2013

Quarterly Financial Report

Containing:

- Independent auditor's review report
- Interim condensed consolidated financial statements as at and for the three-month period ended March 31, 2013

www.investor.netia.pl

NETIA

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Report on review of interim condensed consolidated financial statements to the Shareholders and Supervisory Board of Netia S.A.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Netia S.A. ('the Group') as at 31 March 2013 and the related interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity, interim condensed consolidated statement of cash flows for the 3 month period then ended and notes to interim condensed consolidated financial statements ('the interim condensed consolidated financial statements').

Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting' as adopted by the European Union ('IAS 34'). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Convenience translations

The convenience translations are disclosed as part of the interim condensed consolidated financial statements. The convenience translations for the 3 month period ended March 31, 2013 has been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at March 29, 2013 of PLN 4.1774 to EUR 1.00. We have not reviewed these translations and accordingly we do not report thereon. The Euro amounts presented in these accompanying interim condensed consolidated financial statements should not be construed as a representation that the PLN amounts have been or could have been converted to Euro at this rate or at any other rate.

Ernst & Young Audit Sp zoo

Ernst &Young Audit sp. z o.o.

Warsaw, 14 May 2013

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As at and for the three-month period ended March 31, 2013

Index to the interim condensed consolidated financial statements

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at March 31, 2013

(All amounts in thousands, except as otherwise stated)

	Note	March 31, 2013 (PLN)	December 31, 2012 (PLN)	Convenience Translation March 31, 2013 (EUR)
ASSETS				
Non-current assets				
Property, plant and equipment, net	5	2,018,333	2,066,304	483,155
Intangible assets	6	579,108	597,455	138,629
Investment property	8	26,267	-	6,288
Deferred income tax assets	14	99,778	101,687	23,885
Available for sale financial assets		115	115	28
Long term receivables		1	1	-
Prepaid expenses and accrued income		9,281	11,082	2,222
Total non-current assets		**2,732,883**	**2,776,644**	**654,207**
Current assets				
Inventories		1,670	2,094	400
Trade and other receivables		222,480	248,270	53,258
Current income tax receivables		1,114	518	267
Prepaid expenses and accrued income		32,464	33,660	7,771
Derivative financial instruments	9	254	-	61
Financial assets at fair value through profit and loss		15	15	4
Held to maturity investments		-	49	-
Restricted cash	7	131,446	2,263	31,466
Cash and short term deposits	7	98,304	142,702	23,532
		487,747	**429,571**	**116,759**
Assets held for sale	8	-	26,770	-
Total current assets		**487,747**	**456,341**	**116,759**
Total assets		**3,220,630**	**3,232,985**	**770,966**

Mirosław Godlewski
President of the Company

Jonathan Eastick
Member of the Management Board
Chief Financial Officer

Tom Ruhan
Member of the Management Board

Mirosław Suszek
Member of the Management Board

Warsaw, Poland
May 14, 2013

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

(All amounts in thousands, except as otherwise stated)

	Note	March 31, 2013 (PLN)	December 31, 2012 (PLN)	Convenience Translation March 31, 2013 (EUR)
EQUITY				
Share capital	10	386,281	386,281	92,469
Treasury shares	10	(122,702)	(106,814)	(29,373)
Supplementary capital		2,060,076	2,060,076	493,148
Retained earnings		(49,288)	(62,432)	(11,799)
Other components of equity		20,996	19,184	5,026
Total equity		**2,295,363**	**2,296,295**	**549,471**
LIABILITIES				
Non-current liabilities				
Bank loans	11	385,096	384,452	92,186
Provisions		18,053	18,189	4,322
Deferred income tax liability	14	19,745	17,683	4,727
Deferred income		21,185	20,769	5,071
Derivative financial instruments	9	5,464	5,741	1,308
Other long term liabilities		3,773	4,232	903
Total non-current liabilities		**453,316**	**451,066**	**108,517**
Current liabilities				
Trade and other payables		237,951	260,135	56,962
Derivative financial instruments	9	5,769	7,268	1,381
Borrowings	11	177,447	166,197	42,478
Current income tax liabilities		1	1	-
Provisions		13,169	14,200	3,152
Deferred income		37,614	37,823	9,005
Total current liabilities		**471,951**	**485,624**	**112,978**
Total liabilities		**925,267**	**936,690**	**221,495**
Total equity and liabilities		**3,220,630**	**3,232,985**	**770,966**

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended March 31, 2013 (PLN)	Three-month period ended March 31, 2012 (PLN)	Convenience Translation Three-month period ended March 31, 2013 (EUR)
CONDENSED CONSOLIDATED INCOME STATEMENT				
Revenue		**490,690**	**544,279**	**117,464**
Cost of sales		(328,994)	(380,003)	(78,756)
Gross profit		**161,696**	**164,276**	**38,708**
Selling and distribution costs		(93,604)	(109,070)	(22,407)
General and administration costs		(45,665)	(56,868)	(10,931)
Other income		2,345	6,294	561
Other expenses		(76)	(955)	(18)
Other gains, net	12	2,576	446	617
Operating profit		**27,272**	**4,123**	**6,530**
Finance income	13	1,844	1,822	441
Finance costs	13	(9,256)	(15,157)	(2,216)
Profit / (Loss) before income tax		**19,860**	**(9,212)**	**4,755**
Income tax charge	14	(6,716)	(634)	(1,608)
Profit / (Loss)		**13,144**	**(9,846)**	**3,147**
Earnings per share (expressed in PLN per share)				
- basic		0.04	(0.03)	0.01
- diluted		0.04	(0.03)	0.01

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

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended March 31, 2013	Three-month period ended March 31, 2012	Convenience Translation Three-month period ended March 31, 2013
		(PLN)	(PLN)	(EUR)
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
Profit/ (Loss)		**13,144**	**(9,846)**	**3,147**
Interest rate cash flow hedges	9	(132)	(1,979)	(32)
Foreign exchange rate cash flow hedges (equipment and construction contracts)	9	1,774	(2,949)	425
Foreign exchange rate cash flow hedges (acquisitions)		-	(203)	
Income tax relating to components of other comprehensive income		(343)	972	(82)
Other comprehensive profit /(loss)		**1,299**	**(4,159)**	**311**
TOTAL COMPREHENSIVE PROFIT/ (LOSS)		**14,443**	**(14,005)**	**3,458**

(All amounts in thousands, except as otherwise stated)

				Supplementary capital			Other components of equity			
	Note	**Share capital**	**Treasury shares**	**Share premium**	**Other supplementary capital**	**Retained earnings**	**Employee share option scheme**	**Hedging reserve**	**Other reserve**	**Total**
		(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
Balance as at January 1, 2013		**386,281**	**(106,814)**	**1,324,693**	**735,383**	**(62,432)**	**19,173**	**(9,764)**	**9,775**	**2,296,295**
Profit for the period		-	-	-	-	13,144	-	-	-	13,144
Other comprehensive income		-	-	-	-	-	-	1,299	-	1,299
Total comprehensive income		-	-	-	-	13,144	-	1,299	-	14,443
Repurchase of own shares	10	-	(15,888)	-	-	-	-	-	-	(15,888)
Employee share option scheme:										
- value of services provided	10	-	-	-	-	-	513	-	-	513
Balance as at March 31, 2013		**386,281**	**(122,702)**	**1,324,693**	**735,383**	**(49,288)**	**19,686**	**(8,465)**	**9,775**	**2,295,363**

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

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three-month period ended March 31, 2013

(All amounts in thousands, except as otherwise stated)

	Note	Share capital (PLN)	Treasury shares (PLN)	Supplementary capital: Share premium (PLN)	Supplementary capital: Other supplementary capital (PLN)	Retained earnings (PLN)	Other components of equity: Employee share option scheme (PLN)	Other components of equity: Hedging reserve (PLN)	Other components of equity: Other reserve (PLN)	Total (PLN)	Non-controlling interest	Total equity
Balance as at January 1, 2012		**391,602**	**(49,582)**	**1,357,768**	**509,653**	**251,012**	**38,486**	**1,429**	**-**	**2,500,368**	**5**	**2,500,373**
Loss for the period		-	-	-	-	(9,846)	-	-	-	(9,846)	-	(9,846)
Other comprehensive loss		-	-	-	-	-	-	(4,159)	-	(4,159)	-	(4,159)
Total comprehensive loss		-	-	-	-	(9,846)	-	(4,159)	-	(14,005)	-	(14,005)
Redemption of own shares		(9,775)	49,582	(49,582)	-	-	-	-	9,775	-	-	-
Employee share option scheme:												
- value of services provided		-	-	-	-	-	377	-	-	377	-	377
- issuance of series K shares		36	-	487	-	-	(523)	-	-	-	-	-
Cost of issuance		-	-	(1)	-	-	-	-	-	(1)		(1)
Balance as at March 31, 2012		**381,863**	**-**	**1,308,672**	**509,653**	**241,166**	**38,340**	**(2,730)**	**9,775**	**2,486,739**	**5**	**2,486,744**

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

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended March 31, 2013 (PLN)	Three-month period ended March 31, 2012 (PLN)	Convenience Translation Three-month period ended March 31, 2013 (EUR)
Cash flows from operating activities:				
Profit/ (Loss)		**13,144**	**(9,846)**	**3,147**
Adjustments for:				
Depreciation and amortization	5, 6, 8	111,349	120,019	26,655
Impairment charges for specific individual assets	5	67	443	16
Deferred income tax charge	14	3,628	1,586	868
Interest expense and fees charged on bank loans	13	8,655	13,299	2,072
Other interest charged		92	54	22
Share-based compensation	10	608	1,248	146
Fair value losses on derivative financial instruments	9	366	1,473	88
Foreign exchange (gains) / losses		(39)	227	(9)
Loss on disposal of fixed assets		1,154	45	276
Changes in working capital	16	30,848	23,303	7,382
Net cash provided by operating activities		**169,872**	**151,851**	**40,663**
Cash flows from investing activities:				
Purchase of fixed assets and computer software		(71,628)	(75,361)	(17,147)
Proceeds from sale of fixed assets		332	63	79
Purchase of ethernet operators, net of cash received		-	(3,685)	-
Purchase price adjustment for Crowley		-	(2,775)	-
Receipts from treasury bonds / notes		50	-	12
Sale of investments		-	28	-
Net cash used in investing activities		**(71,246)**	**(81,730)**	**(17,056)**
Cash flows from financing activities:				
Transfer to restricted cash for repurchase of shares	4,15	(129,000)	-	(30,880)
Repurchase of own shares		(15,888)	-	(3,802)
Finance lease payments		(747)	(2,335)	(178)
Proceeds from borrowings		50,000	-	11,969
Loan payments		-	(51,583)	-
Payments of interests, fees and interest rate swap settlements relating to bank loans		(28,677)	(12,982)	(6,865)
Net cash used in financing activities		**(124,312)**	**(66,900)**	**(29,756)**
Net change in cash and cash equivalents		**(25,686)**	**3,221**	**(6,146)**
Exchange gains / (losses) on cash and cash equivalents		**39**	**(227)**	**9**
Cash and cash equivalents at beginning of period		123,951	156,509	29,672
Cash and cash equivalents at end of period		**98,304**	**159,503**	**23,532**

1. The Company and the Netia Group

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

The interim condensed consolidated financial statements of Netia S.A. for the three-month period ended March 31, 2013 comprise the Company and its subsidiaries.

These interim condensed consolidated financial statements were approved for issuance by the Company's Management Board on May 14, 2013 and were subject to a review by an independent auditor.

The Company and its subsidiaries (together, the "Netia Group") is the largest alternative fixed-line telecommunication operator in Poland. The Netia Group provides various voice telephony and data transmission services. These services include switched, fixed-line voice telephone services (including domestic long-distance, international long-distance and fixed-to-mobile services), Integrated Services Digital Network ("ISDN"), Voice over Internet Protocol ("VoIP"), voice mail, leased lines and frame relay and MPLS services. The Netia Group also offers wholesale services (including the wholesale termination of in-bound traffic, ducts, dark fiber and co-location services), services based upon intelligent networks (free phone, split charge and premium rate services) and provides broadband Internet access with ADSL technology. These services are offered over Netia's own copper or fiber networks and, selectively, over network facilities leased from other operators.

Since 2006, the Netia Group has been providing voice and broadband services using WIMAX technology running over 3.6 – 3.8 GHz frequencies that were acquired by the Group in 2005.

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

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

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

To further broaden Netia's product offer, including convergent services, Netia started offering mobile services in September 2008. Netia provides its mobile service based on a Mobile Service Provider Agreement with P4 Sp. z o.o. ("P4"), enabling Netia to buy mobile services wholesale from P4 and resell them as Netia branded mobile services. In the third quarter of 2009, the scope of this cooperation was expanded to cover mobile broadband services as well as mobile handset based voice and data services.

Netia introduced IPTV services into its offering during 2011 and is gradually upgrading its copper and Ethernet access networks using VDSL and fibre to the building (FTTB) technology to deliver faster broadband.

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

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

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

The Company's ordinary shares have been listed on the Warsaw Stock Exchange ("WSE") since July 2000. The Company's shares are currently a component of the mWIG40 index comprising companies of medium capitalization. The Company is subject to periodic reporting requirements under the Polish regulations regarding reporting for companies listed on the WSE.

Going concern

As at March 31, 2013, the Group's equity amounted to PLN 2,295,363 and the Netia Group had negative net working capital of PLN 115,650 inclusive of cash available of PLN 98,304 with a further PLN 50,000 in undrawn overdraft facilities. As at March 31, 2013 the Netia Group had senior secured debt of PLN 511,442 and a revolving loan of PLN 51,101. Netia's operations were free cash flow generative in 2012 and in the first quarter of 2013 and Management expects this to continue over the medium term. Based on this position, the Management does not believe that events or conditions exist which may cast significant doubt on the Company's ability to continue as a going concern.

2. Summary of significant accounting policies

Basis of preparation

Following European Union regulations, commencing January 1, 2005 Netia as a public company in Poland prepares consolidated financial statements, as required by the Accounting Act of September 29, 1994 (Journal of Laws of 2009, No. 152, item 1,223 with later amendments, "the Accounting Act") in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). As of May 14, 2013, in light of the current process of IFRS endorsement in the EU and the nature of the Netia Group's activities, there is no difference between IFRS applied by the Netia Group and IFRS endorsed by the EU.

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2012, except for new accounting standards adopted as of January 1, 2013. These interim condensed consolidated financial statements do not include all the information and disclosures required in complete sets of financial statements and should be read in conjunction with the audited December 31, 2012 consolidated financial statements and the related notes.

Certain Group entities (acquired in 2011 and 2012) keep books of accounts in accordance with accounting policies specified in the Accounting Act and regulations issued based on that Act ("Polish Accounting Standards"). The consolidated financial statements include a number of adjustments not included in the books of account of the Group entities, which were made in order to bring the financial statements of those entities into conformity with IFRS.

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

All Euro amounts shown as supplementary information in the consolidated financial statements have been translated from PLN only as a matter of arithmetic computation using the official rate of the National Bank of Poland at March 29, 2013 of PLN 4.1774 to EUR 1.00. These amounts are included for the convenience of the reader only. Such translation should not be construed as a representation that the PLN amounts have been or could be converted into Euros at this or any other rate.

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

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

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

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

Changes in estimates

In the three-month period ended March 31, 2013 the Netia Group reassessed the useful lives of its fixed telecommunication network, telecommunications equipment and machinery and equipment and in consequence, for certain non-current assets the remaining period over which they will be depreciated was extended and depreciation rates were changed accordingly.

(All amounts in thousands, except as otherwise stated)

The following table summarizes main changes in these estimates:

Non-current assets	Main changes in the period of depreciation	Decrease in the depreciation charge recognized in current period	Relevant increase in the depreciation charge for the remaining useful life
		(PLN)	(PLN)
Fixed telecommunications network	- useful lives of certain assets were extended until the end of 2014	(239)	239
Telecommunications equipment	- useful lives of certain assets were extended until the end of 2014, 2015 and 2017	(5,297)	5,297
Machinery and equipment	- useful lives of certain assets were extended until the end of 2014 and 2015	(74)	74
Total impact		**(5,610)**	**5,610**

New standards, interpretations and amendments to existing standards

Adoption of new accounting standards, interpretations and amendments

In 2013 Netia Group has adopted following new accounting standards, interpretations and amendments to existing standards:

- IFRS 13 "Fair Value Measurement" applicable for annual periods beginning on or after 1 January 2013. IFRS 13 defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurement. IFRS 13 applies to IFRSs that require or permit fair value measurement or disclosures about fair value measurements, except in specified circumstances.

- Amendments to IAS 19 "Employee Benefits", effective for annual periods beginning on or after 1 January 2013. These amendments finalise proposals in the exposure draft Defined Benefit Plans, published in April 2010 and proposals related to termination benefits in the exposure draft IAS 37 Provisions, Contingent Liabilities and Contingent Assets, published in June 2005. These amendments make it easier for users of financial statements to understand how defined benefit plans affect an entity's financial position, financial performance and cash flows.

- IFRIC 20 "Accounting for stripping costs in the production phase of a surface mine", effective for annual periods beginning on or after 1 January 2013.

- Amendment to IAS 1 "Presentation of Financial Statements" effective for annual periods beginning on or after 1 July 2012. The amendments require entities to group items presented in Other Comprehensive Income based on whether they are potentially reclassifiable to profit or loss subsequently.

- Amendments to IAS 12 "Income Tax: Deferred Tax: Recovery of Underlying Assets", effective for financial years beginning on or after 1 January 2012. In EU effective at the latest for annual periods beginning on or after January 1, 2013.

- Amendments to IFRS 7 "Financial Instruments: Disclosers: Offsetting Financial Assets and Financial Liabilities", effective for annual periods beginning on or after 1 January 2013.

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, effective for financial years beginning on or after 1 July 2011. In EU effective at the latest for annual periods beginning on or after January 1, 2013.

- Amendments to IFRS 1 "First–time Adoption of International Financial Reporting Standards: Government Loans" – effective for financial years beginning on or after 1 January 2013.

- Improvements to IFRSs issued in May 2012 – effective for financial years beginning on or after 1 January 2013.

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

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2013 and have not been adopted early:

- IFRS 10 "Consolidated Financial Statements", which supersedes IAS 27 and SIC-12 "Consolidation – Special Purpose Entities", effective for annual periods beginning on or after 1 January 2013. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when entity controls one or more other entities. In EU effective at the latest for annual periods beginning on or after January 1, 2014.

- Amendments to IFRS 10, IFRS 11 and IFRS 12 "Transition Guidance" - effective for financial years beginning on or after 1 January 2013. In EU effective at the latest for annual periods beginning on or after January 1, 2014.

- IFRS 9 "Financial Instruments" applicable for annual periods beginning on or after January 1, 2015. IFRS 9 is the Phase 1 of the Board's project to replace IAS 39. IFRS 9 improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. This standard has not yet been endorsed by the EU.

- IFRS 12 "Disclosure of Interests in Other Entities" effective for annual periods beginning on or after 1 January 2013. IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. In EU effective at the latest for annual periods beginning on or after January 1, 2014.

- IFRS 11 "Joint Arrangements" effective for annual periods beginning on or after 1 January 2013. IFRS 11 establishes principles for financial reporting by parties to a joint arrangement and supersedes IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". In EU effective at the latest for annual periods beginning on or after January 1, 2014.

- Amendments to IAS 27 reissued as IAS 27 "Separate Financial Statements", effective for annual periods beginning on or after 1 January 2013. Consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10. The amendments have not yet been endorsed by the EU. In EU effective at the latest for annual periods beginning on or after January 1, 2014.

- Amendments to IAS 28 reissued as IAS 28 "Investments in associates and Joint Ventures", effective for annual periods beginning on or after 1 January 2013. The amendments were issued for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12. In EU effective at the latest for annual periods beginning on or after January 1, 2014.

- Amendments to IAS 32 "Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities", effective for annual periods beginning on or after 1 January 2014.

- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities (issued on 31 October 2012) – effective for financial years beginning on or after 1 January 2014. The amendments have not yet been endorsed by EU.

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

3. Segment information

For management purposes, the Netia Group is organized into business units based on their customer segments, and has four reportable operating segments, as follows:

- Home, i.e. residential clients,
- SOHO / SME, i.e. small and medium enterprises,
- Corporate, i.e. large enterprises,
- Carriers, i.e. other telecom service providers.

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

In December 2011 Netia acquired the Dialog Group and Crowley. Customers of Dialog and Crowley have been allocated into their respective customers segments whilst Petrotel has been assigned to the unallocated segment as it continues to operate as a separate organization.

No operating segments have been aggregated to form the above reportable operating segments

The following tables present revenue and profit / (loss) information regarding the Netia Group's operating segments for the three-month periods ended March 31, 2013 and 2012, respectively:

(All amounts in thousands, except as otherwise stated)

	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Three-month period ended March 31, 2013							
Revenue from external customers	**244,554**	**70,865**	**112,459**	**54,457**	**482,335**	**8,355**	**490,690**
Adjusted EBITDA	**57,357**	**28,374**	**61,283**	**24,102**	**171,116**	**(29,111)**	**142,005**
Expenses incurred on mergers and acqusitions	-	-	-	-	-	(271)	(271)
Integration costs	-	-	-	-	-	(2,229)	(2,229)
Restructuring costs	-	-	-	-	-	(884)	(884)
EBITDA	**57,357**	**28,374**	**61,283**	**24,102**	**171,116**	**(32,495)**	**138,621**
Depreciation and Amortization	(19,429)	(25,245)	(33,883)	(17,244)	(95,801)	(15,548)	(111,349)
Operating profit / (loss)	**37,928**	**3,129**	**27,400**	**6,858**	**75,315**	**(48,043)**	**27,272**
Finance income/ (costs), net	-	-	-	-	-	(7,412)	(7,412)
Income tax charge	-	-	-	-	-	(6,716)	(6,716)
Profit / (Loss)	**37,928**	**3,129**	**27,400**	**6,858**	**75,315**	**(62,171)**	**13,144**
Capital expenditure	14,503	3,162	15,387	5,371	38,423	7,476	45,899

	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Three-month period ended March 31, 2012							
Revenue from external customers	**277,696**	**73,646**	**117,895**	**67,018**	**536,255**	**8,024**	**544,279**
Adjusted EBITDA	**55,414**	**26,455**	**62,840**	**26,366**	**171,075**	**(38,066)**	**133,009**
Expenses incurred on mergers and acqusitions	-	-	-	-	-	(237)	(237)
Integration costs	-	-	-	-	-	(6,031)	(6,031)
Restructuring costs	-	-	-	-	-	(2,599)	(2,599)
EBITDA	**55,414**	**26,455**	**62,840**	**26,366**	**171,075**	**(46,933)**	**124,142**
Depreciation and Amortization	(29,678)	(18,815)	(38,554)	(16,129)	(103,176)	(16,843)	(120,019)
Operating profit / (loss)	**25,736**	**7,640**	**24,286**	**10,237**	**67,899**	**(63,776)**	**4,123**
Finance income/ (costs), net	-	-	-	-	-	(13,335)	(13,335)
Income tax charge	-	-	-	-	-	(634)	(634)
Profit / (Loss)	**25,736**	**7,640**	**24,286**	**10,237**	**67,899**	**(77,745)**	**(9,846)**
Capital expenditure	25,345	4,539	17,273	3,970	51,127	8,769	59,896

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

	Three-month period ended March 31, 2013	**Three-month period ended March 31, 2012**
	(PLN)	(PLN)
Operating profit for reportable segments	75,315	67,899
Operating profit for Petrotel business	1,267	1,270
Operating loss for radio communication business	(175)	(147)
General fixed costs (incl. administration, IT, professional services)	(36,101)	(46,258)
Reorganization and restructuring costs	(884)	(2,599)
Integration costs	(2,229)	(6,031)
Other operating income	3,623	4,926
Depreciation and amortization of unallocated assets (excluding Petrotel and radio communication business)	(13,544)	(14,937)
Finance income/(costs), net	(7,412)	(13,335)
Income tax charge	(6,716)	(634)
Profit/ (Loss)	**13,144**	**(9,846)**

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

4. Significant one-off transactions recorded in the current interim period

A conditional agreement to acquire a cable television network (not in thousands)

On 5 March, 2013 Netia signed a conditional agreement with UPC Polska Sp. z o.o. to acquire a part of former Aster cable operator's network reaching 446,000 households in Warsaw and Krakow, which was classified for resale according to the decision of the President of the Office of Competition and Consumer Protection (UOKiK) as of September 5, 2011 approving the acquisition of Aster cable operator by UPC Polska Sp. z o.o. The transaction was closed on May 10, 2013 and increases the reach of Netia's proprietary network by 18% to 2.9 million households. The network is being acquired without any retail subscribers and Netia intends to integrate it into its existing network and offer similar TV, broadband and fixed voice telephony services as are offered over its copper and fiber networks (see Note 21).

Offer to purchase shares and transfer of funds to restricted cash

On March 13, 2013 Netia, in connection with the implementation by the Company of the General Program (see Note 15) of share buy-backs, announced an offer to repurchase shares with respect to no more than 16,012,630 (not in thousands) own shares in the Company, which represents no more than a 4.15% of the share capital of the Company and entitles the holders thereof to exercise no more than 4.15% of the total number of votes at the general meeting of the Company. The offered purchase price for the shares amounts to PLN 8.00 (not in thousands) per share. The period for accepting shares sale offers commenced on April 2, 2013 and will end on May 22, 2013. The expected settlement date of the purchase transaction is no later than May 29, 2013. The Company has allocated for the purpose of the tender offer no more than PLN 128,101. An amount of 129,000 PLN was located on an escrow account to cover the share repurchases and related brokerage costs. As of March 31, 2013 restricted funds together with interests accrued amounted to 129,323 PLN.

(All amounts in thousands, except as otherwise stated)

5. Property, plant and equipment

Current period:

	Buildings (PLN)	Land (PLN)	Fixed telecommunications network (PLN)	Telecommunications equipment (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at January 1, 2013	116,625	7,860	2,515,679	2,388,304	137,503	88,958	2,173	113,786	5,370,888
Additions	-	-	-	123	85	113	-	35,625	35,946
Transfers	41	-	11,998	17,749	724	388	-	(30,900)	-
Disposals	-	-	(177)	(2,978)	(43)	(95)	(66)	(10)	(3,369)
Other movements	-	-	6,890	(7,390)	520	(73)	53	-	-
Gross book value as at March 31, 2013	116,666	7,860	2,534,390	2,395,808	138,789	89,291	2,160	118,501	5,403,465
Accumulated depreciation as at January 1, 2013	41,120	-	1,059,797	1,380,467	84,589	66,393	1,536	-	2,633,902
Depreciation expense	1,679	-	34,076	42,239	2,340	2,088	140	-	82,562
Disposals	-	-	(96)	(1,842)	(14)	(63)	(42)	-	(2,057)
Other movements	-	-	582	(1,000)	419	(22)	21	-	-
Accumulated depreciation as at March 31, 2013	42,799	-	1,094,359	1,419,864	87,334	68,396	1,655	-	2,714,407
Accumulated impairment as at January 1, 2013	7,322	-	359,456	277,100	13,980	4,720	18	8,086	670,682
Impairment charge for specific assets	-	-	-	-	-	-	-	67	67
Disposals	-	-	(23)	-	-	(1)	-	-	(24)
Other movements	-	-	(190)	106	83	1	-	-	-
Accumulated impairment as at March 31, 2013	7,322	-	359,243	277,206	14,063	4,720	18	8,153	670,725
Net book value as at January 1, 2013	68,183	7,860	1,096,426	730,737	38,934	17,845	619	105,700	2,066,304
Net book value as at March 31, 2013	**66,545**	**7,860**	**1,080,788**	**698,738**	**37,392**	**16,175**	**487**	**110,348**	**2,018,333**

(All amounts in thousands, except as otherwise stated)

5. Property, plant and equipment (cont'd)

Comparative period:

	Buildings (PLN)	Land (PLN)	Fixed telecommunications network (PLN)	Telecommunications equipment (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at January 1, 2012 (restated)	114,326	8,477	2,462,104	2,229,024	127,660	84,291	4,447	107,423	5,137,752
Additions	-	-	62	109	135	1,493	-	52,406	54,205
Transfer to assets held for sale	-	(631)	-	-	-	-	-	-	(631)
Transfer from investment property	283	-	156	-	-	2,078	-	-	2,517
Purchase of subsidiary	11	12	80	31	1	2	32	5	174
Transfers	120	-	10,645	25,093	1,617	302	-	(37,777)	-
Disposals	(3)	(11)	(134)	(135)	(1,825)	(6,157)	(49)	(18)	(8,332)
Other movements	(3)	-	(834)	(201)	663	376	(1)	285	285
Gross book value as at March 31, 2012	114,734	7,847	2,472,079	2,253,921	128,251	82,385	4,429	122,324	5,185,970
Accumulated depreciation as at January 1, 2012	34,287	-	926,780	1,186,824	75,815	60,364	1,159	-	2,285,229
Depreciation expense	1,822	-	33,837	48,215	2,502	2,418	685	-	89,479
Transfer to assets held for sale	(104)	-	-	-	-	-	-	-	(104)
Transfer from investment property	117	-	98	-	-	2,010	-	-	2,225
Disposals	-	-	(41)	(202)	(1,663)	(5,228)	(10)	-	(7,144)
Other movements	-	-	(494)	66	404	24	-	-	-
Accumulated depreciation as at March 31, 2012	36,122	-	960,180	1,234,903	77,058	59,588	1,834	-	2,369,685
Accumulated impairment as at January 1, 2012	7,301	-	359,747	277,530	13,967	5,092	18	4,117	667,772
Impairment charge for specific assets	-	-	-	-	-	-	-	480	480
Reversal of impairment charge for specific assets	-	-	-	-	-	-	-	(13)	(13)
Transfer from investment property	23	-	28	-	-	68	-	-	119
Disposals	-	-	-	(50)	(291)	(421)	-	(314)	(1,076)
Other movements	-	-	(68)	(149)	217	-	-	-	-
Accumulated impairment as at March 31, 2012	7,324	-	359,707	277,331	13,893	4,739	18	4,270	667,282
Net book value as at January 1, 2012	72,738	8,477	1,175,577	764,670	37,878	18,835	3,270	103,306	2,184,751
Net book value as at March 31, 2012	**71,288**	**7,847**	**1,152,192**	**741,687**	**37,300**	**18,058**	**2,577**	**118,054**	**2,149,003**

(All amounts in thousands, except as otherwise stated)

6. Intangible assets

Current period:

			Licences				Computer software costs			
	Goodwill	Trademark/ other	Local telecommunication licenses / permits	Data communications and internet licenses / permits	Domestic long-distance licenses / permits	WiMAX licenses	Computer software	Capital work in progress	Customer relationships	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Gross book value as at January 1, 2013	359,904	18,266	432,823	7,417	107,354	20,329	437,725	6,200	226,233	1,616,251
Additions	-	-	-	-	-	-	-	9,951	-	9,951
Transfers	-	-	-	-	-	-	9,382	(9,382)	-	-
Disposals	-	-	-	-	-	-	(446)	-	-	(446)
Gross book value as at March 31, 2013	359,904	18,266	432,823	7,417	107,354	20,329	446,661	6,769	226,233	1,625,756
Accumulated amortization as at January 1, 2013	-	8,969	271,194	1,539	68,701	8,047	298,245	-	104,450	761,145
Amortization expense	-	1,174	5,873	-	1,838	352	9,602	-	9,445	28,284
Disposals	-	-	-	-	-	-	(415)	-	-	(415)
Accumulated amortization as at March 31, 2013	-	10,143	277,067	1,539	70,539	8,399	307,432	-	113,895	789,014
Accumulated impairment as at January 1, 2013	79,203	-	115,549	5,878	13,231	974	42,617	-	199	257,651
Disposals	-	-	-	-	-	-	(17)	-	-	(17)
Accumulated impairment as at March 31, 2013	**79,203**	**-**	**115,549**	**5,878**	**13,231**	**974**	**42,600**	**-**	**199**	**257,634**
Net book value as at January 1, 2013	280,701	9,297	46,080	-	25,422	11,308	96,863	6,200	121,584	597,455
Net book value as at March 31, 2013	**280,701**	**8,123**	**40,207**	**-**	**23,584**	**10,956**	**96,629**	**6,769**	**112,139**	**579,108**

(All amounts in thousands, except as otherwise stated)

6. Intangible assets (cont'd)

Comparative period:

			Licences				Computer software costs			
	Goodwill (PLN)	Trademark/ other (PLN)	Local telecommunication licenses / permits (PLN)	Data communications and internet licenses / permits (PLN)	Domestic long-distance licenses / permits (PLN)	WiMAX licenses (PLN)	Computer software (PLN)	Capital work in progress (PLN)	Customer relationships (PLN)	Total (PLN)
Gross book value as at January 1, 2012 (restated)	355,974	17,477	432,823	7,417	107,354	20,329	409,856	5,959	224,529	1,581,718
Additions	-	-	-	-	-	-	63	5,410	218	5,691
Purchase of subsidiary	2,652	-	-	-	-	-	-	-	1,294	3,946
Transfers	-	-	-	-	-	-	3,163	(2,945)	(218)	-
Disposals	-	-	-	-	-	-	(6)	-	-	(6)
Gross book value as at March 31, 2012	358,626	17,477	432,823	7,417	107,354	20,329	413,076	8,424	225,823	1,591,349
Accumulated amortization as at January 1, 2012	-	3,185	242,152	1,539	61,350	6,637	257,894	-	65,238	637,995
Amortization expense	-	1,282	7,261	-	1,838	352	9,815	-	9,992	30,540
Disposals	-	-	-	-	-	-	(6)	-	-	(6)
Accumulated amortization as at March 31, 2012	-	4,467	249,413	1,539	63,188	6,989	267,703	-	75,230	668,529
Accumulated impairment as at January 1, 2012	-	-	115,549	5,878	13,231	974	42,617	-	199	178,448
Accumulated impairment as at March 31, 2012	**-**	**-**	**115,549**	**5,878**	**13,231**	**974**	**42,617**	**-**	**199**	**178,448**
Net book value as at January 1, 2012	355,974	14,292	75,122	-	32,773	12,718	109,345	5,959	159,092	765,275
Net book value as at March 31, 2012	**358,626**	**13,010**	**67,861**	**-**	**30,935**	**12,366**	**102,756**	**8,424**	**150,394**	**744,372**

(All amounts in thousands, except as otherwise stated)

7. Cash, short term deposits and restricted cash

	March 31, 2013	December 31, 2012
	(PLN)	(PLN)
Cash and short term deposits	98,304	142,702

	March 31, 2013	December 31, 2012
	(PLN)	(PLN)
Restricted cash	131,446	2,263

Restricted cash as of 31 March, 2013 includes 129,323 PLN of cash restricted for purpose of an offer to repurchase own shares (see also Note 15). Moreover, PLN 2,110 of restricted cash represents a court deposit and the amount of PLN 13 was restricted as it was placed as collateral securing payments to vendors.

As at December 31, 2012, PLN 2,110 of restricted cash represented a court deposit and the amount of PLN 153 was restricted as it was placed as collateral securing payments to vendors.

For the purpose of the statement of cash flow cash and cash equivalents comprise the following:

	March 31, 2013	December 31, 2012
	(PLN)	(PLN)
Cash and short term deposits	98,304	142,702
Bank overdrafts	-	(18,751)
Cash and cash equivalents	**98,304**	**123,951**

8. Investment property and assets held for sale

On March 23, 2012 the Company and Tilia SKA, a Company related to Ghelamco Group signed a conditional purchase agreement to sell Netia's land totalling 23,600 m2 (not in thousands) in Warsaw at Poleczki 13 and two buildings located thereon. Consequently, from March 31, 2012, property of PLN 26,105 (reclassified from investment property), land of PLN 631 and infrastructure of PLN 34 (reclassified from land) that was intended to be sold to Tilia SKA were presented as assets held for sale.

The sale agreement with Tilia SKA was not finalized and on March 31, 2013 the Company ceased to classify these assets as held for sale and instead presented them as investment property. The depreciation charge that would have been recognized through March 31, 2013 had the assets not been classified as held for sale amounted to PLN 503 and decreased net book value of the investment property as of March 31, 2013. The fair value of this property was estimated by an independent, professionally qualified valuer at PLN 31,159 as at February 13, 2013.

9. Financial instruments

Derivative financial instruments

Derivative financial assets:	March 31, 2013	December 31, 2012
	(PLN)	(PLN)
Forward contracts	254	-
	254	**-**
Of which:		
Current	254	-
Non-current	-	-

(All amounts in thousands, except as otherwise stated)

Derivative financial liabilities:	March 31, 2013	December 31, 2011
	(PLN)	(PLN)
Forward contracts	1,657	3,588
Interest rate swap contracts	9,576	9,421
	11,233	**13,009**
Of which:		
Current	5,769	7,268
Non-current	5,464	5,741

Forward contracts

In order to mitigate the currency risk related to the planned payments to be made under equipment and construction contracts which are indexed to foreign currencies the Company entered into several forward transactions to purchase USD and EUR for periods consistent with currency transaction exposures, generally up to 12 months. For these forward contracts hedge accounting was applied. Net fair value losses on forward contracts recognized in the hedging reserve in equity as of March 31, 2013 amounted to PLN 861 (PLN 727, net of tax). Net fair value gains on forward contracts recognized in other comprehensive income on these contracts in the three-month period ended March 31, 2013 amounted to PLN 1,774 (PLN 1,405, net of tax). During the three-month period ended March 31, 2013, 347 of net cash losses on closed forward contracts were capitalized, and the ineffective portion of open forward contracts of PLN 2 was recorded as finance costs.

Furthermore, in order to mitigate the currency risk related to the planned payments to be made under commercial contracts associated with various types of operating expense which are linked to foreign currency, the Company entered into several forward transactions to purchase USD and EUR for periods consistent with currency transaction exposures, generally up to 12 months. For these forward contracts hedge accounting was not applied. During the three-month period ended March 31, 2013, PLN 607 of fair value gains on open forward contracts were recorded as finance income.

Moreover, as of March 31, 2013 the Company had other open forward contracts to purchase EUR with corresponding forward contracts to sell EUR on the same dates. These open contracts to purchase EUR were entered into in 2012 for hedging purposes. Based on revised budgets, planned payments to be made under equipment and construction contracts as well as commercial contracts which are indexed to EUR will be lower than initially planned and some of forward contracts entered into in 2012 will be not needed for hedging purposes. Consequently, the Company entered into reverse transactions to sell EUR on corresponding dates. During the three-month period ended March 31, 2013, PLN 366 of fair value losses on open other forward contracts no longer required for hedging purposes were recorded as finance costs.

The table below presents outstanding forward transactions as at balance sheet date:

	Hedged nominal amount	Hedged nominal amount	Fair value			
			Asset	Liability	Other comprehensive (loss)/income	Financial (costs)/income
	(EUR)	(USD)	(PLN)	(PLN)	(PLN)	(PLN)
As at March 31, 2013						
Forward transactions related to equipment and construction contracts	3,740	5,580	151	(850)	1,774	-
Forward transactions related to commercial contracts	2,750	2,010	98	(375)	-	607
Other forward transactions to purchase currency	3,690	-	5	(411)	-	(345)
Other forward transaction to sell currency	(3,690)	-	-	(21)		(21)
As at March 31, 2012						
Forward transactions related to equipment and construction contracts	5,150	6,050	331	(1,670)	(2,949)	-
Forward transactions related to commercial contracts	2,550	1,650	179	(642)	-	(1,463)
As at December 31, 2012						
Forward transactions related to equipment and construction contracts	7,590	3,410	-	(2,642)	(4,195)	-
Forward transactions related to commercial contracts	6,050	1,650	-	(946)	-	(1,945)

Interests rate risk hedging instruments

In 2012 the Company entered into interest rate swap ("IRS") contracts hedging interest rate risk associated with interest payments in the amount of fifty per cent of all amounts projected to be outstanding under the Term Loan (See Note 11 Borrowings). For these IRS contracts hedge accounting was applied. As of March 31, 2013 net fair value losses on IRS contracts recognized in the hedging reserve in equity amounted to PLN 9,553 (PLN 7,738, net of tax) and net fair value losses on IRS contracts recognized as interest costs amounted to PLN 23. During the three-month period ended March 31, 2013, PLN 547 of net realized cash losses on IRS contracts increased interest costs.

10. Shareholders' equity

Share capital (not in thousands)

At March 31, 2013 and December 31, 2012, the Company's share capital consisted of 386,279,904 ordinary shares and 1,000 series A1 shares with a par value of PLN 1 per share. Each ordinary share has one vote at the shareholders' meeting. The holder of 1,000 series A1 shares has the right to nominate one member of the Supervisory Board. The majority of votes of the Supervisory Board elect the Management Board.

Treasury shares

On January 23, 2013 the Company completed the third tranche of its share buy-back program (see Note 15), under which the Company repurchased 9,657,023 (not in thousands) shares constituting 2.5% of Company share capital for a total of PLN 47,579 plus transaction costs of PLN 20. Of this amount, 3,422,312 (not in thousands) shares were repurchased during the three-month period ended March 31, 2013 for a total of PLN 15,881 plus transaction costs of PLN 7.

As a result of this and earlier share buy-backs (see Note 15), Netia held 22,357,500 (not in thousands) treasury shares from a total outstanding share capital of 386,280,904 (not in thousands) shares as at March 31, 2013.

Distributable reserves

In accordance with the Polish Code of Commercial Companies of 15 September 2000 (Journal of Laws of 2000, No. 94, item 1037 as amended) only those reserves, which relate to net profits of individual companies shown in their statutory financial statements, are available for distribution to shareholders. As at March 31, 2013, the distributable reserves of Netia S.A. amounted to PLN 455,693.

Stock options (not in thousands)

On May 26, 2010, the Annual Shareholders Meeting resolved to adopt a set of rules ("New Plan"), to be administered by the Company's Supervisory Board, for the issuing of up to 27,253,674 share options to the Management Board and employees of Netia Group, each option authorising its holder to receive up to half of one series L share for a subscription price equal to the nominal value of the shares in the Company i. e. PLN 1, such subscription price to be paid by the Company or its subsidiaries. In order to satisfy the claims arising from the exercise of the options under the New Plan, the Shareholders Meeting resolved to authorize the issuance of up to 13,626,837 series L shares.

As at March 31, 2013 and December 31, 2012, the total number of options approved by the Supervisory Board and issued under the New Plan was 9,047,000 and 7,322,000 respectively. Out of these approved options 7,055,504 options were outstanding as at March 31, 2013 and 5,405,404 were outstanding as at December 31, 2012. As at March 31, 2013, the weighted average remaining contractual life of the outstanding options was 7.2 years. The outstanding options are exercisable until May 26, 2020. Upon exercise of the options, Netia will issue to each exercising participant the number of shares representing such participant's financial gain resulting from the exercise of the options, being the difference between the market price of the Company's shares as of the date of exercise of the options and the strike price of the options, limited to half of one series L share for each option exercised. The participant will not be required to pay the strike price.

Strike prices of the options range between PLN 4.70 to PLN 6.16.

The Company recognizes the cost of share-based awards to employees (including share options) over the vesting period and the fair value of options is determined using a binomial pricing model and taking into account business performance criteria in the financial year in which the options were granted. The cost of New Plan options recorded in the three-month periods ended March 31, 2013 and 2012 amounted to PLN 513 thousands and PLN 289 thousands, respectively.

In the three-month period ended March 31, 2013 and 2012 the following changes took place in the number of options granted under the New Plan:

	Three-month period ended March 31, 2013		Three-month period ended March 31, 2012	
Options	**Average strike price**	**Options**	**Average strike price**	**Options**
At the beginning of the period	5.85	5,405,404	5.24	3,621,000
Granted	4.70	1,725,000	-	-
Terminated	5.44	(74,900)	-	-
At the end of the period	**5.58**	**7,055,504**	**5.24**	**3,621,000**

The New Plan participants are entitled to exercise their stock options on the condition that they continue their engagement with the Netia Group until the vesting date of the stock options (subject to change of control events and the termination of their engagement by the Netia Group without material cause) and the fulfilment of the business criteria set by the Supervisory Board for each year of the New Plan. In the event of termination by the Company, unvested options are retained prorata to the period worked during the vesting period. The proportion of the stock options exercised versus the number of stock options granted shall be equal to the lower of: 100% or the actual performance of the objectives set out as part of the performance criteria approved by the Supervisory Board and applicable in the financial year in which the stock options were granted. Each year within the period following the publication of the financial statements of the Company for the previous financial year and prior to the date of the Annual General Meeting of the Company, the Supervisory Board shall adopt a conditional resolution in which it shall determine the performance level of the business criteria for the previous financial year. The resolution of the Supervisory Board shall enter into force upon the approval of the financial statements of the Company and the Netia Group by the Annual General Meeting of the Company. Such conditional resolution of Supervisory Board regarding the performance criteria for 2011 was taken on April 25, 2012 and the performance level was determined at 58.9%. The resolution came into force on June 19, 2012 and resulted in cancellation of 41.1% options granted in 2011.

The amount of the reduction for the 3,669,000 options granted in 2012 is dependent on the Supervisory Board's assessment of performance against the agreed criteria for 2012. The resolution of the Supervisory Board shall enter into force upon the approval of the financial statements of the Company and the Netia Group by the Annual General Meeting of the Company. A conditional resolution of Supervisory Board regarding the performance criteria for 2012 was taken on February 26, 2013 and the performance level was determined at 68.6%.

2003 Plan

As at March 31, 2012 the total number of options approved by the Supervisory Board and issued under the 2003 Plan was 87,877,470. Of these approved options 28,544,314 options were outstanding and vested as at March 31, 2012. The outstanding options were exercisable until December 20, 2012.

In the three-month period ended March 31, 2012 the following changes took place in the number of options granted under the 2003 Plan:

Options	Three-month period ended March 31, 2012	
	Average strike price	Options
At the beginning of the period	6.22	46,754,751
Exercised	4.98	(18,210,437)
At the end of the period	**7.00**	**28,544,314**

The cost of 2003 Plan options recorded in the three-month period ended March 31, 2012 amounted to PLN 88 thousands.

11. Borrowings

	March 31, 2013	December 31, 2012
	(PLN)	(PLN)
Bank loans	562,543	531,898
Bank overdraft	-	18,751
	562,543	**550,649**
Of which:		
Current	177,447	166,197
Non-current	385,096	384,452

Bank loans

On September 29, 2011, Netia and Internetia Sp. z o.o. (the "Borrowers") executed a loan agreement (the "Agreement") with Rabobank Polska S.A. (the "Facility Agent"), BNP Paribas S.A., BRE Bank S.A., Raiffeisen Bank Polska S.A. and Raiffeisen Bank International AG (jointly with the Facility Agent, the "Lenders"), whereunder the Lenders agreed to extend to the Borrowers a term facility maturing in five years with a total of PLN 650,000, designated for the Company to acquire 19,598,000 (not in thousands) shares in Dialog, constituting 100% of its share capital, and a PLN 50,000 revolving facility for general operating purposes. The term loan was drawn on December 16, 2011 and the revolving loan was drawn on December 15, 2011. According to the agreement, the term loan is to be repaid in 10 equal semi-annual instalments of PLN 65,000 each. The revolving loan was repaid in full on March 15, 2012. Term loan instalments paid in 2012 amounted to PLN 130,000. On March 7, 2013 the Company again drew down the revolving loan of PLN 50,000. As at March 31, 2013 the value of these outstanding loans at amortised cost was PLN 562,543.

The loans accrus annual interest at the rate of 3M WIBOR plus a margin established depending on the level of debt. The terms and conditions of the Agreement comply with market practice and are not different from the terms and conditions generally applied to such types of agreements. The borrowing is measured at amortized cost using an effective interest rate of 6.8%. Total transaction costs included in the calculation of the effective interest rate amounted to PLN 12,427. The carrying amount of the borrowings approximates their fair value and the discount rate for the fair value calculation approximates the effective interest rate.

To secure the Lender's claims under or related to the Agreement, the Borrowers agreed to establish in favour of the Lenders mortgages, financial and registered pledges and to make relevant representations on submission to enforcement, and to execute agreements on assignment as collateral security. The repayment of the loan is secured by the following: a capped mortgage on the part of the right of perpetual usufruct of the Company's real estate at ul. Poleczki 13 in Warsaw, a registered pledge on a set of movables and rights of Netia and Internetia Sp. z o.o., registered pledges and financial pledges on the shares of Internetia Sp. z o.o., Netia Brand Management Sp. z o.o. and Dialog. Moreover, the Borrowers made relevant representations on submission to enforcement up to the amount of PLN 1,050,000.

(All amounts in thousands, except as otherwise stated)

On March 8, 2012, Netia entered into an overdraft credit facility agreement with BRE Bank S.A. of PLN 50,000. The facility may be disbursed for general operating purposes of the Company. The Company is entitled to become indebted under the facility agreement in the period between March 12, 2012 and October 30, 2013. The terms and conditions of the agreement comply with market practice and are not different from the terms and conditions generally applied to such types of agreements. The Company had no outstanding balance under the overdraft credit as at March 31, 2013.

12. Other gains, net

	Three-month period ended March 31, 2013 (PLN)	Three-month period ended March 31, 2012 (PLN)
Gain on sale of impaired receivables	3,369	44
Loss on sale of fixed assets	(704)	(45)
Net foreign exchange gains / (losses)	(89)	447
	2,576	**446**

13. Finance income and finance costs

Finance income

	Three-month period ended March 31, 2013 (PLN)	Three-month period ended March 31, 2012 (PLN)
Interest income on cash and cash equivalents	1,237	1,822
Fair value gains on open forward contracts hedging commercial exposures	607	-
	1,844	**1,822**

Finance costs

	Three-month period ended March 31, 2013 (PLN)	Three-month period ended March 31, 2012 (PLN)
Interests and fees charged on bank loans	(8,655)	(13,337)
Interests and fees charged on overdraft	(110)	-
Amortization of finance lease liability	(60)	(30)
Amortization of provisions	(32)	(25)
Net foreign exchange losses	(17)	(219)
Fair value losses on open forward contracts hedging commercial exposures (see Note 9)	-	(1,463)
Fair value losses on other open forward contracts (see Note 9)	(366)	-
Ineffective portion of cash flow hedges (see Note 9)	(2)	(9)
Other finance costs	(14)	(74)
	(9,256)	**(15,157)**

14. Corporate income tax

	Three-month period ended March 31, 2013 (PLN)	Three-month period ended March 31, 2012 (PLN)
Current income tax	(3,088)	(509)
Refunded penalty interests relating to corporate income tax for the year 2003	-	1,462
Deferred income tax charge, net	(3,628)	(1,587)
Income tax charge	**(6,716)**	**(634)**

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

(All amounts in thousands, except as otherwise stated)

As of December 31, 2012 the Management updated its previous year's assessment regarding the recognition of deferred income tax. The new assessment concluded that the Netia Group expects that future taxable profits will be generated based on the 2013 budget and long term business plan covering period until 2017. Management's assessment also considered factors such as: the stability and trend of past earnings, the nature of the business and industry, and the economic environment in which the Netia Group is located.

As at March 31, 2013 Netia Group had net deferred income tax asset of PLN 80,033. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred income tax liabilities of PLN 19,745 presented in the consolidated statement of the financial position as of March 31, 2013 relate to net deferred income tax liabilities recognized in Netia and one of its subsidiaries (after intercompany eliminations).

	March 31, 2013 (PLN)	December 31, 2012 (PLN)
Deferred income tax assets	99,778	101,687
Deferred income tax liabilities	19,745	17,683
Deferred income tax assets, net	**80,033**	**84,004**

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

	March 31, 2013 (PLN)	December 31, 2012 (PLN)
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	90,451	90,370
- Deferred income tax assets to be recovered within 12 months	61,429	66,799
	151,880	157,169
Deferred income tax liabilities:		
- Deferred income tax liabilities to be recovered after more than 12 months	25,125	27,498
- Deferred income tax liabilities to be recovered within 12 months	46,722	45,667
	71,847	73,165
Deferred income tax assets, net	**80,033**	**84,004**

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

	March 31, 2013 (PLN)	December 31, 2012 (PLN)
Deferred income tax assets:		
- Tax losses	60,162	64,610
- Accrued expenses	25,406	20,754
- Impairment provisions for receivables	9,247	8,918
- Depreciation and impairment	54,637	57,394
- Interest	-	2,432
- Forward and IRS contracts	2,134	2,472
- Other	294	589
	151,880	157,169
Deferred income tax liabilities:		
- Depreciation and impairment	55,719	57,022
- Accrued revenue	8,529	8,902
- Interest	759	-
- Forward contracts	48	-
- Other	6,792	7,241
	71,847	73,165
Deferred income tax assets, net	**80,033**	**84,004**

Deferred income tax recognized in equity as at March 31, 2013 in the amount of PLN 343 (PLN 2,626 as at December 31, 2012) relates to the hedging reserve.

Deferred income tax assets are recognized for deductible temporary differences and tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. As of March 31, 2013, the Netia Group had total net deductible temporary differences of PLN 716,353 and unutilised tax loss carry-forwards of PLN 323,700 (total potential deferred income tax asset net of PLN 197,610).

The Netia Group did not recognize deferred income tax assets of PLN 1,341 relating to tax losses of PLN 7,056 of the Company's subsidiaries, due to insufficient likelihood of future taxable profits to realize these tax losses before they expire. These unrecognized tax losses of the Netia Group available for use as at March 31, 2013 will expire in the following years: PLN 2,919 in 2013, PLN 2,736 in 2014, PLN 1,052 in 2015, PLN 292 in 2016 and 57 in 2017.

Furthermore, due to the lack of conclusive evidence of future taxable profits, the Netia Group did not recognize deferred income tax assets of PLN 116,236, relating to deductible temporary differences of PLN 611,771 as follows:

	Timing differences	**Potential deferred income tax asset**
	(PLN)	**(PLN)**
Depreciation and impairment	518,446	98,505
Trademark	77,536	14,732
Deferred income	8,635	1,641
Other	7,154	1,358
	611,771	**116,236**

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

15. Dividends per share and offer to repurchase shares

Management has elected not to propose dividend payment in respect to the financial year ended December 31, 2012 in the view of the fact that Netia S.A. recorded a net loss for that financial year.

In accordance with the approved distribution policy, the Management Board proposed and the shareholders granted (by approval of resolution 18 at the annual General Shareholders' Meeting held on June 2, 2011) an authorisation to the Company's Management Board to purchase its own shares for the purpose of their redemption pursuant to the procedure set forth in in Art. 362 § 1 point 5 of the Commercial Companies Code (the "General Program"). The Annual General Meeting of the Company assigned the total amount of up to PLN 350,000 for the execution of the General Program, out of which the amount of up to PLN 267,032 shall be utilized from the supplementary capital created out of profits for the year 2010 and the amount of up to PLN 82,968 shall be utilized from the supplementary capitals created out of profits in the previous years. Any specific buy-back proposal within the scope of the General Program must be accepted by the Supervisory Board prior to implementation.

Between August 17, 2011 and January 23, 2013, Netia completed three tranches of share buy-backs under the General Program, each of which was approved by the Company's Supervisory Board. As a result Netia repurchased 32,132,500 (not in thousands) shares for a total of PLN 172,141 plus transaction costs of PLN 143. Of the shares repurchased, 9,775,000 (not in thousands) shares were redeemed by the Shareholders Meeting on January 30, 2012 and 22,357,500 (not in thousands) treasury shares remain outstanding on March 31, 2013 and shall be proposed for redemption at the next General Meeting of Shareholders.

On March 13, 2013 Netia, in connection with the implementation by the Company of the General Program, announced an offer to repurchase shares with respect to no more than 16,012,630 (not in thousands) own shares in the Company, which represents no more than a 4.15% of the share capital of the Company and entitles the holders thereof to exercise no more than 4.15% of the total number of votes at the general meeting of the Company. The offered purchase price of the shares amounts to PLN 8.00 (not in thousands) per share. The period for accepting shares sales offers commenced on April 2, 2013 and will end on May 22, 2013. The expected settlement date of the purchase transaction is no later than May 29, 2013. The Company will allocate for the purpose of the offer no more than PLN 128,101. An amount of 129,000 PLN was located on an escrow account for the purpose of repurchasing the shares and covering brokerage fees. As of March 31, 2013 restricted funds together with interests accrued amounted to 129,323 PLN.

Netia's distributable reserves are disclosed in Note 10.

16. Supplemental disclosures to consolidated cash flow statement

Changes in working capital components:

	Three-month period ended March 31, 2013	**Three-month period ended March 31, 2012**
	(PLN)	**(PLN)**
Receivables	25,194	13,758
Inventories	424	172
Prepaid expenses	2,997	(4,246)
Provisions, accruals and payables	2,209	13,501
Restricted cash	(183)	(15)
Deferred income	207	133
	30,848	**23,303**
Out of which:		
Change in long -term position	*1,469*	*(388)*

Supplemental disclosures to operating activities:

	Three-month period ended March 31, 2013 (PLN)	Three-month period ended March 31, 2012 (PLN)
Income taxes paid	(3,538)	(246)
Interest received	1,236	1,822

17. The Management Board and Supervisory Board

Management Board

As at March 31, 2013 and December 31, 2012 the Company's Management Board consisted of the following members:

- Mirosław Godlewski – President,
- Jonathan Eastick – Chief Financial Officer,
- Tom Ruhan,
- Mirosław Suszek.

Supervisory Board

As at March 31, 2013 and December 31, 2012 the Company's Supervisory Board consisted of the following members:

- Benjamin Duster – Chairman,
- George Karaplis – Vice-Chairman,
- Stan Abbeloos,
- Raimondo Eggink,
- Nicolas Maguin,
- Ewa Pawluczuk,
- Tadeusz Radzimiński,
- Jerome de Vitry.

18. Related party transactions

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

As at March 31, 2013 and December 31, 2012 the total number of options held by members of the Company's Management Board under the New Plan was 4,127,351 and 2,402,351, respectively, none of which had vested as of that date. Strike prices for the options granted to the Management Board range between PLN 4.70 and 6.16 per share. The market price of the Company's shares at March 28, 2013 was PLN 4.22 per share. Moreover, as at March 31, 2012 total number of options held by members of the Company's Management Board under the 2003 Plan was 17,900,000

The movements in the number of options held by members of the Company's Management Board in the three-month periods ended March 31, 2013 and March 31, 2012 are presented below:

Options	New Plan Three-month period ended March 31, 2013	New Plan Three-month period ended March 31, 2012	2003 Plan Three-month period ended March 31, 2012
At the beginning of the period	2,402,351	1,725,000	36,489,064
Granted	1,725,000	-	-
Exercised	-	-	(11,254,814)
Resignation from Management Board	-	(575,000)	(7,334,250)
At the end of the period	**4,127,351**	**1,150,000**	**17,900,000**

As at March 31, 2013 Mr. Mirosław Godlewski - the Company's President of the Management Board - held 1,718,675 options, none of which had vested. As at December 31, 2012 Mr. Mirosław Godlewski held held 1,028,675 options, none of which had vested

As at March 31, 2013 Mr. Jonathan Eastick - a member of the Company's Management Board - held 859,338 options, none of which had vested. As at December 31, 2012 Mr. Jonathan Eastick held held 514,338 options, none of which had vested.

As at March 31, 2013 Mr. Tom Ruhan - a member of the Company's Management Board - held 859,338 options, none of which had vested. As at December 31, 2012 Mr. Tom Ruhan held held 514,338 options, none of which had vested.

As at March 31, 2013 Mr. Mirosław Suszek - a member of the Company's Management Board - held 690,000 options, none of which had vested. As at December 31, 2012 Mr. Mirosław Suszek held 345,000 options, none of which had vested.

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

As at March 31, 2013 and December 31, 2012, the Company's President of the Management Board, Mr. Mirosław Godlewski, together with a company closely related to Mr. Godlewski, held 605,000 shares of the Company.

As at March 31, 2013 and December 31, 2012, Mr. Jonathan Eastick, a member of the Company's Management Board, held 450,000 shares of the Company.

As at March 31, 2013 and December 31, 2012, Mr. Tom Ruhan, a member of the Company's Management Board, and a company closely related to Mr. Tom Ruhan held 555,575 shares of the Company.

Participation Units in the Change of Control Transaction Bonus Scheme (not in thousands)

On April 25, 2012, the Supervisory Board approved a new bonus plan known as the Change of Control Transaction Bonus (CoCTB) for the Company's Management Board Members. The CoCTB is a cash settled share based bonus scheme under which up to 11,400,000 Participation Units (PUs) may be issued to Management Board Members. Each PU has a strike price of 7,00 zloty per share and a term of 36 months commencing on December 31, 2012. The strike price adjusts upward over time by one percent per month from 31 January 2013 and is reduced by any dividends paid out by the Company ("the Adjusted Strike Price"). In the event that an investor or consortium of investors holds at least 90 % of Netia's equity on or prior to December 31, 2015 ("Trigger Event"), each PU shall be worth the positive difference between the acquisition price paid in a successful tender offering that secures the 90 % share-holding and the Adjusted Strike Price. For the purpose of calculating the value of the PU, the acquisition price is capped at 10 zloty per share. Should a Trigger Event occur after December 31, 2012 and prior to the expiration of the PUs on December 31, 2015, the Company shall pay the cash equivalent of the value of the PUs to each participating Management Board Member who was fulfilling his duties and has not resigned from his position prior to such Trigger Event. See also Note 20.

As at March 31, 2013, the members of the Management Board held Participation Units in the Change of Control Transaction Bonus Scheme as follows:

	Number of Participation Units
Mirosław Godlewski	3,800,000
Jonathan Eastick	1,900,000
Tom Ruhan	1,900,000
Mirosław Suszek	1,900,000
Total	9,500,000

A further 1,900,000 Participation Units may be assigned by the Supervisory Board.

See also: Possible liabilities under the Change of Control Transaction Bonus Scheme in Note 20.

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

As at March 31, 2013 and December 31, 2012, Mr. Raimondo Eggink – a member of the Company's Supervisory Board – held 40,000 shares of the Company.

As at March 31, 2013 and December 31, 2012, Mr. Nicolas Maguin, – a member of the Company's Supervisory Board – held 21,300 shares of the Company.

As at March 31, 2013 and December 31, 2012, Mr. Tadeusz Radzimiński – a member of the Company's Supervisory Board – held 20,001 shares of the Company.

As at March 31, 2013 and December 31, 2012, Mr. Jerome de Vitry – a member of the Company's Supervisory Board – held 20,000 shares of the Company.

Restricted Stock Units (not in thousands)

As at March 31, 2013 and December 31, 2012, the total number of Restricted Stock Units ("RSU") granted to the members of the Company's Supervisory Board was 715,000. RSUs entitle the holder to receive additional cash remuneration equal to the value of restricted stock units, which corresponds to the market price of the Company's shares. The vesting period for the RSU ranges from 12 to 36 months after the grant date. The Company recognizes the cost of cash-settled share-based payment transactions (including RSU) over the vesting period by accruing cost provisions pro-rata to elapsed time and the market price of the Company's shares. The cost of RSU recorded in the three-month period ended March 31, 2013 amounted to PLN 95 thousands (PLN 871 thousands in the three-month period ended March 31, 2012).

Management Board remuneration

Compensation and related costs associated with members of the Company's Management Board during the three-month periods ended March 31, 2013 and 2012 amounted to PLN 1,862 and PLN 1,782, respectively. In addition, the gross cost of share-based payments in the amounts of PLN 258 and PLN 175 was recognized in the respective periods.

Amounts paid and payable to former Management Board members in the course of termination of their employment relationship with the Netia Group during the three-month periods ended March 31, 2013 and 2012 amounted to nil and PLN 293, respectively.

Compensation and related costs associated with members of the Management Boards of the Company's subsidiaries during the three-month periods ended March 31, 2013 and 2012 amounted to PLN 258 and PLN 774, respectively. These amounts were paid to certain employees of the Netia Group who are neither past nor present members of the Management Board of Netia S.A.

Supervisory Board remuneration

Compensation and related costs associated with members of the Company's Supervisory Board during the three-month periods ended March 31, 2013 and 2012 amounted to PLN 210 and PLN 210, respectively.

Compensation and related costs associated with members of the Supervisory Boards of the Company's subsidiaries during the three-month periods ended March 31, 2013 and 2012 amounted to PLN 2 and PLN 20, respectively.

Incidental expenses of the Supervisory Board Members reimbursed by the Company amounted to PLN 70 and PLN 92 during the three-month periods ended March 31, 2013 and 2012, respectively, and mainly related to travel and accommodation.

Other transactions with related parties

During the three-month periods ended March 31, 2013 and 2012, respectively the Netia Group has not been a party to any other material transactions, or proposed transactions, apart from transactions mentioned above, in which any member of the key management personnel or close members of their families, had or was to have a direct or indirect material interest.

19. Commitments

Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognized in the consolidated financial statements amounted to PLN 29,531 as at March 31, 2013 and PLN 15,536 as at December 31, 2012 of which, PLN 5,212 and PLN 2,350 respectively, related to the planned acquisition of intangible assets.

20. Contingencies

Universal services

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

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

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

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

By virtue of a decision issued on September 7, 2011, the President of UKE upheld the decisions awarding subsidies towards incurred costs of universal service for years 2006-2009. TP SA challenged the decisions of the President of UKE before the Voivodeship Administrative Court (further "WSA"). WSA dismissed the complaints of TP SA against the decisions granting subsidy towards costs of provision of universal service in 2006 - 2009. TP appealed against sentences regarding subsidies for 2006 and 2009.

On January 10, 2012, the President of UKE issued decisions by virtue of which TP SA was awarded subsidies towards incurred costs of several services falling within the scope of universal service for 2010 amounting to PLN 55,102 due to provision of facilities for customers with disabilities as well as provision of telephone services with use of public pay phones.

This decision was upheld in a decision of April 11, 2012. TP SA unsuccesfully challenged this decision before the WSA.

The Management Board is convinced of the validity of the issued judgment, but cannot assure that appeal filed by TP S.A. shall be dismissed by Supreme Administrative Court and the amounts of subsidies shall not be increased.

Jointly, TP SA was awarded the total amount of PLN 122,096 for the provision of universal service within the years 2006-2010.

On April 5, 2013, the President of UKE issued a decision dismissing the motion for granting subsidy towards costs of provision of universal service in the period from January 1, 2011 till May 8, 2011.

The Management Board is convinced of the validity of the issued decision, but cannot assure that an appeal, in case of filing by TP SA shall be dismissed by Administrative Court and the subsidy shall not be granted.

The exact amount of share in the subsidies to costs of universal services to be payable by each telecommunications undertaking requires the President of UKE to issue individual decisions. Until the date of approval of these consolidated financial statements of the Netia Group, the Company has received no such decisions.

The total amount of potential obligation of Companies of the Netia Group, estimated by the Management Board taking into account their market shares in 2006 – 2011, decisions of the President of UKE, in which the amounts of subsidies towards the costs of providing universal service in years 2006 – 2010 were granted in the total amount of PLN 122,096 and estimated amount of potential subsidy to the cost of USO for the year 2011, is PLN 7,156. In this amount, the Companies of the Netia Group have made a provision for covering potential obligations under the subsidy for universal service provided in the years 2006 – 2011.

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

On the basis of the full amount of subsidies claimed by TP SA and of the Company's estimations concerning revenues of telecommunications services providers that may participate in subsidies towards universal services, the amount of subsidy towards universal service that might conceivably be claimed by TP SA from the Netia Group amounts to approximately PLN 56,838 for the period from 2006 until 2011 inclusive as follows:

	Maximum subsidies	**Provision**
	PLN	*PLN*
2006	6,293	34
2007	10,862	63
2008	9,202	80
2009	11,964	3,199
2010	13,888	2,840
2011	4,629	940
	56,838	**7,156**

Pursuant to the decision of the President of UKE designating TP SA to provide universal service the above obligation of TP SA expired as of May 8, 2011. No undertaking obliged to provide USO as of May 8, 2011 has been designated to date and, according to the published position of the President of UKE, will not be. Nevertheless, on October 16, 2012 the President of UKE has begun consultations on a new model of USO. At this stage of the Regulatory work on the model, the Management Board cannot assure that a new model of USO will not be associated with additional costs to be incurred by Netia Group.

WiMAX license requirements

On October 27, 2005 Netia WiMax S.A. (merged with Netia in 2006) and Netia WiMax II S.A. (merged with Netia in 2008) received the reservations of the 3.6-3.8 GHz frequencies, which are used to provide telecommunication services based on the WiMAX technology. The terms of licenses issued to the Company's former subsidiaries require them to meet annual connected capacity milestones in the future, as measured at the end of each year, subject to demand in the territory and population of Poland. Considering changes in the telecommunications market and, in particular, the advent of regulated access to the fixed line network of the incumbent fixed line operator, TP SA, the Company submitted applications to change future territorial and population coverage commitments for WiMax and on October 31, 2007 and on December 13, 2011 the Polish regulator issued decisions reducing the initial milestones. The milestones established for the year 2012 regarding population coverage and area coverage were achieved. In the event that reservation obligations are not met by an operator, the UKE has the power to limit or confiscate the reservation, if the entrepreneur is not able to assure effective use of possessed right. However, historically such measures have rarely been used.

Tax contingent liability

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

Overpayment of tax (not in thousands)

On February 19, 2010 Netia received a binding and enforceable decision of the Director of the Tax Chamber according to which the Company's corporate income tax due for the year 2003 was set at PLN 34.2m plus penalty interest of approximately PLN 25.3m.

Netia executed the decision of the Tax Chamber Director, which was enforceable as a decision of the second instance tax authority, on February 23, 2010. Of the PLN 59.6m paid, PLN 1.3m was subsequently conceded by the Tax Authority as overpayment. During 2010, Netia treated the tax paid as a receivable in its accounts rather than as an expense, due to Management's expectations, based on the expert advice received, that the amounts paid will ultimately be recovered.

The Company appealed to the Voivodship Administrative Court against the decision issued by the Tax Chamber Director. However, on March 15, 2011 the Voivodship Administrative Court delivered a judgment dismissing the Company's claim in its entirety. Following the WSA decision in favour of the tax office in the first quarter of the year 2011 the Company recognized an income tax expense relating to the year 2003 of PLN 58,325 thousands.

On July 5, 2011 the Company received the written justification of this decision and the Company filed a cassation claim to the Supreme Administrative Court on August 3, 2011.

On December 30, 2011 Netia received further repayment of PLN 6.4m related to penalty interests paid previously by the Company and subsequently conceded by the Tax Authority as incorrectly claimed.

On February 22, 2012 Netia received payment of PLN 1.4m concerning penalty interests on the amount returned in December 2011.

Should the appeal to the Supreme Administrative Court be positive for the Company, the amount of unduly paid tax plus interest will be treated as an overpayment and must be returned by the tax authorities together with interest.

Netia will undertake all possible legal steps to prove that the decision of the Tax Chamber Director was groundless and reclaim the remaining net amount of PLN 51.9 m paid to tax office, together with related interest.

Possible liabilities under the Change of Control Transaction Bonus Scheme (CoCTB) (not in thousands)

Following a decision of the Supervisory Board on April 25, 2012, the current four members of Netia's Management Board have been awarded Participation Units (PUs) in a new cash paid bonus scheme known as the Change of Control Transaction Bonus Scheme (CoCTB). As of the date of these financial statements, a total of 9,500,000 from a possible 11,400,000 PUs have been allocated to the Management Board Members.

Each PU has a strike price of 7.00 zloty per share and a term of 36 months commencing on December 31, 2012. The strike price adjusts upward over time by one percent per month from January 31, 2013 and is reduced by any dividends paid out by the Company ("the Adjusted Strike Price"). In the event that an investor or consortium of investors holds at least 90 % of Netia's equity on or prior to December 31, 2015 ("Trigger Event"), each PU shall be worth the difference between the acquisition price paid in a successful tender offering that secures the 90 % share-holding and the Adjusted Strike Price. For the purpose of calculating the value of the PU, the acquisition price is capped at 10 zloty per share. Should a Trigger Event occur after December 31, 2012 and prior to the expiration of the PUs on December 31, 2015, the Company shall pay the cash equivalent of the value of the PUs to each participating Management Board Member who was fulfilling his duties as at December 31, 2012 and has not resigned from his position prior to such Trigger Event.

The PUs will expire without value if there is no Trigger Event on or prior to December 31, 2015 or if the Management Board Member to whom they are allocated resigns prior to the Trigger Event or if the Trigger Event occurs at a price below the Adjusted Strike Price, which stood at 7.21 on March 31, 2013. Conversely, had a Trigger Event occured for an acquisition price of 10 zloty or above occurred on March 31, 2013 and with all four Management Board Members still performing their duties at the Company on the day of the Trigger Event, the maximum possible liability incurred by the Company would have been 26,505,000 PLN. This amount will fall towards zero as December 31, 2015 approaches without a Trigger Event occurring and as the Adjusted Strike Price increases towards 10 zloty per share.

Given that Netia is not presently controlled by any single large investor and given that Management is not in possession of information concerning the circumstances under which existing large shareholders may consider disposing of their shares in the Company, it is not possible for Management to make a reliable estimate of the likelihood of a Trigger Event occurring during the validity period of the PUs or to reliably estimate at what price such a Trigger Event might occur. Accordingly, Management is presently unable to reliably estimate the fair value of the CoCTB contingent liability as would otherwise be required in accordance with IFRS 2, Share Based Payments.

21. Subsequent events

Acquisition of cable television network

On May 10, 2013 following the receipt of consent from the President of the Office of Competition and Consumer Protection Netia purchased from UPC Polska Sp. z o.o. and UPC Poland Holding B.V. all shares in Centrina Sp. z o.o. ("Centrina") constituting 100% of the shares in the share capital of Centrina and representing 100% of the votes at the meetings of the shareholders of Centrina and all shares in Dianthus Sp. z o.o. ("Dianthus") constituting 100% of the shares in the share capital of Dianthus and representing 100% of the votes at the meetings of the shareholders of Dianthus (see Note 4). Dianthus and Centrina are owners of part of former Aster cable operator's network reaching 446,000 (not in thousands) households in Warsaw and Krakow.

The transaction increases the reach of Netia's proprietary network by 18% to 2.9 million households. The network is being acquired without any retail subscribers and Netia intends to integrate it into its existing network and offer similar TV, broadband and fixed voice telephony services as are offered over its copper and fiber networks

The possible purchase price for Centrina and Dianthus will be between PLN 6,000 and PLN 21,000 and will depend on the number of customers Netia gains on the acquired network. At the same time Netia obtained a discount on pre-existing operational agreements with UPC with an estimated nominal value of PLN 16,412.

Simultaneously UPC concluded with Centrina and Dianthus a network rental agreement in order to ensure service continuity to its remaining customers still connected to the networks. Total consideration for the network rental amounts to PLN 4,500 and covers a 12 month period.

Options granted under New Plan

On May 7, 2013 the Management Board of the Company granted to employees of the Netia Group stock options under New Plan in the total amount of 1,944,000 (not in thousands).