

Contact: Anna Kuchnio  
(Investor Relations)  
T +48 22 352 2061  
anna\_kuchnio@netia.pl

Karol Wieczorek  
(Public Relations)  
T +48 22 352 6368  
karol\_wieczorek@netia.pl



## Netia reports 2014 third quarter results

WARSAW, Poland – November 6, 2014 – Netia SA (“Netia” or the “Company”) (WSE: NET), Poland's largest alternative provider of fixed-line telecommunications services, today announced its unaudited consolidated results for the nine months ended September 30, 2014.

### 1 Key highlights

#### 1.1 FINANCIAL

- **Revenue** was PLN 1.269,9m for nine months of 2014, down by 11% versus the same period of 2013. In Q3 2014 revenue decreased sequentially by 2% to PLN 413.4m from PLN 422.2m. The decline in revenues was driven by an 8% year-on-year and a 3% sequential decline in services provided (RGUs). In addition, the Company estimates that reductions in mobile termination rates (MTRs) during 2013 contributed 26% of the year-on-year revenue decline and 15% sequentially. Going forward, the Company expects more limited impact on revenues between the compared periods from the MTR reductions as the last drop in MTR rates took place in July 2013. RGU decline continued to be concentrated in the B2C (Residential) sub-segment and particularly in fixed voice services, while the MTR declines mainly impacted revenues in the B2B segment.
- **Adjusted EBITDA** was PLN 379.8m for the nine-month period 2014, down by 11% versus the first nine months of 2013. In Q3 2014 Adjusted EBITDA was PLN 120.3m, down by 4% versus Q2 2014. Adjusted EBITDA margin was 29.9% for the nine months of 2014 and 29.1% in Q3 2014 versus 29.9% for the nine months of 2013 and 29.6% in Q2 2014. Higher Adjusted EBITDA margin year-on-year is due to the lower revenues being concentrated in low margin RGU categories such as off-net services, lower acquisition cost on lower gross additions and falling MTR rates. The sequential decrease in Adjusted EBITDA margin reflects mainly the impact of higher cost of advertising and promotion and higher cost of goods sold on larger on-net sales volumes.
- **EBITDA** was PLN 355.3m for year-to-date 2014 and PLN 109.5m for Q3 2014, down by 15% versus year-to-date 2013 and down by 9% versus Q2 2014. The unusual items for the first nine months of 2014 totalled PLN 24.5m of net expense and included restructuring costs of PLN 12.5m related to staff redundancies under the N2 and Netia Lite projects and payments to the outgoing Management Board members, an impairment charge of PLN 2.5m recorded upon the decision to discontinue using Dialog's trademark, Dialog Group and Crowley integration costs of PLN 6.1m, non-staff related costs of Netia's reorganisation into B2B and B2C Business Units (N<sup>2</sup> Project) of PLN 1.4m, non-staff related costs of the Netia Lite savings program of PLN 1.6m and costs related to the settlement with Orange Polska of PLN 0.3m. The unusual items for Q3 2014 totalled a net expense of PLN 10.8m while in the comparative periods of the first nine months of 2013 and Q2 2014 the unusual items totalled a net expense of PLN 9.1m and PLN 5.3m, respectively. EBITDA margin was 28.0% for 2014 year-to-date and 26.5% for Q3 2014 as compared to 29.3% for year-to-date 2013 and 28.4% for Q2 2014.

#### EBITDA Reconciliation to Adjusted EBITDA (PLN in thousands unless otherwise stated)

Time periods:	YTD 2013 unaudited	YTD 2014 unaudited	Q2 2014 unaudited	Q3 2014 unaudited
<b>EBITDA</b> .....	<b>417,521</b>	<b>355,269</b>	<b>119,801</b>	<b>109,490</b>
<b>Less net unusual expenses</b>	<b>9,148</b>	<b>24,530</b>	<b>5,305</b>	<b>10,763</b>
<i>comprising:</i>				
Impairment charge for non-current assets .....	431	2,503	-	-
Restructuring costs .....	2,850	12,535	2,038	6,856
M&A related costs .....	200	100	40	60
New Netia integration costs .....	5,817	6,133	2,637	1,720
B2B/B2C split costs (N <sup>2</sup> Project) .....	-	1,378	590	246
Decrease in provision for universal service obligation payment .....	(150)	-	-	-
Netia Lite costs .....	-	1,607	-	1,607
Costs related to the settlement with Orange Polska .....	-	274	-	274
<b>Adjusted EBITDA</b> .....	<b>426,669</b>	<b>379,799</b>	<b>125,106</b>	<b>120,253</b>

- *EBIT* was PLN 38.0m (Adjusted EBIT was PLN 62.6m profit when excluding all one-offs) in the first nine months of 2014 as compared to PLN 86.5m (PLN 95.7m profit when excluding one-offs) in the same period of 2013. EBIT for Q3 2014 was PLN 3.1m (PLN 13.9m profit when excluding one-offs) as compared to PLN 14.2m (PLN 19.5m profit when excluding one-offs) in Q2 2014.
- *Net profit* was PLN 14.8m for 2014 year-to-date versus net profit of PLN 35.8m for 2013 year-to-date. Net profit for Q3 2014 was PLN 4.4m versus a net profit of PLN 8.3m for Q2 2014. Reported net profit for the first nine months of 2014 included PLN 15.9m of interest to service the loan taken in 2011 to acquire Dialog Group versus PLN 23.7m of interest for this purpose in the first nine months of 2013. Moreover, reported net profit for 2014 year-to-date included an income tax charge of PLN 7.3m versus PLN 27.6m recorded in the same period of 2013. Net loss for Q3 2014 includes PLN 2.7m of finance costs recorded upon a decision to not to use the available credit facility.
- *Netia was operating free cash flow positive in both year-to-date and Q3 2014.* Operating free cash flow, measured as Adjusted EBITDA less capital investment excluding integration related capex and acquisitions, was PLN 221.6m for the first nine months of 2014 and PLN 66.3m for Q3 2014 versus PLN 275.2m for the first nine months of 2013 and 72.7m for Q2 2014. Lower Adjusted EBITDA is mainly responsible for the sequential decrease in operating free cash flow.
- *Netia's cash and short term deposits* at September 30, 2014 totalled PLN 86.3m, up by PLN 38.1m from June 30, 2014, with *total debt* at PLN 370.4m, down by PLN 43.3m from June 30, 2014. *Net debt* therefore stood at PLN 284.1m, down by PLN 81.3m from PLN 365.5m on June 30, 2014 and *financial leverage* was 0.56x Adjusted EBITDA guidance of PLN 505.0m for 2014 full year.
- *Strategy 2020 update.* On November 4, 2014 Netia's Supervisory Board acknowledged the Strategy 2020 directions presented by the Company's Management Board. The strategic directions focus on stabilizing financial performance of Netia Group in the residential customers segment (B2C) through increased penetration of bundled services in own network, including networks upgraded to the NGA standard, and taking advantage of an opportunity to change the revenue trend along with transformation of the product portfolio and competences in the business customers segment (B2B) while performing separation of the network assets (*see section 'Other Highlights'*).
- *Distribution policy.* The distribution policy of Netia Group remains unchanged.
- *Netia Lite savings program.* In parallel to working on Netia's updated strategy, new CEO Adam Sawicki rolled out the 'Netia Lite' short- to mid-term savings program in Q3 2014. Focusing on savings from reducing senior management layers, simplifying the organization, cutting office space and limiting discretionary spending, Netia Lite is targeting PLN 50m of full year incremental savings during 2015 versus the Q2 2014 cost base with significant savings already being delivered during H2 2014.
- *Netia maintains its full year 2014 guidance* projecting revenue at PLN 1,675m, Adjusted EBITDA at PLN 505m and Adjusted EBIT at PLN 75m. Adjusted OpFCF is expected at PLN 290m and adjusted capital investments are expected at PLN 215m. The above guidance excludes the impact of one-off integration costs and one-off integration capital investments.
- *Refinancing of credit facility.* On November 3, 2014 Netia executed a loan agreement with mBank SA and Bank Gospodarki Żywnościowej SA for a three-year term facility totaling up to PLN 300m aimed at repaying the receivables under the earlier credit agreement signed on September 29, 2011 (*see section 'Other Highlights'*).
- *Settlement agreement with Orange Polska.* On November 5, 2014 Netia and Orange Polska signed a settlement agreement under which both parties agreed to immediately withdraw all claims and lawsuits and terminate all legal proceedings. Under the agreement, Orange Polska paid Netia on the day of signing the settlement agreement the amount of PLN 145m net of VAT, which will be recorded as Other Income and will increase Netia Group's net result for Q4 2014 (*see section 'Other Highlights'*).

## 1.2 OPERATIONAL

*Total services (RGUs)* were 2,361,457 at September 30, 2014 as compared to 2,560,019 at September 30, 2013 and 2,423,693 at June 30, 2014, with the year-on-year and quarterly decreases driven by the fall in fixed voice services and generally intense competition on a telecommunications market. In Q3 2014 Netia recorded 3,529 on-net RGU and 58,707 off-net RGU disconnections as compared to 7,923 on-net RGUs added and 61,693 off-net RGUs disconnected in Q2 2014. As in recent quarters, RGU growth remains concentrated in B2B and in TV and on-net broadband services within B2C. Management estimates that on-net disconnections in Q3 2014 were of a one-off nature and were associated with an investment project conducted by Dialog in 2013.

With the launch of services over the former Aster cable TV infrastructure and improving traction from various operational improvements, Management is confident that Q4 2014 will see improved RGU performance.

<i>Total services (RGUs) by division (k)</i>	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
B2B Division	469.6	477.7	484.1	492.0	493.9
<i>Net change in B2B services</i>	5.0	8.1	6.4	7.9	1.9
B2C Division	2,056.0	2,014.1	1,959.1	1,897.3	1,833.0
<i>Net change in B2C services</i>	(37.1)	(41.9)	(55.1)	(61.7)	(64.3)
Other <sup>1</sup> (Petrotel)	34.4	34.5	34.3	34.4	34.6
<i>Net change in Other (Petrotel) services</i>	(0.1)	0.1	(0.2)	0.1	0.2
<b>Total</b>	<b>2,560.0</b>	<b>2,526.4</b>	<b>2,477.5</b>	<b>2,423.7</b>	<b>2,361.5</b>
<b><i>Net change in total services</i></b>	<b>(32.2)</b>	<b>(33.7)</b>	<b>(48.9)</b>	<b>(53.8)</b>	<b>(62.2)</b>

<sup>1</sup> Number of services in Dialog and Crowley has been fully integrated under the Netia Group's operating segments. Services at Dialog's subsidiary Petrotel are shown separately under the 'Other' segment.

<i>Total services (RGUs) by access type (k)</i>	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
On-net services	1,151.6	1,165.9	1,175.7	1,183.6	1,180.1
<i>Net change in on-net services</i>	9.7	14.3	9.8	7.9	(3.5)
Off-net services	1,408.4	1,360.4	1,301.8	1,240.1	1,181.4
<i>Net change in off-net services</i>	(42.0)	(48.0)	(58.6)	(61.7)	(58.7)
<b>Total</b>	<b>2,560.0</b>	<b>2,526.4</b>	<b>2,477.5</b>	<b>2,423.7</b>	<b>2,361.5</b>
<b><i>Net change in total services</i></b>	<b>(32.2)</b>	<b>(33.7)</b>	<b>(48.9)</b>	<b>(53.8)</b>	<b>(62.2)</b>

- *Netia's TV services* reached 133,940 at September 30, 2014, growing by 20% from 111,358 at September 30, 2013 and by 4% from 128,866 at June 30, 2014. In Q3 2014 Netia added net 5,074 TV services as compared to 1,619 TV services added in Q2 2014. The sequential increase was due to developing TV services in streaming technology and launching services over the former Aster network, which fully compensated for disconnections resulting from the planned gradual downsizing of IPTV-based services.
- *Netia's broadband services* base was 806,237 at September 30, 2014, declining by 6% from 854,165 at September 30, 2013 and by 2% from 826,345 at June 30, 2014. Netia estimates that its total fixed broadband market share was approximately 11.8% versus 12.8% at September 30, 2013. Netia recorded a net decrease of 20,072 broadband customers during Q3 2014 versus a net decrease of 11,068 broadband customers during Q2 2014. Slow market growth and tougher price competition, including cable operators offering multiplay bundles, is reflected in the performance. Management is focusing on its own network and bundled services rather than regulated access or total services sold in order to defend gross margins. The own infrastructure-based broadband services (excluding WiMAX Internet) recorded a net decrease of 1,262 during Q3 2014 versus a net increase of 3,263 in Q2 2014, which was associated with an investment project conducted by Dialog in 2013. Of the total broadband customers served at September 30, 2014, 50% received service over Netia's own access infrastructure as compared to 47% at September 30, 2013.

- *Netia launched commercial services over its HFC infrastructure in Warsaw and Kraków* during August 2014 and expects the new market to contribute significantly to the rate of on-net RGU growth. The total reach of the former Aster's HFC network over which Netia may offer its services includes approximately 314k households in Warsaw and approximately 106k households in Kraków. The total sales potential is expected to be put into operation by the end of November 2014. During August 2014 the sales process was conducted over the network covering 175k households in Warsaw and 40k households in Kraków while in September 2014 the sales reach was 220k and 50k households in both cities, respectively. Management views results of the first months of sales over the HFC network as very promising. As at September 30, 2014, the HFC network base included 1,822 broadband services and 2,295 TV services (including Multiroom). As at November 3, 2014 5,098 contracts for broadband Internet services and 6,378 contracts for TV services were signed.
- *Netia's fixed voice services.* Netia estimates that its total fixed voice market share was approximately 18.8% in Q3 2014 versus 19.0% in Q3 2013. Due to competitive market conditions and focus on higher-value services, Netia is concentrating on defending voice revenues and margins through retention activities as opposed to subscriber numbers. Netia's voice subscriber base was 1,372,417 at September 30, 2014 as compared to 1,519,265 at September 30, 2013 and 1,414,812 at June 30, 2014. In total, Netia recorded a net decrease of 42,395 voice subscribers during Q3 2014 versus 36,005 in Q2 2014.  
The Company expects the number of fixed voice services to continue to decline, mainly in connection with clients churning from traditional direct voice and WLR services. Of the total voice customers served at September 30, 2014, 47% received service over Netia's own access infrastructure as compared to 42% at September 30, 2013.
- *Netia's mobile services* at September 30, 2014 were 21,092 for mobile broadband and 27,735 for mobile voice as compared to, respectively, 28,063 and 47,168 services at September 30, 2013 and 21,541 and 32,129 services at June 30, 2014. Netia is not actively promoting mobile services, but maintains its offering to provide competitive services to those customers looking for a convergent offering.
- *NGA network expansion.* During Q3 2014 Netia continued to expand its NGA standard network, which allows for providing, among others, high speed broadband and 3play services including IPTV and streaming TV services adding 9,000 homes passed. As of September 30, 2014, Netia covered in total 1,314,000 households with its NGA networks, including approximately 897,000 homes passed with VDSL copper networks, approximately 167,000 homes passed with passive optical networks (PON) and approximately 250,000 homes passed with the fast Ethernet networks and fiber to the building (FTTB). This represents sequential increases by approximately 2,500 homes passed with FTTB, and 6,500 homes passed with PON. The previously adopted target for expanding NGA coverage over VDSL copper networks has been achieved and currently Netia does not plan any significant additional investments in this area.
- *Netia splits its operations into B2B and B2C Business Units (N<sup>2</sup> Project).* In January 2014 Netia announced a reorganization of its operations into two distinct Business Units: Business to Business (B2B) and Business to Consumers (B2C), with a view to best support the needs of its business and residential customers and the Company's key strategic objectives. The reorganization went live from the beginning of Q2 2014. Effective October 1, 2014, Mr. Cezary Chałupa was appointed as General Manager for the Business Customers Market, with responsibility for the B2B Unit. Earlier, effective February 3, 2014, Mr. Tomasz Szopa was appointed as General Manager for the Residential Customers Market responsible for the B2C Unit.

## 2 Operational review

### 2.1 BROADBAND, TV & MOBILE SERVICES

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

In November 2013 Netia introduced an innovative offering of its TV services known as 'GigaFreedom', which allows a customer to tailor freely his/her own Personal Television from more than a dozen thematic options available and over 170 channels, including 56 HD channels. During the first month, a customer has access to all TV packages at the minimum monthly fee of PLN 35. Thereafter, a customer may choose TV packages meeting his/her interest within freely tailored monthly fee plans ranging between PLN 35 and PLN 160. This TV offering is unified in terms of available packages and channels across the various TV transmission technologies deployed by Netia.

In April 2014 Netia introduced new service offering 'GigaFreedom II', which, among others, allows a customer to subscribe for bundled broadband and TV services for a shorter subscription period of 12 months.

In August 2014 Netia launched commercially its services over the former Aster cable operator's HFC network, which reaches approximately half of all households in Warsaw and a significant part of households in Kraków. Under the new offering 'GigaKablówka' (the 'GigaCable') Netia offers, among others, Internet access speeds of 20 Mb/s, 100 Mb/s or 300 Mb/s in a bundle with its Telewizja Osobista ('Personal TV') TV service for a monthly fee of PLN 39.90, PLN 49.90 or PLN 59.90, respectively.

The number of active TV services in Netia grew to 133,940 as at September 30, 2014 up by 20% from 111,358 as at September 30, 2013 and by 4% from 128,866 as at June 30, 2014.

<i>Number of TV services (k)</i>	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
<b>Total</b>	<b>111.3</b>	<b>120.3</b>	<b>127.2</b>	<b>128.9</b>	<b>133.9</b>

Netia added 5,074 TV services net in Q3 2014 as compared to 1,619 services added in Q2 2014 due to developing TV services in streaming technology and launching services over the former Aster network, which fully compensated for disconnections resulting from the planned gradual downsizing of IPTV-based services. TV penetration has now reached a satisfactory 34% of the on-net broadband base and the key objective for 2014 is to increase TV sales to completely new customers for Netia, both over upgraded NGA networks and over the former Aster cable TV network acquired during 2013.

**TV ARPU** was PLN 37 in Q3 2014 as compared to PLN 37 in both Q3 2013 and Q2 2014.

**Broadband** services totalled 806,273 at September 30, 2014, down by 6% from 854,165 at September 30, 2013 and by 2% from 826,345 at June 30, 2014.

Netia provides its broadband services using the following technologies:

<i>Number of broadband ports (k)</i>	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
xDSL, FastEthernet, HFC and PON over own network	382.9	386.8	387.9	391.1	389.5
<i>incl. Traditional networks (PON, VDSL, ADSL, HFC)</i>	271.2	276.0	278.9	283.7	283.6
<i>incl. Ethernet networks</i>	111.7	110.8	109.0	107.4	105.9
WiMAX Internet	16.0	15.3	14.8	14.3	13.4
LLU	172.5	169.9	166.6	162.5	156.4
Bitstream access	282.8	276.9	268.1	258.4	246.9
<b>Total</b>	<b>854.2</b>	<b>848.9</b>	<b>837.4</b>	<b>826.3</b>	<b>806.3</b>

*Broadband services net decrease* totalled 20,072 during Q3 2014 as compared to 11,068 in Q2 2014. Slower fixed broadband market growth and increased price competition on broadband products from both the incumbent and cable TV operators has eliminated Netia's retail price advantage on 1play BSA services and reduced gross additions run rates and increased churn rates across the broadband portfolio. In Q3 2014 the Company recorded 1,262 net disconnections on its own broadband networks (excluding WiMAX Internet) versus 3,263 additions in Q2 2014, which was associated with an investment project conducted by Dialog in 2013.

*Broadband ARPU* was PLN 56 in Q3 2014 as compared to PLN 56 in both Q3 2013 and Q2 2014.

*Broadband SAC* was PLN 186 as compared to PLN 187 in Q3 2013 and PLN 180 in Q2 2014.

*Local Ethernet network operators.* As of September 30, 2014, Netia's Ethernet networks provided broadband access to a total of 105,917 mostly residential customers as compared to 107,419 customers at June 30, 2014 and 111,718 customers at September 30, 2013, with approximately 621,000 homes passed. Netia is currently focused on upgrading Ethernet networks already acquired and therefore will likely acquire new networks at a much slower pace than seen in the past, if at all. There were no additions of Ethernet networks completed in 2014 year-to-date.

*NGA network development.* As at September 30, 2014, Netia covered in total 1,314,000 households with its NGA networks, including 167,000 PON HPs, 897,000 VDSL HPs and 250,000 Ethernet FTTB HPs. During Q3 2014 Netia expanded its NGA coverage by approximately 9,000 HPs (being 2,500 FTTB HPs and 6,500 PON HPs). Moreover, at September 30, 2014 Netia covered a further 172,000 TV ready HPs within its network coverage based on ADSL2+ technology. Combined with NGA ready HPs, all of which can deliver TV services, Netia had 1,486,000 TV ready HPs in its proprietary network coverage.

Once all upgrade projects are completed, inclusive of the recent acquisition of cable networks from UPC Polska, Netia expects to cover in total approximately 1,715,000 NGA HPs which can be reached with 3play service bundles (TV + fixed NGA broadband + fixed voice). Furthermore, Netia has introduced smooth streaming technology, which expands the availability of its 3play bundle offer onto networks where line speeds are too slow to support IPTV (extra + 240k on-net HPs) and, potentially in the future, to homes where Netia does not provide the broadband connection. Management is presently focusing on optimizing sales, provisioning and maintenance processes around TV services in addition to constant development of the content offering and service functionalities in the course of 2014.

*Mobile services.* The mobile broadband customer base totalled 21,092 at September 30, 2014 as compared to 28,063 at September 30, 2013 and 21,541 at June 30, 2014. *Mobile broadband ARPU* was PLN 29 in Q3 2014 as compared to PLN 27 in Q3 2013 and PLN 29 in Q2 2014. *Mobile voice services* totalled 27,735 at September 30, 2014 as compared to 47,168 at September 30, 2013 and 32,129 at June 30, 2014. *Mobile voice ARPU* was PLN 30 in Q3 2014 as compared to PLN 28 in Q3 2013 and PLN 27 in Q2 2014. Mobile broadband has similar economics to BSA services whilst mobile voice has benefited from improved terms of MVNO agreements with partners P4 and Polkomtel.

<i>Number of mobile services (k)</i>	<i>Q3 2013</i>	<i>Q4 2013</i>	<i>Q1 2014</i>	<i>Q2 2014</i>	<i>Q3 2014</i>
Mobile data	28.0	26.4	24.8	21.5	21.1
Mobile voice	47.2	42.1	37.2	32.1	27.7
<b>Total</b>	<b>75.2</b>	<b>68.5</b>	<b>62.0</b>	<b>53.7</b>	<b>48.8</b>

## 2.2 VOICE

### 2.2.1 Own network, WLR & LLU

*Voice lines* totalled 1,372,417 at September 30, 2014 as compared to 1,519,265 at September 30, 2013 and 1,414,812 at June 30, 2014. In Q3 2014 Netia recorded a net decrease of 42,395 voice lines versus 36,005 voice lines in Q2 2014 and 31,547 voice lines in Q3 2013. The Company expects the number of fixed voice lines to continue to decline, mainly due to clients churning from traditional direct voice and WLR services.

Netia is steadily growing its base of relatively low cost VoIP customers, principally in the business segments. Over time, the Company expects to gradually reduce its reliance on traditional switched telephony, thereby reducing its cost base. During Q3 2014 the customer base of traditional direct voice services decreased by 10,041 while the number of VoIP customers grew in the same period by 4,650.

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

<i>Number of fixed voice lines (k)</i>	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Traditional direct voice	537.4	532.6	526.5	516.5	506.4
<i>Incl. ISDN</i>	235.3	236.4	240.2	239.5	237.1
<i>Incl. Legacy wireless</i>	42.5	42.6	43.2	51.1	49.9
Voice over IP (excl. LLU)	91.3	98.8	107.7	120.0	124.7
WiMAX voice	12.6	12.0	11.5	12.8	12.1
<b>Own network voice lines</b>	<b>641.3</b>	<b>643.4</b>	<b>645.7</b>	<b>649.3</b>	<b>643.2</b>
WLR	760.5	728.7	690.0	651.9	618.2
LLU voice over IP	117.4	116.5	115.1	113.6	111.0
<b>Total</b>	<b>1,519.3</b>	<b>1,488.6</b>	<b>1,450.8</b>	<b>1,414.8</b>	<b>1,372.4</b>

*Voice ARPU per WLR line* was PLN 44 in Q3 2014 as compared to PLN 45 in Q3 2013 and PLN 44 in Q2 2014.

*Voice ARPU per Netia network subscriber line* was PLN 35 in Q3 2014 as compared to PLN 40 in Q3 2013 and PLN 36 in Q2 2014. The fall reflects more aggressive defence of the customer base than on WLR, aggressively priced voice over IP services to business customers and deep discounts given when voice is bundled in 3play.

*Blended voice ARPU* was PLN 39 in Q3 2014 as compared to PLN 43 in Q3 2013 and PLN 40 in Q2 2014.

### 2.2.2 Indirect voice

*CPS lines* (carrier pre selection) totalled 51,788 at September 30, 2014 as compared to 57,008 at September 30, 2013 and 52,435 at June 30, 2014. Netia is focused on the conversion of CPS customers to WLR and is not actively acquiring new CPS customers. CPS clients are not reflected in the total voice subscriber base of 1,372,417 clients as at September 30, 2014.

*Indirect voice ARPU per CPS line* was PLN 19 in Q3 2014 as compared to PLN 26 in Q3 2013 and PLN 20 in Q2 2014. Tariff reductions, reduced call volumes and conversion of higher ARPU customers to Netia's WLR or LLU offers are responsible for the progressive ARPU decline.

## 2.3 OTHER

*Headcount* was 1,851 at September 30, 2014, compared to 2,012 at September 30, 2013 and 1,933 at June 30, 2014. Active headcount was 1,707 at September 30, 2014 versus 1,930 at September 30, 2013 and 1,788 at June 30, 2014. During Q1 2014 certain job positions were identified for reduction during the course of 2014 in connection with the split of Netia's operations into B2B/B2C Business Units. A further round of headcount reductions began in July 2014 as part of a further efficiency program called 'Netia Lite'. Provisions totaling PLN 12.5m for headcount reductions under both projects were booked in the year-to-date 2014 results.

The movement in headcount can be analyzed as follows:

	<i>Active</i>	<i>Total</i>
<b>Headcount at September 30, 2013</b>	<b>1,930</b>	<b>2,012</b>
Employees acquired in Ethernet acquisitions since September 30, 2013	-	-
Net organic headcount reductions since September 30, 2013	(212)	(150)
Disposal of UNI-Net in Q1 2014	(11)	(11)
<b>Headcount at September 30, 2014</b>	<b>1,707</b>	<b>1,851</b>

### *Capital investment additions*

<i>Capital investment additions (PLN'M)</i>	<i>YTD 2013</i>	<i>YTD 2014</i>	<i>Change %</i>	<i>Q2 2014</i>	<i>Q3 2014</i>	<i>Change %</i>
Existing network and IT	71.4	65.3	-9%	25.5	19.3	-25%
Broadband networks	52.6	63.2	20%	19.8	25.4	28%
CPE broadband (mainly capitalised Netia Spot routers)	15.1	15.0	0%	2.4	3.1	28%
TV (incl. dedicated CPE – Netia Player)	12.4	14.7	18%	4.5	6.2	37%
<b>Adjusted capex</b>	<b>151.5</b>	<b>158.2</b>	<b>4%</b>	<b>52.3</b>	<b>54.0</b>	<b>3%</b>
CDN integration	13.0	8.1	-38%	4.2	1.2	-71%
Purchase of CATV networks	7.2	nd	nd	na	nd	nd
<b>Total capex</b>	<b>171.7</b>	<b>166.3</b>	<b>-3%</b>	<b>56.5</b>	<b>55.2</b>	<b>-2%</b>

Capital investment in existing network and IT reflect extension of transmission network capacity to activate new business customers and routine improvements to IT functionality. Investments in broadband networks include mainly NGA development and upgrades for residential clients and works on integrating with Netia's broadband network the cable networks in Warsaw and Kraków, which were acquired from UPC Polska in May 2013.



### 3 Other Highlights

*Strategy 2020 update.* Since their respective appointments, CEO Adam Sawicki and CFO Paweł Szymański together with the Management Team evaluated Netia Group's performance and reviewed alternative strategic options to drive value creation in the Netia Group going forward.

On November 4, 2014 Netia's Supervisory Board acknowledged an update to Strategy 2020 key directions presented by the Company's Management Board and the Management Team composed of key Directors.

#### **Netia Group's Mission and Vision**

Netia Group's Mission remains unchanged as **"We deliver the world on-line"**. The new Vision underlines a more dedicated approach to both commercial segments, including separation of network assets and full allocation of costs and resources within the Group:

**"Netia Group, after profitable transformation, will be the preferred choice for on-line services thanks to:**

- Delivering business customers integrated tele informatics solutions based on data transmission and data centers,
- Offering residential customers bundled services based on multimedia platforms in own network,
- Infrastructure and network assets dedicated to business and residential market segments,
- Passionate employees, inspired by the Company's values".

#### **Key strategic directions in the B2C segment include:**

- Concentration on defending segment's value, i.e., intensive retention activities within the existing customer base at relatively lower customer service cost,
- Acquisition of customers in own network and optimization of an average subscriber acquisition cost through more optimal cost-mix between the sales channels,
- Maximization of own network value, without further intense modernization, through increased penetration of TV-bundled service offerings (2P/3P) and use of mobile solutions in retention activities (targeted level of services per customer in the segment: 2.0x),
- Targeted penetration of services per a residential customer increased to 2.0x,
- Increased penetration of services in own network thanks to geo-marketing,
- Search for an optimal cost model in operations of the residential market segment.

#### **Key strategic directions in the B2B segment include:**

- Plans to stabilize revenues in short-term and to increase the scale of operations in long-term through changes to the structure of the product portfolio including, among others, lowering exposure to voice services,
- Dynamic growth in the 'new data' and ICT segments – developing data centers and cloud computing services, including potential selective acquisitions of competences and/or infrastructure in this area,
- Partnerships in convergent services aimed at offering full scale of telecommunications and data transmission services,
- Use of market potential in wholesale services through full utilization of own network infrastructure,
- Reorganization of sales force and sales processes operating model,
- Search for an optimal costs model in operations of the business market segment.

Moreover, within its Strategy 2020 Netia Group intends to separate all network assets attributable to the B2C and B2B segments while simultaneously simplifying and modernizing selected network systems, with an aim to reduce costs of network maintenance. Furthermore, IT systems are to be optimized, with particular focus on processes directly supporting commercial activities of the B2C and B2B business segments.

Execution of Strategy 2020 is expected to facilitate higher cost efficiency in managing the operating segments, full identification of assets, costs and investment outlays within B2C and B2B divisions, and increased strategic potential of single components of the Netia Group, depending on the Polish market developments and consolidation scenarios.

Distribution to shareholders within the scope of generated cash flows and capital reserves continue to be a strategic goal of the Netia Group, and thus distribution policy remains unchanged.

*Settlement agreement with Orange Polska.* On November 5, 2014 Netia Group companies and Orange Polska SA signed of an out-of-court settlement agreement based on which the parties waived claims and undertook to take actions aimed at discontinuation of the relevant court proceedings (the "Settlement"). As a result of mutual concessions, the parties decided to settle their mutual claims by way of Orange Polska SA paying Netia PLN 145m net of VAT. This amount was paid on the date of signing of the Settlement and will be recorded as Other Income increasing the Netia Group's net result for Q4 2014. Under the Settlement, Orange Polska SA 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 in Case No. COMP/39.525 (EUR 127.6m) is decreased to an amount below EUR 112.0m 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 112.0m and the final amount of the fine imposed on Orange Polska SA or (ii) EUR 50.4m if the fine is annulled in its entirety.

One of the goals of the Settlement is to undertake actions aimed at discontinuation of the court proceedings. In case of undertaking by Netia any legal actions that are contrary this aim, Netia could be obliged to pay the contractual penalties in the total amount of PLN 25.8m. In case if the court grants Netia the amount of its claim against the aim of the Settlement and if Netia starts the enforcement proceedings of this amount, Netia may be obliged to pay the contractual penalties equal to the amount granted by the court.

*Netia Lite savings program.* In parallel to working on Netia's updated strategy, new CEO Adam Sawicki rolled out the 'Netia Lite' short- to mid-term savings program in Q3 2014. Focusing on savings from reducing senior management layers, simplifying the organization, cutting office space and limiting discretionary spending, Netia Lite is targeting PLN 50m of incremental savings during 2015 versus the Q2 2014 cost base with significant savings already being delivered during H2 2014. In its initial implementation phase the program was focused on proper identification and verification of savings areas and execution of 'quick-win' initiatives. During the first three months over 40 initiatives were defined and implemented, delivering PLN 15m of savings among specific costs in the B2B and B2C segments as well as among the technology and support areas.

Netia Lite forms an important part of new CEO Adam Sawicki's philosophy that Netia can best compete by aiming for simplicity, focus and innovation as it aims to stabilize financial performance and lay a foundation for growth through acquisitions and by exploiting its own network assets.

*Financing.* On September 30, 2014, Netia had PLN 86.3m in cash and short term deposits and PLN 370.4m in total debt and accrued interest as compared to PLN 48.2m and PLN 413.7m, respectively, on June 30, 2014. Accordingly, Netia Group's net debt at September 30, 2014 was PLN 284.1m versus PLN 317.2m at September 30, 2013 and PLN 365.5m at June 30, 2014 and net debt to the 2014 Adjusted EBITDA guidance of PLN 505m amounted to 0.56x. The increase in net debt during Q2 2014 was solely due to the payment of the dividend.

*Refinancing of credit facility.* On November 3, 2014 Netia 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 300m. 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 from the previous loan agreement is to be 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. The loan accrues each period's interest at the rate of 3M WIBOR or the 6M WIBOR, margin dependent on financial indicators and the mandatory cost (as defined in the agreement) that may be incurred due to requirements of financial regulators from the United Kingdom or imposed by the European Central Bank, if such mandatory costs occur. 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.

*Disputed corporate income tax (CIT) for 2003.* On June 24, 2014 the Supreme Administrative court (the "NSA") issued a new decision in the matter of settling the amount of Netia's CIT liability for 2003. The Company had appealed to the NSA to modify the October 10, 2013 decision of the Voivodship Administrative Court in Warsaw (the "WSA") that cancelled a 2009 decision of the Director of the Tax Chamber setting Netia's CIT liability for 2003 at PLN 34.2 million, plus interest, as, in the Company's opinion, the WSA's written justification did not fully reflect all the arguments previously brought before the NSA by the Company at the earlier, successful NSA hearing that took place on June 25, 2013. The recent NSA decision rejected the arguments presented by Netia and, as a result, the WSA's decision of October 10, 2013 became binding. The Company and the Director of the Tax Chamber were submitted a written justification of the ruling. Accordingly, the second instance decision of the Director of the Tax Chamber has been removed from legal circulation while the original first instance decision is now once again in force before the Director of the Tax Chamber and once again awaits its review while taking into account the subsequent binding decisions and the justifications of the WSA and the NSA. The Company will continue to take all possible measures to secure a positive outcome of the dispute with the tax authorities and is now waiting for a written statement of the reasons for the judgment from the NSA. The disputed tax liabilities set by the Tax Chamber's 2009 decision at PLN 34.2 million, plus interest, were paid in full by the Company in 2010.

## Consolidated Financial Information

Please also refer to our financial statements for the nine-month period ended September 30, 2014.

### 2014 Year-to-Date vs. 2013 Year-to-Date

**Revenue** decreased by 11% YoY to PLN 1,269.9m for the nine-month period ended September 30, 2014 from PLN 1,425.3m for the same period in 2013. The B2C operating segment decreased by 13% or PLN 105.1m and the B2B segment by 9% or PLN 50.9m. The decline in revenues was driven by a 8% YoY decline in services provided (RGUs) and by falls in mobile termination rates (MTRs) which contributed approximately 26% of the revenue decline. Going forward, the Company expects more limited impact on revenues between the compared periods from the 2013 MTR reductions as the last drop in MTR rates took place in July 2013. RGU declines continued to be concentrated in the B2C (Home) sub-segment and in fixed voice services and lower margin WLR services in particular. The proportion of RGUs delivered on-network has increased from 45% to 50% in the twelve months to September 30, 2014.

**Telecommunications revenue** decreased by 11% YoY to PLN 1,267.1m in the first nine months of 2014 from PLN 1,418.4m in the prior nine-month period, driven by a 17% or PLN 104.3m decrease in direct voice revenue to PLN 514.9m from PLN 619.1m in year-to-date 2013, associated with a 10% decrease in the voice subscriber base and the drop in the number of WLR services in particular and an on-net ARPU decrease of 13%. Data revenue decreased by 5% or PLN 27.2m to PLN 518.2m from PLN 545.4m in the same period of 2013, mainly due to the lower number of BSA services. Revenues from interconnect and carrier services combined were down by 16% to PLN 125.5m from PLN 148.7m in nine months of 2013 following the introduction of lower MTRs in January 2013 and again in July 2013. Indirect voice services (CPS) revenue decreased by 34% or PLN 5.2m as a result of decreasing customer numbers and falling ARPUs. Other telecommunications revenue, which include TV and mobile services, increased between the compared periods by 9% or PLN 8.5m to PLN 98.5m in the first nine months of 2014 from PLN 90.1m in the same period of 2013 and represented 8% of total revenue versus 6% in the prior year period. Direct voice revenue as a share of total telecommunications revenue declined YoY from 44% to 41% and data revenue increased over the same period from 38% to 41%.

**Cost of sales** decreased by 8% YoY to PLN 872.1m from PLN 952.5m for the nine-month period ended September 30, 2013 and represented 69% of total revenue as compared to 67% in the prior year period.

**Network operations and maintenance cost** decreased by 9% to PLN 406.0m from PLN 446.9m for the prior year period due to fewer off-net RGUs generating regulated access fees.

**Interconnection charges** decreased by 22% to PLN 124.3m in the first nine months of 2014 as compared to PLN 159.4m for the same period of 2013, due mainly to falling MTRs and lower voice traffic volumes.

**Depreciation and amortization** related to cost of sales decreased by 3% to PLN 261.3m as compared to PLN 269.5m for the nine-month period ended September 30, 2013 following the reassessment of useful lives of the Netia Group's fixed assets in Q1 2014, resulting in a reduction of some depreciation rates.

**Taxes, frequency fees and other expenses** decreased by 6% to PLN 44.3m in year-to-date 2014 as compared to PLN 47.3m for year-to-date 2013 mainly as a result of lower cost of office space rentals.

**Restructuring costs** related to cost of sales increased to PLN 1.8m from PLN 0.5m in the nine-month period ended September 30, 2013, reflecting in the current year period the costs of headcount reduction under the N<sup>2</sup> and Netia Lite projects.

**Gross profit** for the nine-month period ended September 30, 2014 was PLN 397.8m as compared to PLN 472.7m for the corresponding period of 2013. Gross profit margin was 31.3% for year-to-date 2014 and 33.2% for year-to-date 2013.

**Selling and distribution costs** decreased by 13% YoY to PLN 234.5m from PLN 270.5m for previous year period and represented 18% of total revenue as compared to 19% in the first nine months of 2013. Lower direct acquisition costs from fewer gross additions and lower advertising spending were the main drivers of the decreasing costs.

**Depreciation and amortization** related to selling and distribution cost decreased by 26% to PLN 29.4m from PLN 39.5m in the corresponding period of 2013 following the full amortization of certain acquisition related intangible assets.

**Advertising and promotion cost** decreased by 36% YoY to PLN 15.8m for year-to-date 2014 as compared to PLN 24.5m for year-to-date 2013 as a result of limited advertising campaigns and lower costs of both broadcasting and production of new TV commercials.

**Impairment of receivables** was lower by 49% and PLN 6.4m as the current year period benefited from provision releases due to improving bad debt recovery performance and sale of overdue receivables.

Billing, mailing and logistics costs decreased by 28% YoY to PLN 15.3m from PLN 21.1m while the average number of RGUs served fell only by 10% between the two year-to-date periods due to integration synergies and greater use of electronic billing solutions.

Third party commissions decreased by 29% YoY to PLN 12.8m from PLN 17.9m due to lower gross additions, particularly in voice services.

Outsourced customer service cost decreased by 18% YoY to PLN 9.8m from PLN 12.0m due to extracting integration synergies and increased use of internal customer care resources.

Restructuring costs related to selling and distribution increased to PLN 3.4m from PLN 1.0m in the nine-month period ended September 30, 2013, reflecting in the current year period the costs of headcount reduction under the N<sup>2</sup> and Netia Lite projects.

General and administration costs increased by 6% YoY to PLN 136.7m from PLN 129.6m for year-to-date 2013 and represented 11% of total revenue as compared to 9% for the first nine months of 2013. Higher restructuring cost related to headcount restructuring in connection with the N<sup>2</sup> and Netia Lite projects, higher depreciation and amortization on additional software, and migration of Dialog's customer data bases to Netia were the main cost drivers.

Restructuring costs related to general administration increased to PLN 7.4m from PLN 1.4m in the nine-month period ended September 30, 2013, reflecting mainly provisions for the headcount optimization process in connection with the N<sup>2</sup> and Netia Lite projects and payments to the outgoing members of the Management Board who resigned from their positions in the current year period.

Depreciation and amortization related to general administration increased by 21% or PLN 4.6m in connection with amortization of additional computer software and licenses.

Electronic data processing cost increased by 20% or PLN 2.3m in connection with the integration projects such as migration of Dialog's customer data bases to Netia, completed in April 2014.

Other costs related to general administration cost increased by 7% or PLN 1.2m, driven by liquidation of certain obsolete fixed assets in Q2 2014.

Salaries and benefits related to general administration cost decreased by 12% to PLN 52.6m from PLN 59.4m in year-to-date 2013.

Office and car maintenance costs increased by 7% or PLN 0.7m between the periods mainly as a result of provisions for releasing part of office space prior to the expiry of rental contracts.

Professional services costs decreased by 12% or PLN 0.8m.

Other income, net of other expenses was a gain of PLN 8.7m versus a prior year period gain of PLN 6.6m driven by income relating to the government grants and reversal of provisions which offset an impact of an impairment charge of PLN 2.5m booked in Q1 2014 on the decision to discontinue using Dialog's trademark.

Other gains/(losses), net were a gain of PLN 2.8m from a gain of PLN 7.2m in year-to-date 2013 on significantly lower gain on sale of impaired receivables.

Adjusted EBITDA was PLN 379.8m, down by 11% from PLN 426.7m for the nine-month period ended September 30, 2013. Adjusted EBITDA margin was 29.9% in both compared periods.

Unusual items excluded from the Adjusted EBITDA were PLN 24.5m of net expenses in year-to-date 2014 and PLN 9.1m of net expenses in year-to-date 2013. Including headcount restructuring costs of PLN 12.5m in year-to-date 2014 and PLN 2.8m in year-to-date 2013, the Dialog Group and Crowley integration costs of PLN 6.1m in year-to-date 2014 and PLN 5.8m in year-to-date 2013, an impairment charge of PLN 2.5m recorded in Q1 2014 upon the decision to discontinue using Dialog's trademark versus an impairment charge of PLN 0.4m in year-to-date 2013, cost of Netia Lite and N<sup>2</sup> projects of PLN 1.6m and PLN 1.4m, respectively, recorded in year-to-date 2014, a decrease in provision for universal service obligation of PLN 0.2m recorded in year-to-date 2013 and the costs of M&A projects of PLN 0.1m in year-to-date 2014 and PLN 0.2m in year-to-date 2013 and costs related to the settlement agreement with Orange Polska of PLN 0.3m recorded in year-to-date 2014, EBITDA was PLN 355.3m for the nine-month period ended September 30, 2014 as compared to PLN 417.5m for the prior year period. EBITDA margin was 28.0% as compared to 29.3% for the nine-month period ended September 30, 2013.

Depreciation and amortization was PLN 317.2m, a decrease of 4% YoY as compared to PLN 331.0m in the first nine months of 2013 following full depreciation of certain assets and liquidation in 4Q 2013 of certain obsolete assets.

Operating profit (EBIT) was PLN 38.0m as compared to an operating profit of PLN 86.5m for the nine-month period ended September 30, 2013. Excluding unusual items described above of PLN 24.5m of net costs in year-to-date 2014 and PLN 9.1m of costs in year-to-date 2013, Adjusted EBIT was PLN 62.5m profit for the first nine months of 2014 versus PLN 95.7m profit for the same period of 2013.

*Net financial cost* was PLN 15.8m as compared to net financial cost of PLN 23.2m for the prior year period and the improvement is driven by the falls in average net debt between the periods.

*Income tax charge* of PLN 7.3m was recorded in the first nine months of 2014 as compared to income tax charge of PLN 27.6m for the corresponding period of 2013.

*Net profit* was PLN 14.8m for the nine-month period ended September 30, 2014 versus net profit of PLN 35.8m for the nine-month period ended September 30, 2013.

*Cash outlays on purchase of fixed assets and computer software* increased by 2% to PLN 188.7m for the nine-month period ended September 30, 2014 versus PLN 184.1m for the corresponding period of 2013 driven by investments in broadband networks including NGA development and TV services.

*Cash and short term deposits* at September 30, 2014 totalled PLN 86.3m versus PLN 130.9m at September 30, 2013.

*Debt and accrued interest* at September 30, 2014 was PLN 370.4m as compared to PLN 448.1m in the prior year period.

*Net debt* at September 30, 2014 was PLN 284.1m as compared to PLN 317.2m at September 30, 2013. Netia's net debt position reflects the majority of cash outflow related to *a dividend payment of PLN 0.42 per share*, which was made on June 17, 2014 to shareholders of record on May 29, 2014. From PLN 146.1m of the total dividend amount, PLN 138.5m was distributed in Q2 and the remaining PLN 7.6m outflow representing dividend-related taxes was recorded in Q3 2014 results.

**Q3 2014 vs. Q2 2014**

*Sequential revenue* decreased by 2% to PLN 413.4m in Q3 2014 from PLN 422.2m in Q2 2014. The decline in revenues was driven by a 3% sequential decline in services provided (RGUs), which continued to be concentrated in the B2C (Home) sub-segment and in fixed voice services, lower APRU from on-net voice services and by falls in mobile termination rates (MTRs), which contributed 15% of revenue decline via their knock-on effects on B2B retail results. The Company estimates the sequential impact of lower MTRs on revenue at PLN 1.3m. Going forward, the Company expects more limited impact on revenues between the compared periods from the 2013 MTR reductions as the last drop in MTR rates took place in July 2013.

*Telecommunications revenue* decreased by 2% to PLN 411.4m in Q3 2014 versus PLN 421.6m in Q2 2014. Direct voice revenue fell by 5% QoQ to PLN 163.0m from PLN 171.3m in Q2 2014 as a result of the fall in the subscriber base and on-network ARPU declines partly related to passing on of MTR savings. Other telecommunications revenue increased by 6% to PLN 34.1m from PLN 32.2m in Q2 2014. Data revenue decreased by 2% to PLN 170.2m from PLN 173.0m in Q2 2014 following sequentially higher disconnections among off-net broadband services. Carrier segment revenue decreased by 2% to PLN 41.1m versus PLN 42.1m in Q2 2014. Indirect voice revenue decreased sequentially by 5% or PLN 0.2m on lower customer base.

*Cost of sales* decreased by 1% to PLN 288.0m as compared to PLN 291.7m in Q2 2014, representing 70% of total revenue in Q3 2014 as compared to 69% in Q2 2014. Cost of goods sold increased by 161% or PLN 3.9m reflecting higher sale of equipment to business customers. Cost of network operations and maintenance decreased by 3% or 3.6m mainly as a result of less fees payable to TP on less wholesale access services. Interconnection charges were lower by 7% and PLN 3.1m on lower traffic volumes. As a result of headcount reduction (Netia Lite project), salaries and benefits related to the cost of sales decreased by 11% or PLN 0.9m while restructuring cost related to the cost of sales increased by 64% or PLN 0.3m. Taxes, frequency fees and other expenses decreased by 6% or PLN 0.9m on lower cost of office space rentals.

*Gross profit* decreased by 4% to PLN 125.4m from PLN 130.5m in Q2 2014, with gross profit margin at 30.3% versus 30.9% in Q2 2014.

*Selling and distribution costs* increased by 6% sequentially to PLN 81.3m in Q3 2014 as compared to PLN 76.9m in Q2 2014 representing 20% of total revenue in Q3 2014 versus 18% in Q2 2014. Cost of advertising and promotion increased by 128% to PLN 8.7m from PLN 3.8m driven by advertising campaigns of new Netia services (GigaKablówka, Dropss). Salaries and benefits related to selling and distribution decreased by 11% or PLN 3.4m reflecting mainly headcount reduction within the Netia Lite project. In parallel, restructuring cost related to selling and distribution increased in connection with the Netia Lite project to PLN 2.0m from PLN 0.5m in Q2 2014.

*General and administrative expenses* increased by 2% to PLN 46.0m in Q3 2014 from PLN 45.2m in Q2 2014, and represented 11% of total revenue in both Q3 and Q2 2014. Cost of office and car maintenance increased to PLN 5.7m from PLN 2.5m in Q2 2014 due to provisions for releasing part of office space prior to the expiry of rental contracts. Restructuring cost related to general administration increased to PLN 4.1m from PLN 1.1m in connection with headcount reductions under the Netia Lite project and payments to the resigning Management Board members. In parallel, cost of salaries and benefits related to general administration decreased sequentially to PLN 14.2m from PLN 17.7m, and such cost categories as 'Other costs' and 'Electronic data processing' went down as in the prior quarter these categories included cost associated with the liquidation of certain obsolete fixed assets and cost of migrating Dialog's customer bases to Netia, respectively.

*Adjusted EBITDA* was PLN 120.3m versus PLN 125.1m for Q2 2014 and Adjusted EBITDA margin was 29.1% in Q3 2014 versus was 29.6% in Q2 2014, driven by the lower gross margin and higher cost of advertising and promotion.

*EBITDA* was PLN 109.5m as compared to PLN 119.8m in Q2 2014. EBITDA for Q3 2014 included Dialog Group and Crowley integration costs of PLN 1.7m, restructuring costs of PLN 6.9m, costs of Netia's B2B/B2C divisional split (N<sup>2</sup> Project) of PLN 0.2m, costs of Netia Lite project of PLN 1.6m, cost related to the settlement agreement with Orange Polska of PLN 0.3m and costs of M&A projects of PLN 0.06m. EBITDA for Q2 2014 included Dialog Group and Crowley integration costs of PLN 2.6m, restructuring costs of PLN 2.0m, costs of Netia's B2B/B2C divisional split (N<sup>2</sup> Project) of PLN 0.6m and costs of M&A projects of PLN 0.04m.

*Operating profit (EBIT)* was PLN 3.1m as compared to operating profit of PLN 14.2m in Q2 2014. Excluding unusual items, EBIT for Q3 2014 would have been PLN 13.8m profit as compared to PLN 19.5m profit for Q2 2014.

*Net financial cost* was PLN 6.4m as compared to net financial cost of PLN 4.9m in Q2 2014. The change was driven by a decision to terminate available credit facility, which resulted in recording in the income statement PLN 2.7m of transaction costs and engagement fees.

*Income tax charge* of PLN 1.1m was recorded in Q3 2014 versus income tax charge of PLN 1.0m in Q2 2014.

*Net loss* for Q3 2014 was PLN 4.4m versus net profit of PLN 8.3m for Q2 2014.

Key Figures

PLN'000	YTD 2013	YTD 2014	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Revenues .....	1,425,258	1,269,939	457,076	450,758	434,371	422,161	413,407
<i>y-o-y % change</i> .....	(11.0%)	(10.9%)	(12.3%)	(13.2%)	(11.5%)	(11.6%)	(9.6%)
Adjusted EBITDA .....	426,669	379,799	144,123	124,186	134,440	125,106	120,253
<i>Margin %</i> .....	29.9%	29.9%	31.5%	27.6%	31.0%	29.6%	29.1%
<i>y-o-y change %</i> .....	(4.5%)	(11.0%)	(8.5%)	(14.1%)	(5.3%)	(11.0%)	(16.6%)
EBITDA .....	417,521	355,269	142,492	115,232	125,978	119,801	109,490
<i>Margin %</i> .....	29.3%	28.0%	31.2%	25.6%	29.0%	28.4%	26.5%
Adjusted EBIT .....	95,686	62,550	34,457	15,175	29,146	19,529	13,875
<i>Margin %</i> .....	6.7%	4.9%	7.5%	3.4%	6.7%	4.6%	3.4%
EBIT .....	86,538	38,020	32,826	6,221	20,684	14,224	3,112
<i>Margin %</i> .....	6.1%	3.0%	7.2%	1.4%	4.8%	3.4%	0.8%
Adjusted Profit of the Netia Group (consolidated) ....	43,204	34,701	15,387	17,749	17,807	12,592	4,302
<i>Margin %</i> .....	3.0%	2.7%	3.4%	3.9%	4.1%	3.0%	1.0%
Profit/(Loss) of the Netia Group (consolidated) .....	35,794	14,832	14,066	10,496	10,953	8,295	(4,416)
<i>Margin %</i> .....	2.5%	1.2%	3.1%	2.3%	2.5%	2.0%	(1.1%)
Profit/(Loss) of Netia SA (stand alone) <sup>1</sup> .....	(20,541)	(40,630)	(2,232)	51,265	(6,827)	(12,387)	(21,416)
Cash and short term deposits .....	130,931	86,324	130,931	93,356	124,611	48,251	86,324
Cash, restricted cash and short term deposits .....	130,944	86,324	130,944	93,369	124,611	48,251	86,324
Debt .....	448,154	370,455	448,154	384,077	385,265	413,708	370,455
Capex related payments .....	184,146	188,699	57,353	97,680	84,551	54,072	50,076
Investments in tangible and intangible fixed assets and investment property .....	171,708	166,290	63,888	107,866	54,554	56,532	55,204
EUR'000 <sup>2</sup>	YTD 2013	YTD 2014	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Revenues .....	341,338	304,141	109,466	107,953	104,028	101,104	99,008
<i>y-o-y % change</i> .....	(11.0%)	(10.9%)	(12.3%)	(13.2%)	(11.5%)	(11.6%)	(9.6%)
Adjusted EBITDA .....	102,184	90,959	34,516	29,742	32,197	29,962	28,800
<i>Margin %</i> .....	29.9%	29.9%	31.5%	27.6%	31.0%	29.6%	29.1%
<i>y-o-y change %</i> .....	(4.5%)	(11.0%)	(8.5%)	(14.1%)	(5.3%)	(11.0%)	(16.6%)
EBITDA .....	99,993	85,084	34,126	27,597	30,171	28,691	26,222
<i>Margin %</i> .....	29.3%	28.0%	31.2%	25.6%	29.0%	28.4%	26.5%
Adjusted EBIT .....	22,916	14,980	8,252	3,634	6,980	4,677	3,323
<i>Margin %</i> .....	6.7%	4.9%	7.5%	3.4%	6.7%	4.6%	3.4%
EBIT .....	20,725	9,105	7,862	1,490	4,954	3,407	745
<i>Margin %</i> .....	6.1%	3.0%	7.2%	1.4%	4.8%	3.4%	0.8%
Adjusted Profit of the Netia Group (consolidated) ....	10,347	8,311	3,685	4,251	4,265	3,016	1,030
<i>Margin %</i> .....	3.0%	2.7%	3.4%	3.9%	4.1%	3.0%	1.0%
Profit/(Loss) of the Netia Group (consolidated) .....	8,572	3,552	3,369	2,514	2,623	1,987	(1,058)
<i>Margin %</i> .....	2.5%	1.2%	3.1%	2.3%	2.5%	2.0%	(1.1%)
Profit/(Loss) of Netia SA (stand alone) <sup>1</sup> .....	(4,919)	(9,731)	(535)	12,278	(1,635)	(2,967)	(5,129)
Cash and short term deposits .....	31,357	20,674	31,357	22,358	29,843	11,556	20,674
Cash, restricted cash and short term deposits .....	31,360	20,674	31,360	22,361	29,843	11,556	20,674
Debt .....	107,329	88,721	107,329	91,983	92,268	99,080	88,721
Capex related payments .....	44,102	45,192	13,736	23,394	20,249	12,950	11,993
Investments in tangible and intangible fixed assets and investment property .....	41,123	39,825	15,301	25,833	13,065	13,539	13,221

<sup>1</sup> The profit of Netia SA (stand alone) is used for purpose of calculation of the amounts available for potential cash distribution to shareholders through dividends or share buy-backs.

<sup>2</sup> The EUR amounts shown in this table and in the entire document have been translated using an exchange rate of PLN 4.1755 = EUR 1.00, the average rate announced by the National Bank of Poland on September 30, 2014. These figures are included for the convenience of the reader only.

Adjusted EBITDA, Adjusted EBIT and Adjusted Profit for 2013 exclude the following items as appropriate: New Netia (Dialog Group & Crowley) integration costs of PLN 9.5m, restructuring expenses of PLN 3.6m, impairment charge of PLN 0.4m, expenses related to M&A activities of PLN 0.6m, a decrease in provision for universal service obligation payment of PLN 0.2m, an impairment charge on valuation of investment property of PLN 2.6, costs of B2B/B2C divisional split of PLN 1.5m and impact from these one-offs on the income tax charge of PLN 3.4m. Items excluded for YTD 2014 are as follows: restructuring expenses of PLN 12.5m, New Netia (Dialog Group & Crowley) integration costs of PLN 6.1m, an impairment charge on discontinuity of Dialog's trademark of PLN 2.5m, costs of Netia Lite savings program of PLN 1.6m, costs of B2B/B2C divisional split of PLN 1.4m, costs related to the settlement with Orange Polska of PLN 0.3m, costs of M&A projects of PLN 0.1m and impact from these one-offs on the income tax charge of PLN 4.6m.

Netia Group's Key Operational Indicators

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
<b>Total services (RGUs)</b>	<b>2,637,912</b>	<b>2,592,260</b>	<b>2,560,019</b>	<b>2,526,357</b>	<b>2,477,463</b>	<b>2,423,693</b>	<b>2,361,457</b>
<i>Broadband data services</i>							
Own infrastructure-based services .....	398,162	397,788	398,892	402,140	402,703	405,412	402,929
<i>Own fixed-line networks</i> .....	381,078	381,255	382,932	386,787	387,870	391,133	389,507
WiMAX .....	17,084	16,533	15,960	15,353	14,833	14,279	13,422
Bitstream access.....	289,522	286,465	282,792	276,857	268,089	258,367	246,939
LLU .....	178,393	175,455	172,481	169,912	166,621	162,566	156,405
<b>Total broadband data services (end of period) .....</b>	<b>866,077</b>	<b>859,708</b>	<b>854,165</b>	<b>848,909</b>	<b>837,413</b>	<b>826,345</b>	<b>806,273</b>
<i>Voice services (excl. CPS)</i>							
Traditional direct voice.....	553,337	545,127	537,422	532,639	526,585	516,458	506,417
<i>incl. ISDN equivalent of lines</i> .....	236,628	235,370	235,228	236,429	240,150	239,464	237,122
<i>incl. legacy wireless</i> .....	45,143	42,943	42,540	42,621	43,190	51,129	49,912
Voice over IP (excl. LLU) <sup>1</sup> .....	79,437	84,844	91,339	98,833	107,678	120,032	124,682
WiMAX voice .....	13,802	13,210	12,575	11,983	11,459	12,827	12,098
Netia network subscriber voice services	646,576	643,181	641,336	643,455	645,722	649,317	643,197
WLR .....	828,850	788,996	760,519	728,693	689,988	651,916	618,164
LLU voice over IP <sup>1</sup> .....	119,449	118,635	117,410	116,462	115,107	113,579	111,056
<b>Total voice services (end of period) .....</b>	<b>1,594,875</b>	<b>1,550,812</b>	<b>1,519,265</b>	<b>1,488,610</b>	<b>1,450,817</b>	<b>1,414,812</b>	<b>1,372,417</b>
<i>TV services (end of period)</i> .....	<b>91,237</b>	<b>100,879</b>	<b>111,358</b>	<b>120,321</b>	<b>127,247</b>	<b>128,866</b>	<b>133,940</b>
<i>Mobile Data services (end of period)</i> .....	<b>29,272</b>	<b>28,906</b>	<b>28,063</b>	<b>26,397</b>	<b>24,763</b>	<b>21,541</b>	<b>21,092</b>
<i>Mobile Voice services (end of period)</i> .....	<b>56,451</b>	<b>51,955</b>	<b>47,168</b>	<b>42,120</b>	<b>37,223</b>	<b>32,129</b>	<b>27,735</b>
<b>Total services (RGUs) by segment<sup>2</sup> (end of period) .....</b>	<b>2,637,912</b>	<b>2,592,260</b>	<b>2,560,019</b>	<b>2,526,357</b>	<b>2,477,463</b>	<b>2,423,693</b>	<b>2,361,457</b>
B2B Division .....	460,730	464,612	469,603	477,713	484,105	491,978	493,883
<i>Business segment</i> .....	456,571	460,330	465,285	473,502	479,609	487,449	489,367
<i>Carrier segment</i> .....	4,159	4,282	4,318	4,211	4,496	4,529	4,516
B2C Division .....	2,142,387	2,093,098	2,056,016	2,014,144	1,959,063	1,897,314	1,832,988
<i>Home segment</i> .....	1,877,839	1,830,042	1,792,530	1,749,930	1,697,056	1,639,586	1,580,369
<i>Share of lines with multiplay services</i> .....	32.2%	32.5%	32.8%	33.7%	34.0%	34.4%	34.8%
<i>SOHO segment</i> .....	264,548	263,056	263,486	264,214	262,007	257,728	252,619
<i>Share of lines with multiplay services</i> .....	47.1%	47.8%	48.1%	48.8%	49.0%	49.1%	49.2%
Other <sup>3</sup> (Petrotel) .....	34,795	34,550	34,400	34,500	34,295	34,401	34,586
<i>Other</i>							
Total on-net services .....	1,135,975	1,141,848	1,151,586	1,165,916	1,175,672	1,183,595	1,180,066
Total off-net services .....	1,501,937	1,450,412	1,408,433	1,360,441	1,301,791	1,240,098	1,181,391
Total net change in on-net services .....	3,574	5,873	9,738	14,330	9,756	7,923	(3,529)
Total net change in off-net services .....	(54,129)	(51,525)	(41,979)	(47,992)	(58,650)	(61,693)	(58,707)
Total net change in Broadband data services .....	(8,701)	(6,369)	(5,543)	(5,256)	(11,496)	(11,068)	(20,072)
Total net change in Voice services .....	(49,029)	(44,063)	(31,547)	(30,655)	(37,793)	(36,005)	(42,395)
Monthly Broadband ARPU (PLN) .....	56	56	56	56	55	56	56
Monthly Voice ARPU in own network (PLN).....	43	42	40	39	38	36	35
Monthly Voice ARPU for WLR (PLN) .....	45	45	45	45	44	44	44
Monthly Voice ARPU blended (PLN) .....	44	44	43	42	41	40	39
Monthly TV ARPU blended (PLN) .....	40	38	37	37	36	37	37
Monthly Mobile Data ARPU blended (PLN).....	25	28	27	27	27	29	29
Monthly Mobile Voice ARPU blended (PLN) .....	27	27	28	29	27	27	30
CPS lines (cumulative) .....	62,013	58,358	57,008	55,922	54,521	52,435	51,788
Monthly Voice ARPU for CPS .....	30	28	26	24	22	20	19
Headcount .....	2,053	2,012	2,012	2,012	1,986	1,933	1,851
Active headcount .....	1,971	1,948	1,930	1,917	1,897	1,788	1,707

<sup>1</sup> Voice over IP customers of Ethernet networks have historically been classified along with LLU voice over IP as they were served by the same VoIP platform. With effect from Q1 2014 and retrospectively, these customers are now correctly classified as Voice over IP (excl. LLU).

<sup>2</sup> Following the reorganisation of its sales channels structure, with effect from Q3 2013 Netia has modified its segment reporting to comprise two main segments, Business to Consumer (B2C) and Business to Business (B2B). Pursuant to this change, the previous SOHO/SME segment has been split such that SOHO becomes a sub-segment of B2C and SME part of the Business sub-segment of B2B. Accordingly, segment reporting of B2C and B2B segments now includes sub-segments as follows: B2C (Home), B2C (SOHO), B2B (Business) and B2B (Carrier). For comparative purposes, KPIs and results have been estimated retrospectively for H1 2013.

<sup>3</sup> Number of services in Dialog and Crowley has been fully integrated under the Netia Group's operating segments. Services at Dialog's subsidiary Petrotel are shown separately under the 'Other' segment.



## B2B Business Unit's Key Operational Indicators

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
<b>B2B's total services (RGUs)</b>	<b>460,730</b>	<b>464,612</b>	<b>469,603</b>	<b>477,713</b>	<b>484,105</b>	<b>491,978</b>	<b>493,883</b>
<i>Broadband data services</i>							
Own infrastructure-based services .....	26,190	26,099	25,921	26,025	25,930	25,755	25,683
<i>Own fixed-line networks</i> .....	25,136	25,089	24,953	25,111	25,053	24,914	24,874
WiMAX .....	1,054	1,010	968	914	877	841	809
Bitstream access.....	11,220	11,797	12,175	12,577	12,676	12,606	12,680
LLU .....	5,856	6,138	6,214	6,355	6,342	6,317	6,267
<b>Total broadband data services (end of period) .....</b>	<b>43,266</b>	<b>44,034</b>	<b>44,310</b>	<b>44,957</b>	<b>44,948</b>	<b>44,678</b>	<b>44,630</b>
<i>Voice services (excl. CPS)</i>							
Traditional direct voice.....	270,158	268,427	267,777	268,729	269,012	268,778	266,839
<i>incl. ISDN equivalent of lines</i> .....	221,548	220,874	221,190	223,102	225,158	224,276	222,692
<i>incl. legacy wireless</i> .....	44,756	42,538	42,117	42,240	42,822	47,553	46,598
Voice over IP (excl. LLU).....	64,742	70,183	76,356	83,626	92,117	102,483	106,854
WiMAX voice .....	2,181	2,084	1,975	1,877	1,807	2,038	1,964
Netia network subscriber voice services	337,081	340,694	346,108	354,232	362,936	373,299	375,657
WLR .....	68,944	68,331	67,762	67,322	65,283	63,329	63,202
LLU voice over IP .....	3,627	3,774	3,815	3,868	3,808	3,754	3,675
<b>Total voice services (end of period) .....</b>	<b>409,652</b>	<b>412,799</b>	<b>417,685</b>	<b>425,422</b>	<b>432,027</b>	<b>440,382</b>	<b>442,534</b>
<i>TV services (end of period)</i> .....	22	25	25	42	71	100	115
<i>Mobile Data services (end of period)</i> .....	2,404	2,626	2,719	2,827	2,933	2,952	3,060
<i>Mobile Voice services (end of period)</i> .....	5,386	5,128	4,864	4,465	4,126	3,866	3,544
<i>Other</i>							
Average monthly ARPU per customer (PLN) .....	475	455	443	431	425	419	414
RGUs per customer <sup>1</sup> .....	6.19	6.19	6.25	6.35	6.48	6.71	6.74

## B2C Business Unit's Key Operational Indicators

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
<b>B2C's total services (RGUs)</b>	<b>2,142,387</b>	<b>2,093,098</b>	<b>2,056,016</b>	<b>2,014,144</b>	<b>1,959,063</b>	<b>1,897,314</b>	<b>1,832,988</b>
<i>Broadband data services</i>							
Own infrastructure-based services .....	356,009	355,719	356,953	359,968	360,524	363,365	360,744
<i>Own fixed-line networks</i> .....	342,846	343,113	344,935	348,551	349,654	353,016	351,195
WiMAX .....	13,163	12,606	12,018	11,417	10,870	10,349	9,549
Bitstream access.....	278,302	274,668	270,617	264,280	255,413	245,761	234,259
LLU .....	172,537	169,317	166,267	163,557	160,279	156,249	150,138
<b>Total broadband data services (end of period) .....</b>	<b>806,848</b>	<b>799,704</b>	<b>793,837</b>	<b>787,805</b>	<b>776,216</b>	<b>765,375</b>	<b>745,141</b>
<i>Voice services (excl. CPS)</i>							
Traditional direct voice.....	266,468	260,260	253,557	248,049	242,445	232,768	224,918
<i>incl. ISDN equivalent of lines</i> .....	14,124	13,552	13,220	12,516	12,004	12,216	11,480
<i>incl. legacy wireless</i> .....	387	405	423	381	368	3,576	3,314
Voice over IP (excl. LLU).....	14,695	14,661	14,983	15,207	15,366	17,348	17,628
WiMAX voice .....	10,464	9,981	9,481	9,000	8,573	9,723	9,090
Netia network subscriber voice services	291,627	284,902	278,021	272,256	266,384	259,839	251,636
WLR .....	759,906	720,665	692,757	661,371	624,705	588,587	554,962
LLU voice over IP .....	115,822	114,861	113,595	112,594	111,299	109,825	107,381
<b>Total voice services (end of period) .....</b>	<b>1,167,355</b>	<b>1,120,428</b>	<b>1,084,373</b>	<b>1,046,221</b>	<b>1,002,388</b>	<b>958,251</b>	<b>913,979</b>
<i>TV services (end of period)</i> .....	90,251	99,859	110,158	118,893	125,532	126,836	131,645
<i>Mobile Data services (end of period)</i> .....	26,868	26,280	25,344	23,570	21,830	18,589	18,032
<i>Mobile Voice services (end of period)</i> .....	51,065	46,827	42,304	37,655	33,097	28,263	24,191
<i>Other</i>							
Average monthly ARPU per customer (PLN) .....	58	58	58	58	58	58	58
RGUs per customer <sup>1</sup> .....	1.37	1.38	1.38	1.40	1.40	1.41	1.42

<sup>1</sup> A customer is defined as a customer location

## Income Statement

(PLN in thousands unless otherwise stated)

Time periods:	YTD 2013 unaudited	YTD 20143 unaudited	Q2 2014 unaudited	Q3 2014 unaudited
Direct Voice .....	619,139	514,867	171,285	162,994
<i>Incl. monthly fees</i> .....	448,024	387,245	128,672	123,324
<i>Incl. calling charges</i> .....	170,537	127,489	42,580	39,614
Indirect Voice .....	15,123	9,943	3,195	3,034
Data .....	545,426	518,220	172,857	170,172
Interconnection revenues .....	66,086	51,791	16,828	17,040
Wholesale services .....	82,596	73,708	25,239	24,105
Other telecommunications revenues .....	90,069	98,547	32,197	34,098
<b>Total telecommunications revenue</b> .....	<b>1,418,439</b>	<b>1,267,076</b>	<b>421,601</b>	<b>411,443</b>
Radio communications and other revenue .....	6,819	2,863	560	1,964
<b>Total revenue</b> .....	<b>1,425,258</b>	<b>1,269,939</b>	<b>422,161</b>	<b>413,407</b>
<b>Cost of sales</b> .....	<b>(952,510)</b>	<b>(872,178)</b>	<b>(291,652)</b>	<b>(287,971)</b>
<i>Interconnection charges</i> .....	(159,441)	(124,349)	(42,475)	(39,415)
<i>Network operations and maintenance</i> .....	(446,876)	(405,956)	(135,969)	(132,355)
<i>Costs of goods sold</i> .....	(4,835)	(10,676)	(2,417)	(6,319)
<i>Depreciation and amortization</i> .....	(269,524)	(261,267)	(86,921)	(87,452)
<i>Salaries and benefits</i> .....	(24,068)	(23,899)	(7,930)	(7,074)
<i>Restructuring</i> .....	(450)	(1,757)	(463)	(761)
<i>Taxes, frequency fees and other expenses</i> .....	(47,316)	(44,274)	(15,477)	(14,595)
<b>Gross profit</b> .....	<b>472,748</b>	<b>397,761</b>	<b>130,509</b>	<b>125,436</b>
<b>Margin (%)</b> .....	<b>33.2%</b>	<b>31.3%</b>	<b>30.9%</b>	<b>30.3%</b>
<b>Selling and distribution costs</b> .....	<b>(270,463)</b>	<b>(234,500)</b>	<b>(76,921)</b>	<b>(81,322)</b>
<i>Advertising and promotion</i> .....	(24,554)	(15,759)	(3,829)	(8,734)
<i>Third party commissions</i> .....	(17,942)	(12,767)	(4,376)	(4,571)
<i>Billing, mailing and logistics</i> .....	(21,104)	(15,255)	(4,997)	(4,721)
<i>Outsourced customer service</i> .....	(11,989)	(9,843)	(2,901)	(3,620)
<i>Impairment of receivables</i> .....	(12,961)	(6,556)	(3,029)	(2,984)
<i>Depreciation and amortization</i> .....	(39,497)	(29,420)	(9,457)	(9,664)
<i>Salaries and benefits</i> .....	(90,257)	(89,904)	(30,380)	(26,966)
<i>Restructuring</i> .....	(1,002)	(3,389)	(515)	(2,024)
<i>Other costs</i> .....	(51,157)	(51,607)	(17,437)	(18,038)
<b>General and administration costs</b> .....	<b>(129,600)</b>	<b>(136,729)</b>	<b>(45,170)</b>	<b>(45,960)</b>
<i>Professional services</i> .....	(6,836)	(6,008)	(1,790)	(2,366)
<i>Electronic data processing</i> .....	(11,711)	(14,056)	(5,388)	(4,225)
<i>Office and car maintenance</i> .....	(10,445)	(11,163)	(2,507)	(5,684)
<i>Depreciation and amortization</i> .....	(21,962)	(26,562)	(9,199)	(9,262)
<i>Salaries and benefits</i> .....	(59,450)	(52,599)	(17,706)	(14,215)
<i>Restructuring</i> .....	(1,398)	(7,389)	(1,060)	(4,071)
<i>Other costs</i> .....	(17,798)	(18,952)	(7,520)	(6,137)
Other income .....	8,257	12,441	5,909	2,813
Other expense .....	(1,657)	(3,779)	(585)	(340)
Other gains/ (losses), net .....	7,253	2,826	482	2,485
<b>EBIT</b> .....	<b>86,538</b>	<b>38,020</b>	<b>14,224</b>	<b>3,112</b>
<b>Margin (%)</b> .....	<b>6.1%</b>	<b>3.0%</b>	<b>3.4%</b>	<b>0.8%</b>
Finance income .....	3,680	3,124	898	1,174
Finance cost .....	(26,848)	(18,966)	(5,802)	(7,561)
<b>Profit before tax</b> .....	<b>63,370</b>	<b>22,178</b>	<b>9,320</b>	<b>(3,275)</b>
Tax benefit / (charge) .....	(27,576)	(7,346)	(1,025)	(1,141)
<b>Profit / (Loss)</b> .....	<b>35,794</b>	<b>14,832</b>	<b>8,295</b>	<b>(4,416)</b>

**EBITDA Reconciliation to Profit**  
(PLN in thousands unless otherwise stated)

Time periods:	YTD 2013 <i>unaudited</i>	YTD 2014 <i>unaudited</i>	Q2 2014 <i>unaudited</i>	Q3 2014 <i>unaudited</i>
<b>Operating Profit</b> .....	<b>86,538</b>	<b>38,020</b>	<b>14,224</b>	<b>3,112</b>
<i>Add back:</i>				
Depreciation and amortization .....	330,983	317,249	105,577	106,378
<b>EBITDA</b> .....	<b>417,521</b>	<b>355,269</b>	<b>119,801</b>	<b>109,490</b>
<i>Add back:</i>				
Impairment charge for non-current assets .....	431	2,503	-	-
Restructuring costs .....	2,850	12,535	2,038	6,856
M&A related costs .....	200	100	40	60
New Netia integration costs .....	5,817	6,133	2,637	1,720
B2B/B2C split costs (N <sup>2</sup> Project) .....	-	1,378	590	246
Decrease in provision for universal service obligation payment .....	(150)	-	-	-
Netia Lite savings program costs .....	-	1,607	-	1,607
Settlement agreement with Orange Polska .....	-	274	-	274
<b>Adjusted EBITDA</b> .....	<b>426,669</b>	<b>379,799</b>	<b>125,106</b>	<b>120,253</b>
<b>Margin (%)</b> .....	<b>29.9%</b>	<b>29.9%</b>	<b>29.6%</b>	<b>29.1%</b>

**Note to Other Income**

(PLN in thousands unless otherwise stated)

Time periods:	YTD 2013 <i>unaudited</i>	YTD 2014 <i>unaudited</i>	Q2 2014 <i>unaudited</i>	Q3 2014 <i>unaudited</i>
Reminder fees and penalties .....	6,092	3,887	1,612	526
Forgiveness of liabilities .....	621	481	60	253
Reversal of provisions .....	-	1,492	1,492	-
Income relating to government grants .....	-	3,330	1,110	1,109
Other operating income .....	1,544	3,251	1,635	925
<b>Total</b> .....	<b>8,257</b>	<b>12,441</b>	<b>5,908</b>	<b>2,813</b>

**Note to Other Expense**

(PLN in thousands unless otherwise stated)

Time periods:	YTD 2013 <i>unaudited</i>	YTD 2014 <i>unaudited</i>	Q2 2014 <i>unaudited</i>	Q3 2014 <i>unaudited</i>
Impairment charges for specific individual assets .....	(1,441)	(3,779)	(585)	(340)
Other expenses .....	(216)	-	-	-
<b>Total</b> .....	<b>(1,657)</b>	<b>(3,779)</b>	<b>(585)</b>	<b>(340)</b>

**Note to Other Gains / (losses), net**

(PLN in thousands unless otherwise stated)

Time periods:	YTD 2013 <i>unaudited</i>	YTD 2014 <i>unaudited</i>	Q2 2014 <i>unaudited</i>	Q3 2014 <i>unaudited</i>
Gain / (loss) on sale of impaired receivables .....	8,023	3,584	663	2,923
Gain / (loss) on disposal of fixed assets .....	(604)	51	88	(114)
Net foreign exchange gains / (losses) .....	(166)	(809)	(269)	(324)
<b>Total</b> .....	<b>7,253</b>	<b>2,826</b>	<b>482</b>	<b>2,485</b>

**Total comprehensive income**

(PLN in thousands unless otherwise stated)

Time periods:	YTD 2013 <i>unaudited</i>	YTD 2014 <i>unaudited</i>	Q2 2014 <i>unaudited</i>	Q3 2014 <i>unaudited</i>
<b>Profit / (Loss)</b> .....	<b>35,794</b>	<b>14,832</b>	<b>8,295</b>	<b>(4,416)</b>
Cash flow hedges .....	4,834	503	(680)	154
Income tax relating to components of other comprehensive income .....	(939)	(97)	110	13
<b>Net other comprehensive Income / (Loss) to be reclassified to profit or loss in subsequent periods</b> .....	<b>3,895</b>	<b>406</b>	<b>(570)</b>	<b>167</b>
Re-measurement gains on a defined benefit plan .....	-	-	-	-
Income tax relating to re-measurement gains on a defined benefit plan .....	-	-	-	-
<b>Net other comprehensive Income / (Loss) not to be reclassified to profit or loss in subsequent periods</b> .....	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other comprehensive Income / (Loss)</b> .....	<b>3,895</b>	<b>406</b>	<b>(570)</b>	<b>167</b>
<b>Total comprehensive Income / (Loss)</b> .....	<b>39,689</b>	<b>15,238</b>	<b>7,725</b>	<b>(4,249)</b>

## Statement of financial position

(PLN in thousands unless otherwise stated)

Time periods:	December 31	March 31	June 30	September 30
	2013 <i>audited</i>	2014 <i>unaudited</i>	2014 <i>unaudited</i>	2014 <i>unaudited</i>
Property, plant and equipment, net .....	1,956,680	1,923,691	1,884,193	1,847,661
Intangible assets .....	538,340	516,785	504,233	488,036
Investment property .....	27,142	27,016	26,891	26,765
Deferred income tax assets .....	92,501	91,114	90,902	92,977
Available for sale financial assets .....	116	116	116	116
Prepaid expenses and accrued income .....	5,544	5,601	6,688	7,521
Derivative financial instruments .....	326	256	-	-
<b>Total non-current assets .....</b>	<b>2,620,649</b>	<b>2,564,579</b>	<b>2,513,023</b>	<b>2,463,076</b>
Inventories .....	2,664	2,296	2,800	2,243
Trade and other receivables .....	191,000	188,192	195,212	178,508
Current income tax receivables .....	5,258	3,864	1,762	316
Prepaid expenses and accrued income .....	24,638	25,431	25,680	21,979
Derivative financial instruments .....	33	34	33	1,070
Financial assets at fair value through profit and loss ...	25	26	24	25
Restricted cash .....	13	-	-	-
Cash and short-term deposits .....	93,356	124,611	48,251	86,324
<b>Total current assets .....</b>	<b>316,987</b>	<b>344,454</b>	<b>273,762</b>	<b>290,465</b>
<b>Total current assets .....</b>	<b>316,987</b>	<b>344,454</b>	<b>273,762</b>	<b>290,465</b>
<b>TOTAL ASSETS .....</b>	<b>2,937,636</b>	<b>2,909,033</b>	<b>2,786,785</b>	<b>2,753,541</b>
Share capital .....	347,911	347,911	347,911	347,911
Supplementary capital .....	1,720,488	1,720,488	1,605,090	1,605,090
Retained earnings .....	82,313	93,266	70,836	66,420
Other components of equity .....	53,792	55,444	55,345	56,526
<b>TOTAL EQUITY .....</b>	<b>2,204,504</b>	<b>2,217,109</b>	<b>2,079,182</b>	<b>2,075,947</b>
Bank loans/Borrowings .....	257,211	257,800	236,541	237,001
Provisions .....	1,876	1,822	1,791	1,508
Deferred income tax liabilities .....	17,746	14,454	13,089	14,319
Deferred income .....	34,175	30,886	29,840	31,004
Derivative financial instruments .....	2,587	2,101	2,470	2,700
Other long-term liabilities .....	3,143	4,436	4,315	3,426
<b>Total non-current liabilities .....</b>	<b>316,738</b>	<b>311,499</b>	<b>288,046</b>	<b>289,958</b>
Trade and other payables .....	231,652	193,551	185,316	197,687
Derivative financial instruments .....	6,449	5,444	5,125	5,088
Borrowings .....	126,866	127,465	177,167	133,454
Other financial liabilities .....	66	65	65	-
Current income tax liabilities .....	57	90	75	247
Provisions .....	11,265	14,106	11,557	13,651
Deferred income .....	40,039	39,704	40,252	37,509
<b>Total current liabilities .....</b>	<b>416,394</b>	<b>380,425</b>	<b>419,557</b>	<b>387,636</b>
<b>Total liabilities .....</b>	<b>733,132</b>	<b>691,924</b>	<b>707,603</b>	<b>677,594</b>
<b>TOTAL EQUITY AND LIABILITIES .....</b>	<b>2,937,636</b>	<b>2,909,033</b>	<b>2,786,785</b>	<b>2,753,541</b>

## Cash Flow Statement

(PLN in thousands unless otherwise stated)

Time periods:	YTD 2013 <i>unaudited</i>	YTD 2014 <i>unaudited</i>	Q2 2014 <i>unaudited</i>	Q3 2014 <i>unaudited</i>
<b>Profit / (Loss)</b> .....	<b>35,794</b>	<b>14,832</b>	<b>8,295</b>	<b>(4,416)</b>
Depreciation and amortization .....	330,983	317,249	105,577	106,378
Impairment charges for specific individual assets .....	1,440	3,779	585	340
Deferred income tax charge / (benefit) .....	14,898	(4,001)	(1,043)	(833)
Interest expense and fees charged on bank loans.....	23,741	18,631	5,578	7,643
Other interest charged .....	210	87	46	8
Share-based compensation .....	2,627	(753)	(2,522)	1,014
Fair value (gains)/losses on financial assets/liabilities .....	(7)	-	2	(1)
Fair value (gains)/losses on derivative financial instruments .....	(424)	(1,442)	(265)	(907)
Foreign exchange (gains)/losses .....	44	(22)	135	(217)
(Gain)/Loss on disposal of fixed assets .....	(66)	3,257	2,232	971
Gain on sale of subsidiary .....	-	(286)	-	-
Changes in working capital .....	35,925	7,480	(25,089)	34,199
<b>Net cash provided by operating activities</b> .....	<b>445,165</b>	<b>358,811</b>	<b>93,531</b>	<b>144,179</b>
Purchase of fixed assets and computer software .....	(184,146)	(188,699)	(54,072)	(50,076)
Proceeds from sale of non-core assets .....	855	563	173	221
(Purchase)/repurchase of treasury bonds / notes .....	50	-	-	-
Sale of investments .....	-	322	-	-
<b>Net cash used in investing activities</b> .....	<b>(183,241)</b>	<b>(187,814)</b>	<b>(53,899)</b>	<b>(49,855)</b>
Government grants received .....	601	1,157	555	573
Dividend payment .....	-	(146,123)	(138,539)	-
Proceeds from borrowings .....	50,000	50,000	50,000	-
Repurchase of own shares .....	(144,198)	-	-	(7,584)
Finance lease payments .....	(1,815)	(405)	(128)	(145)
Overdraft .....	(18,751)	-	43,697	(44,025)
Loan repayments .....	(115,000)	(65,000)	(65,000)	-
Interest repayments .....	(44,382)	(16,163)	(5,639)	(4,948)
Payments of fees relating to bank loans .....	(2,157)	(1,517)	(803)	(339)
Transfer from restricted cash .....	2,051	-	-	-
<b>Net cash used in financing activities</b> .....	<b>(273,651)</b>	<b>(178,051)</b>	<b>(115,857)</b>	<b>(56,468)</b>
<b>Net change in cash and short-term deposits</b> .....	<b>(11,727)</b>	<b>(7,054)</b>	<b>(76,225)</b>	<b>37,856</b>
<b>Effect of exchange rate change on cash and cash equivalents</b> ..	(44)	22	(135)	217
Cash and short-term deposits at the beginning of the period.....	142,702	93,356	124,611	48,251
<b>Cash and short-term deposits at the end of the period</b> .....	<b>130,931</b>	<b>86,324</b>	<b>48,251</b>	<b>86,324</b>

*Definitions*

<b>Active headcount</b>	<ul style="list-style-type: none"> <li>full-time employment equivalent with regard to employees who are not during maternity leaves, non-paid leaves nor long-term sick leaves (above 33 days during calendar year), who are not at military service or who were relieved from the obligation to perform work</li> </ul>
<b>Backbone</b>	<ul style="list-style-type: none"> <li>a telecommunications network designed to carry the telecommunications traffic between the main junctions of the network;</li> </ul>
<b>Bitstream access</b>	<ul style="list-style-type: none"> <li>a type of regulatory broadband access enabling provision of broadband service by an altnet to customers connected by a copper line owned by the incumbent. The altnet connects to the incumbent's data network and may only offer services identical to those of the incumbent, paying it on a retail minus basis for use of its network.</li> </ul>
<b>Broadband SAC</b>	<ul style="list-style-type: none"> <li>a cost per unit related to the acquisition of new customers through broadband access (i.e., Bitstream, LLU, WiMAX, xDSL), including a one-time payment to the incumbent, sales commissions, postal services and the cost of modems sold;</li> </ul>
<b>Broadband ARPU</b>	<ul style="list-style-type: none"> <li>average monthly revenue per broadband port during the period; Broadband ARPU is obtained by dividing the amount of monthly revenues from data services related to provisioning fixed Internet access by the average number of broadband ports, in each case for the referenced three-month period; Where significant promotional discounts are given at the beginning of contracts, revenues are averaged over the life of the contract.</li> </ul>
<b>Broadband port</b>	<ul style="list-style-type: none"> <li>a broadband port which is active at the end of a given period;</li> </ul>
<b>B2B (Business to Business)</b>	<ul style="list-style-type: none"> <li>Netia's business unit responsible for all operations to the business customers and one of two main reporting segments, including B2B (Business) and B2B (Carrier) sub-segments.</li> </ul>
<b>B2C (Business to Consumer)</b>	<ul style="list-style-type: none"> <li>Netia's business unit responsible for all operations to the residential customers and one of two main reporting segments, including B2C (Home) and B2C (SOHO) sub-segments.</li> </ul>
<b>Cash</b>	<ul style="list-style-type: none"> <li>cash and cash equivalents at the end of period;</li> </ul>
<b>Cost of network operations and maintenance</b>	<ul style="list-style-type: none"> <li>cost of rentals of lines and telecommunications equipment, as well as maintenance, services and related expenses necessary to operate our network;</li> </ul>
<b>Data revenues</b>	<ul style="list-style-type: none"> <li>revenues from provisioning Frame Relay (including IP VPN-virtual private network services), lease of lines (including leased lines for carriers), Internet fixed-access services (provided, among others, through bitsteam and WiMAX types of access) and IP Transit;</li> </ul>
<b>Direct voice revenues</b>	<ul style="list-style-type: none"> <li>telecommunications revenues from voice services offered by Netia to its subscribers (through various types of access, including, among others, WiMAX). Direct voice services include the following traffic fractions: local calls, domestic long-distance (DLD) calls, international long distance (ILD) calls, fixed-to-mobile calls and other services (incl. Internet dial-in, emergency calls and 0-80x/0-70x - type calls originated by Netia's subscribers);</li> </ul>
<b>DSLAM</b>	<ul style="list-style-type: none"> <li>technical infrastructure that splits data from voice traffic over a copper line and is deployed in the local network of a telecommunications operator to provide ADSL services to customers connected to a given local network node.</li> </ul>
<b>EBITDA / Adjusted EBITDA</b>	<ul style="list-style-type: none"> <li>to supplement the reporting of our consolidated financial information under IFRS, we will continue to present certain financial measures, including EBITDA. We define EBITDA as profit/(loss) as measured by IFRS, adjusted for depreciation and amortization, financial income and expense and income taxes. EBITDA has been further adjusted for non-cash impairment charges for non-current assets, one-off restructuring expenses related to the cost reduction program, M&amp;A expenses, New Netia integration expenses, B2B/B2C split costs (Project N<sup>2</sup>), impairment charge on market valuation of Netia's investment property and a decrease in provision for universal service obligation payment and is therefore defined as Adjusted EBITDA. We believe EBITDA and related measures of cash flow from operating activities serve as useful supplementary financial indicators in measuring the operating performance of telecommunication companies. EBITDA is not an IFRS measure and should not be considered as an alternative to IFRS measures of profit/(loss) or as an indicator of operating performance or as a measure of cash flows from operations under IFRS or as an indicator of liquidity. The presentation of EBITDA, however, enables investors to focus on period-over-period operating performance, without the impact of non-operational or non-recurring items. It is also among the primary indicators we use in planning and operating the business. You should note that EBITDA is not a uniform or standardized measure and the calculation of EBITDA, accordingly, may vary significantly from company to company, and by itself provides no grounds for comparison with other companies;</li> </ul>
<b>Headcount</b>	<ul style="list-style-type: none"> <li>full time employment equivalents;</li> </ul>

<b>HFC networks</b>	<ul style="list-style-type: none"> <li>Hybrid fiber-coax cable TV networks of former Aster cable operator in Warsaw and Cracow, which were acquired by Netia from UPC Polska in May 2013. Netia is working on connecting these cable networks to its backbone network with a view to provide NGA-based services, including high speed Internet access and TV services.</li> </ul>
<b>Indirect voice revenues</b>	<ul style="list-style-type: none"> <li>telecommunications revenues from the services offered through Netia's prefix (1055) or Tele2 Polska's prefix (1061) to customers being subscribers of other operators. Indirect access services include the following traffic fractions: domestic long-distance (DLD) calls, international long distance (ILD) calls and fixed-to-mobile calls;</li> </ul>
<b>Interconnection charges</b>	<ul style="list-style-type: none"> <li>payments made by Netia to other operators for origination, termination or transfer of traffic using other operators' networks;</li> </ul>
<b>Interconnection revenues</b>	<ul style="list-style-type: none"> <li>payments made by other operators to Netia for origination, termination or transfer of traffic using Netia's network, netted against the cost of traffic termination;</li> </ul>
<b>Local Loop Unbundling (LLU)</b>	<ul style="list-style-type: none"> <li>a type of regulatory broadband access enabling provision of broadband service by an altnet to customers connected by a copper line owned by the incumbent. The altnet installs DSLAM equipment at the incumbent's local network node and connects it to its own backbone network. The altnet may offer broadband and voice service to any customer connected by the incumbent's copper line to the given node. The altnet can offer an unrestricted range of services and pays the incumbent space rental and monthly fees per customer line used.</li> </ul>
<b>Next Generation Access (NGA) networks</b>	<ul style="list-style-type: none"> <li>Fixed-line access networks which consist wholly or in part of optical elements and which are capable of delivering broadband access services with enhanced characteristics (such as higher throughput) as compared to those provided over already existing not upgraded to VDSL copper networks. Netia deploys NGA services over such technologies as VDSL, ETTH, PON, HFC, which allow for high speed Internet access (25 Mbps or higher)</li> </ul>
<b>Professional services</b>	<ul style="list-style-type: none"> <li>costs of legal, financial and other services (excluding insurance and taxes and fees, which are presented separately) provided to Netia by third parties;</li> </ul>
<b>Other telecommunications services revenues</b>	<ul style="list-style-type: none"> <li>revenues from TV, mobile voice and mobile data services, revenues from provisioning Internet dial-in services for Netia's indirect customers (based on a call-back principle and an access number (0-20)); revenues from provisioning free-phone, split-charge and premium rate services (i.e., 0-800, 0-801 and 0-70x type services), netted against the cost of revenue sharing; as well as other non-core revenues;</li> </ul>
<b>Radiocommunications revenue</b>	<ul style="list-style-type: none"> <li>revenues from radio-trunking services provided by Netia's subsidiary, UNI-Net Poland Sp. z o.o.;</li> </ul>
<b>Subscriber line</b>	<ul style="list-style-type: none"> <li>a connected line which became activated and generated revenue at the end of the period;</li> </ul>
<b>Voice ARPU</b>	<ul style="list-style-type: none"> <li>average monthly revenue per direct voice line during the period; ARPU is obtained by dividing the amount of monthly revenues from direct voice services (excluding installation fees) by the average number of subscriber lines, in each case for the referenced three-month period;</li> </ul>
<b>Wholesale Line Rental (WLR)</b>	<ul style="list-style-type: none"> <li>a type of regulatory voice access enabling provision of voice service by an altnet to customers connected by a copper line owned by the incumbent. The altnet connects to the incumbent's voice network and charges the customer for both line rental and calls made. The incumbent receives a payment for line rental plus call origination fees and keeps all interconnection revenues from incoming calls.</li> </ul>
<b>Wholesale services</b>	<ul style="list-style-type: none"> <li>revenues from providing commercial network services such as voice termination, incoming Voice over Internet Protocol (VoIP), telehousing and collocation as well as backbone-based services.</li> </ul>

## Conference call on the Q3 2014 results

Netia management will hold a conference call to review the results on November 6, 2014 at 09:00 AM (UK) / 10:00 AM (Continent) / 04:00 AM (Eastern).

*Dial in numbers:*

(PL) +48 22 397 9053

(UK) +44 20 3003 2666

(US) +1 212 999 6659

*Replay number:*

(UK) +44 20 8196 1998

Passcode: 4211329#

A link to an audio recording of the conference call for replay on a later date will be posted on Netia's investor website ([www.investor.netia.pl](http://www.investor.netia.pl))

For further information, please contact Anna Kuchnio at +48 22 352 2061, email: [anna\\_kuchnio@netia.pl](mailto:anna_kuchnio@netia.pl).

*Some of the information contained in this news release contains forward-looking statements. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward-looking statements as a result of various factors. Netia undertakes no obligation to publicly update or revise any forward-looking statements.*