



## **Quarterly Financial Report**

Containing:

- Independent auditor's review report
- Interim condensed consolidated financial statements as at and for the six-month period ended June 30, 2015

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**N E T I A**



## ***Report on review of interim financial statements***

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

### **Introduction**

We have reviewed the accompanying interim condensed consolidated statement of financial position of Netia S.A. and its subsidiaries (the 'Group') as of June 30, 2015 and the related interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 "Interim financial reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

*PricewaterhouseCoopers Sp. z o.o.*

August 5, 2015

Warsaw, Poland

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NETIA S.A.  
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
As at and for the six-month period ended June 30, 2015

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**NETIA S.A.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**as at June 30, 2015**

*(All amounts in thousands, except as otherwise stated)*

	Note	June 30, 2015 (PLN)	December 31, 2014 (PLN)	Convenience Translation June 30, 2015 (EUR)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment.....	4	1,747,352	1,820,177	416,592
Intangible assets .....	5	432,088	465,299	103,015
Investment property.....		26,388	26,639	6,291
Deferred income tax assets.....	13	81,798	87,226	19,502
Available for sale financial assets.....		116	116	28
Prepaid expenses and accrued income.....		7,937	8,511	1,892
Other long term receivables.....		625	-	149
<b>Total non-current assets.....</b>		<b>2,296,304</b>	<b>2,407,968</b>	<b>547,469</b>
<b>Current assets</b>				
Inventories .....		2,399	2,820	572
Trade and other receivables.....		183,816	168,937	43,824
Current income tax receivables.....	13	21	81,425	5
Prepaid expenses and accrued income.....		25,601	20,157	6,104
Derivative financial instruments.....	7	1,405	2,063	335
Financial assets at fair value through profit and loss.....		22	23	5
Cash and short term deposits.....	6	61,727	207,305	14,717
<b>Total current assets.....</b>		<b>274,991</b>	<b>482,730</b>	<b>65,562</b>
<b>Total assets.....</b>		<b>2,571,295</b>	<b>2,890,698</b>	<b>613,031</b>

\_\_\_\_\_  
Bogusława Matuszewska  
Member of the Supervisory Board acting as Chairman of the Board

\_\_\_\_\_  
Katarzyna Iwuć  
Member of the Management Board  
Chief Financial Officer

\_\_\_\_\_  
Cezary Chałupa  
Member of the Management Board

\_\_\_\_\_  
Tomasz Szopa  
Member of the Management Board

Warsaw, Poland  
August 5, 2015

**NETIA S.A.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)**  
**as at June 30, 2015**

*(All amounts in thousands, except as otherwise stated)*

		June 30, 2015 (PLN)	December 31, 2014 (PLN)	Convenience Translation June 30, 2015 (EUR)
<b>EQUITY</b>				
Share capital .....	8	348,099	348,088	82,991
Supplementary capital.....		1,673,747	1,606,848	399,043
Retained earnings .....		(29,542)	226,301	(7,043)
Other components of equity .....		48,968	61,380	11,675
<b>Total equity</b> .....		<b>2,041,272</b>	<b>2,242,617</b>	<b>486,666</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings.....	9	149,703	200,534	35,690
Provisions.....		1,825	2,237	435
Deferred income tax liability.....	13	15,335	14,319	3,656
Deferred income.....		29,025	29,722	6,920
Other long term liabilities.....		3,052	2,928	728
<b>Total non-current liabilities</b> .....		<b>198,940</b>	<b>249,740</b>	<b>47,429</b>
<b>Current liabilities</b>				
Trade and other payables.....		181,315	235,712	43,230
Derivative financial instruments.....	7	307	37	73
Borrowings.....	9	99,873	100,004	23,811
Provisions.....		16,087	26,860	3,835
Deferred income.....		33,501	35,728	7,987
<b>Total current liabilities</b> .....		<b>331,083</b>	<b>398,341</b>	<b>78,936</b>
<b>Total liabilities</b> .....		<b>530,023</b>	<b>648,081</b>	<b>126,365</b>
<b>Total equity and liabilities</b> .....		<b>2,571,295</b>	<b>2,890,698</b>	<b>613,031</b>

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

**NETIA S.A.**  
**INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT**  
**for the six-month period ended June 30, 2015**

*(All amounts in thousands, except as otherwise stated)*

	Note	Three-month	Six-month	Three-month	Six-month	Convenience
		period ended	period ended	period ended	period ended	Translation
		June 30,	June 30,	June 30,	June 30,	Six-month
		2015	2015	2014	2014	period ended
		(PLN)	(PLN)	(PLN)	(PLN)	June 30,
						2015
						(EUR)
<b>CONDENSED CONSOLIDATED INCOME STATEMENT</b>						
<b>Revenue</b> .....		<b>380,340</b>	<b>769,058</b>	<b>422,161</b>	<b>856,532</b>	<b>183,352</b>
Cost of sales.....		(268,649)	(547,302)	(291,652)	(584,207)	(130,483)
<b>Gross profit</b> .....		<b>111,691</b>	<b>221,756</b>	<b>130,509</b>	<b>272,325</b>	<b>52,869</b>
Selling and distribution costs.....		(77,658)	(148,221)	(76,921)	(153,178)	(35,339)
General and administration costs.....		(31,329)	(68,283)	(45,170)	(90,769)	(16,282)
Other income.....	10	6,885	10,383	5,909	9,628	2,474
Other expenses.....	10	(396)	(838)	(585)	(3,439)	(200)
Other gains, net.....	11	1,051	1,486	482	341	354
<b>Operating profit</b> .....		<b>10,244</b>	<b>16,283</b>	<b>14,224</b>	<b>34,908</b>	<b>3,876</b>
Financial income.....	12	2,097	3,046	898	1,950	726
Financial expense.....	12	(1,655)	(3,898)	(5,802)	(11,405)	(929)
<b>Profit before income tax</b> .....		<b>10,686</b>	<b>15,431</b>	<b>9,320</b>	<b>25,453</b>	<b>3,673</b>
Income tax charge.....	13	(4,122)	(7,606)	(1,025)	(6,205)	(1,813)
<b>Profit</b> .....		<b>6,564</b>	<b>7,825</b>	<b>8,295</b>	<b>19,248</b>	<b>1,860</b>
<b>Earnings per share</b> (expressed in PLN per share)						
- basic.....		0.02	0.02	0.03	0.06	0.01
- diluted.....		0.02	0.02	0.03	0.06	0.01

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

**NETIA S.A.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**for the six-month period ended June 30, 2015**

*(All amounts in thousands, except as otherwise stated)*

Note	Three-month period ended June 30, 2015	Six-month period ended June 30, 2015	Three-month period ended June 30, 2014	Six-month period ended June 30, 2014	Convenience Translation Six-month period ended June 30, 2015
	(PLN)	(PLN)	(PLN)	(PLN)	(EUR)
<b>CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME</b>					
<b>Profit</b> .....	<b>6,564</b>	<b>7,825</b>	<b>8,295</b>	<b>19,248</b>	<b>1,860</b>
Interest rate cash flow hedges .....	-	-	(871)	(20)	-
Foreign exchange rate cash flow hedges (equipment and construction contracts).....	7      22	(331)	191	369	(79)
Income tax relating to components of other comprehensive income.....	3	85	110	(110)	20
<b>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods</b> .....	25	(246)	(570)	239	(59)
<b>TOTAL COMPREHENSIVE INCOME</b> .....	<b>6,589</b>	<b>7,579</b>	<b>7,725</b>	<b>19,487</b>	<b>1,801</b>

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



**NETIA S.A.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**for the six-month period ended June 30, 2015**

*(All amounts in thousands, except as otherwise stated)*

	Note	<u>Other components of equity</u>					Total (PLN)	
		Share capital (PLN)	Supplementary capital (PLN)	Retained earnings (PLN)	Employee share option scheme (PLN)	Hedging reserve (PLN)		Other reserve (PLN)
<b>Balance as at January 1, 2015</b> .....		<b>348,088</b>	<b>1,606,848</b>	<b>226,301</b>	<b>22,238</b>	<b>772</b>	<b>38,370</b>	<b>2,242,617</b>
Profit for the period .....		-	-	7,825	-	-	-	7,825
Other comprehensive income .....		-	-	-	-	(246)	-	(246)
Total comprehensive income .....		-	-	7,825	-	(246)	-	7,579
Appropriation of 2014 profit .....	8	-	66,787	(66,787)	-	-	-	-
Dividend .....	14	-	-	(208,859)	-	-	-	(208,859)
Coverage of Netia's loss on merger .....	8	-	-	11,978	-	-	(11,978)	-
<i>Employee share option scheme:</i>								
- value of services provided .....	8	-	-	-	(61)	-	-	(61)
- issuance of series L shares .....	8	11	116	-	(127)	-	-	-
Cost of issuance .....		-	(4)	-	-	-	-	(4)
<b>Balance as at June 30, 2015</b> .....		<b>348,099</b>	<b>1,673,747</b>	<b>(29,542)</b>	<b>22,050</b>	<b>526</b>	<b>26,392</b>	<b>2,041,272</b>

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

**NETIA S.A.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**for the six-month period ended June 30, 2015**

*(All amounts in thousands, except as otherwise stated)*

	Note	Share capital (PLN)	Supplementary capital (PLN)	Retained earnings (PLN)	Other components of equity			Total (PLN)
					Employee share option scheme (PLN)	Hedging reserve (PLN)	Other reserve (PLN)	
<b>Balance as at January 1, 2014</b> .....		<b>347,911</b>	<b>1,720,488</b>	<b>82,313</b>	<b>21,573</b>	<b>(6,151)</b>	<b>38,370</b>	<b>2,204,504</b>
Profit for the period.....		-	-	19,248	-	-	-	19,248
Other comprehensive income.....		-	-	-	-	239	-	239
Total comprehensive income.....		-	-	19,248	-	239	-	19,487
Dividend.....	14	-	(115,398)	(30,725)	-	-	-	(146,123)
<i>Employee share option scheme:</i>								
- value of services provided.....	8	-	-	-	1,314	-	-	1,314
<b>Balance as at June 30, 2014</b> .....		<b>347,911</b>	<b>1,605,090</b>	<b>70,836</b>	<b>22,887</b>	<b>(5,912)</b>	<b>38,370</b>	<b>2,079,182</b>

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

**NETIA S.A.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**for the six-month period ended June 30, 2015**

*(All amounts in thousands, except as otherwise stated)*

	Note	Six-month period ended June 30, 2015 (PLN)	Six-month period ended June 30, 2014 (PLN)	Convenience Translation Six-month period ended June 30, 2015 (EUR)
Cash flows from operating activities:				
<b>Profit</b> .....		<b>7,825</b>	<b>19,248</b>	<b>1,860</b>
Adjustments for:				
Depreciation and amortization.....	4, 5	207,828	210,871	49,551
Impairment charges for assets.....	4, 5	838	3,439	200
Deferred income tax charge/ (benefit).....	13	6,530	(3,168)	1,557
Interest expense and fees charged on bank loans .....	12	3,314	10,988	790
Other interest charged.....		30	79	7
Share-based compensation.....	8	(61)	(1,767)	(15)
Fair value losses on financial assets / liabilities .....		2	1	-
Fair value (gains) / losses on derivative financial instruments.....	7	476	(535)	113
Foreign exchange losses.....		264	195	63
Loss on disposal of fixed assets.....		2,281	2,286	544
Gain on sale of subsidiary.....	12	-	(286)	-
Changes in working capital.....	15	8,005	(26,719)	1,911
<b>Net cash provided by operating activities</b> .....		<b>237,332</b>	<b>214,632</b>	<b>56,581</b>
Cash flows from investing activities:				
Purchase of fixed assets and computer software .....		(120,039)	(138,623)	(28,616)
Proceeds from sale of fixed assets .....		283	342	67
Sale of subsidiary, net of cash sold.....		-	322	-
<b>Net cash used in investing activities</b> .....		<b>(119,756)</b>	<b>(137,959)</b>	<b>(28,549)</b>
Cash flows from financing activities:				
Government grants received.....		1,157	584	276
Dividends paid.....	14	(208,859)	(138,539)	(49,795)
Finance lease payments.....		(266)	(260)	(63)
Proceeds from borrowings.....	9	-	50,000	-
Loan payments.....	9	(50,000)	(65,000)	(11,921)
Payments of interests, fees and interest rate swap settlements relating to bank loans .....		(4,922)	(12,393)	(1,174)
<b>Net cash used in financing activities</b> .....		<b>(262,890)</b>	<b>(165,608)</b>	<b>(62,677)</b>
<b>Net change in cash and cash equivalents</b> .....		<b>(145,314)</b>	<b>(88,935)</b>	<b>(34,645)</b>
<b>Exchange (losses) on cash and cash equivalents</b> .....		<b>(264)</b>	<b>(195)</b>	<b>(63)</b>
Cash and cash equivalents at beginning of period.....		207,305	93,356	49,425
<b>Cash and cash equivalents at end of period</b> .....		<b>61,727</b>	<b>4,226</b>	<b>14,717</b>

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

**NETIA S.A.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**as at and for the six-month period ended June 30, 2015**

*(All amounts in thousands, except as otherwise stated)*

## **1. The Company and the Netia Group**

Netia S.A. (the "Company" or "Netia") was formed in 1990 as a limited liability company under the laws of Poland and was transformed into a joint stock company in 1992. In 2003 a general meeting of shareholders adopted a resolution changing the Company's name from Netia Holdings S.A. to Netia S.A. The Company is incorporated and domiciled in Poland with its registered office located at ul. Poleccki 13, 02-822 Warsaw, Poland. The parent company is entered in the Register of Entrepreneurs kept by the District Court, XIII Economic Department of the National Court Register, Entry No. KRS 0000041649. The parent company was granted statistical REGON number 011566374. The parent company and other Group entities have an unlimited period of operation.

The interim condensed consolidated financial statements of Netia S.A. for the six-month period ended June 30, 2015 comprising the Company and its subsidiaries, were approved for issuance by the Company's Management Board on August 5, 2015.

The Company and its subsidiaries (together, the "Netia Group") is the largest alternative fixed-line telecommunication operator in Poland. The Netia Group provides various voice telephony, data transmission, television, mobile voice and broadband services. The Group's services are provided to customers by two sales organizations. The business-to-business ("B2B") sales force targets large corporates, small and medium sized enterprises ("SMEs") and other telecommunication operators and the business-to-consumer ("B2C") sales force targets residential and small business customers.

Taking advantage of the opportunities arising from changes in the regulatory environment, the Company concluded a bitstream access agreement ("BSA") with Orange Polska SA (formerly Telekomunikacja Polska SA or "TP SA") and commercially launched its broadband Internet access services over Orange Polska SA's network in January 2007. During 2007 the Company began offering Netia voice services to Orange Polska SA customers including the arrangement whereby the customer pays a monthly fee to Netia as well as the hitherto call by call charges. Netia pays a line rental fee to Orange Polska SA under the Wholesale Line Rental (WLR) administrative decision issued by the telecommunications regulator (Urząd Komunikacji Elektronicznej, "UKE"). During 2008 Netia began to install its own equipment in the Orange Polska SA network nodes using a form of regulated access called Local Loop Unbundling (LLU) and began connecting customers using this form of regulated access.

In September 2008 the Company acquired Tele2 Polska Sp. z o.o. ("Tele2 Polska", merged with Netia in February 2009), a company providing voice and broadband services Poland-wide on the basis of regulated access to the Orange Polska SA network, including call by call, WLR and BSA.

The Netia Group also expanded the footprint of its own network and broadband customer base by acquiring local fast ethernet operators. Since the beginning of 2007, the Netia Group acquired 37 (not in thousands) such operators with a total of 129,808 (not in thousands) active customers. Additionally, the Netia Group acquired 10,723 (not in thousands) customers and related local access networks from other Ethernet operators without purchasing shares in incorporated companies.

To further broaden Netia's product offer, including convergent services, Netia started offering mobile services in September 2008. Netia provides its mobile service based on a Mobile Service Provider Agreement with P4 Sp. z o.o. ("P4"), enabling Netia to buy mobile services wholesale from P4 and resell them as Netia branded mobile services. In the third quarter of 2009, the scope of this cooperation was expanded to cover mobile broadband services as well as mobile handset based voice and data services. In January 2015 Netia signed a new co-operation agreement with P4, which facilitates provisioning of a wider range of mobile services and multiplay packages to Netia customers. Thanks to the newly signed agreement Netia will also expand its portfolio of broadband internet services with the attractive LTE tariffs.

Netia introduced television services into its offering during 2011 and is gradually upgrading its copper and ethernet access networks using VDSL and fibre to the building (FTTB) technology to deliver faster broadband. The upgraded networks better support high bandwidth services such as television and related content services.

In December 2011 Netia acquired Telefonía DIALOG S.A. ("Dialog", which was transformed into Telefonía DIALOG Sp. z o.o. on April 30, 2012) with its subsidiaries Avista Media Sp. z o.o. ("Avista", merged with Dialog in July 2012) and Petrotel Sp. z o.o. ("Petrotel") (together, the "Dialog Group") and Crowley Data Poland Sp. z o.o. ("Crowley", later CDP Netia Sp. z o.o., merged with Netia in August 2012), two other Polish alternative operators, which increased materially the size of the Netia Group. Dialog and Petrotel provide a similar range of telecommunication services to Netia and serve business and residential customers. Crowley was providing telecommunications services exclusively to business customers. Avista was providing call center services mainly for Dialog.

In 2013 Netia acquired a cable TV network covering 446,000 (not in thousands) homes passed in Warsaw and Kraków from UPC Polska Sp. z o.o. (UPC). The network was acquired without any retail subscribers and Netia integrates it with its existing network and offers similar TV, broadband and fixed voice telephony services as are offered over its copper and fiber networks.

Until February 2014 the Netia Group was also engaged in the installation and supply of specialized mobile radio communication services (public trunking) in Poland through its subsidiary UNI-Net Poland Sp. z o.o. (established in May 2009 through a corporate separation from UNI-Net Sp. z o.o. and sold in 2014).

The Company's ordinary shares have been listed on the Warsaw Stock Exchange ("WSE") since July 2000.

### **Going concern**

As at June 30, 2015, the Group's equity amounted to PLN 2,041,272 and the Netia Group had negative net working capital of PLN 56,092 inclusive of cash available of PLN 61,727. As at June 30, 2015 the Netia Group had senior secured debt of PLN 249,576. Netia's operations were free cash flow generative in 2014 and in the first half of 2015 and Management expects this to continue over the medium term. Based on this position, the Management does not believe that events or conditions exist which may cast significant doubt on the Company's ability to continue as a going concern.

**NETIA S.A.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**as at and for the six-month period ended June 30, 2015**

*(All amounts in thousands, except as otherwise stated)*

## **2. Summary of significant accounting policies**

### ***Basis of preparation***

Following European Union regulations, commencing January 1, 2005 Netia as a public company in Poland prepares consolidated financial statements, as required by the Accounting Act of September 29, 1994 (Journal of Laws of 2013, No. 330 with later amendments, "the Accounting Act") in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). As of August 5, 2015, in light of the current process of IFRS endorsement in the EU and the nature of the Netia Group's activities, there is no difference between IFRS applied by the Netia Group and IFRS endorsed by the EU.

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2014, except for new accounting standards adopted as of January 1, 2015. These interim condensed consolidated financial statements do not include all the information and disclosures required in complete sets of financial statements and should be read in conjunction with the audited December 31, 2014 consolidated financial statements and the related notes.

Items included in the financial statements of each of the Netia Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Polish Złoty ("PLN"), which is the Company's functional and presentation currency.

All Euro amounts shown as supplementary information in the consolidated financial statements have been translated from PLN only as a matter of arithmetic computation using the official rate of the National Bank of Poland at June 30, 2015 of PLN 4.1944 to EUR 1.00. These amounts are included for the convenience of the reader only. Such translation should not be construed as a representation that the PLN amounts have been or could be converted into Euros at this or any other rate.

The consolidated financial statements are prepared under the historic cost convention as modified by the revaluation of available-for-sale financial assets and financial assets and financial liabilities at fair value through profit and loss. However, until December 31, 1996, Poland was considered to be a hyperinflationary economy. The consolidated financial statements for the periods through that date were prepared under the historical cost convention as adjusted for the effects of inflation in accordance with IAS 29, "Financial Reporting in Hyperinflationary Economies". The inflated values in PLN at December 31, 1996 for balance sheet items became the new historical basis for subsequent periods.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. The areas where assumptions and estimates are significant to the interim condensed consolidated financial statements include property, plant and equipment and intangible assets (estimation of the recoverable amount and economic useful lives) and deferred income tax (estimation of future taxable profits).

Costs that arise unevenly during the financial year are anticipated or deferred in the interim consolidated financial statements only if it would be also appropriate to anticipate or defer such costs at the end of the financial year.

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

### ***New standards, interpretations and amendments to existing standards***

#### ***Adoption of new accounting standards, interpretations and amendments***

In 2015 Netia Group has adopted following new accounting standards, interpretations and amendments to existing standards:

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (issued on 21 November 2013) – effective for financial years beginning on or after 1 July 2014. The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.
- Annual Improvements to IFRSs 2011-2013 – effective for financial years beginning on or after 1 July 2014. The improvements consist of changes to four standards. Improvement concern presentation, recognition and valuation as well as terminology and editorial changes.
- IFRIC 21 "Levies" – effective for financial years beginning on or after 1 January 2014. The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements.

The adoption of the above new accounting standards, interpretations and amendments did not have a significant impact on these interim condensed financial statements.

#### ***Standards, interpretations and amendments to published standards that are not yet effective***

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2015 and have not been adopted early:

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- IFRS 9 "Financial Instruments" replacing IAS 39. IFRS 9 introduces one model, according to which financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value and those to be measured subsequently at amortised cost. Classification on initial recognition is driven by the entity's business model for managing the financial assets and the contractual cash flows characteristics. IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. The key change is the requirement to present in other comprehensive income, a significant change in credit risk relating to financial liabilities designated to be measured at fair value through profit and loss. Hedge accounting requirements were amended to align accounting more closely with risk management. This standard is effective for financial years beginning on 1 January 2018. The amendments have not yet been endorsed by the EU.
- IFRS 14 Regulatory Deferral Accounts – effective for financial years beginning on or after 1 January 2016. The amendments have not yet been endorsed by the EU.
- Annual Improvements to IFRSs 2010-2012 that consist of changes to seven standards. The amendments are effective in European Union for financial years beginning on or after 1 February 2015. Improvements concern presentation, recognition and valuation as well as terminology and editorial changes. The Netia Group will apply the improvements from 1 January 2016.
- Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation" – effective for financial years beginning on or after 1 January 2016. The amendments have not yet been endorsed by the EU.
- Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" – effective for financial years beginning on or after 1 January 2016. The amendments have not yet been endorsed by the EU.
- IFRS 15 "Revenue from Contracts with Customers" – effective for financial years beginning on or after 1 January 2018. This standard has not yet been endorsed by the EU.
- Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants" – effective for financial years beginning on or after 1 January 2016. The amendments have not yet been endorsed by the EU.
- Amendments to IAS 27 "Equity Method in Separate Financial Statements" – effective for financial years beginning on or after 1 January 2016. The amendments have not yet been endorsed by the EU.
- Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" – effective for financial years beginning on or after 1 January 2016. The amendments have not yet been endorsed by the EU.
- Annual Improvements to IFRSs 2012-2014 – effective for financial years beginning on or after 1 January 2016. The amendments have not yet been endorsed by the EU.
- Amendments to IAS 1 – effective for financial years beginning on or after 1 January 2016. The amendments have not yet been endorsed by the EU.
- Amendments to IFRS 10, IFRS 12 and IAS 28 concerning the exemption from preparing consolidated financial statements by investment entities – effective for financial years beginning on or after 1 January 2016. The amendments have not yet been endorsed by the EU.

Management is currently assessing the impact of the above standards and interpretations on the Netia Group's operations..

### **3. Segment information**

Following a sales force reorganization that was effective from July 1, 2013, for management purposes the Netia Group is organized into business units based on their customer segments, and has two reportable operating segments, as follows:

- Business-to-consumer ("B2C"),
- Business-to business ("B2B").

Management monitors the operating results of its customer segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on EBITDA (defined as operating profit / (loss) excluding depreciation and amortization) and Adjusted EBITDA (defined as operating profit / (loss) excluding depreciation and amortization as well as significant one-off transactions) which is derived from the information in the consolidated financial statements. The Netia Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments. As Netia considers its network to be a single cash generating unit, non-current assets are not acquired by individual operating segments, but shared between them. In order to produce operating profit ("EBIT") for each segment, depreciation and amortization from the shared assets also has to be allocated. The Company uses expected future cash flows from each segment as a basis to allocate depreciation and amortization. The resulting allocations can be volatile between periods, but unlike EBITDA, Management does not place reliance on these segment EBIT results for decision making purposes.

Group subsidiaries Petrotel and Uni-Net (sold on February 6, 2014) are assigned to the unallocated segment as they operate as separate organizations from the rest of the Netia Group. No operating segments have been aggregated to form the above reportable operating segments.

With effect from the beginning of the second quarter of 2014, the Netia Group began operating as two functionally organised business units serving the B2B and B2C customer segments, both supported by a single network organisation and support functions. This reorganisation was reflected retrospectively in the segment information presented below. Whilst revenue trends have been not materially affected, costs have shifted from the unallocated segment to the business units, resulting in significant changes to the Adjusted EBITDA margins of each segment.

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The following tables present revenue and profit / (loss) information regarding the Netia Group's operating segments for the six-month and the three-month periods ended June 30, 2015 and 2014, respectively:

	<b>B2C</b>	<b>B2B</b>	<b>Total reportable segments</b>	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
<b>Six-month period ended June 30, 2015</b>					
<b>Revenue from external customers</b> .....	<b>428,870</b>	<b>327,946</b>	<b>756,816</b>	12,242	769,058
<b>Adjusted EBITDA</b> .....	<b>80,911</b>	<b>136,899</b>	<b>217,810</b>	5,302	223,112
Integration costs.....	(151)	(50)	(201)	-	(201)
Restructuring costs.....	289	171	460	14	474
Return of judicial deposit.....	2,000	2,000	4,000	-	4,000
Reorganization costs.....	(1,380)	(822)	(2,202)	-	(2,202)
Expenses incurred on mergers and acquisitions.....	(663)	(409)	(1,072)	-	(1,072)
<b>EBITDA</b> .....	<b>81,006</b>	<b>137,789</b>	<b>218,795</b>	5,316	224,111
Depreciation and Amortization.....	<b>(70,948)</b>	<b>(132,820)</b>	<b>(203,768)</b>	(4,060)	(207,828)
<b>Operating profit</b> .....	<b>10,058</b>	<b>4,969</b>	<b>15,027</b>	1,256	16,283
Finance income/ (costs), net.....	-	-	-	(852)	(852)
Income tax charge.....	-	-	-	(7,606)	(7,606)
<b>Profit / (Loss)</b> .....	<b>10,058</b>	<b>4,969</b>	<b>15,027</b>	(7,202)	7,825
Capital expenditure.....	<b>47,280</b>	<b>54,389</b>	<b>101,669</b>	2,920	104,589

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	<b>B2C</b>	<b>B2B</b>	<b>Total reportable segments</b>	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
<b>Six-month period ended June 30, 2014*</b>					
<b>Revenue from external customers</b> .....	<b>506,746</b>	<b>337,450</b>	<b>844,196</b>	12,336	856,532
<b>Adjusted EBITDA</b> .....	<b>120,732</b>	<b>133,783</b>	<b>254,515</b>	5,031	259,546
Integration costs.....	(2,897)	(1,516)	(4,413)	-	(4,413)
Restructuring costs.....	(2,840)	(2,839)	(5,679)	-	(5,679)
Impairment loss.....	(1,251)	(1,252)	(2,503)	-	(2,503)
Reorganization costs.....	(716)	(416)	(1,132)	-	(1,132)
Expenses incurred on mergers and acquisitions.....	(25)	(15)	(40)	-	(40)
<b>EBITDA</b> .....	<b>113,003</b>	<b>127,745</b>	<b>240,748</b>	5,031	245,779
Depreciation and Amortization.....	<b>(72,318)</b>	<b>(134,634)</b>	<b>(206,952)</b>	(3,919)	(210,871)
<b>Operating profit / (loss)</b> .....	<b>40,685</b>	<b>(6,889)</b>	<b>33,796</b>	1,112	34,908
Finance income/ (costs), net.....	-	-	-	(9,455)	(9,455)
Income tax charge.....	-	-	-	(6,205)	(6,205)
<b>Profit / (Loss)</b> .....	<b>40,685</b>	<b>(6,889)</b>	<b>33,796</b>	(14,548)	19,248
Capital expenditure.....	<b>47,983</b>	<b>50,518</b>	<b>98,501</b>	12,615	111,116

\* The comparative segment information was adjusted to reflect the functional reorganization. As a result, as compared to previously reported, EBITDA for the six month period ended June 30, 2014 in B2C and B2B segments decreased by PLN (36,858) and PLN (36,842), respectively and revenue from external customers for the six month period ended June 30, 2014 in B2C and B2B segments changed by PLN 10,599 and PLN (9,093), respectively.



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	<b>B2C</b>	<b>B2B</b>	<b>Total reportable segments</b>	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
<b>Three-month period ended June 30, 2015</b>					
<b>Revenue from external customers</b> .....	<b>210,518</b>	<b>163,628</b>	<b>374,146</b>	6,194	380,340
<b>Adjusted EBITDA</b> .....	<b>35,994</b>	<b>71,033</b>	<b>107,027</b>	2,790	109,817
Integration costs.....	(14)	(4)	(18)	-	(18)
Restructuring costs.....	252	136	388	-	388
Return of the judicial deposit.....	2,000	2,000	4,000	-	4,000
Reorganization costs.....	(733)	(428)	(1,161)	-	(1,161)
Expenses incurred on mergers and acquisitions.....	(250)	(154)	(404)	-	(404)
<b>EBITDA</b> .....	<b>37,249</b>	<b>72,583</b>	<b>109,832</b>	2,790	112,622
Depreciation and Amortization.....	<b>(34,894)</b>	<b>(65,433)</b>	<b>(100,327)</b>	(2,051)	(102,378)
<b>Operating profit</b> .....	<b>2,355</b>	<b>7,150</b>	<b>9,505</b>	739	10,244
Finance income/ (costs), net.....	-	-	-	442	442
Income tax charge.....	-	-	-	(4,122)	(4,122)
<b>Profit / (Loss)</b> .....	<b>2,355</b>	<b>7,150</b>	<b>9,505</b>	(2,941)	6,564
Capital expenditure.....	<b>23,387</b>	<b>33,038</b>	<b>56,425</b>	1,551	57,976

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	<b>B2C</b>	<b>B2B</b>	<b>Total reportable segments</b>	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
<b>Three-month period ended June 30, 2014*</b>					
<b>Revenue from external customers</b> .....	<b>248,307</b>	<b>167,618</b>	<b>415,925</b>	6,236	422,161
<b>Adjusted EBITDA</b> .....	<b>56,994</b>	<b>65,625</b>	<b>122,619</b>	2,487	125,106
Integration costs.....	(1,724)	(913)	(2,637)	-	(2,637)
Restructuring costs.....	(1,019)	(1,019)	(2,038)	-	(2,038)
Reorganization costs.....	(372)	(218)	(590)	-	(590)
Expenses incurred on mergers and acquisitions.....	(25)	(15)	(40)	-	(40)
<b>EBITDA</b> .....	<b>53,854</b>	<b>63,460</b>	<b>117,314</b>	2,487	119,801
Depreciation and Amortization.....	<b>(36,191)</b>	<b>(67,443)</b>	<b>(103,634)</b>	(1,943)	(105,577)
<b>Operating profit / (loss)</b> .....	<b>17,663</b>	<b>(3,983)</b>	<b>13,680</b>	544	14,224
Finance income/ (costs), net.....	-	-	-	(4,904)	(4,904)
Income tax charge.....	-	-	-	(1,025)	(1,025)
<b>Profit / (Loss)</b> .....	<b>17,663</b>	<b>(3,983)</b>	<b>13,680</b>	(5,385)	8,295
Capital expenditure.....	<b>21,745</b>	<b>27,882</b>	<b>49,627</b>	6,933	56,560

\* The comparative segment information was adjusted to reflect the functional reorganization. As a result, as compared to previously reported, EBITDA for the three month period ended June 30, 2014 in B2C and B2B segments decreased by PLN (21,097) and PLN (14,583), respectively and revenue from external customers for the three month period ended June 30, 2014 in B2C and B2B segments changed by PLN 5,120 and PLN (4,570), respectively.

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

	<b>Three-month period ended June 30, 2015</b>	<b>Six-month period ended June 30, 2015</b>	<b>Three-month period ended June 30, 2014</b>	<b>Six-month period ended June 30, 2014</b>
	(PLN)	(PLN)	(PLN)	(PLN)
Operating profit for reportable segments.....	9,505	15,027	13,680	33,796
Operating profit for Petrotel business.....	850	1,599	687	1,302
Operating profit for the Uni-Net radio communication business.....	-	-	-	25
General fixed costs (incl. administration, IT, professional services).....	(336)	(673)	(300)	(588)
Reorganization and restructuring costs.....	-	14	-	-
Other operating income.....	225	316	157	373
Finance income/(costs), net.....	442	(852)	(4,904)	(9,455)
Income tax charge.....	(4,122)	(7,606)	(1,025)	(6,205)
<b>Profit</b> .....	<b>6,564</b>	<b>7,825</b>	<b>8,295</b>	<b>19,248</b>

The Netia Group operates in one geographical area, which is the territory of Poland.

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**4. Property, plant and equipment**

*Current period:*

	<b>Buildings</b>	<b>Land</b>	<b>Fixed telecommunications network</b>	<b>Telecommunications equipment</b>	<b>Machinery and equipment</b>	<b>Office furniture and equipment</b>	<b>Vehicles</b>	<b>Fixed assets under construction</b>	<b>Total</b>
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Gross book value as at January 1, 2015 .....	111,854	10,583	2,677,284	2,583,468	147,392	69,922	790	103,098	5,704,391
Additions.....	-	-	-	-	-	-	-	89,934	89,934
Purchase of ready made equipment.....	-	-	1,645	-	-	-	-	-	1,645
Transfers .....	349	-	31,164	41,478	2,238	2,376	(226)	(77,379)	-
Disposals .....	(62)	-	(96)	(4,946)	(233)	(5,995)	(272)	(9)	(11,613)
Other movements.....	(7)	-	(96)	(325)	342	86	-	-	-
<b>Gross book value as at June 30, 2015.....</b>	<b>112,134</b>	<b>10,583</b>	<b>2,709,901</b>	<b>2,619,675</b>	<b>149,739</b>	<b>66,389</b>	<b>292</b>	<b>115,644</b>	<b>5,784,357</b>
Accumulated depreciation as at January 1, 2015.....	49,900	-	1,337,174	1,680,119	98,612	56,029	774	-	3,222,608
Depreciation expense.....	3,039	-	66,786	83,462	4,623	3,400	47	-	161,357
Disposals .....	(62)	-	(27)	(2,692)	(195)	(5,638)	(545)	-	(9,159)
Other movements.....	(5)	-	94	(412)	265	58	-	-	-
<b>Accumulated depreciation as at June 30, 2015.....</b>	<b>52,872</b>	<b>-</b>	<b>1,404,027</b>	<b>1,760,477</b>	<b>103,305</b>	<b>53,849</b>	<b>276</b>	<b>-</b>	<b>3,374,806</b>
Accumulated impairment as at January 1, 2015.....	6,628	-	359,447	270,856	14,214	2,715	16	7,730	661,606
Impairment charge for specific assets.....	-	-	-	-	-	-	-	838	838
Disposals .....	-	-	(11)	(76)	(1)	(42)	-	(321)	(451)
Other movements.....	(1)	-	(4)	(79)	61	23	-	206	206
<b>Accumulated impairment as at June 30, 2015.....</b>	<b>6,627</b>	<b>-</b>	<b>359,432</b>	<b>270,701</b>	<b>14,274</b>	<b>2,696</b>	<b>16</b>	<b>8,453</b>	<b>662,199</b>
Net book value as at January 1, 2015.....	55,326	10,583	980,663	632,493	34,566	11,178	-	95,368	1,820,177
<b>Net book value as at June 30, 2015.....</b>	<b>52,635</b>	<b>10,583</b>	<b>946,442</b>	<b>588,497</b>	<b>32,160</b>	<b>9,844</b>	<b>-</b>	<b>107,191</b>	<b>1,747,352</b>

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**4. Property, plant and equipment (cont'd)**

*Comparative period:*

	<b>Buildings</b>	<b>Land</b>	<b>Fixed telecommunications network</b>	<b>Telecommunications equipment</b>	<b>Machinery and equipment</b>	<b>Office furniture and equipment</b>	<b>Vehicles</b>	<b>Fixed assets under construction</b>	<b>Total</b>
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Gross book value as at January 1, 2014 .....	112,678	10,583	2,602,216	2,473,961	147,040	90,932	1,533	122,898	5,561,841
Additions.....	-	-	55	15	8	99	-	94,293	94,470
Transfers.....	174	-	26,804	50,595	2,701	1,052	-	(81,326)	-
Sale of Uni-Net.....	(752)	-	(11)	(5,829)	(965)	(542)	-	-	(8,099)
Disposals.....	(185)	-	(892)	(8,050)	(757)	(17,920)	(374)	(236)	(28,414)
Other movements.....	(134)	-	(48)	3,839	(3,673)	16	-	-	-
<b>Gross book value as at June 30, 2014.....</b>	<b>111,781</b>	<b>10,583</b>	<b>2,628,124</b>	<b>2,514,531</b>	<b>144,354</b>	<b>73,637</b>	<b>1,159</b>	<b>135,629</b>	<b>5,619,798</b>
Accumulated depreciation as at January 1, 2014.....	44,579	-	1,199,083	1,529,348	94,853	69,256	1,362	-	2,938,481
Depreciation expense.....	3,215	-	69,308	80,531	4,598	4,633	89	-	162,374
Sale of Uni-Net.....	(671)	-	(10)	(5,453)	(855)	(538)	-	-	(7,527)
Disposals.....	(138)	-	(83)	(5,197)	(612)	(16,212)	(321)	-	(22,563)
Other movements.....	(48)	-	(92)	3,997	(3,868)	11	-	-	-
<b>Accumulated depreciation as at June 30, 2014.....</b>	<b>46,937</b>	<b>-</b>	<b>1,268,206</b>	<b>1,603,226</b>	<b>94,116</b>	<b>57,150</b>	<b>1,130</b>	<b>-</b>	<b>3,070,765</b>
Accumulated impairment as at January 1, 2014.....	6,746	-	359,458	272,452	14,311	4,368	16	9,329	666,680
Impairment charge for specific assets.....	-	-	-	-	-	-	-	936	936
Sale of Uni-Net.....	(73)	-	(1)	(264)	(110)	(4)	-	(1)	(453)
Disposals.....	(47)	-	(20)	(495)	(96)	(1,393)	-	(319)	(2,370)
Other movements.....	-	-	(16)	(107)	121	2	-	47	47
<b>Accumulated impairment as at June 30, 2014.....</b>	<b>6,626</b>	<b>-</b>	<b>359,421</b>	<b>271,586</b>	<b>14,226</b>	<b>2,973</b>	<b>16</b>	<b>9,992</b>	<b>664,840</b>
Net book value as at January 1, 2014.....	61,353	10,583	1,043,675	672,161	37,876	17,308	155	113,569	1,956,680
<b>Net book value as at June 30, 2014.....</b>	<b>58,218</b>	<b>10,583</b>	<b>1,000,497</b>	<b>639,719</b>	<b>36,012</b>	<b>13,514</b>	<b>13</b>	<b>125,637</b>	<b>1,884,193</b>

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**5. Intangible assets**

	Licences					Computer software costs				Total (PLN)
	Goodwill (PLN)	Trademark/ other (PLN)	Local telecommunication licenses / permits (PLN)	Data communications and internet licenses / permits (PLN)	Domestic long-distance licenses / permits (PLN)	WiMAX licenses (PLN)	Computer software (PLN)	Capital work in progress (PLN)	Customer relationships (PLN)	
Gross book value as at January 1, 2015 .....	359,904	18,399	432,823	7,417	107,354	20,329	516,313	6,093	226,187	1,694,819
Additions.....	-	-	-	-	-	-	-	13,009	-	13,009
Transfers.....	-	-	-	-	-	-	15,750	(15,750)	-	-
<b>Gross book value as at June 30, 2015.....</b>	<b>359,904</b>	<b>18,399</b>	<b>432,823</b>	<b>7,417</b>	<b>107,354</b>	<b>20,329</b>	<b>532,063</b>	<b>3,352</b>	<b>226,187</b>	<b>1,707,828</b>
Accumulated amortization as at January 1, 2015 .....	-	15,295	309,697	1,539	83,403	10,866	370,816	-	170,587	962,203
Amortization expense.....	-	120	7,577	-	4,484	704	18,792	-	14,543	46,220
<b>Accumulated amortization as at June 30, 2015.....</b>	<b>-</b>	<b>15,415</b>	<b>317,274</b>	<b>1,539</b>	<b>87,887</b>	<b>11,570</b>	<b>389,608</b>	<b>-</b>	<b>185,130</b>	<b>1,008,423</b>
Accumulated impairment as at January 1, 2015 .....	79,203	2,503	115,549	5,878	13,231	974	49,780	-	199	267,317
Other changes.....	-	-	-	-	-	-	-	-	-	-
<b>Accumulated impairment as at June 30, 2015.....</b>	<b>79,203</b>	<b>2,503</b>	<b>115,549</b>	<b>5,878</b>	<b>13,231</b>	<b>974</b>	<b>49,780</b>	<b>-</b>	<b>199</b>	<b>267,317</b>
Net book value as at January 1, 2015 .....	280,701	601	7,577	-	10,720	8,489	95,717	6,093	55,401	465,299
<b>Net book value as June 30, 2015 .....</b>	<b>280,701</b>	<b>481</b>	<b>-</b>	<b>-</b>	<b>6,236</b>	<b>7,785</b>	<b>92,675</b>	<b>3,352</b>	<b>40,858</b>	<b>432,088</b>

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**5. Intangible assets (cont'd)**

*Comparative period:*

	Licences					Computer software costs				Total (PLN)
	Goodwill (PLN)	Trademark/ other (PLN)	Local telecommunication licenses / permits (PLN)	Data communications and internet licenses / permits (PLN)	Domestic long-distance licenses / permits (PLN)	WiMAX licenses (PLN)	Computer software (PLN)	Capital work in progress (PLN)	Customer relationships (PLN)	
Gross book value as at January 1, 2014.....	359,904	18,310	432,823	7,417	107,354	20,329	476,482	14,844	226,233	1,663,696
Additions.....	-	-	-	-	-	-	207	16,436	-	16,643
Transfers.....	-	-	-	-	-	-	19,143	(19,143)	-	-
Sale of Uni-Net.....	-	-	-	-	-	-	(412)	-	-	(412)
<b>Gross book value as at June 30, 2014.....</b>	<b>359,904</b>	<b>18,310</b>	<b>432,823</b>	<b>7,417</b>	<b>107,354</b>	<b>20,329</b>	<b>495,420</b>	<b>12,137</b>	<b>226,233</b>	<b>1,679,927</b>
Accumulated amortization as at January 1, 2014.....	-	13,483	291,051	1,539	76,052	9,456	335,762	-	140,375	867,718
Amortization expense.....	-	1,348	9,323	-	3,675	705	18,061	-	15,134	48,246
Sale of Uni-Net.....	-	-	-	-	-	-	(406)	-	-	(406)
<b>Accumulated amortization as at June 30, 2014.....</b>	<b>-</b>	<b>14,831</b>	<b>300,374</b>	<b>1,539</b>	<b>79,727</b>	<b>10,161</b>	<b>353,417</b>	<b>-</b>	<b>155,509</b>	<b>915,558</b>
Accumulated impairment as at January 1, 2014.....	79,203	-	115,549	5,878	13,231	974	42,604	-	199	257,638
Impairment charge for assets *.....	-	2,503	-	-	-	-	-	-	-	2,503
Sale of Uni-Net.....	-	-	-	-	-	-	(5)	-	-	(5)
<b>Accumulated impairment as at June 30, 2014.....</b>	<b>79,203</b>	<b>2,503</b>	<b>115,549</b>	<b>5,878</b>	<b>13,231</b>	<b>974</b>	<b>42,599</b>	<b>-</b>	<b>199</b>	<b>260,136</b>
Net book value as at January 1, 2014.....	280,701	4,827	26,223	-	18,071	9,899	98,116	14,844	85,659	538,340
<b>Net book value as June 30, 2014.....</b>	<b>280,701</b>	<b>976</b>	<b>16,900</b>	<b>-</b>	<b>14,396</b>	<b>9,194</b>	<b>99,404</b>	<b>12,137</b>	<b>70,525</b>	<b>504,233</b>

\* The impairment charge of PLN 2,503 was recorded upon the decision to discontinue using Dialog's trademark.

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**6. Cash and short term deposits**

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
	<b>(PLN)</b>	<b>(PLN)</b>
Cash and short term deposits.....	61,727	207,305

**7. Financial instruments**

***Derivative financial instruments***

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
	<b>(PLN)</b>	<b>(PLN)</b>
Derivative financial assets:		
Forward contracts .....	1,405	2,063
	<b>1,405</b>	<b>2,063</b>
Of which:		
Current.....	1,405	2,063
Non-current.....	-	-
Derivative financial liabilities:		
Forward contracts .....	307	37
	<b>307</b>	<b>37</b>
Of which:		
Current.....	307	37
Non-current.....	-	-

***Forward contracts***

In order to mitigate the currency risk related to the planned payments to be made under equipment and construction contracts which are indexed to foreign currencies the Company entered into several forward transactions to purchase USD and EUR for periods consistent with currency transaction exposures, generally up to 12 months. For these forward contracts hedge accounting was applied. Net fair value gains on forward contracts recognized in the hedging reserve in equity as of June 30, 2015 amounted to PLN 526, net of tax. Net fair value losses on forward contracts recognized in other comprehensive income on these contracts in the six-month period ended June 30, 2015 amounted to PLN 246, net of tax. During the six-month period ended June 30, 2015, PLN 533 of net cash gains on closed forward contracts were capitalized, and the ineffective portion of open forward contracts of PLN 10 was recorded as finance costs.

Furthermore, in order to mitigate the currency risk related to the planned payments to be made under commercial contracts associated with various types of operating expense which are linked to foreign currency, the Company entered into several forward transactions to purchase USD and EUR for periods consistent with currency transaction exposures, generally up to 12 months. For these forward contracts hedge accounting was not applied. During the six-month period ended June 30, 2015, PLN 476 of fair value losses on open forward contracts were recorded as finance costs.

**8. Shareholders' equity**

***Share capital (not in thousands)***

At December 31, 2014, the Company's share capital consisted of 348,087,394 ordinary shares and 1,000 series A1 shares with a par value of PLN 1 per share. Each ordinary share has one vote at the shareholders' meeting. The holder of 1,000 series A1 shares has the right to nominate one member of the Supervisory Board. The majority of votes of the Supervisory Board elect the Management Board.

On April 24, 2015, the Company issued from its authorized capital 10,631 ordinary bearer series L shares with a nominal value of PLN 1 each, which give the right to 10,631 votes at Netia's general meeting of shareholders. The Series L Shares were issued due to the exercise of rights attached to 10,631 Series 1 subscription warrants, authorizing their holders to subscribe for the Series L Shares prior to the Company's shareholders ("Series 1 Warrants"). In connection with the exercise of rights from the Series 1 Warrants, those warrants expired.

At June 30, 2015, the Company's share capital consisted of 348,098,025 ordinary shares and 1,000 series A1 shares with a par value of PLN 1 per share.

***Supplementary capital***

The Annual General Meeting of the Company, held on June 2, 2015, resolved that Company's net profit from 2014 that remained after dividend payout (see Note 14) in the amount of PLN 66,787 will be allocated to the supplementary capital.

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**Other supplementary capital**

The Annual General Meeting of the Company, held on June 2, 2015, resolved that the Company's uncovered loss from previous years of PLN 11,978 resulting from a merger of a subsidiary with the Company will be covered in full from the other reserve capital.

**Distributable reserves**

In accordance with the Polish Code of Commercial Companies of 15 September 2000 (Journal of Laws of 2000, No. 94, item 1037 as amended) only those reserves, which relate to net profits of individual companies shown in their statutory financial statements, are available for distribution to shareholders. As at June 30, 2015, the distributable reserves of Netia S.A. amounted to PLN 324,386.

**Stock options (not in thousands)**

On May 26, 2010, the Annual Shareholders Meeting resolved to adopt a set of rules ("New Plan"), to be administered by the Company's Supervisory Board until 26 May 2020, for the issuing of up to 27,253,674 share options to the Management Board and employees of Netia Group, each option authorising its holder to receive up to half of one series L share for a subscription price equal to the nominal value of the shares in the Company i.e. PLN 1, such subscription price to be paid by the Company or its subsidiaries. The options will be granted by the Supervisory Board in tranches. Each tranche of the options will be exercised within the periods established by the Supervisory Board, however, not earlier than three years following the date of the grant thereof. In order to satisfy the claims arising from the exercise of the options under the New Plan, the Shareholders Meeting resolved to authorize the issuance of up to 13,626,837 series L shares.

As at June 30, 2015 and December 31, 2014, the total number of options approved by the Supervisory Board and issued under the New Plan was 14,398,992. Out of these approved options 2,560,088 options were outstanding as at June 30, 2015 and 5,197,172 were outstanding as at December 31, 2014. As at June 30, 2015, the remaining contractual life of the outstanding options was 4.9 years. The outstanding options are exercisable until May 26, 2020. Upon exercise of the options, Netia will issue to each exercising participant the number of shares representing such participant's financial gain resulting from the exercise of the options, being the difference between the market price of the Company's shares as of the date of exercise of the options and the strike price of the options, limited to half of one series L share for each option exercised. The participant will not be required to pay the strike price.

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

On June 17, 2014, as a result of a dividend payment, the strike prices of all outstanding options decreased by PLN 0.42. On June 2, 2015, as a result of a dividend payment (see Note 14), the strike prices of all outstanding options decreased by PLN 0.60. The new strike prices of the options range between PLN 3.52 and PLN 4.98.

The Company recognizes the cost of share-based awards to employees (including share options) over the vesting period and the fair value of options is determined using a binomial pricing model and taking into account business performance criteria in the financial year in which the options were granted. Due to the termination of the options of the former employees an income of PLN 61 thousand in connection with the share options plan was recognised in the six-month period ended June 30, 2015. The cost of New Plan options recorded in the six-month period ended June 30, 2014 amounted to PLN 1,314 thousands.

In the six-month periods ended June 30, 2015 and 2014 the following changes took place in the number of options granted under the New Plan:

Options	Six-month period ended June 30, 2015		Six-month period ended June 30, 2014 (restated*)	
	Average current strike price	Options	Average current strike price	Options
At the beginning of the period.....	4.26	5,197,172	4.09	7,322,068
Granted.....	-	-	4.04	3,407,992
Exercised.....	4.96	(843,981)	-	-
Terminated/cancelled .....	4.22	(1,793,103)	3.62	(2,059,682)
At the end of the period.....	<b>4.10</b>	<b>2,560,088</b>	<b>4.18</b>	<b>8,670,378</b>

\* average strike price has been decreased by PLN 0.60 since previously reported

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



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which it determines the performance level of the business criteria for the previous financial year. The resolution of the Supervisory Board enters into force upon the approval of the financial statements of the Company and the Netia Group by the Annual General Meeting of the Company.

A conditional resolution of Supervisory Board regarding the performance criteria for the 3,653,000 options granted in 2011 was taken on April 25, 2012 and the performance level was determined at 58.9%. The resolution of the Supervisory Board came into force on June 19, 2012 and resulted in cancellation of 41.1% options granted in 2011.

A conditional resolution of the Supervisory Board regarding the performance criteria for the 3,669,000 options granted in 2012 was taken on February 26, 2013 and the performance level was determined at 68.6%. The resolution of the Supervisory Board came into force on June 28, 2013 and resulted in the cancellation of 31.4 % of options granted in 2012.

A conditional resolution of Supervisory Board regarding the performance criteria for the 3,669,000 options granted in 2013 was taken on March 6, 2014 and the performance level was determined at 50.0%. The resolution of the Supervisory Board came into force on May 21, 2014 and resulted in the cancellation of 50.0 % of options granted in 2013.

A conditional resolution of Supervisory Board regarding the performance criteria for the 3,407,992 options granted in 2014 was taken on March 10, 2015 and the performance level was determined at 43.78%. The resolution of the Supervisory Board came into force on June 2, 2015 and resulted in the cancellation of 56.22 % of options granted in 2014.

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

## 9. Borrowings

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
	<b>(PLN)</b>	<b>(PLN)</b>
Bank loans .....	249,576	300,538
	<b>249,576</b>	<b>300,538</b>
Of which:		
Current .....	99,873	100,004
Non-current .....	149,703	200,534

### **Bank loans**

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

As at June 30, 2015, the value of these outstanding loans at amortised cost was PLN 249,576.

The term loans accrue annual interest at the rate of 3M WIBOR plus a margin. The borrowing is measured at amortized cost using an effective interest rate.

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

On March 8, 2012, Netia entered into an overdraft credit facility agreement with mBank S.A. of PLN 50,000. The facility may be disbursed for general operating purposes of the Company. The Company is entitled to become indebted under the overdraft credit facility agreement in the period between March 12, 2012 and May 31, 2016. The terms and conditions of the agreement comply with market practice and are not different from the terms and conditions generally applied to such types of agreements. The Company had no outstanding balance under the overdraft credit as at June 30, 2015.

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**10. Other income and expenses**

***Other income***

	<b>Six-month period ended June 30, 2015</b>	<b>Six-month period ended June 30, 2014</b>
	(PLN)	(PLN)
Reminder fees and penalties.....	4,089	3,361
Forgiveness of liabilities.....	204	228
Reversal of impairment charges and provisions.....	-	1,492
Return of judicial deposit.....	4,000	-
Recognition of grants.....	1,435	2,221
Other operating income.....	655	2,326
	<b>10,383</b>	<b>9,628</b>

***Other expenses***

	<b>Six-month period ended June 30, 2015</b>	<b>Six-month period ended June 30, 2014</b>
	(PLN)	(PLN)
Impairment charges for specific individual fixed and intangible assets (see Note 4, 5).....	(838)	(3,439)
	<b>(838)</b>	<b>(3,439)</b>

**11. Other (losses)/ gains, net**

	<b>Six-month period ended June 30, 2015</b>	<b>Six-month period ended June 30, 2014</b>
	(PLN)	(PLN)
Gain on sale of impaired receivables.....	809	661
Gain on sale of fixed assets.....	225	165
Net foreign exchange losses.....	452	(485)
	<b>1,486</b>	<b>341</b>

**12. Financial income and financial expense**

***Financial income***

	<b>Six-month period ended June 30, 2015</b>	<b>Six-month period ended June 30, 2014</b>
	(PLN)	(PLN)
Interest income on cash and cash equivalents.....	2,133	1,129
Interest income from finance lease receivable.....	15	-
Gain on sale of Uni-Net.....	-	286
Fair value gains on open forward contracts hedging commercial exposures (see Note 7).....	-	535
Net foreign exchange gains.....	264	-
Interest income from the returned judicial deposit.....	634	-
	<b>3,046</b>	<b>1,950</b>

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**Financial expense**

	<b>Six-month period ended June 30, 2015</b>	<b>Six-month period ended June 30, 2014</b>
	<b>(PLN)</b>	<b>(PLN)</b>
Interests and fees charged on bank loans .....	(3,314)	(10,988)
Interests and fees charged on overdraft .....	-	(38)
Amortization of finance lease liability .....	(28)	(47)
Amortization of provisions.....	(3)	(12)
Net foreign exchange losses.....	-	(231)
Fair value losses on other open forward contracts (see Note 7).....	(476)	-
Ineffective portion of cash flow hedges (see Note 7).....	(10)	(15)
Fair value losses on equity securities .....	(2)	(1)
Other finance costs.....	(65)	(73)
	<b><u>(3,898)</u></b>	<b><u>(11,405)</u></b>

**13. Corporate income tax**

	<b>Six-month period ended June 30, 2015</b>	<b>Six-month period ended June 30, 2014</b>
	<b>(PLN)</b>	<b>(PLN)</b>
Current income tax.....	(1,076)	(9,374)
Deferred income tax benefit/(charge), net.....	(6,530)	3,169
<b>Income tax charge</b> .....	<b><u>(7,606)</u></b>	<b><u>(6,205)</u></b>

The deferred income tax calculation is based upon the probability that future taxable profit will be available against which temporary differences, unused tax losses and unused tax credits can be utilized. That calculation is based upon Management's estimates, which are subject to considerable uncertainty and the actual outcome may differ. These estimates may be altered to reflect changes in the economic, technological and competitive environment in which the Netia Group operates.

As at June 30, 2015 Netia Group had net deferred income tax asset of PLN 66,463. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred income tax liabilities of PLN 15,335 presented in the consolidated statement of the financial position as of June 30, 2015 relate to net deferred income tax liabilities recognized in Netia and one of its subsidiaries (after intercompany eliminations).

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
	<b>(PLN)</b>	<b>(PLN)</b>
Deferred income tax assets .....	81,798	87,226
Deferred income tax liabilities.....	15,335	14,319
<b>Deferred income tax assets, net</b> .....	<b><u>66,463</u></b>	<b><u>72,907</u></b>

Deferred income tax assets and liabilities recognized on temporary deductible and taxable differences, without taking into consideration the offsetting of balances, are as follows:

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
	<b>(PLN)</b>	<b>(PLN)</b>
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months.....	66,763	72,412
- Deferred income tax assets to be recovered within 12 months.....	54,131	56,631
	<u>120,894</u>	<u>129,043</u>
Deferred income tax liabilities:		
- Deferred income tax liabilities to be recovered after more than 12 months.....	17,425	18,202
- Deferred income tax liabilities to be recovered within 12 months.....	37,006	37,934
	<u>54,431</u>	<u>56,136</u>
<b>Deferred income tax assets, net</b> .....	<b><u>66,463</u></b>	<b><u>72,907</u></b>

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The deferred income tax assets and liabilities consist of the following items:

	<b>June 30 2015 (PLN)</b>	<b>December 31, 2014 (PLN)</b>
Deferred income tax assets:		
- Tax losses.....	34,767	39,662
- Accrued expenses.....	20,700	23,123
- Impairment provisions for receivables.....	5,767	5,421
- Depreciation and impairment.....	59,480	60,582
- Forward contracts.....	58	7
- Interest.....	-	123
- Other.....	122	125
	<b>120,894</b>	<b>129,043</b>
Deferred income tax liabilities:		
- Depreciation and impairment.....	41,964	45,058
- Accrued revenue.....	6,148	4,964
- Interest.....	45	-
- Exchange losses.....	57	-
- Forward contracts.....	267	392
- Other.....	5,950	5,722
	<b>54,431</b>	<b>56,136</b>
<b>Deferred income tax assets, net.....</b>	<b>66,463</b>	<b>72,907</b>

Deferred income tax recognized in equity as at June 30, 2015 in the amount of PLN 85 relates to the hedging reserve. The deferred income tax recognized in equity as at December 31, 2014 in an amount of PLN 1,615 relates to movements in the hedging reserve and actuarial gains recognised in other comprehensive income.

The Netia Group did not recognize deferred income tax assets of PLN 1,488 relating to tax losses of PLN 7,622 of the Company's subsidiary, due to planned merger between Netia and its subsidiary Netia Brand Management sp. z o.o.

Furthermore, due to the lack of conclusive evidence of future taxable profits, the Netia Group did not recognize deferred income tax assets of PLN 113,702, relating to deductible temporary differences of PLN 598,432 as follows:

	<b>Timing differences (PLN)</b>	<b>Potential deferred income tax asset (PLN)</b>
Depreciation and impairment .....	577,375	109,701
Tax losses .....	7,622	1,448
Deferred income .....	5,807	1,104
Other.....	7,628	1,449
	<b>598,432</b>	<b>113,702</b>

The Polish tax system has restrictive provisions for grouping of tax losses for multiple legal entities under common control, such as those of the Netia Group. Thus, each of the Company's subsidiaries may only utilize its own tax losses to offset taxable income in subsequent years. Losses are not indexed to inflation. Tax losses are permitted to be utilized over five years with a 50% utilization restriction per annum.

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

On January 8, 2015 Netia received PLN 81,495, which definitely concluded the dispute with tax authorities regarding Netia's corporate income tax ("CIT") obligation for the year 2003. As a result of receiving the decision on December 29, 2014 Netia Group recognized a receivable in the amount of PLN 81,404 and corresponding income tax benefit as at December 31, 2014. The remaining amount relating to the statutory interest was recognized as income tax gain in the current period.

**14. Dividends per share**

The Annual General Shareholders' Meeting of Netia S.A. held on June 2, 2015 resolved to pay out dividend in the amount of PLN 0.60 per share in the amount of PLN 208,859. The dividend payment was made on June 26, 2015.

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

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

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

Netia's distributable reserves are disclosed in Note 8.

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**15. Supplemental disclosures to consolidated cash flow statement**

**Changes in working capital components:**

	Six-month period ended June 30, 2015 (PLN)	Six-month period ended June 30, 2014 (PLN)
Receivables.....	65,900	(1,038)
Inventories.....	421	(162)
Prepaid expenses.....	(3,633)	(2,243)
Provisions, accruals and payables <sup>1</sup> .....	(51,759)	(19,167)
Restricted cash.....	-	13
Deferred income.....	(2,924)	(4,122)
	<b>8,005</b>	<b>(26,719)</b>
<i>Out of which:</i>		
<i>Change in long-term position.....</i>	<i>(902)</i>	<i>(6,421)</i>

<sup>1</sup>This position excludes movements in investment payables.

**Supplemental disclosures to operating activities:**

	Six-month period ended June 30, 2015 (PLN)	Six-month period ended June 30, 2014 (PLN)
Income taxes paid.....	(1,317)	(6,128)
Interest received.....	2,133	1,129

**16. The Management Board and Supervisory Board**

**Management Board**

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

On March 23, 2015 the Supervisory Board appointed Mr. Paweł Szymański as the President of the Management Board, effective April 1, 2015.

On March 23, 2015 the Supervisory Board appointed Mr. Cezary Chałupa as member of the Management Board, effective April 1, 2015.

On March 23, 2015 the Supervisory Board appointed Mr. Tomasz Szopa as member of the Management Board, effective April 1, 2015.

On May 19, 2015 the Supervisory Board appointed Ms. Katarzyna Iwuć as member of the Management Board and Chief Financial Officer, effective immediately.

On June 22, 2015 the Supervisory Board dismissed Mr. Paweł Szymański, President of the Management Board, from the Management Board, effective on the date of the Supervisory Board's resolution.

On June 22, 2015 the Supervisory Board delegated Ms. Bogusława Matuszewska, Member of the Supervisory Board to temporarily perform the duties of President of the Management Board, effective July 6, 2015.

Due to the above changes as at June 30, 2015 the Company's Management Board consisted of the following members:

- Katarzyna Iwuć – Management Board Member,
- Cezary Chałupa - Management Board Member,
- Tomasz Szopa - Management Board Member.

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**Supervisory Board**

On April 17, 2015 Mr. Andrzej Radzimiński, exercising his right to appoint and dismiss one member of Netia's Supervisory Board that results from the ownership of 1,000 preferred registered series A1 shares of the Company dismissed Mr. Tadeusz Radzimiński from the position of Netia's Supervisory Board member, and appointed Mr. Stefan Radzimiński as Netia's Supervisory Board member effective as of the day of the Annual Shareholders' Meeting approving the financial statement of Netia for the year 2014 – i.e. June 2, 2015.

On May 19, 2015 Ms. Katarzyna Iwuć resigned from her position as a member of the Supervisory Board of the Company with immediate effect.

On June 1, 2015 Mr. Cezary Smorszczewski, Vice-chairman of the Supervisory Board, resigned from his position as a member of the Supervisory Board of the Company with immediate effect.

On June 2, 2015 the Ordinary General Meeting of the Company resolved to supplement the Supervisory Board and appointed to Netia's Supervisory Board the following individuals: Mr. Adam Biedrzycki, Mr. Grzegorz Zambrzycki and Ms. Bogusława Matuszewska.

Due to the above change as at June 30, 2014 the Company's Supervisory Board consisted of the following members:

- Zbigniew Jakubas - Chairman,
- Adam Biedrzycki,
- Przemysław Głębocki,
- Mirosław Godlewski,
- Bogusława Matuszewska,
- Grzegorz Zambrzycki,
- Stefan Radzimiński.

**17. Related party transactions**

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

As at June 30, 2015 and December 31, 2014 the total number of options held by members of the Company's Management Board under the New Plan was 121,751 and 400,000 options respectively, none of which had vested as of June 30, 2015 and December 31, 2014. Strike price for the options granted to the Management Board was PLN 3.98 (after strike price reductions by PLN 0.42 in 2014 and PLN 0.60 in 2015). The market price of the Company's shares June 30, 2015 was PLN 5.51 per share.

The movements in the number of options held by members of the Company's Management Board in the six-month periods ended June 30, 2015 and June 30, 2014 are presented below:

<b>Options</b>	<b>Six-month period ended June 30, 2015</b>	<b>Six-month period ended June 30, 2014</b>
At the beginning of the period.....	400,000	3,585,701
Granted.....	-	1,635,992
Appointment to Management Board.....	278,098	-
Terminated.....	(156,347)	(862,500)
Resignation from Management Board.....	(400,000)	(1,280,615)
At the end of the period.....	<b>121,751</b>	<b>3,078,578</b>

As at June 30, 2015 Mr. Tomasz Szopa - a member of the Company's Management Board - held 121,751 options, none of which had vested.

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

As at June 30, 2015 and December 31, 2014 Mr. Mirosław Godlewski - a member of the Company's Supervisory Board - held 287,916 and 658,807 options respectively, none of which had vested.

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

As at June 30, 2015 and December 31, 2014 none of the Members of the Management Board held shares of the Company.

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

As at June 30, 2015 and December 31, 2014 Mr. Mirosław Godlewski - a member of the Company's Supervisory Board – held, respectively, nil and 52,979 shares of the Company.

As at June 30, 2015 Mr. Stefan Radzimiński - a member of the Company's Supervisory Board - held 5,000 shares of the Company.

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**Management Board remuneration**

Compensation and related costs associated with members of the Company's Management Board during the six-month periods ended June 30, 2015 and 2014 amounted to PLN 2,940 and PLN 3,179, respectively. The costs in the six-month period ended June 30, 2015 include costs related to the settlement with the former President of the Management in amount of PLN 700. Due to the resignation of Mr. Adam Sawicki from the position of the President of the Management Board the options held by him were terminated and as such in the six-month period ended June 30, 2015 an income related to share-based payments was recognised in the amount of PLN 30. The gross cost of share-based payments in the amounts of PLN 683 was recognized in the six-month period ended June 30, 2014.

In addition, amounts paid and payable to former Management Board members in the course of termination of their employment relationship with the Netia Group during the six-month periods ended June 30, 2015 and 2014 amounted to PLN 235 and PLN 1,407, respectively.

Compensation and related costs associated with members of the Management Boards of the Company's subsidiaries during the six-month periods ended June 30, 2015 and 2014 amounted to PLN 370 and PLN 146, respectively. These amounts were paid to certain employees of the Netia Group who are neither past nor present members of the Management Board of Netia S.A.

**Supervisory Board remuneration**

Compensation and related costs associated with members of the Company's Supervisory Board during the six-month periods ended June 30, 2015 and 2014 amounted to PLN 230 and PLN 460, respectively.

Incidental expenses of the Supervisory Board Members reimbursed by the Company amounted to PLN nil and PLN 113 during the six-month periods ended June 30, 2015 and 2014, respectively, and mainly related to travel and accommodation.

**Other transactions with related parties**

During the six-month periods ended June 30, 2015 and 2014, respectively the Netia Group has not been a party to any other material transactions, or proposed transactions, apart from transactions mentioned above, with any member of the key management personnel, a company related via personal links with a member of the key management personnel or close members of their families.

**18. Commitments**

**Capital commitments**

Capital expenditures contracted for at the balance sheet date but not recognized in the consolidated financial statements amounted to PLN 51,638 as at June 30, 2015 and PLN 15,622 as at December 31, 2014 of which, PLN 4,524 and PLN 653 respectively, related to the planned acquisition of intangible assets.

**19. Contingencies**

**Universal services**

The telecommunications law stipulates that the obligation to provide universal service should be designated by the President of UKE following completion of a tender procedure. The President of UKE issued a decision designating Orange Polska SA to provide universal service until May 8, 2011. Telecommunications undertakings, whose relevant annual revenue from telecommunications activity exceeds PLN 4,000, are obliged to participate in financing of the universal service obligation. The exact participation amount of a telecommunications undertaking obliged to pay subsidy will be established by virtue of the President of UKE decision and cannot exceed 1% of revenues of a given telecommunications undertaking in a given calendar year.

Orange Polska SA filed with the President of UKE applications for awarding subsidy towards incurred costs of universal service provision. The applications cover subsidy towards costs incurred in the period from May 8, 2006, until May 8, 2011, i.e. the whole period of obligation to provide universal service by Orange Polska SA. The total amount claimed by Orange Polska SA on all applications for 2006-2011 was PLN 1,106,994. The last application was filed by Orange Polska SA on 29 June 2012 and included a request for subsidy for the period from January 1 to May 8, 2011 in the amount of PLN 33,837.

In May 2011, the President of UKE issued decisions by virtue of which Orange Polska SA was awarded subsidies towards incurred costs of several services falling within the scope of universal service as follows:

- in 2006 - amounting to PLN 745 - due to provision of facilities for customers with disabilities
- in 2007 - amounting to PLN 1,269 - due to provision of facilities for customers with disabilities
- in 2008 - amounting to PLN 1,830 - due to provision of facilities for customers with disabilities
- in 2009 - amounting to PLN 63,150 - due to provision of facilities for customers with disabilities as well as provision of telephone services with use of public pay phones.

Following Orange Polska SA requesting the Regulator to reconsider her decisions, on September 7, 2011, the President of UKE upheld the decisions awarding subsidies towards incurred costs of universal service for years 2006-2009.

On January 10, 2012, the President of UKE issued decisions by virtue of which Orange Polska SA was awarded subsidies towards incurred costs of several services falling within the scope of universal service for 2010 amounting to PLN 55,102 due to provision of facilities for customers with disabilities as well as provision of telephone services with use of public pay phones. Following Orange Polska SA requesting the Regulator to reconsider, this decision was upheld on April 11, 2012.

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

Orange Polska SA appealed the decisions of the President of UKE to the Voivodship Administrative Court (further "WSA"). WSA dismissed the complaints of Orange Polska SA against the decisions granting the subsidies towards costs of provision of universal service in 2006 - 2010 and Orange Polska SA has appealed the WSA decisions to the Supreme Administrative Court (further "NSA").

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On December 5, 2013 NSA repealed the judgments of the WSA dismissing the appeals about granting Orange Polska SA subsidies for the years 2006 and 2007 and remanded both cases for reconsideration to the WSA. On July 17, 2014 WSA repealed the decisions of the President of UKE. KIGEIT submitted a cassation complaint to the NSA against WSA judgments repealing the decisions of the President of UKE.

On May 13, 2014 the NSA repealed the judgments of the WSA dismissing the Orange Polska S.A. complaints about granting Orange Polska SA subsidies for providing the universal service for the years 2008 and 2009 and remanded the case for the reconsideration to the WSA.

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

Although the Management Board is convinced of the validity of the issued decisions, it cannot assure that decisions for the years 2006 – 2010 will be finally maintained and the amount of the Netia Group's share in the subsidy to the universal service cost will not be increased above the currently estimated amount.

On September 20, 2013 the President of UKE, after re-consideration of the case, issued a decision granting Orange Polska SA subsidy towards costs of provision of universal service in the period from January 1, 2011 till May 8, 2011 amounting to 14,903 PLN.

On October 21, 2013 KIGEIT appealed against the abovementioned decision to the WSA. On September 17, 2014 WSA repealed the decision. While the Management Board is convinced of the defective nature of the issued decision, it cannot assure that the decision will be repealed by the WSA and that a subsidy for 2011 shall not be finally granted.

On March 20, 2014 the President of UKE issued a decision establishing that enterprises are obliged to subsidise the cost of universal service for the year 2006 by contributing in the amount of 0,0018992546 % of their 2006 revenues. Netia and Dialog sent to the President of UKE a request to reconsider the decision. After reconsidering the case, by the decision of October 10, 2014 the index for 2006 was set on the level 0,0018499671% of the income. Netia, Dialog and Internetia appealed against the abovementioned decisions to the WSA. The proceedings in WSA are in progress. Should the rate be finally upheld, the amount of shares of Netia Group Companies' in the subsidy for the provision of universal service for the year 2006 shall equal the amount which was already paid up. Despite the fact the aforementioned obligation was fulfilled by companies from the Netia Group, the Management Board cannot assure that a possible change of the above-mentioned index for the year 2006 will not impact the settlements for the year 2006, which were already paid up.

The exact amount of share in the subsidies to costs of universal services to be payable by each telecommunications undertaking requires the President of UKE to issue individual decisions. Despite lack of legal validity of the decisions establishing the amounts of subsidies towards universal service, including the decision for year 2006, as well as despite submission of appeals against the decisions establishing the index of share in the subsidies towards universal service for year 2006, the President of UKE initiated proceedings on setting the amount of share of Netia, Dialog and Internetia in the subsidies to the universal service for year 2006.

On May 6, 2015 the President of UKE issued decisions establishing the amount of Netia's Group share in the subsidy to costs of providing universal services by Orange Polska S.A. in the period from May 8, 2006 to December 31, 2006 – at the level of PLN 33. All of the above-mentioned decisions, delivered to parties on May 11, 2015, were assigned with immediate enforceability clause. Due to the fact that the amount of shares of Companies from the Netia Group in the subsidy to costs of the provision of universal services in year 2006 did not exceed the provisions made for this specific purpose, the Management Board has decided to terminate the liabilities of Companies from the Netia Group resulting thereof. The shares of Companies from the Netia Group in the subsidy to costs of the provision of universal services in year 2006 were paid up in June 2015.

The Management estimates the total amount of potential obligation of Companies of the Netia Group to subsidize the cost of USO at PLN 6,965. This estimate takes into account the sums of subsidies for the year 2006 (already paid up) as well as the market shares of Companies from the Netia Group in years 2007 – 2011 and decisions of the President of UKE, in which the amounts of subsidies towards the costs of providing universal service in years 2007 – 2011 were granted in the total amount of PLN 136,254. Until June 2015, the Companies of the Netia Group have made a provision in the amount of PLN 6,998 to cover potential obligations under the subsidy for universal service provided in the years 2006 – 2011. Due to the fact that Netia S.A., Telefonía Dialog sp. z o.o. and Internetia sp. z o.o. have paid up their respective shares in the subsidy to costs of providing universal services by Orange Polska S.A. in the period from May 8, 2006 to December 31, 2006, the provision for year 2006 have been reversed.

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

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

	<b>Maximum subsidies</b>	<b>Provision</b>
	<i>PLN</i>	<i>PLN</i>
2006	6,259	-
2007	10,816	63
2008	9,167	81
2009	11,964	3,199
2010	13,857	2,834
2011	1,790	788
	<b>53,853</b>	<b>6,965</b>



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

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

The Management Board cannot assure that, in the future, the President of UKE would not aim to change to a new model of USO, and in such a case that it would not cause additional costs to be incurred by Netia Group.

### ***Tax contingent liability***

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

### ***Possible liabilities under the New Plan***

According to the New Plan (see also Note 8), in the event of a tender to purchase all of the remaining shares in the Company is announced and as a result of such tender any "person" or "group of persons acting in concert" comes into possession, directly or indirectly, of at least 80% of the total outstanding voting securities of the Company ("Change of Control"), each of the option holders shall have the right to demand to exchange his stock options which are non-vested for a cash consideration

Given that Netia is not presently controlled by any single large investor and given that Management is not in possession of information concerning the circumstances under which existing large shareholders may consider disposing of their shares in the Company, it is not possible for Management to make a reliable estimate of the likelihood of a Change of Control occurring until May 20, 2020. Accordingly, Management is presently unable to reliably estimate the fair value of the contingent liability to settle issued options in cash as would otherwise be required in accordance with IFRS 2, Share Based Payments. However, had the Change of Control occurred as at June 30, 2015 when the market price of the Company's shares was PLN 551 (not in thousands) per share, the liability to settle in cash all outstanding non-vested options would amount to PLN 3,019.

## **20. Subsequent events**

### ***Refinancing of credit facility***

On July 9, 2015 Netia executed a loan agreement with mBank SA (the facility agent) and DNB Bank Polska S.A. and DNB Bank ASA whereunder the lenders agreed to extend to Netia a term facility maturing in three years with a total of up to PLN 400,000. The facility is designated for: 1) repayment of the Company's debt resulting from the credit agreement dated 3 November 2014 (executed between the Company and the consortium of banks) – up to the total amount of PLN 250,000; 2) investment related to the acquisition of shares of the company TK Telekom sp. z o.o. with its registered seat in Warsaw – up to the total amount of PLN 150,000.

To secure the Lenders' claims under or related to the Agreement, Netia and each of the Original Guarantors (Netia's subsidiaries) is obliged to submit to enforcement for the benefit of each of the Lenders. Moreover, each of the Original Guarantors provided the suretyship to the maximum amount of PLN 600,000, and the Company shall provide securities for the benefit of the Security Agent with a registered pledge on the part of its fixed assets and on the shares in the share capital of the company TK Telekom sp. z o.o. with its registered seat in Warsaw, which are to be purchased by Netia.

### ***Acquisition of TK Telekom Capital Group***

On July 21, 2015 Netia signed an agreement to acquire 769,801 shares (not in thousands) of TK Telekom Sp. z o.o. with its seat in Warsaw ("TK Telekom") with a nominal value of PLN 500 (not in thousands) each and the total nominal value of PLN 384,901, which represent 100% of the share capital of TK Telekom and represent 100% of votes at the General Assembly of TK Telekom. After signing on 8 May 2015 a preliminary share purchase agreement between PKP SA and Netia, the parties awaited the approval of the General Assembly of PKP SA and the approval from the Office of Competition and Consumer Protection. As a result of the acquisition of shares, Netia will become an indirect owner of shares in two subsidiaries of TK Telekom: TK Telekom Interconnect Sp. z o.o and TK Operator Sp. z o.o

The final, not subject to adjustments, purchase price of 100% of the shares amounted to PLN 221,857. Payment was made by cash transfer with PLN 150,000 financed by a bank credit and the rest from own cash reserves. The transaction was therefore closed.

Currently, the Company is in the process of valuation of the assets acquired and liabilities assumed of the capital group TK Telekom. Due to the short period between the purchase of the capital group TK Telekom and the publication of the financial statements of Netia, the initial accounting for the acquisition is incomplete, and accordingly the interim condensed consolidated financial statements do not present the

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disclosures required by IFRS 3 regarding the fair value of each major class of assets acquired and liabilities assumed, and other related disclosures required by IFRS 3.

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

On July 24, 2015 the National Depository for Securities conditionally registered 68,823 ordinary bearer series L shares of Netia with a nominal value of PLN 1 (one) each, issued under conditional capital increase.

Registration of the 68,823 ordinary Series L bearer shares indicated above in the deposit of NDS will take place within three days from the NDS's receipt of documents which confirm that a decision has been made by an entity operating the regulated market, to introduce the shares to trading on the regulated market. On August 4, 2015 the Management Board of Warsaw Stock Exchange admitted the above-mentioned shares to trading starting August 11, 2015.

Netia's issued and outstanding share capital, following this issuance will be PLN 348,167,848 and represents 348,167,848 shares, PLN 1 per value per share, each share giving the right to one vote at Netia's general meeting of shareholders.