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Netia reports 2014 first half results

WARSAW, Poland – August 28, 2014 – Netia SA ("Netia" or the "Company") (WSE: NET), Poland's largest alternative provider of fixed-line telecommunications services, today announced its unaudited consolidated results for the six months ended June 30, 2014.

1 Key highlights

1.1 FINANCIAL

- *Revenue* was PLN 856.5m in H1 2014, down by 11% versus H1 2013. In Q2 2014 revenue decreased sequentially by 3% to PLN 422.2m from PLN 434.4m. The decline in revenues was driven by a 6% year-on-year and a 2% sequential decline in services provided (RGUs). In addition, the Company estimates that reductions in mobile termination rates (MTRs) during 2013 contributed 30% of the year-on-year revenue decline and 11% sequentially. Going forward, the Company expects more limited impact on revenues between the compared periods from the 2013 MTR reductions as the last drop in MTR rates took place in July 2013. RGU decline continued to be concentrated in the B2C (Residential) sub-segment and particularly in fixed voice services, while the MTR declines mainly impacted revenues in the B2B segment.

- *Adjusted EBITDA* was PLN 259.5m for H1 2014, down by 8% versus H1 2013. In Q2 2014 Adjusted EBITDA was PLN 125.1m, down by 7% versus Q1 2014. Adjusted EBITDA margin was 30.3% for H1 2014 and 29.6% in Q2 2014 versus 29.2% for H1 2013 and 31.0% in Q1 2014. Higher Adjusted EBITDA margin year-on-year is due to the lower revenues being concentrated in low margin RGU categories such as off-net services, lower acquisition cost on lower gross additions and falling MTR rates. The sequential decrease in Adjusted EBITDA margin reflects mainly the impact of lower sales.

- *EBITDA* was PLN 245.8m for H1 2014 and PLN 119.8m for Q2 2014, down by 11% versus H1 2013 and down by 5% versus Q1 2014. The unusual items for H1 2014 totalled PLN 13.8m of net expense and included restructuring costs of PLN 5.7m representing mainly provisions for staff redundancies related to Netia's reorganisation into B2B and B2C Business Units (N2 Project) and provisions for payments to the outgoing CEO, an impairment charge of PLN 2.5m recorded upon the decision to discontinue using Dialog's trademark, Dialog Group and Crowley integration costs of PLN 4.4m, and non-staff related costs of Netia's reorganisation into B2B and B2C Business Units (N^2 Project) of PLN 1.1m. The unusual items for Q2 2014 totalled a net expense of PLN 5.3m while in the comparative periods of H1 2013 and Q1 2014 the unusual items totalled a net expense of PLN 7.5m and PLN 8.5m, respectively. EBITDA margin was 28.7% for H1 2014 and 28.4% for Q2 2014 as compared to 28.4% for H1 2013 and 29.0% for Q1 2014.

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

Time periods:	H1 2013 *unaudited*	H1 2014 *unaudited*	Q1 2014 *unaudited*	Q2 2014 *unaudited*
EBITDA	**275,029**	**245,779**	**125,978**	**119,801**
Less net unusual expenses	***7,517***	***13,767***	***8,462***	***5,305***
comprising:				
Impairment charge for non-current assets	431	2,503	2,503	-
Restructuring costs	2,182	5,679	3,641	2,038
M&A related costs	119	40	-	40
New Netia integration costs	4,785	4,413	1,776	2,637
B2B/B2C split costs (N^2 Project)	-	1,132	542	590
Adjusted EBITDA	**282,546**	**259,546**	**134,440**	**125,106**

- *EBIT* was PLN 34.9m (Adjusted EBIT was PLN 48.7m profit when excluding all one-offs) in H1 2014 as compared to PLN 53.7m (PLN 61.2m profit when excluding one-offs) in H1 2013. EBIT for Q2 2014 was PLN 14.2m (PLN 19.5m profit when excluding one-offs) as compared to PLN 20.7m (PLN 29.1m profit when excluding one-offs) in Q1 2014.

- *Net profit* was PLN 19.2m for H1 2014 versus net profit of PLN 21.7m for H1 2013. Net profit for Q2 2014 was PLN 8.3m versus a net profit of PLN 11.0m for Q1 2014. Reported net profit for H1 2014 included PLN 11.0m of interest to service the loan taken in 2011 to acquire Dialog Group versus PLN 16.8m of interest for this purpose in H1 2013. Moreover, reported net profit for H1 2014 included an income tax charge of PLN 6.2m versus PLN 16.6m recorded in H1 2013.

- *Netia was operating free cash flow positive in H1 2014 and Q2 2014*. Operating free cash flow, measured as Adjusted EBITDA less capital investment excluding integration related capex and acquisitions, was PLN 155.3m for H1 2014 and PLN 72.7m for Q2 2014 versus PLN 190.6m for H1 2013 and 82.6m for Q1 2014. Lower Adjusted EBITDA is mainly responsible for the sequential decrease in operating free cash flow.

- *Netia's cash and short term deposits* at June 30, 2014 totalled PLN 48.2m, down by PLN 76.4m from March 31, 2014, with *total debt* at PLN 413.7m, up by PLN 28.4m from March 31, 2014. *Net debt* therefore stood at PLN 365.5m, up by PLN 104.8m from PLN 260.7m on March 31, 2014 and *financial leverage* was 0.72x Adjusted EBITDA guidance of PLN 505.0m for 2014 full year. Netia's net debt position at June 30, 2014 reflects cash outflows related to *a dividend payment of PLN 0.42 per share*, which was made on June 17, 2014 to shareholders of record on May 29, 2014.

- *Netia is updating its 2014 guidance* to reflect weaker than expected sales momentum in H1 2014. Although revenue guidance is being reduced from PLN 1,735m to PLN 1,675m, Management is targeting improving trends in H2 2014 from new sales initiatives that have already launched in the market. A short- and medium-term cost reduction initiative, Netia Lite, has gone into implementation and allows confirmation of the Adjusted EBITDA target at PLN 505m for 2014. Additional capital investment to support improved sales in H2 2014 results in increased capital investment guidance from PLN 200m to PLN 215m.

- *Netia Lite savings program*. In parallel to working on Netia's updated strategy, new CEO Adam Sawicki rolled out the 'Netia Lite' short- to mid-term savings program in Q3 2014. Focusing on savings from reducing senior management layers, simplifying the organization, cutting office space and limiting discretionary spending, Netia Lite is targeting PLN 50m of full year incremental savings during 2015 versus the Q2 2014 cost base with significant savings already being delivered during H2 2014.

- *Strategic review*. New CEO Adam Sawicki and the Management Team have been working on revised strategic operational and financial objectives for the Netia Group aimed at stabilizing financial performance and increasing exposure to the growth and consolidation opportunities remaining in the Polish telecom market. The team is targeting acceptance of the new plan by the Supervisory Board during Q3 2014.

- *Distribution policy.* The existing distribution policy of Netia, to distribute 42 groszy per share annually from 2014 onwards, subject to major M&A transactions and funded by debt up to 1.0x Adjusted EBITDA if necessary, remains in place pending completion of the strategic review.

1.2 OPERATIONAL

- *Total services (RGUs)* were 2,423,693 at June 30, 2014 as compared to 2,592,260 at June 30, 2013 and 2,477,463 at March 31, 2014, with the year-on-year and quarterly decreases driven by the fall in fixed voice services and generally intense competition on a weak telecommunications market. In Q2 2014 Netia added 7,923 on-net RGUs and recorded 61,693 off-net RGU disconnections as compared to 9,756 on-net RGUs added and 58,650 off-net RGUs disconnected in Q1 2014. As in recent quarters, RGU growth remains concentrated in B2B and in TV and on-net broadband services within B2C.

  H1 2014 saw a slower rate of improvement in current sales of TV, on-net broadband and B2B services than Management had originally expected. Nevertheless, with the launch of services over the former Aster cable TV infrastructure beginning during August and improving traction from various operational improvements, Management is confident that H2 2014 will see improved RGU performance. As 2014's priority has been to add additional TV functionality and improve processes in order to sell more effectively in subsequent periods, 2014 is seen as a year of consolidation and therefore no RGU guidance has been published.

Total services (RGUs) by division (k)	*Q1 2013*	*Q2 2013*	*Q3 2013*	*Q4 2013*	*Q1 2014*	*Q2 2014*
B2B Division	460.7	464.6	469.6	477.7	484.1	492.0
Net change in B2B services	*6.1*	*3.9*	*5.0*	*8.1*	*6.4*	*7.9*
B2C Division	2,142.4	2,093.1	2,056.0	2,014.1	1,959.1	1,897.3
Net change in B2C services	*(56.4)*	*(49.3)*	*(37.1)*	*(41.9)*	*(55.1)*	*(61.7)*
Other[1] (Petrotel)	34.8	34.6	34.4	34.5	34.3	34.4
Net change in Other (Petrotel) services	*(0.2)*	*(0.2)*	*(0.1)*	*0.1*	*(0.2)*	*0.1*
Total	**2,637.9**	**2,592.3**	**2,560.0**	**2,526.4**	**2,477.5**	**2,423.7**
Net change in total services	***(50.6)***	***(45.7)***	***(32.2)***	***(33.7)***	***(48.9)***	***(53.8)***

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

Total services (RGUs) by access type (k)	*Q1 2013*	*Q2 2013*	*Q3 2013*	*Q4 2013*	*Q1 2014*	*Q2 2014*
On-net services	1,136.0	1,141.8	1,151.6	1,165.9	1,175.7	1,183.6
Net change in on-net services	*3.6*	*5.9*	*9.7*	*14.3*	*9.8*	*7.9*
Off-net services	1,501.9	1,450.4	1,408.4	1,360.4	1,301.8	1,240.1
Net change in off-net services	*(54.1)*	*(51.5)*	*(42.0)*	*(48.0)*	*(58.6)*	*(61.7)*
Total	**2,637.9**	**2,592.3**	**2,560.0**	**2,526.4**	**2,477.5**	**2,423.7**
Net change in total services	***(50.6)***	***(45.7)***	***(32.2)***	***(33.7)***	***(48.9)***	***(53.8)***

- *Netia's TV services* reached 128,866 at June 30, 2014, growing by 28% from 100,879 at June 30, 2013 and by 1% from 127,247 at March 31, 2014. In Q2 2014 Netia added net 1,619 TV services as compared to 6,926 TV services added in Q1 2014 in connection with the planned gradual downsizing of IPTV-based services.

- *Netia's broadband services* base was 826,345 at June 30, 2014, declining by 4% from 859,708 at June 30, 2013 and by 1% from 837,413 at March 31, 2014. Netia estimates that its total fixed broadband market share was approximately 12.2% versus 13.0% at June 30, 2013. Netia recorded a net decrease of 11,068 broadband customers during Q2 2014 versus a net decrease of 11,496 broadband customers during Q1 2014. Slow market growth and tougher price competition, including cable operators offering multiplay bundles, is reflected in the performance. Management is focusing on its own network and bundled services rather than regulated access or total services sold in order to defend gross margins. The own infrastructure-based broadband services (excluding WiMAX Internet) recorded a net increase of 3,263 during Q2 2014 versus 1,083 in Q1 2014, being the fifth consecutive quarter to register growth. Of the total broadband customers served at June 30, 2014, 49% received service over Netia's own access infrastructure as compared to 46% at June 30, 2013.

- *Netia launched commercial services over its HFC infrastructure in Warsaw and Kraków* during August 2014 and expects the new market to contribute significantly to the rate of on-net RGU growth in H2 2014.

- *Launch of the 'Dropss' Internet access offer.* On July 29, 2014 Netia introduced a new brand and a new Internet access offering over regulated access (LLU and BSA) - the 'Dropss'. The offering includes Internet access of up to 20Mb/s, without data transfer limits, obligatory voice service subscriptions or a network maintenance fees. The contracts under the Dropss offering are signed without a minimum contract period for a monthly fee of PLN 49.90 (with an electronic invoice) for LLU. The competitively priced offering is addressed solely to new customers.

- *Netia's fixed voice services*. Netia estimates that its total fixed voice market share was approximately 18.2% in Q2 2014 versus 19.1% in Q2 2013. Due to competitive market conditions and focus on higher-value services, Netia is concentrating on defending voice revenues and margins as opposed to subscriber numbers. Netia's voice subscriber base was 1,414,812 at June 30, 2014 as compared to 1,550,812 at June 30, 2013 and 1,450,817 at March 31, 2014. In total, Netia recorded a net decrease of 36,005 voice subscribers during Q2 2014 versus 37,793 in Q1 2014.
  The Company expects the number of fixed voice services to continue to decline, mainly in connection with clients churning from traditional direct voice and WLR services. Of the total voice customers served at June 30, 2014, 46% received service over Netia's own access infrastructure as compared to 41% at June 30, 2013.

- *Netia's mobile services* at June 30, 2014 were 21,541 for mobile broadband and 32,129 for mobile voice as compared to, respectively, 28,906 and 51,955 services at June 30, 2013 and 24,763 and 37,223 services at March 31, 2014. Netia is not actively promoting mobile services, but maintains its offering to provide competitive services to those customers looking for a convergent offering.

- *NGA network expansion.* During Q2 2014 Netia continued to expand its NGA standard network, which allows for providing, among others, high speed broadband and 3play services including IPTV and streaming TV services adding 17,000 homes passed. As of June 30, 2014, Netia covered in total 1,305,000 households with its NGA networks, including approximately 897,000 homes passed with VDSL copper networks, approximately 160,000 homes passed with passive optical networks (PON) and approximately 248,000 homes passed with the fast Ethernet networks and fiber to the building (FTTB). This represents sequential increases by approximately 6,000 homes passed with FTTB, and 11,000 homes passed with PON. The previously adopted target for expanding NGA coverage over VDSL copper networks has been achieved and currently Netia does not plan any significant additional investments in this area during 2014.

- *Netia splits its operations into B2B and B2C Business Units (N^2 Project).* In January 2014 Netia announced a reorganization of its operations into two distinct Business Units: Business to Business (B2B) and Business to Consumers (B2C), with a view to best support the needs of its business and residential customers and the Company's key strategic objectives. The reorganization went live from the beginning of Q2 2014. Netia's new CEO Adam Sawicki and the Management Team are working with the new Supervisory Board to develop the commercial strategies for the two business units going forward *(see section 'Other Highlights')*.

Adam Sawicki, Netia's President and CEO, commented: *"It will be my pleasure to present Netia's results to investors for the first time today as I complete a very busy first 3 months with the Netia Group. As I travelled around meeting our organization, I have been struck by the strategic potential of Netia's assets and the talented and resourceful team at our disposal.*

Together with senior management I have begun working on refreshing the group's strategy and I am emphasizing the priorities of improving commercial effectiveness and increasing strategic exposure to the remaining organic growth and consolidation opportunities in this highly competitive Polish telecommunications market. I aim to put my operational and strategic concept in front of our Supervisory Board in the nearest future and then present Netia's Board approved strategy to investors as soon as possible.

Given soft demand for many of Netia's current portfolio of products, I have already kicked-off another round of short- and medium- term cost reduction initiatives in a program called 'Netia Lite' and will address the longer-term cost base aggressively as part of the Netia's Strategy going forward. I expect to see results from Netia Lite over H2 2014 and confirm full year Adjusted EBITDA guidance at PLN 505m partly due to this initiative.

As part of Netia Lite, which calls for simplicity, focus and innovation in everything we do, in line with our philosophy, we have slimmed the Management Board down to just myself and new CFO Paweł Szymański, who begins work on September 1, 2014. However, the smaller Board works together with an extended Management Team of up to eight key Directors, including former Board Member Tomasz Szopa, who remains responsible for the B2C Business Unit. I would like to use the opportunity of today's quarterly report to thank Jon Eastick, Tom Ruhan and Mirosław Suszek for their outstanding contributions to Netia's development in past years.

I fully expect that several operational improvements already implemented, together with the recent launches of our Dropss branded low cost broadband product and extending our B2C 3play offering to 400k CATV homes passed in Warsaw and Krakow will boost our sequential performance through to the end of 2014."

Jon Eastick, Netia's CFO, commented: *"Although Netia continued t o grow its on-network base of services during Q2, off-net service net losses accelerated sequentially and as a result the customer base shrank by a worse than anticipated 54k to 2,424k services, down by 7% on a year earlier. These RGU losses, together with on-net voice ARPU being down 14% over 12 months and the ongoing effects of last year's MTR reductions are the main components of Netia's 11 % yoy revenue decline to PLN 856m for H1 2014.*

The PLN 55m absolute revenue decline versus Q2 last year was the key driver of a PLN 15m decline in Adjusted EBITDA with strict cost control and efficiency gains from the Q1 2014 reorganization into 2 business units serving B2B and B2C supporting profitability. Netia's Adjusted EBITDA margin of 30% for H1 2014 remains one of the best among Europe's alternative telecommunications operators and Netia aims to maintain that position as the Management Team works with the new CEO to refresh Netia's strategy and reduce operating costs.

The weak H1 2014 has made it necessary to take down our full year revenue guidance by 3% to PLN 1.675m while additional cost reduction initiatives for H2 2014 allow us to maintain our full year Adjusted EBTIDA guidance at PLN 505m. Ambitious plans to materially improve customer and revenue KPIs in H2 require an additional PLN 15m increase in capex funding and we are now forecasting PLN 215m of Adjusted Capex for 2014.

The Netia Group has produced PLN 276m of Adjusted Operating Free Cash Flow over the past 4 quarters and paid a 42 groszy per share or PLN 146m dividend to its shareholders during June 2014. With net debt of PLN 365.5m representing just 0,72x our PLN 505m Adjusted EBITDA guidance, I am confident that Netia has the financial flexibility needed to improve its strategic position, including interesting M&A opportunities, whilst continuing to reward its shareholders with a healthy dividend.

Today marks my last quarterly results announcement as Netia CFO as I have agreed with the Supervisory Board to hand over my responsibilities to Mr. Paweł Szymański with effect from September 1, 2014. I wish Mr. Szymański and Netia's excellent team all the best as they meet the challenges of today's telecommunications market. "

2 Operational review

2.1 BROADBAND, TV & MOBILE SERVICES

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

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

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

The number of active TV services in Netia grew to 128,866 as at June 30, 2014 up by 28% from 100,879 as at June 30, 2013 and by 1% from 127,247 as at March 31, 2014.

Number of TV services (k)	*Q1 2013*	*Q2 2013*	*Q3 2013*	*Q4 2013*	*Q1 2014*	*Q2 2014*
Total	**91.2**	**100.9**	**111.3**	**120.3**	**127.2**	**128.9**

Netia added 1,619 TV services net in Q2 2014 as compared to 6,926 services added in Q1 2014 in connection with the planned gradual downsizing of IPTV-based services.TV penetration has now reached a satisfactory 33% of the on-net broadband base and the key objective for 2014 is to increase TV sales to completely new customers for Netia, both over upgraded NGA networks and over the former Aster cable TV network acquired during 2013.

TV ARPU was PLN 37 in Q2 2014 as compared to PLN 38 in Q2 2013 and PLN 36 in Q1 2014. As the newest TV offering has identical content over both streaming and IPTV, an improvement in ARPU trend is expected to become increasingly visible during 2014.

Broadband services totalled 826,345 at June 30, 2014, down by 4% from 859,708 at June 30, 2013 and by 1% from 837,413 at March 31, 2014.

Netia provides its broadband services using the following technologies:

Number of broadband ports (k)	*Q1 2013*	*Q2 2013*	*Q3 2013*	*Q4 2013*	*Q1 2014*	*Q2 2014*
xDSL, FastEthernet and PON over own network	381.1	381.3	382.9	386.8	387.9	391.1
incl. Traditional networks (PON, VDSL, ADSL)	*263.1*	*266.1*	*271.2*	*276.0*	*278.9*	*283.7*
incl. Ethernet networks	*118.0*	*115.2*	*111.7*	*110.8*	*109.0*	*107.4*
WiMAX Internet	17.1	16.5	16.0	15.3	14.8	14.3
LLU	178.4	175.4	172.5	169.9	166.6	162.5
Bitstream access	289.5	286.5	282.8	276.9	268.1	258.4
Total	**866.1**	**859.7**	**854.2**	**848.9**	**837.4**	**826.3**

Broadband services net decrease totalled 11,068 during Q2 2014 as compared to 11,496 in Q1 2014. Slower fixed broadband market growth and increased price competition on broadband products from both the incumbent and cable TV operators has eliminated Netia's retail price advantage on 1play BSA services and reduced gross additions run rates and increased churn rates across the broadband portfolio. In Q2 2014 the Company recorded a net increase of 3,263 additions on its own broadband networks (excluding WiMAX Internet) versus 1,083 additions in Q1 2014.

Broadband ARPU was PLN 56 in Q2 2014 as compared to PLN 56 in Q2 2013 and PLN 55 in Q1 2014. Netia's conservative pricing policy and focus on higher value customer segments has resulted in a satisfactory ARPU performance over the past year, despite deep price cuts introduced by some of Netia's competitors.

Broadband SAC was PLN 180 as compared to PLN 178 in Q2 2013 and PLN 176 in Q1 2014.

Local Ethernet network operators. As of June 30, 2014, Netia's Ethernet networks provided broadband access to a total of 107,419 mostly residential customers as compared to 108,981 customers at March 31, 2014 and 115,170 customers at June 30, 2013, with approximately 621,000 homes passed. Netia is currently focused on upgrading Ethernet networks already acquired and therefore will likely acquire new networks at a much slower pace than seen in the past, if at all. There were no additions of Ethernet networks completed in H1 2014.

NGA network development. As at June 30, 2014, Netia covered in total 1,305,000 households with its NGA networks, including 160,000 PON HPs, 897,000 VDSL HPs and 248,000 Ethernet FTTB HPs. During Q2 2014 Netia expanded its NGA coverage by approximately 17,000 HPs (being 6,000 FTTB HPs and 11,000 PON HPs). Moreover, at June 30, 2014 Netia covered a further 172,000 TV ready HPs within its network coverage based on ADSL2+ technology. Combined with NGA ready HPs, all of which can deliver TV services, Netia had 1,477,000 TV ready HPs in its proprietary network coverage.

Netia has advanced plans to expand its NGA coverage by another 400,000 or more HPs inclusive of the recent acquisition of cable networks from UPC Polska. Once all upgrade projects are completed, Netia expects to cover in total approximately 1,734,000 NGA HPs which can be reached with 3play service bundles (TV + fixed NGA broadband + fixed voice). Furthermore, Netia has introduced smooth streaming technology, which expands the availability of its 3play bundle offer onto networks where line speeds are too slow to support IPTV (extra + 240k on-net HPs) and, potentially in the future, to homes where Netia does not provide the broadband connection. Management is presently focusing on optimizing sales, provisioning and maintenance processes around TV services in addition to constant development of the content offering and service functionalities in the course of 2014.

Netia launched commercial services over its former Aster cable TV network, which covers 400,000 homes passed, during August 2014 *(see section 'Other Highlights')*.

Netia launched the 'Dropss', a new brand for its new Internet access offering over the regulated access (LLU and BSA), during July 2014. *(see section 'Other Highlights')*.

Mobile services. The mobile broadband customer base totalled 21,541 at June 30, 2014 as compared to 28,906 at June 30, 2013 and 24,763 at March 31, 2014. *Mobile broadband ARPU* was PLN 29 in Q2 2014 as compared to PLN 28 in Q2 2013 and PLN 27 in Q1 2014. *Mobile voice services* totalled 32,129 at June 30, 2014 as compared to 51,955 at June 30, 2013 and 37,223 at March 31, 2014. *Mobile voice ARPU* was PLN 27 in Q2 2014 as compared to PLN 27 in both Q2 2013 and Q1 2014. Mobile broadband has similar economics to BSA services whilst mobile voice has benefited from improved terms of MVNO agreements with partners P4 and Polkomtel.

Number of mobile services (k)	*Q1 2013*	*Q2 2013*	*Q3 2013*	*Q4 2013*	*Q1 2014*	*Q2 2014*
Mobile data	29.3	28.9	28.0	26.4	24.8	21.5
Mobile voice	56.4	52.0	47.2	42.1	37.2	32.1
Total	**85.7**	**80.9**	**75.2**	**68.5**	**62.0**	**53.7**

2.2 VOICE

2.2.1 Own network, WLR & LLU

Voice lines totalled 1,414,812 at June 30, 2014 as compared to 1,550,812 at June 30, 2013 and 1,450,817 at March 31, 2014. In Q2 2014 Netia recorded a net decrease of 36,005 voice lines versus 37,793 voice lines in Q1 2014 and 44,063 voice lines in Q2 2013. The Company expects the number of fixed voice lines to continue to decline, mainly due to clients churning from traditional direct voice and WLR services.

The aggressive price competition from other providers on the market together with substitution from mobile and migrations to voice bundled with cable TV, has been putting pressure on the fixed voice subscriber base whilst Netia has been targeting higher ARPU customers and upselling unlimited fixed-line national call bundles in order to attract higher value customers. With respect to the off-net (WLR) customer base, the Company is chiefly focused on retention of clients and defending cash flows while Netia is more aggressively defending its on-net base through bundling in B2C and discounting in B2B.

Netia is steadily growing its base of relatively low cost VoIP customers, principally in the business segments. Over time, the Company expects to gradually reduce its reliance on traditional switched telephony, thereby reducing its cost base. During Q2 2014 the customer base of traditional direct voice services decreased by 10,127 while the number of VoIP customers grew in the same period by 12,354. The larger than usual decrease in traditional voice subscribers and faster than typical increase in VoIP services seen during Q2 2014 is reflective of a change in classification of some Dialog services when they were migrated into the Netia billing system during Q2 2014.

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

Number of fixed voice lines (k)	*Q1 2013*	*Q2 2013*	*Q3 2013*	*Q4 2013*	*Q1 2014*	*Q2 2014*
Traditional direct voice	553.3	545.1	537.4	532.6	526.5	516.5
Incl. ISDN	*236.6*	*235.4*	*235.3*	*236.4*	*240.2*	*239.5*
Incl. Legacy wireless	*45.1*	*42.9*	*42.5*	*42.6*	*43.2*	*51.1*
Voice over IP (excl. LLU)	79.4	84.8	91.3	98.8	107.7	120.0
WiMAX voice	13.8	13.2	12.6	12.0	11.5	12.8
Own network voice lines	**646.6**	**643.2**	**641.3**	**643.4**	**645.7**	**649.3**
WLR	828.9	789.0	760.5	728.7	690.0	651.9
LLU voice over IP	119.4	118.6	117.4	116.5	115.1	113.6
Total	**1,594.9**	**1,550.8**	**1,519.3**	**1,488.6**	**1,450.8**	**1,414.8**

Voice ARPU per WLR line was PLN 44 in Q2 2014 as compared to PLN 45 in Q2 2013 and PLN 44 in Q1 2014.

Voice ARPU per Netia network subscriber line was PLN 36 in Q2 2014 as compared to PLN 42 in Q2 2013 and PLN 38 in Q1 2014. The fall reflects more aggressive defence of the customer base than on WLR, aggressively priced voice over IP services to business customers and deep discounts given when voice is bundled in 3play.

Blended voice ARPU was PLN 40 in Q2 2014 as compared to PLN 44 in Q2 2013 and PLN 41 in Q1 2014.

2.2.2 *Indirect voice*

CPS lines (carrier pre selection) totalled 52,435 at June 30, 2014 as compared to 58,358 at June 30, 2013 and 54,251 at March 31, 2014. Netia is focused on the conversion of CPS customers to WLR and is not actively acquiring new CPS customers. CPS clients are not reflected in the total voice subscriber base of 1,414,812 clients as at June 30, 2014.

Indirect voice ARPU per CPS line was PLN 20 in Q2 2014 as compared to PLN 28 in Q2 2013 and PLN 22 in Q1 2014. Tariff reductions, reduced call volumes and conversion of higher ARPU customers to Netia's WLR or LLU offers are responsible for the progressive ARPU decline.

2.3 OTHER

Headcount was 1,933 at June 30, 2014, compared to 2,012 at June 30, 2013 and 1,986 at March 31, 2014. Active headcount was 1,788 at June 30, 2014 versus 1,948 at June 30, 2013and 1,897 at March 31, 2014. During Q1 2014 certain job positions were identified for reduction during the course of 2014 in connection with the split of Netia's operations into B2B/B2C Business Units. Provisions totaling PLN 5.7m were booked in the H1 2014 results.

The movement in headcount can be analyzed as follows:

	Active	Total
Headcount at June 30, 2013	**1,948**	**2,012**
Employees acquired in Ethernet acquisitions since June 30, 2013	-	-
Net organic headcount reductions since June 30, 2013	(149)	(68)
Disposal of UNI-Net in Q1 2014	(11)	(11)
Headcount at June 30, 2014	**1,788**	**1,933**

A further round of headcount reductions began in July 2014 as part of a further efficiency program called 'Netia Lite'.

Capital investment additions

Capital investment additions (PLN'M)	*H1 2013*	*H1 2014*	*Change %*	*Q1 2014*	*Q2 2014*	*Change %*
Existing network and IT	45.2	46.0	2%	20.5	25.5	24%
Broadband networks	31.8	37.7	19%	17.9	19.8	11%
CPE broadband (mainly capitalised Netia Spot routers)	11.3	11.9	6%	9.5	2.4	-74%
TV (incl. dedicated CPE – Netia Player)	3.6	8.5	136%	4.0	4.5	13%
Adjusted capex	**91.9**	**104.2**	**13%**	**51.9**	**52.3**	**1%**
CDN integration	8.7	6.9	-21%	2.7	4.2	54%
Purchase of CATV networks	7.2	na	na	na	na	na
Total capex	**107.8**	**111.1**	**10%**	**54.6**	**56.5**	**3%**

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

During Q2 2014 Netia successfully completed the migrations of Dialog's billing and CRM data onto Netia's IT platforms. This was the last major capital intensive integration project remaining to be completed and therefore further capex spending on CDN integration will be minimal going forward.

The Company is raising its 2014 capital expenditure guidance, excluding integration, to PLN 215m in anticipation of higher sales in H2 2014 than originally planned.

3 Other Highlights

Appointment of Netia's CEO and President of Management Board. On April 22, 2014 Netia's Supervisory Board appointed Mr. Adam Sawicki as President of the Company's Management Board and Chief Executive Officer, effective June 2, 2014. Mr. Adam Sawicki, 43, has many years of general management experience in an international environment, including the telecommunications industry. In particular, he served as Chief Executive Officer of GTS Central Europe (from 2008 to 2011) and worked in various senior management positions in TeliaSonera Group (from 1996 to 2008).

Netia's annual shareholder meeting held on May 21, 2014 adopted resolutions concerning, among others, a dividend payment of PLN 0.42 per share, which was paid on June 17, 2014 to shareholders of record on May 29, 2014. In addition, the AGM adopted with amendments a new share buy-back program to acquire and redeem up to 20% of the Netia's share capital for up to PLN 200m in order to maximize future flexibility in the form of payments to shareholders.
Moreover, the AGM adopted resolutions regarding *changes in rules of remuneration of Supervisory Board members, the number of members of Netia's Supervisory Board and its composition*. The AGM resolved to reduce the Supervisory Board to seven members and appointed the following individuals: Mr. Jacek Czernuszenko, Mr. Przemysław Głębocki, Mr. Mirosław Godlewski (effective September 1, 2014), Ms. Katarzyna Iwuć, Mr. Zbigniew Jakubas and Mr. Cezary Smorszczewski. Subsequently, Mr. Jacek Czernuszenko resigned from the Board on August 16, 2014 for personal reasons. As a result of the above, Netia's Supervisory Board currently consists of the following five members: Mr. Przemysław Głębocki, Ms. Katarzyna Iwuć, Mr. Zbigniew Jakubas, Mr. Tadeusz Radzimiński and Mr. Cezary Smorszczewski, with former Netia CEO Mr. Mirosław Godlewski expected to join from September 1, 2014.

Changes to Netia's Management Board.

Mr. Mirosław Suszek, Chief Technical Officer and member of the Management Board, resigned from his position effective July 31, 2014.

Mr. Tom Ruhan, Chief Legal and Acquisition Officer and member of the Management Board, resigned from his position effective August 1, 2014.

Mr. Tomasz Szopa, Residential Market General Manager and member of the Management Board, resigned from the position of member of the Company's Management Board effective July 31, 2014 and continues to serve as Residential Market General Manager.

Mr. Jon Eastick, Chief Financial Officer and member of the Management Board, resigned from his position effective as of the end of August 31, 2014.

Mr. Paweł Szymański was appointed as member of the Management Board and Chief Financial Officer, effective September 1, 2014. Paweł Szymański is an experienced CEO and CFO from the largest domestic and regional concerns. A professional with wide experience in Finance. He combines managerial skills with sound knowledge of global financial markets acquired when working for the largest investments banks both in Warsaw and London. A graduate of Warsaw School of Economics, from 1997 to 2003 he worked for Schroders and Citigroup in London. On his return to Poland in 2003, he was appointed CEO of Bank Handlowy's brokerage arm. From 2004 to 2007, he ran PKN Orlen's Finance Division, firstly as Management Board member and subsequently as Vice-President. From 2007 to 2008, he worked at CTL Logistics as Vice-President responsible for Finance. Between 2010 and 2013, he was actively involved in the restructuring of RUCH, initially as Vice-President for Financial Affairs, and from 2012 to 2013 as CEO. Prior to agreeing to join Netia Mr. Szymański was Vice-President and CFO in Marvipol SA.

Netia's Management Board therefore comprises CEO Adam Sawicki and CFO Paweł Szymański with effect from September 1, 2014.

Netia splits its operations into B2B and B2C Business Units (N^2 Project). On January 24, 2014 Netia announced a divisional split of its operations between two distinct Business Units: Business to Business (B2B) and Business to Consumers (B2C), with a view to best support the needs of its business and residential customers and the Company's key strategic objectives. The B2B and B2C Business Units will be responsible for providing new, innovative and user-friendly products to their customers and constant improvement of service delivery. This organizational change is expected to result in the maximal possible simplification of internal procedures and processes, clear accountability for execution of strategic targets and thus the further improvement of the Group's commercial and financial performance along the entire service value chain. Moreover, the change is expected to allow Netia, being the second largest fixed network operator in Poland, to take optimal advantage of its existing infrastructure, which in the medium and long term is expected to increasingly play an important role in Netia's financial performance. In addition, it is expected to provide the flexibility necessary to take advantage of possible consolidation scenarios in the Polish telecommunications market.

Launch of Netia's services over the former Aster cable operator's network. In August 2014 Netia launched commercially its services over the former Aster cable operator's HFC network, which reaches approximately half of all households in Warsaw and a significant part of households in Kraków. Thanks to the conducted infrastructure upgrade, including the modern DOCSIS 3.0 network solutions, Netia is able to offer its customers one of the highest Internet access speeds of up to 300 Mb/s. Under the new offering 'GigaKablówka' (the 'GigaCable') Netia offers, among others, Internet access speeds of 20 Mb/s, 100 Mb/s or 300 Mb/s in a bundle with its Telewizja Osobista ('Personal TV') TV service for a monthly fee of PLN 39.90, PLN 49.90 or PLN 59.90, respectively.

The total reach of the former Aster's HFC network over which Netia may offer its services includes approximately 314k households in Warsaw and approximately 106k households in Kraków. The total sales potential is expected to be put into operation by the end of November 2014. During August 2014 the sales process is conducted over the network covering 175k households in Warsaw and 40k households in Kraków.

Launch of the 'Dropss' Internet access offer. On July 29, 2014 Netia introduced a new brand and a new Internet access offering over regulated access (LLU and BSA) - the 'Dropss'. The offering includes Internet access of up to 20Mb/s, without data transfer limits, obligatory voice service subscriptions or a network maintenance fees. The contracts under the Dropss offering are signed without a minimum contract period for a monthly fee of PLN 49.90 (with an electronic invoice) for LLU. The competitively priced offering is addressed solely to new customers.

Netia Lite savings program. In parallel to working on Netia's updated strategy, new CEO Adam Sawicki rolled out the 'Netia Lite' short- to mid-term savings program in Q3 2014. Focusing on savings from reducing senior management layers, simplifying the organization, cutting office space and limiting discretionary spending, Netia Lite is targeting PLN 50m of incremental savings during 2015 versus the Q2 2014 cost base with significant savings already being delivered during H2 2014.

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

Strategic review. Since their respective appointments, CEO Adam Sawicki and the new Supervisory Board have been evaluating Netia Group's performance, together with the existing Management and reviewing alternative strategic options to drive value creation in the Netia Group going forward.

Mr. Sawicki anticipates proposing a strategic plan to the Supervisory Board during the course of 3Q 2014. In the meantime, previously published medium-term guidance remains withdrawn and the distribution policy remains in place.

Distribution policy remains unchanged. While remaining interested in a number of potential acquisition targets, Netia Management presently anticipates no likely short-term transactions and therefore targets to facilitate payments to shareholders through either dividends or offers to purchase shares directed to all shareholders or capital redemptions, depending on the evolution of distributable reserves in Netia SA, which stood at PLN 203.1m at June 30, 2014 and represent the key constraint on future distributions. Based on its free cash flow projections, Management estimates that the Company may distribute up to PLN 146m from 2014 onwards (pro forma PLN 0.42 per outstanding share) with some scope to moderately increase payments over time whilst allowing debt leverage to increase towards 1.0x Adjusted EBITDA over the medium term.

In June 2014 Netia paid a dividend for 2013 totaling PLN 146.1m or PLN 0.42 per share. Moreover, and in line with the distribution policy, the recently held annual shareholder meeting approved a new PLN 200m share buy-back program to provide Netia with greater flexibility to meet its commitment to its distribution policy in the event that Netia SA, the parent company, records a loss in a given financial year.

Financing. On June 30, 2014, Netia had PLN 48.2m in cash and short term deposits and PLN 413.7m in total debt and accrued interest as compared to PLN 124.6m and PLN 385.3m, respectively, on March 31, 2014, Accordingly, Netia Group's net debt at June 30, 2014 was PLN 365.5m versus PLN 398.5m at June 30, 2013 and PLN 260.7m at March 31, 2014 and net debt to the 2014 Adjusted EBITDA guidance of PLN 505m amounted to 0.72x. The increase in net debt during Q2 2014 was solely due to the payment of the dividend.

Netia has undrawn long-term loan facilities of PLN 150.0m available for general corporate purposes that may be drawn until December 20, 2014.

Financial covenants agreed as part of the loan facility with the consortium of banks signed in September 2011 are such that further funds may be raised to finance further acquisitions.

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

The Company will continue to take all possible measures to secure a positive outcome of the dispute with the tax authorities and is now waiting for a written statement of the reasons for the judgment from the NSA. The disputed tax liabilities set by the Tax Chamber's 2009 decision at PLN 34.2 million, plus interest, were paid in full by the Company in 2010.

4 Updated guidance for FY2014

Netia is revising its 2014 guidance as published previously (see Netia's current report no. 7/2014 dated February 20, 2014).

The update is being made to reflect weaker than expected sales momentum in H1 2014. Although revenue guidance is being reduced from PLN 1,735m to PLN 1,675m, Management is targeting improving trends in H2 2014 from new sales initiatives that have already launched in the market. A short- and medium-term cost reduction initiative, Netia Lite, has gone into implementation and allows confirmation of the Adjusted EBITDA target at PLN 505m for 2014. Additional capital investment to support improved sales in H2 2014 results in increased capital investment guidance from PLN 200m to PLN 215m.

Full updated guidance for 2014 is set out below:

FY2014 Guidance	*Previous*	*Updated*
Revenues (PLN m)	1,735	1,675
Adjusted EBITDA (PLN m)	505	505
Adjusted EBITDA margin (%)	29.1 %	30.1%
Adjusted EBIT (PLN m)	75	75
Capital investments (excl. M&A and integration capex) (PLN m)	200	215
Capital investments (excl. M&A and integration capex) to sales (%)	11.5%	12.8%
Adjusted operating free cash flow (Adj. OpFCF)[1](PLN m)	305	290

1 Adjusted EBITDA less Capital Investments excluding acquisitions and Dialog and Crowley integration related capex

The above guidance excludes the impact of one-off integration costs and one-off integration capital investments, originally estimated at up to PLN 8 million and up to PLN 14 million, respectively.

Consolidated Financial Information

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

H1 2014 vs. H1 2013

Revenue decreased by 12% YoY to PLN 856.5m for H1 2014 from PLN 968.2m for H1 2013. The B2C operating segment decreased by 12% or PLN 66.9m and the B2B segment by 11% or PLN 41.8m. The decline in revenues was driven by a 6% YoY decline in services provided (RGUs) and by falls in mobile termination rates (MTRs) which contributed approximately 30% of the revenue decline. Going forward, the Company expects more limited impact on revenues between the compared periods from the 2013 MTR reductions as the last drop in MTR rates took place in July 2013. RGU declines continued to be concentrated in the B2C (Home) sub-segment and in fixed voice services and lower margin WLR services in particular. The proportion of RGUs delivered on-network has increased from 44% to 49% in the twelve months to June 30, 2014.

Telecommunications revenue decreased by 11% YoY to PLN 855.6m in H1 2014 from PLN 962.9m in H1 2013, driven by a 17% or PLN 69.4 m decrease in direct voice revenue to PLN 351.9m from PLN 421.3m in H1 2013, associated with a 9% decrease in the voice subscriber base and the drop in the number of WLR services in particular and an on-net ARPU decrease of 14%. Data revenue decreased by 5% or PLN 17.7m to PLN 348.0m from PLN 365.8m in H1 2013, mainly due to the lower number of BSA services. Revenues from interconnect and carrier services combined were down by 21% to PLN 84.4m from PLN 106.1m in H1 2013 following the introduction of lower MTRs in January 2013 and again in July 2013. Indirect voice services (CPS) revenue decreased by 35% or PLN 3.7m as a result of decreasing customer numbers and falling ARPUs. Other telecommunications revenue, which include TV and mobile services, increased between the compared periods by 9% or PLN 5.3m to PLN 64.4m in H1 2014 from PLN 59.1m in H1 2013 and represented 8% of total revenue versus 6% in the prior year period. Direct voice revenue as a share of total telecommunications revenue declined YoY from 44% to 41% and data revenue increased over the same period from 38% to 41%.

Cost of sales decreased by 10% YoY to PLN 584.2m from PLN 651.5m for H1 2013 and represented 68% of total revenue as compared to 67% in the prior year period. Lower interconnection costs following cuts to MTRs, a relatively faster decline in off-net services and synergies from Dialog Group and Crowley integration and lower depreciation and amortization expenses were the main drivers of the decrease in costs.

Interconnection charges decreased by 28% to PLN 84.9m in H1 2014 as compared to PLN 117.2m for H1 2013, due mainly to falling MTRs and lower voice traffic volumes.

Network operations and maintenance cost decreased by 10% to PLN 273.6m from PLN 302.6m for the prior year period due to fewer off-net RGUs generating regulated access fees.

Depreciation and amortization related to cost of sales decreased by 4% to PLN 173.8m as compared to PLN 180.0m for H1 2013 following the reassessment of useful lives of the Netia Group's fixed assets in Q1 2014, resulting in a reduction of some depreciation rates.

Taxes, frequency fees and other expenses decreased by 7% to PLN 29.7m in H1 2014 as compared to PLN 31.7m for H1 2013 mainly as a result of lower cost of office space rentals.

Gross profit for H1 2014 was PLN 272.3m as compared to PLN 316.6m for H1 2013. Gross profit margin was 31.8% for H1 2014 and 32.7% for H1 2013.

Selling and distribution costs decreased by 16% YoY to PLN 153.2m from PLN 182.9m for previous year period and represented 18% of total revenue as compared to 19% in H1 2013. Lower direct acquisition costs from fewer gross additions and lower advertising spending were the main drivers of the decreasing costs.

Advertising and promotion cost decreased by 60% YoY to PLN 7.0m for H1 2014 as compared to PLN 17.7m for H1 2013 as a result of limited advertising campaigns and lower costs of both broadcasting and production of new TV commercials.

Depreciation and amortization related to selling and distribution cost decreased by 27% to PLN 19.8m from PLN 27.0m in H1 2013 following the full amortization of certain acquisition related intangible assets.

Impairment of receivables was lower by 55% and PLN 4.4m as the current year period benefited from provision releases due to improving bad debt recovery performance.

Billing, mailing and logistics costs decreased by 28% YoY to PLN 10.5m from PLN 14.7m while the average number of RGUs served fell only by 6% between the two half year periods due to integration synergies and greater use of electronic billing solutions.

Third party commissions decreased by 33% YoY to PLN 8.2m from PLN 12.2m due to lower gross additions, particularly in voice services.

Outsourced customer service cost decreased by 32% YoY to PLN 6.2m from PLN 9.1m due to extracting integration synergies and increased use of internal customer care resources.

Salaries and benefits related to selling and distribution cost increased by 5% to PLN 62.9m from PLN 60.1m in H1 2013, reflecting mainly enforcement of Netia's B2B sales team and growth in the in-house customer care headcount.

General and administration costs increased by 2% YoY to PLN 90.8m from PLN 88.6m for H1 2013 and represented 11% of total revenue in H1 2014 as compared to 9% in H1 2013. Higher depreciation and amortization on additional software, restructuring cost representing provisions for redundancies in connection with the B2B/B2C Business Units split (N^2 Project) and migration of Dialog's customer data bases to Netia were the main cost drivers.

Restructuring costs related to general administration increased to PLN 3.3m from PLN 0.9m in H1 2013, reflecting mainly provisions for the headcount optimization process in connection with the B2B/B2C Business Units split (N^2 Project).

Depreciation and amortization related to general administration increased by 21% or PLN 3.0m in connection with amortization of additional computer software and licenses.

Electronic data processing cost increased by 31% or PLN 2.3m in connection with the integration projects such as migration of Dialog's customer data bases to Netia, completed in April 2014.

Other costs related to general administration cost increased by 2% or PLN 0.2m, driven by liquidation of certain obsolete fixed assets in Q2 2014.

Salaries and benefits related to general administration cost decreased by 9% to PLN 38.4m from PLN 42.2m in H1 2013.

Office and car maintenance costs decreased by 18% or PLN 1.2m between the periods mainly as a result of renegotiated office space rentals.

Professional services costs decreased by 19% or PLN 0.8m.

Other income, net of other expenses was a gain of PLN 6.2m versus a prior half year period gain of PLN 3.9m driven by income relating to the government grants and reversal of provisions which offset an impact of an impairment charge of PLN 2.5m booked in Q1 2014 on the decision to discontinue using Dialog's trademark.

Other gains/(losses), net were a gain of PLN 0.4m from a gain of PLN 4.7m in H1 2013 on significantly lower gain on sale of impaired receivables.

Adjusted EBITDA was PLN 259.5m, down by 8% from PLN 282.5m for H1 2013. Adjusted EBITDA margin was 30.3% as compared to 29.2% in H1 2013. Higher Adjusted EBITDA margin reflects Dialog Group and Crowley integration synergies, the lower base of both revenue and cost from MTR reductions, and lower sales and distribution spending, partially offset by falling gross profits from contracting revenues.

Unusual items excluded from the Adjusted EBITDA were PLN 13.8m of net expenses in H1 2014 and PLN 7.5m of net expenses in H1 2013. Including headcount restructuring costs of PLN 5.7m in H1 2014 and PLN 2.2m in H1 2013, the Dialog Group and Crowley integration costs of PLN 4.4m in H1 2014 and PLN 4.8m in H1 2013, an impairment charge of PLN 2.5m recorded in Q1 2014 upon the decision to discontinue using Dialog's trademark versus an impairment charge of PLN 0.4m in H1 2013, cost of N^2 Project of PLN 1.1m recorded in H1 2014 and the costs of M&A projects of PLN 0.04m in H1 2014 and PLN 0.1m in H1 2013, *EBITDA* was PLN 245.8m for H1 2014 as compared to PLN 275.0m for H1 2013. EBITDA margin was 28.7% as compared to 28.4% for H1 2013.

Depreciation and amortization was PLN 210.9m, a decrease of 5% YoY as compared to PLN 221.3m in H1 2013 following full depreciation of certain assets and liquidation in 4Q 2013 of certain obsolete assets.

Operating profit (EBIT) was PLN 34.9m as compared to an operating profit of PLN 53.7m for H1 2013. Excluding unusual items described above of PLN 13.8m of net costs in H1 2014 and PLN 7.5m of costs in H1 2013, Adjusted EBIT was PLN 48.7m profit for H1 2014 versus PLN 61.2m profit for H1 2013.

Net financial cost was PLN 9.5m as compared to net financial cost of PLN 15.3m for the prior half year period and the improvement is driven by the falls in average net debt between the periods.

Income tax charge of PLN 6.2m was recorded in H1 2014 as compared to income tax charge of PLN 16.6m for H1 2013.

Net profit was PLN 19.2m for H1 2014 versus net profit of PLN 21.7m for H1 2013.

Cash outlays on purchase of fixed assets and computer software increased by 9% to PLN 138.6m for H1 2014 versus PLN 126.8m for H1 2013 driven by investments in broadband networks including NGA development and TV services.

Cash and short term deposits at June 30, 2014 totalled PLN 48.2m versus PLN 124.4m at June 30, 2013.

Debt and accrued interest at June 30, 2014 was PLN 413.7m as compared to PLN 522.9m in the prior half year period.

Net debt at June 30, 2014 was PLN 365.5m as compared to PLN 398.5m at June 30, 2013. Netia's net debt position reflects the majority of cash outflow related to *a dividend payment of PLN 0.42 per share*, which was made on June 17, 2014 to shareholders of record on May 29, 2014. From PLN 146.1m of the total dividend amount, PLN 138.5m was distributed in Q2 while the remaining PLN 7.6m outflow representing dividend-related taxes will be recorded in Q3 2014 results.

Q2 2014 vs. Q1 2014

Sequential revenue decreased by 3% to PLN 422.2m in Q2 2014 from PLN 434.4m in Q1 2014. The decline in revenues was driven by a 2% sequential decline in services provided (RGUs), which continued to be concentrated in the B2C (Home) sub-segment and in fixed voice services, lower APRU from on-net voice services and by falls in mobile termination rates (MTRs), which contributed 11% of revenue decline via their knock-on effects on B2B retail results. The Company estimates the sequential impact of lower MTRs on revenue at PLN 1.3m. Going forward, the Company expects more limited impact on revenues between the compared periods from the 2013 MTR reductions as the last drop in MTR rates took place in July 2013.

Telecommunications revenue decreased by 3% to PLN 421.6m in Q2 2014 versus PLN 434.0m in Q1 2014. Direct voice revenue fell by 5% QoQ to PLN 171.3m from PLN 180.6m in Q1 2014 as a result of the fall in the subscriber base and on-network ARPU declines partly related to passing on of MTR savings. Other telecommunications revenue remained broadly unchanged at PLN 32.2m versus PLN 32.3m in Q1 2014. Carrier segment revenue remained broadly unchanged at PLN 42.1m versus PLN 42.3m in Q1 2014. Data revenue decreased by 1% to PLN 173.0m from PLN 175.2m in Q1 2014 following sequentially higher disconnections among off-net broadband services. Indirect voice revenue decreased sequentially by 14% or PLN 0.5m on lower customer base.

Cost of sales were PLN 291.7m as compared to PLN 292.6m in Q1 2014, representing 69% of total revenue in Q2 2014 as compared to 67% in Q1 2014. Cost of network operations and maintenance decreased by 1% or 1.7m mainly as a result of less fees payable to TP on less wholesale access services. Salaries and benefits related to the cost of sales decreased by 11% or PLN 1.0m on sequentially lower annual bonus provision. Taxes, frequency fees and other expenses increased by 9% or PLN 1.3m following release of office space deferred incentives in Q1 2014. Cost of goods sold increased by 25% or PLN 0.5m reflecting higher sale of equipment to business customers.

Gross profit decreased by 8% to PLN 130.5m from PLN 141.8m in Q1 2014, with gross profit margin at 30.9% versus 32.6% in Q1 2014.

Selling and distribution costs increased by 1% sequentially to PLN 76.9m in Q2 2014 as compared to PLN 76.3m in Q1 2014 representing 18% of total revenue in both Q2 2014 and Q1 2014. Impairment of receivables increased sequentially to PLN 3.0m from PLN 0.5m in Q1 2014 following a stabilization of previously improving debt recovery rates. Salaries and benefits related to selling and distribution decreased by 7% or PLN 2.2m reflecting mainly sequentially lower annual bonus provision.

General and administrative expenses decreased by 1% to PLN 45.2m in Q2 2014 from PLN 45.6m in Q1 2014, and represented 11% of total revenue in Q2 2014 as compared to 10% in Q1 2014. The increases in cost of other expenses, which was associated with the liquidation of certain obsolete fixed assets in Q2 2014, higher depreciation and amortization due to additional intangibles and higher cost of electronic data processing associated with the migration of Dialog's customer bases to Netia were offset with decreased cost of salaries and benefits related to general administration (by 14% or PLN 3.0m), on sequentially lower annual bonus provision and lower restructuring cost (by 53% and PLN 1.2m).

Adjusted EBITDA was PLN 125.1m versus PLN 134.4m for Q1 2014 and Adjusted EBITDA margin was 29.6% in Q1 2014 versus was 31.0% in Q12014, driven by the lower gross margin.

EBITDA was PLN 119.8m as compared to PLN 126.0m in Q1 2014. EBITDA for Q2 2014 included Dialog Group and Crowley integration costs of PLN 2.6m, restructuring costs of PLN 2.0m, costs of Netia's B2B/B2C divisional split (N^2 Project) of PLN 0.6m and costs of M&A projects of PLN 0.04m. EBITDA for Q1 2014 included restructuring costs of PLN 3.6m, impairment charge on decision to discontinue using Dialog's trademark of PLN 2.5m, Dialog Group and Crowley integration costs of PLN 1.8m and costs of Netia's B2B/B2C divisional split (N^2 Project) of PLN 0.5m.

Operating profit (EBIT) was PLN 14.2m as compared to operating profit of PLN 20.7m in Q1 2014. Excluding unusual items, EBIT for Q2 2014 would have been PLN 19.5m profit as compared to PLN 29.1m profit for Q1 2014.

Net financial cost was PLN 4.9m as compared to net financial cost of PLN 4.6m in Q1 2014.

Income tax charge of PLN 1.0m was recorded in Q2 2014 versus income tax charge of PLN 5.2m in Q1 2014.

Net profit for Q1 2014 was PLN 8.3m versus net profit of PLN 11.0m for Q1 2014.

Key Figures

PLN'000	H1 2013	H1 2014	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Revenues	968,182	856,532	477,492	457,076	450,758	434,371	422,161
y-o-y % change	*(10.4%)*	*(11.5%)*	*(11.0%)*	*(12.3%)*	*(13.2%)*	*(11.5%)*	*(11.6%)*
Adjusted EBITDA	282,546	259,546	140,541	144,123	124,186	134,440	125,106
Margin %	*29.2%*	*29.9%*	*29.4%*	*31.5%*	*27.6%*	*31.0%*	*29.6%*
y-o-y change %	*(2.3%)*	*(8.1%)*	*(10.0%)*	*(8.5%)*	*(14.1%)*	*(5.3%)*	*(11.0%)*
EBITDA	275,029	245,779	136,408	142,492	115,232	125,978	119,801
Margin %	*28.4%*	*28.3%*	*28.6%*	*31.2%*	*25.6%*	*29.0%*	*28.4%*
Adjusted EBIT	61,229	48,675	30,573	34,457	15,175	29,146	19,529
Margin %	*6.3%*	*5.6%*	*6.4%*	*7.5%*	*3.4%*	*6.7%*	*4.6%*
EBIT	53,712	34,908	26,440	32,826	6,221	20,684	14,224
Margin %	*5.5%*	*4.0%*	*5.5%*	*7.2%*	*1.4%*	*4.8%*	*3.4%*
Adjusted Profit of the Netia Group (consolidated)	27,817	30,399	11,932	15,387	17,749	17,807	12,592
Margin %	*2.9%*	*3.5%*	*2.5%*	*3.4%*	*3.9%*	*4.1%*	*3.0%*
Profit/(Loss) of the Netia Group (consolidated)	21,728	19,248	8,584	14,066	10,496	10,953	8,295
Margin %	*2.2%*	*2.2%*	*1.8%*	*3.1%*	*2.3%*	*2.5%*	*2.0%*
Profit/(Loss) of Netia SA (stand alone)[1]	(18,309)	(19,214)	(9,254)	(2,232)	51,265	(6,827)	(12,387)
Cash and short term deposits	124,401	48,251	124,401	130,931	93,356	124,611	48,251
Cash, restricted cash and short term deposits	126,524	48,251	126,524	130,944	93,369	124,611	48,251
Debt	522,935	413,708	522,935	448,154	384,077	385,265	413,708
Capex related payments	126,793	138,623	55,165	57,353	97,680	84,551	54,072
Investments in tangible and intangible fixed assets and investment property	107,820	111,086	61,921	63,888	107,866	54,554	56,532

EUR'000[2]	H1 2013	H1 2014	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Revenues	232,686	205,853	114,757	109,850	108,332	104,394	101,459
y-o-y % change	*(10.4%)*	*(11.5%)*	*(11.0%)*	*(12.3%)*	*(13.2%)*	*(11.5%)*	*(11.6%)*
Adjusted EBITDA	67,905	62,377	33,777	34,637	29,846	32,310	30,067
Margin %	*29.2%*	*29.9%*	*29.4%*	*31.5%*	*27.6%*	*31.0%*	*29.6%*
y-o-y change %	*(2.3%)*	*(8.1%)*	*(10.0%)*	*(8.5%)*	*(14.1%)*	*(5.3%)*	*(11.0%)*
EBITDA	66,098	59,069	32,783	34,245	27,694	30,277	28,792
Margin %	*28.4%*	*28.3%*	*28.6%*	*31.2%*	*25.6%*	*29.0%*	*28.4%*
Adjusted EBIT	14,715	11,698	7,348	8,281	3,647	7,005	4,693
Margin %	*6.3%*	*5.6%*	*6.4%*	*7.5%*	*3.4%*	*6.7%*	*4.6%*
EBIT	12,909	8,390	6,354	7,889	1,495	4,971	3,418
Margin %	*5.5%*	*4.0%*	*5.5%*	*7.2%*	*1.4%*	*4.8%*	*3.4%*
Adjusted Profit of the Netia Group (consolidated)	6,685	7,306	2,868	3,698	4,266	4,280	3,026
Margin %	*2.9%*	*3.5%*	*2.5%*	*3.4%*	*3.9%*	*4.1%*	*3.0%*
Profit/(Loss) of the Netia Group (consolidated)	5,222	4,626	2,063	3,381	2,523	2,632	1,994
Margin %	*2.2%*	*2.2%*	*1.8%*	*3.1%*	*2.3%*	*2.5%*	*2.0%*
Profit/(Loss) of Netia SA (stand alone)[1]	(4,400)	(4,618)	(2,224)	(536)	12,321	(1,641)	(2,977)
Cash and short term deposits	29,898	11,596	29,898	31,467	22,436	29,948	11,596
Cash, restricted cash and short term deposits	30,408	11,596	30,408	31,470	22,440	29,948	11,596
Debt	125,678	99,428	125,678	107,706	92,306	92,592	99,428
Capex related payments	30,472	33,316	13,258	13,784	23,476	20,320	12,995
Investments in tangible and intangible fixed assets and investment property	25,913	26,698	14,882	15,354	25,924	13,111	13,587

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

[2] The EUR amounts shown in this table and in the entire document have been translated using an exchange rate of PLN 4.1609 = EUR 1.00, the average rate announced by the National Bank of Poland on June 30, 2014. These figures are included for the convenience of the reader only.

Adjusted EBITDA, Adjusted EBIT and Adjusted Profit for 2013 exclude the following items as appropriate: New Netia (Dialog Group & Crowley) integration costs of PLN 9.5m, restructuring expenses of PLN 3.6m, impairment charge of PLN 0.4m, expenses related to M&A activities of PLN 0.6m, a decrease in provision for universal service obligation payment of PLN 0.2m, an impairment charge on valuation of investment property of PLN 2.6, costs of B2B/B2C divisional split of PLN 1.5m and impact from these one-offs on the income tax charge of PLN 3.4m. Items excluded for H1 2014 are as follows: New Netia (Dialog Group & Crowley) integration costs of PLN 4.4m, restructuring expenses of PLN 5.7m, an impairment charge on discontinuity of Dialog's trademark of PLN 2.5m, costs of B2B/B2C divisional split of PLN 0.5m. costs of M&A projects of PLN 0.04m and impact from these one-offs on the income tax charge of PLN 2.5m.

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

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

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

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

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

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

1 A customer is defined as a customer location

Income Statement
(PLN in thousands unless otherwise stated)

Time periods:	H1 2013 *unaudited*	H1 20143 *unaudited*	Q1 2014 *unaudited*	Q2 2014 *unaudited*
Direct Voice	421,278	351,873	180,588	171,285
Incl. monthly fees	*303,253*	*263,921*	*135,249*	*128,672*
Incl. calling charges	*117,598*	*87,875*	*45,295*	*42,580*
Indirect Voice	10,642	6,909	3,714	3,195
Data	365,774	348,048	175,191	172,857
Interconnection revenues	46,381	34,751	17,923	16,828
Wholesale services	59,703	49,603	24,364	25,239
Other telecommunications revenues	59,140	64,449	32,252	32,197
Total telecommunications revenue	**962,918**	**855,633**	**434,032**	**421,601**
Radio communications and other revenue	5,264	899	339	560
Total revenue	**968,182**	**856,532**	**434,371**	**422,161**
Cost of sales	**(651,538)**	**(584,207)**	**(292,555)**	**(291,652)**
Interconnection charges	(117,226)	(84,934)	(42,459)	(42,475)
Network operations and maintenance	(302,584)	(273,601)	(137,632)	(135,969)
Costs of goods sold	(3,159)	(4,357)	(1,940)	(2,417)
Depreciation and amortization	(180,049)	(173,815)	(86,894)	(86,921)
Salaries and benefits	(16,360)	(16,825)	(8,895)	(7,930)
Restructuring	(431)	(996)	(533)	(463)
Taxes, frequency fees and other expenses	(31,729)	(29,679)	(14,202)	(15,477)
Gross profit	**316,644**	**272,325**	**141,816**	**130,509**
Margin (%)	***32.7%***	***31.8%***	***32.6%***	***30.9%***
Selling and distribution costs	**(182,898)**	**(153,178)**	**(76,257)**	**(76,921)**
Advertising and promotion	(17,700)	(7,025)	(3,196)	(3,829)
Third party commissions	(12,200)	(8,196)	(3,820)	(4,376)
Billing, mailing and logistics	(14,687)	(10,534)	(5,537)	(4,997)
Outsourced customer service	(9,112)	(6,223)	(3,322)	(2,901)
Impairment of receivables	(7,927)	(3,572)	(543)	(3,029)
Depreciation and amortization	(26,959)	(19,756)	(10,299)	(9,457)
Salaries and benefits	(60,098)	(62,938)	(32,558)	(30,380)
Restructuring	(881)	(1,365)	(850)	(515)
Other costs	(33,334)	(33,569)	(16,132)	(17,437)
General and administration costs	**(88,603)**	**(90,769)**	**(45,599)**	**(45,170)**
Professional services	(4,469)	(3,642)	(1,852)	(1,790)
Electronic data processing	(7,524)	(9,831)	(4,443)	(5,388)
Office and car maintenance	(6,691)	(5,479)	(2,972)	(2,507)
Depreciation and amortization	(14,309)	(17,300)	(8,101)	(9,199)
Salaries and benefits	(42,184)	(38,384)	(20,678)	(17,706)
Restructuring	(870)	(3,318)	(2,258)	(1,060)
Other costs	(12,556)	(12,815)	(5,295)	(7,520)
Other income	4,998	9,628	3,719	5,909
Other expense	(1,094)	(3,439)	(2,854)	(585)
Other gains/ (losses), net	4,665	341	(141)	482
EBIT	**53,712**	**34,908**	**20,684**	**14,224**
Margin (%)	***5.5%***	***4.1%***	***4.8%***	***3.4%***
Finance income	4,029	1,950	1,052	898
Finance cost	(19,374)	(11,405)	(5,603)	(5,802)
Profit before tax	**38,367**	**25,453**	**16,133**	**9,320**
Tax benefit / (charge)	(16,639)	(6,205)	(5,180)	(1,025)
Profit / (Loss)	**21,728**	**19,248**	**10,953**	**8,295**

EBITDA Reconciliation to Profit

(PLN in thousands unless otherwise stated)

Time periods:	H1 2013 *unaudited*	H1 2014 *unaudited*	Q1 2014 *unaudited*	Q2 2014 *unaudited*
Operating Profit	**53,712**	**34,908**	**20,684**	**14,224**
Add back:				
Depreciation and amortization	221,317	210,871	105,294	105,577
EBITDA	**275,029**	**245,779**	**125,978**	**119,801**
Add back:				
Impairment charge for non-current assets	431	2,503	2,503	-
Restructuring costs	2,182	5,679	3,641	2,038
M&A related costs	119	40	-	40
New Netia integration costs	4,785	4,413	1,776	2,637
B2B/B2C split costs (N^2 Project)	-	1,132	542	590
Adjusted EBITDA	**282,546**	**259,546**	**134,440**	**125,106**
Margin (%)	***29.2%***	***30.3%***	***31.0%***	***29.6%***

Note to Other Income

(PLN in thousands unless otherwise stated)

Time periods:	H1 2013 *unaudited*	H1 2014 *unaudited*	Q1 2014 *unaudited*	Q2 2014 *unaudited*
Reminder fees and penalties	3,274	3,361	1,749	1,612
Forgiveness of liabilities	326	228	168	60
Reversal of provisions	-	1,492	-	1,492
Income relating to government grants	-	2,221	1,111	1,110
Other operating income	1,398	2,326	691	1,635
Total	**4,998**	**9,628**	**3,719**	**5,908**

Note to Other Expense

(PLN in thousands unless otherwise stated)

Time periods:	H1 2013 *unaudited*	H1 2014 *unaudited*	Q1 2014 *unaudited*	Q2 2014 *unaudited*
Impairment charges for specific individual assets	(1,042)	(3,439)	(2,854)	(585)
Other expenses	(52)	-	-	-
Total	**(1,094)**	**(3,439)**	**(2,854)**	**(585)**

Note to Other Gains / (losses), net

(PLN in thousands unless otherwise stated)

Time periods:	H1 2013 *unaudited*	H1 2014 *unaudited*	Q1 2014 *unaudited*	Q2 2014 *unaudited*
Gain / (loss) on sale of impaired receivables	5,436	661	(2)	663
Gain / (loss) on disposal of fixed assets	(495)	165	77	88
Net foreign exchange gains / (losses)	(276)	(485)	(216)	(269)
Total	**4,665**	**341**	**(141)**	**482**

Total comprehensive income

(PLN in thousands unless otherwise stated)

Time periods:	H1 2013 *unaudited*	H1 2014 *unaudited*	Q1 2014 *unaudited*	Q2 2014 *unaudited*
Profit / (Loss)	**21,728**	**19,248**	**10,953**	**8,295**
Cash flow hedges	5,268	349	1,029	(680)
Income tax relating to components of other comprehensive income	(1,027)	(110)	(220)	110
Net other comprehensive Income / (Loss) to be reclassified to profit or loss in subsequent periods	**4,241**	**239**	**809**	**(570)**
Re-measurement gains on a defined benefit plan	-	-	-	-
Income tax relating to re- measurement gains on a defined benefit plan	-	-	-	-
Net other comprehensive Income / (Loss) not to be reclassified to profit or loss in subsequent periods	**-**	**-**	**-**	**-**
Other comprehensive Income / (Loss)	**4,241**	**239**	**809**	**(570)**
Total comprehensive Income / (Loss)	**25,969**	**19,487**	**11,762**	**7,725**

Statement of financial position

(PLN in thousands unless otherwise stated)

Time periods:	December 31 2013 *audited*	March 31 2014 *unaudited*	June 30 2014 *unaudited*
Property, plant and equipment, net	1,956,680	1,923,691	1,884,193
Intangible assets	538,340	516,785	504,233
Investment property	27,142	27,016	26,891
Deferred income tax assets	92,501	91,114	90,902
Available for sale financial assets	116	116	116
Prepaid expenses and accrued income	5,544	5,601	6,688
Derivative financial instruments	326	256	-
Total non-current assets	**2,620,649**	**2,564,579**	**2,513,023**
Inventories	2,664	2,296	2,800
Trade and other receivables	191,000	188,192	195,212
Current income tax receivables	5,258	3,864	1,762
Prepaid expenses and accrued income	24,638	25,431	25,680
Derivative financial instruments	33	34	33
Financial assets at fair value through profit and loss	25	26	24
Restricted cash	13	-	-
Cash and short-term deposits	93,356	124,611	48,251
	316,987	**344,454**	**273,762**
Total current assets	**316,987**	**344,454**	**273,762**
TOTAL ASSETS	**2,937,636**	**2,909,033**	**2,786,785**
Share capital	347,911	347,911	347,911
Supplementary capital	1,720,488	1,720,488	1,605,090
Retained earnings	82,313	93,266	70,836
Other components of equity	53,792	55,444	55,345
TOTAL EQUITY	**2,204,504**	**2,217,109**	**2,079,182**
Bank loans/Borrowings	257,211	257,800	236,541
Provisions	1,876	1,822	1,791
Deferred income tax liabilities	17,746	14,454	13,089
Deferred income	34,175	30,886	29,840
Derivative financial instruments	2,587	2,101	2,470
Other long-term liabilities	3,143	4,436	4,315
Total non-current liabilities	**316,738**	**311,499**	**288,046**
Trade and other payables	231,652	193,551	185,315
Derivative financial instruments	6,449	5,444	5,125
Borrowings	126,866	127,465	177,167
Other financial liabilities	66	65	65
Current income tax liabilities	57	90	76
Provisions	11,265	14,106	11,557
Deferred income	40,039	39,704	40,252
Total current liabilities	**416,394**	**380,425**	**419,557**
Total liabilities	**733,132**	**691,924**	**707,603**
TOTAL EQUITY AND LIABILITIES	**2,937,636**	**2,909,033**	**2,786,785**

Cash Flow Statement

(PLN in thousands unless otherwise stated)

Time periods:	H1 2013 *unaudited*	H1 2014 *unaudited*	Q1 2014 *unaudited*	Q2 2014 *unaudited*
Profit / (Loss)	**21,728**	**19,248**	**10,953**	**8,295**
Depreciation and amortization	221,317	210,871	105,294	105,577
Impairment charges for specific individual assets	1,042	3,439	2,854	585
Deferred income tax charge / (benefit)	9,081	(3,168)	(2,125)	(1,043)
Interest expense and fees charged on bank loans	16,790	10,988	5,410	5,578
Other interest charged	172	79	33	46
Share-based compensation	1,482	(1,767)	755	(2,522)
Fair value (gains)/losses on financial assets/liabilities	(3)	1	(1)	2
Fair value (gains)losses on derivative financial instruments	(1,263)	(535)	(270)	(265)
Foreign exchange (gains)/losses	(107)	195	60	135
(Gain)/Loss on disposal of fixed assets	945	2,286	54	2,232
Gain on sale of subsidiary	-	(286)	(286)	-
Changes in working capital	28,806	(26,719)	(1,630)	(25,089)
Net cash provided by operating activities	**299,990**	**214,632**	**121,101**	**93,531**
Purchase of fixed assets and computer software	(126,793)	(138,623)	(84,551)	(54,072)
Proceeds from sale of non-core assets	730	342	169	173
(Purchase)/repurchase of treasury bonds / notes	50	-	-	-
Sale of investments	-	322	322	-
Net cash used in investing activities	**(126,013)**	**(137,959)**	**(84,060)**	**(53,899)**
Government grants received	601	584	29	555
Dividend payment	-	(138,539)	-	(138,539)
Proceeds from borrowings	50,000	50,000	-	50,000
Repurchase of own shares	(144,198)	-	-	-
Finance lease payments	(1,483)	(260)	(132)	(128)
Overdraft	6,779	44,025	328	43,697
Loan repayments	(65,000)	(65,000)	-	(65,000)
Interest repayments	(37,371)	(11,215)	(5,576)	(5,639)
Payments of fees relating to bank loans	(1,713)	(1,178)	(375)	(803)
Net cash used in financing activities	**(192,385)**	**(121,583)**	**(5,726)**	**(115,857)**
Net change in cash and short-term deposits	**(18,408)**	**(44,910)**	**31,315**	**(76,225)**
Effect of exchange rate change on cash and cash equivalents	107	(195)	(60)	(135)
Cash and short-term deposits at the beginning of the period	142,702	93,356	93,356	124,611
Cash and short-term deposits at the end of the period	**124,401**	**48,251**	**124,611**	**48,251**

Definitions	
Active headcount	• full-time employment equivalent with regard to employees who are not during maternity leaves, non-paid leaves nor long-term sick leaves (above 33 days during calendar year), who are not at military service or who were relieved from the obligation to perform work
Backbone	• a telecommunications network designed to carry the telecommunications traffic between the main junctions of the network;
Bitstream access	• a type of regulatory broadband access enabling provision of broadband service by an altnet to customers connected by a copper line owned by the incumbent. The altnet connects to the incumbent's data network and may only offer services identical to those of the incumbent, paying it on a retail minus basis for use of its network.
Broadband SAC	• a cost per unit related to the acquisition of new customers through broadband access (i.e., Bitstream, LLU, WiMAX, xDSL), including a one-time payment to the incumbent, sales commissions, postal services and the cost of modems sold;
Broadband ARPU	• average monthly revenue per broadband port during the period; Broadband ARPU is obtained by dividing the amount of monthly revenues from data services related to provisioning fixed Internet access by the average number of broadband ports, in each case for the referenced three-month period; Where significant promotional discounts are given at the beginning of contracts, revenues are averaged over the life of the contract.
Broadband port	• a broadband port which is active at the end of a given period;
B2B (Business to Business)	• Netia's business unit responsible for all operations to the business customers and one of two main reporting segments, including B2B (Business) and B2B (Carrier) sub-segments.
B2C (Business to Consumer)	• Netia's business unit responsible for all operations to the residential customers and one of two main reporting segments, including B2C (Home) and B2C (SOHO) sub-segments.
Cash	• cash and cash equivalents at the end of period;
Cost of network operations and maintenance	• cost of rentals of lines and telecommunications equipment, as well as maintenance, services and related expenses necessary to operate our network;
Data revenues	• revenues from provisioning Frame Relay (including IP VPN-virtual private network services), lease of lines (including leased lines for carriers), Internet fixed-access services (provided, among others, through bitsteam and WiMAX types of access) and IP Transit;
Direct voice revenues	• telecommunications revenues from voice services offered by Netia to its subscribers (through various types of access, including, among others, WiMAX). Direct voice services include the following traffic fractions: local calls, domestic long-distance (DLD) calls, international long distance (ILD) calls, fixed-to-mobile calls and other services (incl. Internet dial-in, emergency calls and 0-80x/0-70x -type calls originated by Netia's subscribers);
DSLAM	• technical infrastructure that splits data from voice traffic over a copper line and is deployed in the local network of a telecommunications operator to provide ADSL services to customers connected to a given local network node.
EBITDA / Adjusted EBITDA	• to supplement the reporting of our consolidated financial information under IFRS, we will continue to present certain financial measures, including EBITDA. We define EBITDA as profit/(loss) as measured by IFRS, adjusted for depreciation and amortization, financial income and expense and income taxes. EBITDA has been further adjusted for non-cash impairment charges for non-current assets, one-off restructuring expenses related to the cost reduction program, M&A expenses, New Netia integration expenses, B2B/B2C split costs (Project N^2), impairment charge on market valuation of Netia's investment property and a decrease in provision for universal service obligation payment and is therefore defined as Adjusted EBITDA. We believe EBITDA and related measures of cash flow from operating activities serve as useful supplementary financial indicators in measuring the operating performance of telecommunication companies. EBITDA is not an IFRS measure and should not be considered as an alternative to IFRS measures of profit/(loss) or as an indicator of operating performance or as a measure of cash flows from operations under IFRS or as an indicator of liquidity. The presentation of EBITDA, however, enables investors to focus on period-over-period operating performance, without the impact of non-operational or non-recurring items. It is also among the primary indicators we use in planning and operating the business. You should note that EBITDA is not a uniform or standardized measure and the calculation of EBITDA, accordingly, may vary significantly from company to company, and by itself provides no grounds for comparison with other companies;
Headcount	• full time employment equivalents;

HFC networks	• Hybrid fiber-coax cable TV networks of former Aster cable operator in Warsaw and Cracow, which were acquired by Netia from UPC Polska in May 2013. Netia is working on connecting these cable networks to its backbone network with a view to provide NGA-based services, including high speed Internet access and TV services.
Indirect voice revenues	• telecommunications revenues from the services offered through Netia's prefix (1055) or Tele2 Polska's prefix (1061) to customers being subscribers of other operators. Indirect access services include the following traffic fractions: domestic long-distance (DLD) calls, international long distance (ILD) calls and fixed-to-mobile calls;
Interconnection charges	• payments made by Netia to other operators for origination, termination or transfer of traffic using other operators' networks;
Interconnection revenues	• payments made by other operators to Netia for origination, termination or transfer of traffic using Netia's network, netted against the cost of traffic termination;
Local Loop Unbundling (LLU)	• a type of regulatory broadband access enabling provision of broadband service by an altnet to customers connected by a copper line owned by the incumbent. The altnet installs DSLAM equipment at the incumbent's local network node and connects it to its own backbone network. The altnet may offer broadband and voice service to any customer connected by the incumbent's copper line to the given node. The altnet can offer an unrestricted range of services and pays the incumbent space rental and monthly fees per customer line used.
Next Generation Access (NGA) networks	• Fixed-line access networks which consist wholly or in part of optical elements and which are capable of delivering broadband access services with enhanced characteristics (such as higher throughput) as compared to those provided over already existing not upgraded to VDSL copper networks. Netia deploys NGA services over such technologies as VDSL, ETTH, PON, HFC, which allow for high speed Internet access (25 Mbps or higher)
Professional services	• costs of legal, financial and other services (excluding insurance and taxes and fees, which are presented separately) provided to Netia by third parties;
Other telecommunications services revenues	• revenues from TV, mobile voice and mobile data services, revenues from provisioning Internet dial-in services for Netia's indirect customers (based on a call-back principle and an access number (0-20)); revenues from provisioning free-phone, split-charge and premium rate services (i.e., 0-800, 0-801 and 0-70x type services), netted against the cost of revenue sharing; as well as other non-core revenues;
Radiocommunications revenue	• revenues from radio-trunking services provided by Netia's subsidiary, UNI-Net Poland Sp. z o.o.;
Subscriber line	• a connected line which became activated and generated revenue at the end of the period;
Voice ARPU	• average monthly revenue per direct voice line during the period; ARPU is obtained by dividing the amount of monthly revenues from direct voice services (excluding installation fees) by the average number of subscriber lines, in each case for the referenced three-month period;
Wholesale Line Rental (WLR)	• a type of regulatory voice access enabling provision of voice service by an altnet to customers connected by a copper line owned by the incumbent. The altnet connects to the incumbent's voice network and charges the customer for both line rental and calls made. The incumbent receives a payment for line rental plus call origination fees and keeps all interconnection revenues from incoming calls.
Wholesale services	• revenues from providing commercial network services such as voice termination, incoming Voice over Internet Protocol (VoIP), telehousing and collocation as well as backbone-based services.

Conference call on the H1 2014 results

Netia management will hold a conference call to review the results on August 28, 2014 at 09:00 AM (UK) / 10:00 AM (Continent) / 04:00 AM (Eastern).

Dial in numbers:
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(US) +1 212 999 6659

Replay number:
(UK) +44 20 8196 1998
Passcode: 1037059#

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

For further information, please contact Anna Kuchnio at +48 22 352 2061, email: anna_kuchnio@netia.pl.

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