of the company acquired to Netia (merger by acquisition) without raising the Netia share capital and without exchange of shares.

On 31 August 2012 the merger of the Internetia company with its subsidiaries, Silesia Multimedia Sp. z o.o., Sieci Multimedialne Intergeo Sp. z o.o. and ComNet ITT Sp. z o.o.

took place. The merger was performed through transfer of the whole assets of the companies acquired to Internetia (merger by acquisition) without raising the Internetia share capital and without exchange of shares.

On 30 November 2012 merger of Internetia with its subsidiaries, Elpro and E-IMG Internet Multimedia Group Sp. z o.o. took place. The merger was performed through transfer of the whole assets of the companies acquired to Internetia (merger by acquisition) without raising the Internetia share capital and without exchange of shares.

1.2 Information on basic products and services

Netia Group provides various telecommunication voice services and data transmission services. The services comprise voice telephone connections (including: inter-zone connections, international connections and mobile network connections), integrated services digital network ("ISDN"), Voice over Internet Protocol ("VoIP") services, voice mail, permanent commuted Internet access, lease of lines and data transmission as well as Frame Relay and MPLS services. Moreover, Netia Group provides wholesale services (including the termination of incoming calls, lease of telecommunication duct system and dark optical fibres as well as colocation services), intelligent network services (services of free-of-charge services and services with split fee and audiotext services), as well as the service of broadband Internet access based on ADSL technology . The above services are offered using own copper and fibre optic network of Netia and, alternatively, using the network equipment leased from other operators.

Since 2006 Netia Group has been providing broadband data and voice transmission services, based on WiMAX technology using the frequency within the range of 3.6-3.8 GHz, acquired by the Group in 2005.

Using the opportunities arising from the improvement of the regulatory environment, the Company concluded the agreement with Telekomunikacja Polska S.A. ("TP SA") concerning the bit-stream access ("BSA") and launched the sales of the services of broadband Internet access through the TP SA network in January 2007. In 2007 the Company started the sales of voice services for TP SA clients to pay subscription fees and connection fees in favour of Netia. Netia, on the other hand, incurs fees for lease of lines for the benefit of TP SA, in accordance with the decision of UKE (Office for Electronic Communications) concerning the wholesale line rental (WLR). In 2008 Netia started launched of own equipment in colocation

points of TP SA, using the regulated access to the local loop unbundling (LLU) and started to connect clients through this form of the regulated access.

In September 2008 the Company acquired Tele2 Polska Sp. z o.o. ("Tele2 Polska", merged with Netia in February 2009), the company rendering voice and broadband services on the territory of the whole country, based on the regulated access to TP SA network, including the possibility to choose the operator, WLR and BSA.

Netia Group is also developing its own network and client base, acquiring the local Ethernet companies. Since the beginning of 2007 Netia Group acquired 37 (not in thousand) companies of that type, of the total number of 129,808 (not in thousand) clients. Moreover, Netia Group acquired 10,723 (not in thousand) clients, including the networks, from other Ethernet operators.

Considering the continued extension of the product offer through introduction of convergent services, Netia Group launched its mobile telephony services in September 2008. Netia provides its mobile telephony services under the Agreement on mobiles services, concluded with P4 Sp. z o.o. ("P4"), enabling wholesale purchasing of mobile telephony services by Netia from P4 and their resale under own brand. In the 3rd quarter of 2009, the range of this cooperation was extended by mobile broadband services as well as voice and data transmission services using mobile devices.

In 2011 the Company introduced television services to its offer (IPTV) and it is gradually improving its own copper and Ethernet network using the VDSL and FTTB (Fiber To The Building) systems, in order to increase the bandwidth of the lines offered.

Netia Group also offers installation and supply of specialised radio connection service (trunked services) on the entire territory of the country, via its subsidiary, UNI-Net Poland Sp. z o.o. (established in May 2009 by dividing the Uni-Net Sp. z o.o. company).

In December 2011 Netia acquired Telefonía DIALOG S.A. ("Dialog", transformed into Telefonía DIALOG Sp. z o.o. on 30 April 2012), including its subsidiaries, Avista Media Sp. z o.o. ("Avista", merged with Dialog in July 2012) and Petrotel Sp. z o.o. ("Petrotel") (jointly referred to as: "Dialog Group") and Crowley Data Poland Sp. z o.o. ("Crowley", subsequently, CDP Netia Sp. z o.o., merged with Netia in August 2012), two Polish alternative operators, which significantly increased the size of Netia Group. Dialog and Petrotel provide similar scope of telecommunication services to Netia and they handle business and individual

clients. Crowley provided services to business clients only. Avista rendered the call centre services, mainly to Dialog, but also to external clients.

The following revenue on sales of services and goods of Netia Group in the years 2012 – 2011 was recorded:

	Financial year ended 31 December 2012	Share in sales in total	Financial year ended 31 December 2011	Share in sales in total
	(PLN)	%	(PLN)	%
Direct voice services, including:	948,455	44.7%	737,373	45.6%
Subscribers	662,808	31.2%	516,707	31.9%
Connection fees	284,904	13.4%	220,051	13.6%
Direct voice services	34,976	1.6%	22,469	1.4%
Data transmission	765,658	36.1%	604,188	37.3%
Inter-operator settlements	109,588	5.2%	77,602	4.8%
Wholesale services	136,242	6.4%	124,375	7.7%
Other telecommunication services	113,789	5.4%	48,014	3.0%
	2,108,708	99.4%	1,614,021	99.8%
Radio communication services	3,540	0.2%	4,352	0.2%
Other services	9,108	0.4%	430	0.0%
	2,121,356	100.0 %	1,618,803	100.0 %

1.3 Information on customer markets (not in thousand)

Netia Group operates on the market of telecommunication services, mainly focusing on providing the services of broadband Internet access, fixed-line telephony, as well as the services of generally accessible, free and paid digital TV and convergent services for mobile phones and stationary devices. The customer market for the above mentioned services has recently demonstrated the tendency to harmonise offers, whereas the integrated package services have become the main element of attractiveness of the offer in terms of clients' preferences.

Owing to the market liberalisation which took place in 2006 and as a result of launching the services based on bitstream ("BSA"), the wholesale line rental (WLR) and the local loop

unbundling (LLU), Netia may offer access to Internet and voice communication on the entire territory of the country, wherever the copper network of TP SA does not reach. In 2008 Netia acquired the company Tele2 Polska, the operator of fixed-line telephony providing services mainly to individual clients by means of wholesale access for voice services (WLR). In 2011 Netia concluded the next large transactions of alternative operator acquisition: Telefonía Dialog and Crowley Data Poland. The first of the operators offers mainly voice services, access to Internet and television based on own network and within the WLR regime, whereas the second operator presents the offer dedicated to SoHo/SME segment and business. The acquisitions mentioned above have substantially contributed to the significant increase of the scale of operating activities of Netia Group on the Polish telecommunication market, both in the sector of individual and corporate clients.

At the end of 2012 the market of broadband services comprised 6.6 million subscribers, as compared to 6.3 million at the end of 2011. At the same time, penetration of this service among households in 2012 reached 47%, demonstrating the continuously growing trend. The base of clients of fixed-line telephony decreased from the level of 8.8 million at the end of 2011 to 8.3 million at the end of 2012, still showing the downward trend. At the end of 2012, penetration of this service among households on the entire territory of the country reached 59%. The market of paid television on Poland grew from the level of approximately 11.5 million in 2011 to over 11.8 million of services in 2012 and it was mainly dominated by the offer of satellite services (DTH) and cable TV.

Although Netia Group lost a part of its market share in 2012, it maintained its position as the leading alternative operator on the market of broadband services, in relation to TP S.A. Group (the dominating operator). The client base of broadband services decreased – considering the acquisitions - to 874,778 as of 31 December 2012 from the level of 911,570 at the end of 2011. Moreover, the Company estimates that over the last twelve months the share of Netia Group in the market of broadband services decreased from 14.4% to 13.3%. At the same time, at the end of 2012 Netia Group had 1,643,904 fixed telephony lines, including 647,775 connected directly to own network, 869,196 handled through WLR and 126,933 - by LLU (VoIP). The Company estimates that over the last twelve months the share of Netia Group in the market of fixed-line telephony decreased from 19.9% to 19.8%.

Netia Group has its own access network built on the area covering about 16% of households in Poland. At the end of 2012 Netia provided services to 400,431 clients of broadband services using own copper and optical fibre network, including the Ethernet networks. Holding the countrywide backbone network and the possibility to extend the existing access

network enables Netia Group to develop its operations, simultaneously making it independent against networks of other operators and regulatory regimes. At the same time, Netia Group has been continuing significant investment in improvement of own copper network and Ethernet networks to adjust them to NGA standards, which shall allow for offering the clients much higher speed of data transmission as well as supply of television services. As of 31 December 2012, Netia Group covered about 1,040 thousand households within the range of NGA network, including Telefonía Dialog (PON,FTTB,VDSL). Moreover, Netia Group comprised about 376 thousand additional households within the range of IPTV service, where the Company can supply package services (3play).

As of 31 December 2012, the Ethernet networks acquired by Netia Group since mid-2007 provided services to the total of 121,005 clients of broadband services, as compared to 132,532 clients handled as of 31 December 2011, including mainly individual clients, covering the total of approximately 621 thousand households with its range. In 2012 Netia concluded the transactions aimed at acquisition of three successive Ethernet networks, acquiring in total 4,921 active clients with access to about 18,180 households, as compared to nine Ethernet acquisition transactions in 2011 (purchase of companies and assignment of proprietary rights to assets), with 22,823 active clients and access to 103,832 households.

At present, Netia focuses on modernisation of the Ethernet networks acquired so far to the NGA network standards, accordingly, acquisition of new Ethernet companies will probably proceed at a much slower pace than so far. Moreover, significant decrease of profitability of services offered based on regulated access (including, in particular, the BSA and WLR services), will probably result in withdrawal from the proactive sales of BSA and WLR services, provided to clients of Netia Group based on access to infrastructure of the settled operator, and limiting the activity to measures aimed at maintaining the current client base. Consequently, the market to be targeted by sales will significantly decrease, with the households located within the range of own network and the unbundled local loops (LLU) as the main area of interest.

At the end of 2012 Netia provided television services to 79,285 clients, as compared to 50,712 clients handled as of 31 December 2011. Netia Group has been consistently expanding its offer of television services, enriching it by new multimedia content and functionalities as well as modernising its own copper network (VDSL), adjusting it to the NGA standards, and the Ethernet networks (FTTB), in order to develop a new source of income generated from the 3play package services (telephone, Internet and television), offered to individual clients. Netia's television services are offered both as IPTV and under the *smooth*

streaming technology which expands the availability of 3play package offers beyond the range of the IPTV Ready network, enabling the provision of high quality television service of lower bandwidth.

In 2012 Netia continued expanding of the range of the LLU services. As of 31 December 2012, the number of unbundled loops exceeded 700, covering almost 5 million households. As of 31 December 2012 Netia handled 182,726 clients of LLU services, in relation to 184,229 as of 31 December 2011. The base of LLU clients comprises 119,199 clients migrated from BSA services of lower margin.

Netia Group operates within one geographical area, i.e. the territory of Poland.

Netia Group provides services both to institutional and individual clients. The biggest supplier of Netia Group was TP S.A. "Łączka". TP S.A. "Łączka" is not a company associated with the Issuer.

New Technology (not in thousand)

In connection with the development of the telecommunications market and the significant growth of the number of clients over the recent years as well as due to acquisition of the Ethernet network, Crowley and Dialog, it became necessary to increase dynamically the capacity of the backbone network. The application of the latest technology enables the most effective use of own and leased optic fibre infrastructure as well as effective expansion of the geographical range.

The development of the access network required for provision of broadband Internet access services is implemented by increasing of the bandwidth of the already existing connection points with TP for services based on BSA and LLU regulations and building of new connection points enabling access to clients connected by means of IP DSLAM devices. In 2011 the investment process was completed connected with construction of access loops enabling to use the copper network of TP based on LLU regulations. As of 31 December 2012, 713 LLU loops were unbundled by Netia. The LLU network constructed enables Netia's access to almost 5 million access lines of TP all over the country. The LLU access loops are built based on advanced technologies, accordingly, Netia offers the broadband Internet access advanced services based on IP technology (TV, VOIP, MPLS, VoD, etc.). Investments in regulated access have been currently limited since the number of clients

stopped growing and all the LLU loops assessed by the Management Board as potentially profitable, have already been unbundled.

Parallel to the investment based on TP/Orange infrastructure, Netia has been continuing the development of Netia and Dialog access infrastructure in the area of copper network, consisting in its improvement to the NGA Standard (Next Generation Access) based on equipment operating under VDSL2 technology, significantly increasing the bandwidth of access lines for the end user, even to 80Mb/s. Parallel to acquisition of operators of local networks based on Ethernet technology, their gradual modernisation takes place, aimed at preparing them to provision of multimedia services, including the replacement of access equipment enabling central management and automation of the process of service provision. As a result of modernisation of these networks, performed according to the FTTB technology (Fiber to The Building) it will be possible to supply lines of the bandwidth up to 100Mb/s to each client.

The copper access networks acquired together with the Dialog company will be additionally developed according to the VDSL and FTTH (Fibre To The Home) technology, depending on the technical and economic conditions in individual areas. Protecting its position in the area of supply of services, parallel to the investment in network infrastructure, Netia is developing its competence and systems for provision of modern multimedia services (TV, Video on Demand, CDN, etc.) and communication services (dedicated mainly to the business segment). The common benchmark for investments in this scope is the method of their supply, implemented based on the modern IP/MPLS infrastructure. It has positive impact on unification of the infrastructure, simplifies the processes as well as effectively limits the costs of its expansion and maintenance. Netia has been also continuing the investment in end devices dedicated to our clients, such as, for example: Netia Spot (WiFi router) and Netia Player.

Operating data (not in thousand)

Broadband services

The client base of broadband services in New Netia decreased to 874,778 as of 31 December 2012, from the level of 911,570 as of 31 December 2011. In 2013 Netia is planning to focus on sales of products offered based on own network, including the provision of Internet access based on own network. Moreover, the Company has launched a new internal project called "4Sails", aimed at improvement of the entire sales process.

The broadband services are provided by Netia on the basis of the following technologies:

Number of broadband ports	2012	2011
xDSL and FastEthernet in Netia's own fixed-line network	382,540	396,853
Bitstream	291,621	311,358
WiMAX Internet	17,891	19,130
LLU	182,726	184,229
Other	-	-
Total	874,778	911,570

In relation to broadband services in New Netia, ARPU reached PLN 57 in the 4th quarter of 2012, as compared to PLN 56 in the 4th quarter of 2011. The conservative pricing policy and focusing on client segments of higher ARPU resulted in maintaining the stable ARPU level during the previous twelve months.

The acquisition cost of broadband service clients (SAC) for the Former Netia reached PLN 174 in the 4th quarter of 2012, as compared to PLN 178 in the 4th quarter of 2011, and PLN 199 in the 3rd quarter of 2012. The acquisition cost of broadband service clients (SAC) for the Former Netia reached PLN 174 in the 4th quarter of 2012

Access to the local loop unbundled (LLU)

As of 31 December 2012, Netia provided services to 182,726 based on own LLU network, as compared to 184,229 clients handled as of 31 December 2011 and 184,631 as of 30 September 2012. In the 4th quarter 2012 Netia migrated 1,105 clients of 1play service and 1,818 clients of 2play service based on LLU, consequently increasing the total number of 1play and 2 play migrations to 119,199. Organic net disconnections of 4,828 lines reflect the increased competition pressure visible in the whole client base of broadband services. All LLU services are implemented under the Former Netia (Dialog Group has not invested in the development of LLU).

Netia completed the programme of unbundling the local loops (LLU) at the level of 713 loops.

Purchase of Ethernet networks (not in thousand)

As of 31 December 2012, the Ethernet networks acquired by Netia since mid-2007 provided services to the total of 121,005 clients of broadband services, as compared to 132,532 clients handled as of 31 December 2011, including mainly individual clients, covering the total of approximately 621.000 thousand households with its range. Irrespective of the trend of organic net disconnections in Ethernet lines, the Management Board observed good sales results in the Ethernet network upgraded to NGA standard and it is currently considering possibilities to accelerate the upgrading programme of these networks in 2013. In 2012 Netia concluded purchase transactions of three successive Ethernet networks, acquiring 4,921 active clients, with access to 18,180 households, as compared to nine Ethernet networks (purchase of companies and transfer of proprietary rights to assets) in 2011, with acquisition of 22,823 active clients, including access to 103,832 households. Currently Netia has focused on upgrading the purchased Ethernet networks, accordingly, the successive potential acquisitions will not be as frequent as in the past.

Upgrading the networks to NGA standards

As of 31 December 2012 the range of the NGA network of the New Netia covers 1,040,000 households, including 139,000 households covered by PON network, 707,000 households - by copper VDSL network and 194,000 households - by FTTB Ethernet network. Moreover, the New Netia covers 376,000 households within the range of the network adjusted to provision of IPTV services, based on ADSL2+ technology. In connection with the network adjusted to NGA standards, this currently offers the New Netia access to approximately 1,416,000 households to be provided with IPTV services within the range of own network

The New Netia plans to extend the range of the NGA network by successive 240,000 households, so that it can cover 1,280,000 households within the range of the NGA network until the end of 2013. Consequently, until end 2013 the New Netia should cover approximately 1,450,000 households (NGA and ADSL2+) within the range of 3play services (IPTV + broadband access + voice services). Moreover, Netia has been implementing the smooth streaming solution, which will further enable to expand the scope of availability of the package offers of 3play type. The Management Board of Netia has currently focused on

optimisation of processes involving sales, provision and maintaining of the television services.

Mobile broadband services

As of 31 December 2012, the client base of mobile broadband services of New Netia reached 30,281, as compared to 30,261 as of 31 December 2011. The ARPU for the mobile broadband Internet service in New Netia amounted to PLN 26 in the 4th quarter of 2012, as compared to PLN 28 in the 4th quarter of 2011, and PLN 27 in the 3rd quarter of 2012. As of 31 December 2012, the client base of mobile voice services of New Netia reached 60,219, as compared to 52,002 as of 31 December 2011. The ARPU for the mobile voice service in New Netia amounted to PLN 26 in the 4th quarter of 2012, as compared to PLN 25 in the 4th quarter of 2011, and PLN 27 in the 3rd quarter of 2012. The services of mobile broadband Internet generate margins at a level comparable to BSA services, whereas due to the renegotiation of agreements with mobile operators, Polkomtel and P4, the conditions of provision of mobile voice services have improved.

Number of voice lines (in own network and WLR network)

The number of voice lines (in own network and in WLR) in the New Netia reached 1,643,904 as of 31 December 2012, as compared to 1,744,723 calling lines as of 31 December 2011 and 1,677,766 as of 30 September 2012. In the 4th quarter of 2012, Netia recorded the decrease in net number of voice lines by 33,862 lines, as compared to the net decrease by 36,370 in the 3rd quarter of 2012. Netia assumes that in the future the quantity of fixed-line voice services will continue to decrease, mainly as a result of clients' withdrawal from traditional voice services and WLR services.

In 2012, the fierce pricing competition with other operators, in connection with the replacement by mobile telephony services and transition to packages of voice services combined with cable television services, had adverse effect on client base. At the same time, Netia concentrated on acquisition of clients generating higher ARPU, through supplementary sales within the package of unlimited fixed-line voice connections for local and long-distance calls. However, in October 2012, the main competitor introduced significant discounts of offers addressed to clients with higher ARPU which, according to the assessment of the Management Board, will adversely affect the ARPU level and the quantity of voice services in the future. In this context, the Management Board has positively assessed the lower rate of losing clients recorded in the 4th quarter of 2012.

Netia is successively increasing the number of clients provided with voice services based on the relatively low-cost VoIP technology (this refers mainly to business clients or individual clients handled through LLU access and Ethernet networks). The Company is forecasting gradual resignation from the traditional fixed-line telephony, leading to reduction of the cost base.

Due to the fierce competition on the telecommunications market and targeting the Company's efforts on high-margin clients, Netia is currently shifting its focus from the number of voice service clients towards maintaining the level of revenue generated by such services.

Netia provides voice services based on the following types of access:

Number of voice lines	2012	2011
Traditional voice lines	563,753	596,330
VoIP (<i>excluding LLU</i>)	61,892	42,279
WiMAX voice	14,663	17,603
WLR	869,196	962,322
LLU through VoIP	126,933	126,189
Total	1,643,904	1,744,723

In relation to WLR line in New Netia, ARPU reached PLN 45 in the 4th quarter of 2012, as compared to PLN 46 in the 4th quarter of 2011, and PLN 27 in the 3rd quarter of 2012.

In relation to WLR line in New Netia, ARPU reached PLN 45 in the 4th quarter of 2012, as compared to PLN 46 in the 4th quarter of 2011, and PLN 46 in the 3rd quarter of 2012.

In relation to voice services, the averaged ARPU reached PLN 46 in the 4th quarter of 2012, as compared to PLN 47 in the 4th quarter of 2011, and PLN 46 in the 3rd quarter of 2012.

Indirect voice services

The number of users of the prefix in New Netia reached 62,241 as of 31 December 2012, as compared to 73,696 as of 31 December 2011 and 65,249 as of 30 September 2012. Netia has focused on transferring the clients using the WLR prefix and it is not actively acquiring

new users of this service. Clients using the prefix are not included in the total number of Netia's voice clients, which reached 1,643,904 as of 31 December 2012.

In relation to prefix users, ARPU reached PLN 37 in the 4th quarter of 2012, as compared to PLN 50 in the 4th quarter of 2011. The decline of ARPU YoY was associated with the decrease of tariffs, the lower level of use of these services and transfer of more profitable clients to WLR or LLU services.

2. Financial situation of Netia Group

2.1. Consolidated statement of financial standing

As of 31 December 2012 the net value of fixed assets amounted to PLN 2,776,617 (86% of total assets), as compared to PLN 3,100,374 at the end of 2011 (87% of total assets). The main change within fixed assets is the amortisation and depreciation at a level of PLN 482,491, decrease of goodwill due to impairment losses at a value of PLN 79,203 and transfer of tangible fixed assets at a value of PLN 26,770 to be sold to Tilia SKA to assets held for trade (see Note 5a: *Important accounting estimations and judgements : Loss of value related to the goodwill and other non-financial components of Netia Group assets in the consolidated financial statements as of 31 December 2012 and Item 2.3: Information on agreements significant for operations of Netia Group*). The aforementioned changes were partly compensated by capital expenditure at a level of PLN 279,097, incurred in the financial year ended on 31 December 2012.

As of 31 December 2012, current assets (excluding fixed assets held for trade) amounted to PLN 429,571, decreasing by 5% as compared to 2011 when they reached PLN 452,774. This change was mainly caused by the decrease in cash to the level of PLN 142,702 as of 31 December 2012 and the lower balance of receivables as of 31 December 2012, as compared to the closing balance of 2011.

On the balance sheet day, the equity amounted to PLN 2,296,295, constituting 71% of the value of liabilities, and it increased by 9% as compared to the closing balance of 2011 at a value of PLN 2,500,373. The main changes included the consolidated loss for 2012 at a level of PLN 87,704 and redemption of treasury shares at a value of PLN 106,814 (the main factors influencing the net result achieved are described in the section on "Discussion on factors and events of material impact on operations of Netia Group [...]").

Long-term liabilities amounted to PLN 451,066 and they decreased as compared to PLN 552,156 at the end of 2011, mainly due to repayment of instalments of the bank facility at the value of PLN 130,000 in 2012. As of 31 December 2012, the long-term part of the loan amounted to PLN 384,452, as compared to PLN 514,416 at the end of the previous year.

As of 31 December 2012, the short-term liabilities amounted to PLN 485,597 and they decreased as compared to the balance of PLN 500,619 at the end of 2011, mainly due to repayment of the amount of PLN 50,000 due to the revolving loan on 15 March 2012, which was partly compensated by drawing the overdraft facility at a level of PLN 18,751 and the interest accrued on the loan at a level of PLN 20,547 as of 31 December 2012.

2.2. Consolidated profit and loss account

Revenue for 2012 increased by 31% to the level of PLN 2,121,356, from the level of PLN 1,618,803 in 2011, in connection with the acquisitions of Dialog Group and Crowley company performed in December 2011. All operational segments recorded growth, including the segment of individual clients - by 29% and PLN 242,431, the segment of corporate clients - by 36% and PLN 123,038, the segment of small and medium-sized enterprises - by 41% and PLN 84,377, and the segment of services provided to other operators, where some agreements expired and the scope of others is limited - grew by 11% and PLN 24,175. The non-allocated revenue increased by 371% and PLN 28,532 in connection with acquisition of Petrotel, the subsidiary of Dialog, which will be still managed as a separate organisational entity.

Revenue from telecommunication services increased by 31% to PLN 2,108,708 in 2012, from the level of PLN 1,614,021 in 2011, including the increase of the client base as a result of acquisition of Dialog Group and Crowley company in December 2011. The highest increase by 137% to the level of PLN 113,789 occurred in the category 'Other telecommunication services', comprising, among others, revenue from television and mobile services. This category currently constitutes 5% of total revenue, as compared to 3% in the previous year. The increased extent of operations of Netia Group with Dialog and Crowley caused only minor change in the structure of revenue – the share of revenue from direct voice services decreased from 46% in 2011 to 45%, whereas the share of revenue from data transmission decreased from 37% to 36% in the analogical period.

Own cost of sales increased by 35% to the amount of PLN 1,484,216 from the level of PLN 1,103,029 in 2011, which made 70% share in revenue, as compared to 68% in the previous

year. The increased value of own cost of sales reflects mainly the acquisitions of Dialog Group and Crowley company.

Amortisation and depreciation within own cost of sales increased by 52% to the level of PLN 394,143, as compared to PLN 258,408 in the previous year, in connection with the consolidation of Dialog Group and Crowley company and the additional growth due to reversal of allowance for uncollectible accounts by the Former Netia in the 4th quarter of 2011.

The costs network lease and maintenance increased by 22% to PLN 647,586, as compared to PLN 530,240 in 2011. The growth of this cost category was lower than the growth of revenue, as a result of consolidation, since Dialog Group uses the access to the network of the settled operator to a lesser extent.

Costs of inter-operator settlements increased by 27% to PLN 306,056 in 2012, as compared to PLN 240,818 in 2011, growing slightly slower than the revenue due to the reduction of the inter-operator fees for termination of connections in mobile networks and lower transit traffic.

The taxes, fees for reservation of frequency and other expenses increased by 91% to the level of PLN 78,122 in 2012 as compared to PLN 40,912 in 2011 as a result of the increased telecommunication infrastructure of Dialog and Crowley groups.

Restructuring costs referring to own cost of sales reached PLN 5,608 in 2012 and they were related to costs of termination of employment contracts under the programme of group redundancy, announced in April 2012 and launched in June 2012, in connection with integration of Netia, Dialog Group and Crowley within the New Netia Group. The above cost also included the provision at the amount of PLN 3,000, created on account of the Company's participation in the costs associated with reorganisation of telecommunication infrastructure management, incurred by Ericsson company, as a result of transferring the employees of Dialog and Crowley to Ericsson company under the service agreement in September 2012.

The value of goods sold increased by 13% to the amount of PLN 11,600, as compared to PLN 10,233 in 2011, as a result of the single sales of equipment by Petrotel, at a value of PLN 3,367, in connection with the new contract on supply of equipment and services, concluded with a large client. Without considering the above single item, in this category, decline was noted, arising from lower volumes of sales and introduction of the Netia Spot wireless router to the offer of the Former Netia in June 2011, being capitalised as the device "leased" to clients instead of sold to clients.

The gross profit on sales in 2012 reached PLN 637,140 as compared to PLN 515,774 in 2011. The margin on gross profit reached 30.0% in 2012, as compared to 31.9% in 2011. The decrease in gross profit margin was caused by the increased amortisation due to the recent acquisitions and the reversal of allowances for uncollectible accounts, as well as the decreased share of revenue from high-margin voice services.

Costs of sales and distribution increased by 32% to the amount of PLN 392.069 YoY, from the level of PLN 297,253 in 2011, which made 18% of total revenue, both in 2012 and in the previous year. The main reason of the growth was the consolidation of fixed costs of customer service of Dialog Group and Crowley company.

Remuneration and employee benefits within the costs of sales and distribution increased by 38% - to PLN 118,592, from the level of PLN 85,638 in the previous year.

Depreciation and amortisation within the costs of sales and distribution increased by 109% to PLN 59,981 from the level of PLN 28,711 in 2011, mainly due to amortisation of client bases of the newly acquired companies.

Restructuring costs within the cost of sales and distribution increased to PLN 9,619 from the level of PLN 164 in 2011, and they were related to termination of employment contracts under the group redundancy programme commenced in June 2012 in connection with the construction of the organisational structure of the New Netia Group.

Costs of billing, postal services and logistics increased by 23% to PLN 41,431, from the level of PLN 33,728 in 2011, along the acquisitions of Dialog Group and Crowley company.

Costs of allowances for uncollectible accounts increased by 81% to PLN 12.644, from the level of PLN 6,976 in 2011, along the acquisitions of Dialog Group and Crowley company.

Costs of advertising and promotion decreased by 21% to PLN 36,663 from the level of PLN 46,610, in spite of the acquisition, owing to implementation of fast integration synergy from the beginning of 2012.

Overhead costs increased by 36% to PLN 207,610 from the level of PLN 152,473 in 2011, constituting 10% of total revenue as compared to 9% in 2011. the growth resulted from including the costs of Dialog Group and Crowley company and costs of integration within the New Netia. Accordingly, the overhead costs in 2012 comprised the costs of integration of the New Netia at the amount of PLN 25,928 and, additionally, PLN 7,429 of restructuring costs referring to group redundancy programme implemented within the construction of the organisational structure of the New Netia Group.

The adjusted EBITDA (defined as operating profit (loss), adjusted by amortisation costs and significant single transactions) increased by 49% to PLN 591,166, from the level of PLN 408,210 in 2011, and the margin of adjusted EBITDA profit reached 27.9% as compared to 25.2% in the previous year. The growth of margin reflects the acquisition of Dialog Group and Crowley company, including the implementation of the first integration synergy at the amount of PLN 76,200, as well as lower costs of client acquisition, partly balanced by the decline of margin on voice services.

A single adjustment at the amount of PLN 79,203, arising from impairment losses, was recorded in 2012 as a result of the annual test on loss in value of non-financial fixed assets of Netia. The impairment losses reduced the goodwill allocated to the segment of individual clients. The test on loss in value was performed in the 4th quarter of 2012 after updating the 5-year business plan, in which new opportunities and potential threats arising from changes on the telecommunication market were included. The book value of Netia's fixed assets and working capital was compared to the recoverable value determined based on the calculation of usable value. Calculation of the usable value requires the application of cash flow forecast based on the budgetary assumptions for the following year, and the approved updated business plan. As a result of the test, the impairment losses at a level of PLN 79,203 were recognised, allocated to the goodwill of the segment of individual clients. In the previous year, the test on loss in value of the New Netia led to the reversal of the previously recognised impairment losses at the amount of PLN 220,677. The reduced expectations concerning the total volume of services (RGU) and the ARPU level for voice services made the Management Board change their expectations concerning the level of future cash flows. Besides the aforementioned results of the test on loss in value for 2012 and 2011, within the New Netia, integration costs were recognised at the amount of PLN 26,276 in 2012 and PLN 1,097 in 2011, as well as restructuring costs at the amount of PLN 22,656 in 2012 and PLN 798 in 2011, acquisition costs at the amount of PLN 1,504 in 2012 and PLN 10,434 in 2011 and the provision for supplementary fee due to discharge of common services, at the amount of PLN 5,104 in 2011. As a result, EBITDA amounted to PLN 461,527 in 2012 as compared to PLN 611,454 in the previous year. EBITDA margin reached 21.8% as compared to 37.8% in 2011.

Amortisation amounted to PLN 482,491 and it increased by 56% as compared to PLN 308,756 in 2011, in connection with the purchase of tangible fixed assets of the Dialog Group and Crowley company, and due to recognising intangible assets against the acquisition transaction, as well as due to reversal of impairment losses by the Former Netia in the 4th quarter of 2011.

Operating loss (EBIT) amounted to PLN 20,964 as compared to the operating profit at a level of PLN 302,698 in 2011. Excluding the aforementioned single costs at the amount of PLN 129,639 in 2012 and the profit of PLN 203,244 in 2011, the adjusted operating profit amounted to PLN 108,675 in 2012 against PLN 99,454 in 2011.

The net financial expenses, amounted to PLN 39,942 as compared to the net financial revenue at the amount of PLN 14,578 in the previous year. The change was mainly related to interest at the amount of PLN 43,185 on the bank loan raised for the needs of the acquisition of Dialog Group performed in December 2011, which caused transfer from net financial resources to net debt after the last acquisition was completed.

The net income tax burden at the amount of PLN 26,798 was recorded in 2012, as compared to the burden due to the same title at the amount of PLN 68,490 in 2011. The income tax in 2012 resulted mainly from the reduced forecasts of the future operating profitability, causing the decrease of various components of assets due to deferred income tax in the Group. The lower taxable income of Netia for 2012, as compared to the plan, led to classification of assets due to deferred income tax at the amount of PLN 7,540 in relation to the tax losses which will not be used. This write-off was compensated by recognising the assets due to deferred income tax at the amount of PLN 20,324 for the intragroup transaction of network sales from Dialog to Netia, performed in connection with restructuring of the activities. In 2011 this item covered PLN 51,863 of the costs incurred in connection with the court dispute related to the level of the tax due for 2003.

The net loss in 2012 amounted to PLN 87,704, as compared to the net profit of PLN 248,786 in 2011.

2.3. Consolidated cash flow statement

Inflows of cash from operating activities of Netia Group amounted to PLN 541,386, as compared to PLN 418,827 in 2011. This increase mainly resulted from the growth of adjusted EBITDA in 2012 following the acquisition of Dialog and Crowley in 2011.

Net expenses incurred on purchase of tangible fixed assets and computer software amounted to PLN 262,506 and remained at a level similar to the previous year when they reached PLN 262,659. Other significant expenses incurred due to investment operations in 2012 covered acquisition of shares in Ethernet companies, after including the cash flows at a level of PLN 5,285 and adjustment of Crowley purchase price at the amount of PLN 4,323.

The remaining significant items of cash outflows in Netia Group in 2012 covered the repayment of loans at the amount of PLN 182,049, the repayment of interest and fees connected with the loan at the amount of PLN 26,212 and the repurchase of treasury shares at the amount of PLN 106,814. Consequently, the total net cash outflows due to financial operations in 2012 amounted to PLN 303,505, as compared to the inflows of PLN 635,822 in 2011, when the term loan and revolving loan were drawn at the level of PLN 700,000 in order to finance the acquisition of Dialog Group and Crowley.

The balance of cash and its equivalents at the end of 2012 amounted to PLN 123,951 following the decrease by the balance of the overdraft at the amount of PLN 18,751.

3. Organisational profile



Netia SA and its subsidiaries included in Netia Group - Telefonia Dialog S.A. and CDP Netia Sp. z o. o. (formerly Crowley Data Poland Sp. z o.o.) - is one of the biggest independent, and simultaneously, the fastest developing telecommunication operator in Poland. It supplies the complex, integrated and user friendly on-line solutions.

Netia's mission until 2020:

We Deliver the World On-line

Vision 2020:

By 2020 Netia will profitably grow to be Poland's No.1 on-line gateway through:

- Delivering integrated and easy to use solutions
- Offering the highest quality service to clients
- the team of passionate employees inspired by the Company values

Netia SA provides services in four main areas: individual clients, business clients, small- and medium-enterprises (SoHo/SME) and inter-operator settlements.

Netia SA renders its services on the entire territory of Poland. The main seat of the company is located in Warsaw at ul. Taśmowa 7A.

The following subsidiaries of Netia SA are included in Netia Group:

- Telefonia Dialog S.A.
- CDP Netia Sp. z o. o. (formerly Crowley Data Poland Sp. z o.o.)

Our sustainable development strategy

In Netia we believe that the sustainable development of the company contributes to its success and acts to the benefit of all stakeholders of the company. We also think that considering the aspect of social responsibility of business in all business decisions results in consistent development of the company in the manner safe for its owners, employees and other stakeholders.

The Corporate Social Responsibility Strategy of Netia SA is therefore consistent with the strategy, mission and vision of the company and supports its strategic and long-term plans.

The CSR activities support the business strategy of the company, which means that we endeavour to ensure that Netia meets the following strategic goals more efficiently and with the approval of its stakeholders:

- Reaching the position of a leader in Poland as the comprehensive supplier of on-line services, offering integrated and user-friendly solutions as well as the highest quality of services and customer service, based on a team of passionate employees inspired by the Company values;
- Focusing on increasing the client base of Netia and its values through provision of integrated telecommunication services and multimedia solutions to end users, with simultaneous offering of the highest level of customer service, distinguishing the Company on the market;
- Using the new generation of access infrastructure (NGA) to support the development and provide Netia clients with innovative, high quality and user friendly services;
- Completion of LLU infrastructure building, including the selective upgrading of the copper network to the needs of NGA and commercial implementation of TV services, which will enable Netia to propose the integrated 3play+ offer, enhancing the client's value and the level of its experience within the relations with the company;
- Continuing the activity based on regulated access through searching for new individual clients, simultaneously maintaining the concentration on the traditionally highly effective segment of business clients;
- Concentration on opportunities to conduct acquisition, including the Ethernet networks, in particular, on transactions of breakthrough nature, raising the value of the Company;
- Achieving the best financial and operational results in the segment among comparable European companies, which will constitute the main long-term objective

of Netia, implemented through the increased market shares and increasing the profitability.

The strategic guidelines for sustainable development, arising from the company strategy are as follows:

1. Netia SA as the biggest independent telecommunication operator in Poland, and the expert in the area of on-line world, shares its knowledge and experience with persons/institutions particularly exposed to "digital exclusion", i.e. those of limited access to multimedia services.
2. Netia SA consistently supports initiatives of the on-line world.
3. Netia SA also offers its clients products and services of the highest quality, paying special attention to clients' benefit, development and education of children and adults as well as the society and the environment in the field of digitalisation.
4. Netia SA offers simple and intuition-based solutions and services so that the use of digital resources can be available for everyone without additional difficulties.
5. Netia SA aims to achieve the assumptions of the CSR action plan owing to the cooperation and commitment of its employees.
6. Netia SA cares for adequate and friendly working conditions for its employees and provides opportunities for continuous development.
7. Netia SA minimises the redundant adverse impact of the company activities on the natural environment through education and selection of appropriate tools and maintenance materials.
8. Netia SA cares for full and reliable information to all company stakeholders, adjusting the communication form and tools to their needs.

Netia as the employer

Netia SA and its subsidiaries included in Netia Group¹, is a significant employer: in 2012 it employed over 1500 employees on the basis of employment contract, including 94% (93.69%) of employees for indefinite period of time. The largest number of Netia employees work in Warsaw – over 800 persons, our organisation also has two large offices: in Katowice (over 130 employees) and in Łęczna (over 170 persons employed). The next location in terms of the number of employees is Wrocław – over 90 persons.

The development of employees, the inspiring working environment and the satisfying conditions are extremely important for our organisation.

Therefore, all employees are subject to periodical appraisal of performance quality, have the right to participate in it and to have insight into the assessment. Their career path is also examined.

Equality of rights and lack of discrimination towards employees are obvious for us. The relationship between the basic salary of women and men according to the position held in Netia equals 1.0267.

We pay special attention to the development of our employees, among others, through training. In 2012 as many as 3693 employees participated in the training. They took part in training of the total number of hours exceeding 40,000. It means that on average, 11 training hours were used by one person trained.

We are aware that even in the working environment which is prepared in the best way possible, difficult situations which require intervention may occur. Therefore, in 2007 we launched the service of employee ombudsman. Employees can ask for advice in the scope of labour law and report on behaviour occurring in the organisation which, in their opinion, is not appropriate.

For us the impartial assessment of our efforts is very important, therefore, we undergo external audits, including the prestigious **Top Employers**. The criteria and the methodology of examining the companies applying for the Top Employers certificate are extremely demanding, nevertheless, Netia has managed to improve its results over the recent four consecutive years and gain this distinction. We have been particularly appreciated for our experience, working conditions and development opportunities. However, we have been mainly recognised for the management of the organisational culture.

¹ Netia SA, Telefonía Dialog SA and CDP Netia Sp. z o. o. (formerly Crowley Data Poland Sp. z o.o.)

Netia as the educator

Net Masters Cup, the current issue of which started in 2012, is the biggest competition on information technology in Poland, and one of the biggest in Europe, organised jointly by Netia and Allegro. The main aims of the project include dissemination of IT education, digital competence and support to the idea of building the information society, as well as searching for and developing new IT talents and promotion of the Polish technical universities.

The mission of the Contest is to encourage the young people to expand their information on Internet, modern telecommunications solutions and technologies. Through the scientific competition, peer competition and entertainment we want to promote the knowledge required for functioning in the information society. Information on hard work and successes is the motivation for the colleagues and, owing to the media releases, the competition promotes the modern telecommunication solutions and Internet, mainly as the source of knowledge, not only the entertainment and threats.

In the current, 6th issue, 2351 teams have registered, i.e. almost 100 thousand participants and the action itself received wide response in the media.

The honorary patronage of the Contest was taken over, among others, by the Office for Electronic Communications, led by its President, Magdalena Gaj and the Ministry of Administration and Digitisation.

The scientific partners of this year's issue of the Contest, responsible for preparing the competition tasks included: the Polish-Japanese Institute of Information and Technology, Łódź Technical University, Poznań Technical University, Warsaw Technical University, Wrocław Technical University, Warsaw School of Economics, Adam Mickiewicz University in Poznań and Cisco Networking Academy. The technical studies were also supported by the Polish Information Society.

Netia as a company offering assistance

Netia is one of the Founders of the 'Grow with Us' Foundation, currently caring for over 100 children and teenagers.

The 'Grow with Us' Foundation, was established as a result of cooperation between the representatives of business and their care for the future of children. Establishing the Foundation, the biggest companies operating in Poland, including also Netia, wanted to appreciate the work in public service to the benefit of our country. The idea of the Founders was to help children of victims injured while providing public service, among others, the children of injured soldiers, policemen, firemen or public administration workers. The direct stimulus to establish the foundation was the air crash near Smoleńsk on 10 April 2010 (initially, the Foundation acted under the name "10 April").

The Foundation acts in four following areas:

- co-financing of education of the Foundation wards - up to 80% of their expenses on education;
- educational tutoring - participation of the wards in the programme of educational tutoring: "Tutor". The tutoring means the considered support, development and planning of the educational process in accordance with the capacity and interests of a ward, arising from his/her individual work with the tutor;
- apprenticeship and internship - assistance in arranging apprenticeship and internship for the wards - students, within the companies of the Founders;
- psychological assistance - support by means of psychological assistance for the beneficiaries of the Foundation and all children of Smoleńsk families below the age of 25.

Netia as a market participant

Netia actively participates in the ECTA activities - the biggest organisation in Europe associating alternative operators and suppliers of telecommunication solutions. **Tom Ruhan,**

Netia's member of the Management Board and Director for Legal Matters and Acquisition, was the member of ECTA Management Board for four consecutive years and in 2012 he was elected as the President of this organisation for the second time.

In August 2012 in the seat of the Office for Electronic Communications, Netia signed the **Memorandum on cooperation for prevention of theft and destruction of infrastructure**. The objective of this agreement, which is the initiative of three regulatory offices: Office for Electronic Communications, Energy Regulatory Office and Office of Rail Transport, is to undertake and perform common activities aimed at limiting and preventing the theft and destruction of technical infrastructure equipment, cables and telecommunication, energy and railway installations. Under the Memorandum the signatories have made a commitment to undertake common activities in the scope of raising the awareness of the Poles as well as to improve the cooperation of public institutions, prosecution authorities and judiciary in the scope of prevention of theft and destruction of technical infrastructure.

Acts of vandalism and theft affects also Netia and its clients, therefore the company joined this initiative. Only in Netia Group itself, on average, about 40 incidents of this type are recorded monthly. The majority of them affect continuity of the services provided. Even several thousand subscribers annually experience interruptions in the services provided, caused by theft and destruction of the network. On the other hand, costs of replacement of the stolen and destroyed infrastructure reach even several million Polish zloty per year.

In 2012 Netia, as one of several companies, joined the **coalition "I choose the electronic invoice"**, established by the Polish Confederation of Private Employers - Lewiatan. The coalition is open to all companies and entities interested in promotion of modern forms of settlements which do not require circulation of paper documents. Besides its information activities, the coalition also acts in favour of systemic changes, to promote legal regulations supporting electronic invoices.

Netia as the customer

Netia observes the code of conduct and professional ethics – it is also a part of the Procedure on Procurement in Netia Group.

It means that the procurement process is based on transparent rules. Netia also requires the suppliers to respect the rules unconditionally. Products and services are purchased only on the basis of content-related and price criteria, avoiding any favouring of suppliers.

Netia's employees avoid conflicts of interests and any attempts of influencing business decisions by external entities.

Prevention of any symptoms of corruption is extremely important for us – therefore, the Member of Netia SA Supervisory Board is responsible for supervising any potential cases of unethical impact on business decisions.

Netia as the communicator

Netia SA pays particular attention to the open, reliable and exhaustive communication to all company stakeholders. It is important for us to provide information to all interested parties, in the form adequate for them and by means of a friendly communication channel.

The feedback is also extremely important to us, therefore we continuously create new, more bilateral and interactive contact channels inside the organisation.

Netia SA makes the following means available to its stakeholders:

- [www service for the company investors \(inwestor.netia.pl\)](http://inwestor.netia.pl)
- teleconference for investors
- general meetings of shareholders via Internet, with a possibility of remote voting and re-broadcasts of meetings available on the website inwestor.netia.pl
- press conferences for media representatives
- video recordings of press conferences made available on the company blog (blog.netia.pl) and on the company channel on [youtube.com](https://www.youtube.com)
- press information, distributed to media representatives and placed in the press office of the company (media.netia.pl)
- company blog (blog.netia.pl)
- corporate profile on Facebook
- website for clients and potential clients
- communication for clients and potential clients via phone, e-mail, sms, live chat
- company magazine "@mazing", addressed to Netia employees, available also externally in mobile version (for iPod) through AppStore

Taking care of transparent communication and integration of employees within the growing Netia Group, Netia regularly informs of any events in the company through the Internet and via the Magazine of Netia Employees "@mazing".

Netia as the neighbour

Netia SA **ensures compliance with the environmental protection requirements** through: appropriate organisation of work, allocating functions related to ensuring the environmental protection standards to persons holding adequate professional qualifications (in the company the Health&Safety and Environmental Protection Department operates, supervising the activities in this area), introducing employees whose scope of work is associated with environmental protection issues to the requirements in this scope and undertaking measures aimed at elimination or mitigation of environmental damages arising from non-compliance with the environmental protection requirements by employees.

The direction of environmental activities in the organisation and the code of conduct are regulated by numerous specific procedures, agreements and documents.

Netia SA signed agreements with the Organisation of Recovery of electric and Electronic Equipment (Organizacja Odzysku Sprzętu Elektrycznego i Elektronicznego SA ELEKTROEKO) and the agreement with the Polish System of Recycling and Recovery Organisation (Polski System Recyklingu Organizacja Odzysku S.A.), it also collects the used electric and electronic equipment.

We pay special attention to the security of our operations for the human health and environment, therefore we report any installations emitting electromagnetic radiation to the local authorities and we perform their real PEM measurements for the needs of environmental protection.

We also strive to reduce environmental impact of our activities year by year, therefore, we have identified and documented the significant areas of our operations affecting the environment. We also conduct periodical reviews of the requirements, performed by external specialists as well as internal reviews of the requirements.

Moreover, the issues related to environmental protection are also regulated with our customers and service providers, e.g. the agreement with Sodexo and Ericsson, as well as the procedure concerning supervision of works conducted by subcontractors and their employees on the premises of Netia SA facilities.

In order to reduce paper consumption and in order to enhance the control, we introduced a new project entitled, "**Printing management**". The project covers, among others, replacement of copy machines with printing function, with limited card access and reduction of the number of individual printers.

Within internal communication, this year we have again encouraged the employees **to reduce energy consumption**. In the framework of the campaign, stickers and posters were placed in offices and technological facilities, reminding of the need to turn off unnecessary energy sources. Periodical memos are also sent regularly, reminding of electric energy saving.

All employees receive the following guidelines:

- Switch off the light while leaving the workplace
- Turn off the stand-by mode
- Turn off the equipment which is not used
- Avoid printing emails
- If you use the electric kettle, pour only the necessary quantity of water

In addition, before the holiday period or "long weekend", the employees also receive instructions on what should be done to save energy:

- Switch off redundant lightning
- Turn off the computer and the monitor when leaving office or home
- Do not leave phone chargers or other devices plugged in
- Turn off the local printer or copy machine when not used
- Turn off other equipment in stand-by mode

Netia employees are also encouraged **to eco-driving company cars** – they received the appropriate instructions which enable them to drive a car while observing the natural protection rules. Netia's fleet consists mainly of cars with ECO2 system of exhaust cleaning and engines of low fuel consumption, which enables to reduce fuel consumption. Moreover, in order to optimise fuel consumption, the controls on the dashboards of company cars signal the best moment to increase or reduce the gear. In addition, the producer of vehicles provided guidelines for the users in the scope of the so-called ECO-driving.

In September 2012 in all offices of Netia Group, waste bins marked with colours were placed, enabling **segregation of waste** generated during the administrative and office work. The employees were informed of the initiative via Intranet, including instructions on how to handle various kinds of waste. Moreover, a game was installed in Avatar, demonstrating the appropriate waste segregation in the office.

Netia clients can also participate in saving energy and natural resources. Netia SA encourages all clients to use **electronic invoice**.

Netia as the service provider



Netia and the entire Netia Group ² is the biggest alternative telecommunication operator in Poland.

Netia Group has its own access network built on the area covering about 15% of households in Poland. At the end of 2012 Netia Group provided services to 396,853 clients of broadband services using own copper and optical fibre network, including the Ethernet networks. Holding the countrywide backbone network and the possibility to extend the existing access network enables Netia Group to develop its operations, simultaneously making it independent against networks of other operators and regulatory regimes. At the same time, Netia Group has been continuing significant investment in improvement of own copper network and Ethernet networks to adjust them to NGA standards, which shall allow for offering the clients much higher speed of data transmission as well as supply of television services. As of 31 December 2012, Netia Group covered about 786 thousand households within the range of NGA network, including Telefonía Dialog (PON,FTTB,VDSL). Moreover, Netia Group comprised about 476 thousand additional households within the range of IPTV service, where the Company can supply package services (3play).

We would like Clients to choose Netia and its services due to the quality of customer service. For this reason, among others, in 2012 we continued implementation of the project on raising clients' satisfaction "**Klientomania**". The programme changes the awareness of structure and shape of processes and systems, and mainly the approach to customer service.

Klientomania is the general company initiative which will enable Netia to become the leader in the area of Client satisfaction. Implementation of Klientomania was scheduled for years 2010-2015. The initiative has certainly changed the standard model of approach to customer service. Customer service is no more the domain of the "Customer Service" Department. It is the task of all employees of the company, irrespective of their everyday responsibilities.

² Netia SA, Telefonía Dialog SA and CDP Netia Sp. z o. o. (formerly Crowley Data Poland Sp. z o.o.)

Within the framework of the Klientomania project we verified the whole life cycle of cooperation with the Client - from the moment we create the marketing campaign, through sales of services using various channels, the subsequent activation of services for the Client, until the moment when Clients terminate their cooperation with Netia for any reasons. For our organisation it is essential that even termination of the agreement becomes a positive experience, resulting in return of the Client to Netia in the future.

We developed the target model of customer service. It is based on three pillars:

- It is easy to become our Client
- Contact with us is a pleasure
- We value our loyal Clients

The project is based on involvement of all employees:

- We all focus on satisfaction of our Clients

In 2012 the priority activities within Klientomania were the following:

1. Building fair and sound business relations: implementation of reliable, precise and effective sales mechanisms, highly appreciated by our clients. Improvement of the process of technical verification prior to sales of services
2. Assistance to clients on effective problem solving - "Kołowrotek" (Spinning Wheel) project: elimination of multiple contacts with the Client due to technical failures, complaints and withdrawal from services, verification of communication with clients
3. Complaint is the best gift from our Clients - "Barometr" (Barometer) project: identification of problem source, management of claim prevention actions
4. Efficient and fast elimination of technical problems: removal of failures within 48/7
5. Assessment of quality of our work by Clients: implementation of the "Quality Index"
6. "We deliver the world on-line": implementation of the new functionality in Netia Online (NOL) service - information on the status of complaints, online contact form
7. Providing system improvements for Clients – "IT-Mania": identification of limitations in IT systems which affect relations with the client. Reduction of the number of errors made by users.
8. The Clients always receive the same information on their problems: consistent communication in contacts with the Clients. The Clients always receive the same information on their cases, irrespective of who contacts them on behalf of Netia.

Netia SA **monitors Client satisfaction** in two different ways. First of all, every 6 months we perform a survey on a general sample of clients. The aim is to check the satisfaction and the so-called level of instructions (Net Promoter Score). In addition, individual operating areas are examined and the results obtained by Netia compared to competition.

The second indicator is the monthly monitoring of satisfaction and NPS indicator for individual operating areas (sales, activation, resolving technical problems, speed modification, contact with infoline, response to complaints, invoicing, extension of agreements). As a result of the measurements, activities addressed to individual Departments are obtained, aimed at increasing the satisfaction from services.

Results of the survey performed in December 2012 among individual clients of Netia showed that the NPS for Netia services based on own network was several times higher than the indicator for services based on leased network. This indicator was also over twenty-fold higher than in case of the best evaluated cable operator. The survey suggests that Netia clients appreciate Netia's services based on own network, and they would most probably recommend them to their friends, which is a great success. These figures confirm the legitimacy of the development direction selected by Netia. Concentration on own network and further improvement of processes based on leased network is the key to success and clients' satisfaction.

Corporate clients are also eager to recommend Netia's services. In the survey performed among large companies and public administration entities, using the NPS recommendation indicator, Netia achieved a very good result: +20. Such result means that 40 per cent of Netia's clients are ready to actively recommend this operator's services to others.

4. Awards and distinctions 2012

Netia distinguished by RESPECT Index

January 2012

On 31 January this year the Warsaw Stock Exchange announced the new composition of index of responsible companies. Once again, Netia SA fulfilled the requirements of the audit and demonstrated the highest management standards.

Netia Personal Television awarded

March 2012

The Netia Personal television received distinction as the "Service of Year 2011" in the competition on Golden Antennae of the Telecommunications World, accompanying the XII Telecommunication and Media World Symposium. During the XIV Great Gala of Golden Antennae, the jury of the competition, comprising over thirty independent market experts, distinguished the best telecommunications products and services, the best manager and man of the year and the company of the year.

Netia in the prestigious Top Employer group once again

March 2012

The Top Employers certificate for companies meeting the highest standards of human resources management was awarded for the third time. For the third consecutive time, Netia was also included in the group of awarded employers. The Company obtained the highest scores in almost all categories evaluated.

Internet Netia services with a title "Good Product - Consumers' Choice 2011"

March 2012

Netia received the title "Good Product - Consumers' Choice 2011" in the category "Internet Services". The distinction is awarded on the basis of the National Survey of Preferences and attitudes of Consumers in Poland, implemented by the editorial office of Forum Biznesu and Dziennik Gazeta Prawna magazines. The survey referred to current attitudes and preferences of consumers who were asked which products they considered the best in individual categories and which products were the most reliable for them. In this survey Netia was appreciated by consumers as the provider of Internet access service, receiving the award in the category of "Internet services".

Netia awarded in the Polish Advertising Competition

April 2012

The system of visual identification of Netia was awarded in this year's Polish Advertising Competition KTR 2012. The new *branding* of the company received the silver award in the "Design" category and "Visual identification projects" sub-category. 730 projects were registered in the KTR 2012 competition, among which 219 were nominated. The jury of the competition, comprising almost 100 persons, chaired by Armin Jochum, the world famous Chief Creative Officer of the Jung Von Matt agency, finally selected 93 winners in 11 categories, awarding them with golden, silver and bronze medals.

The successive international award for Netia's visual identification

May 2012

On 26 May, during the official gala in Helsinki, the results of the international competition, European Design Awards were presented. Netia received two awards - the silver award for the new logo and the bronze award - for the new system of the company visual identification. The European Design Awards are the distinctions granted by journalists and reviewers of the leading media from all over Europe, dealing with the broadly understood graphic design.

@mazing awarded in the plebiscite Columns of Year 2012

May 2012

The internal magazine of Netia - *@mazing* received Grand Prix in the category "Internal magazines", in the fifth issue of the national Polish plebiscite called **Columns of Year 2012**, assessing the best Polish custom magazines. The jury chaired by Tomasz Raczek assessed almost 100 internal magazines. *@mazing* was appreciated for its modern and professional design and for the fact that the internal magazine was created at a level comparable to external magazines. Moreover, in the same plebiscite Netia received Grand Prix award in the category "Electronic Media" for interactive multimedia screens enabling the innovative system of communication with the employees.

Netia distinguished by RESPECT Index for the third time

July 2012

On 31 January this year the Warsaw Stock Exchange announced the new composition of index of responsible companies. Once again, Netia SA fulfilled the requirements of the audit and demonstrated the highest management standards. For the third time Netia SA was included in the exclusive group of 20 companies which successfully passed through the three-stage procedure of index revision under RESPECT Index.

Employees of Netia awarded in the competition "Writing Pens of Year 2012"

October 2012

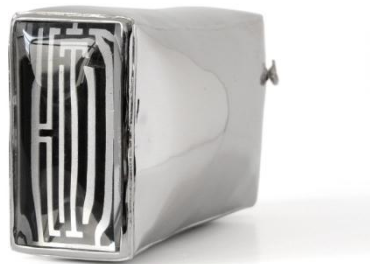
Three employees of Netia were awarded for their publications in the @mazing company magazine, within the competition on custom journalism **Writing Pens of Year 2012**. The jury chaired by professor Jacek Wasilewski (Warsaw University) awarded ten authors of the best articles in magazines registered in the competition - the more proud we can be, as three of them are Netia's representatives. The following publications were awarded:

- In the category: Publication for employees - Man – articles on people in companies:
The main award for the article "Boysband" by Bartłomiej Ociesa, published in the Netia magazine "@mazing" - for the language form and idea to describe the team of employees.
- In the category: Publication for employees - Company – articles on the company/product/service:
The main award for the article "Holiday cards" by Tomasz Melaniuk, published in the Netia magazine "@mazing" - for the concept to combine the company issues with pleasant and attractive topics.
- In the category: Publication for employees - Event - coverage of company events:
Distinction for the article "I Am-sterdam" by Marcin Nowomiejski, published in the Netia magazine "@mazing" – for the humanised coverage of the conference, illustrating both the technology and the personal attitude of the employee.

@mazing appreciated on international arena

October 2012

The @mazing quarterly received the Silver Pearl in the competition **Pearl Awards 2012**, organised by Custom Content Council in New York. Pearl Awards means distinctions awarded to the best custom publications by one of the most important content marketing organisations - the American Custom Content Council. Since 2004, the biggest and most appreciated publications have been taking part in the competition. In 2012, 628 projects from all over the world were registered in the competition. @mazing received the Silver award in the "Best Column" category, for the interesting presentation of company issues in the column "This is the topic".



Part 2 – About our Report

Profile of the Report

The reporting period covers the financial year, i.e. the calendar year 2012.

This report is the second report published. Netia SA has assumed the annual reporting cycle.

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The scope and range of the report

The report for year 2012 covers the operations of the company Netia SA, excluding the operations of the majority of its subsidiaries.

Set of 10 GRI indicators:

GRI indicator: Number:	Description of indicator	PagePage
PR7 indicator	Provide the total number of cases of non-compliance with regulations and voluntary codes regulating the marketing communication issues, including advertising, promotion and sponsoring according to the type of effects.	there were no such cases
PR9 indicator	Provide the cash value of significant penalties sue to non-compliance with the law and regulations concerning the supply and use of products and services.	there were no penalties
LA1 indicator	Provide the total number of employees, according to type of employment, type of employment contract and region.	29
LA10 indicator	Provide the average annual number of training hours per employee, according to employment structure	29
LA12 indicator	Provide the percentage of employees subject to regular appraisal of performance quality and reviews of professional career development.	29

SO7 indicator	Provide the total number of legal steps undertaken towards the organisation concerning the cases of infringement of free competition rules, monopoly practices, including their effects.	there has been no legal action
LA14 indicator	Provide the relation between the basic remuneration of men and women, according to the position held.	29
PR8 indicator	Provide the total number of justified complaints concerning the violation of clients' privacy and data loss.	there were no complaints
PR5 indicator	List and describe practices associated with ensuring client's satisfaction, including the results of client satisfaction measurements.	39
EN7 indicator	List the initiatives undertaken in order to reduce the indirect energy consumption, considering the achieved reduction level.	35
SO8 indicator	Provide the cash value of penalties and the total number of non-financial sanctions due to non-compliance with law and regulations.	there were no penalties and sanctions

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