

NETIA GROUP
COMMENT ON THE FINANCIAL REPORT
FOR THE FIRST HALF OF 2013

(All amounts in thousands, except as otherwise stated)

This comment presents the financial results of Netia S.A. ("Netia", the "Company") and the consolidated financial results for the Netia S.A. Group ("Netia Group").

1. The Netia Group's structure

The interim condensed consolidated financial statements as at and for the six-month period ended June 30, 2013 include the financial statements of the Company and the following subsidiaries:

- InterNetia Holdings Sp. z o.o. Group
- Net 2 Net Sp. z o.o.
- Netia 2 Sp. z o.o.
- Netia Brand Management Sp. z o.o.
- Telefonía DIALOG Sp. z o.o. Group,
- Centrina Sp. z o.o.
- Dianthus Sp. z o.o.

The financial statements of the InterNetia Holdings Sp. z o.o. Group include the financial statements of InterNetia Holdings Sp. z o.o. ("InterNetia Holdings") and its subsidiaries:

- Internetia Sp. z o.o. and its wholly-owned subsidiaries: STI Sp. z o.o and Sanetja Sp. z o.o.
- UNI-Net Poland Sp. z o.o.

The financial statements of the Telefonía DIALOG Sp. z o.o. Group include the financial statements of Telefonía DIALOG Sp. z o.o. and its wholly-owned subsidiary Petrotel Sp. z o.o.

Changes within the Netia Group's structure

Acquisitions

On May 10, 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. Dianthus and Centrina are owners of part of former Aster cable operator's network reaching 446,000 (not in thousands) households in Warsaw and Kraków. The network was acquired without any retail subscribers and Netia intends to integrate it with its existing network and offer similar TV, broadband and fixed voice telephony services as are offered over its copper and fiber networks. According to the agreement, 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. Reflecting the substance of the transaction, the acquisition was accounted for in the consolidated accounts as a purchase of fixed assets and not as a business acquisition. The consideration transferred for the network purchased, including a provision for a probable additional payment of PLN 690, and the related transaction costs amounted to PLN 5,791. The value of fixed assets purchased is PLN 7,154 and the difference of 1,363 PLN relates to net liabilities in purchased subsidiaries as at the acquisition date.

2. Shareholders holding more than 5% of the votes at the General Shareholders' Meeting of Netia (not in thousands)

Based on the most recent information presented to the Company by its shareholders, as at the date of filing this report, significant blocks of the Company's shares were held by the following entities (the ownership interest and the number of votes are calculated on the basis of the number of shares constituting the Company's share capital as at August 7, 2013):

Third Avenue Management LLC

On June 5, 2013 Third Avenue Management LLC informed that Third Avenue Management LLC had decreased its holdings of the Company's shares from 69,013,736 held by Third Avenue Management LLC on November 21, 2012 and constituting 17.87% of the Company's share capital and carrying 17.87% of the total number of votes at the General Shareholders' Meeting of the Company to 60,717,960 constituting 15.72% of the Company's share capital and carrying 15.72% of the total number of votes at the General Shareholders' Meeting of the Company.

On July 26, 2013 Third Avenue Management LLC informed that Third Avenue Management LLC had decreased its holdings of the Company's shares from 60,717,960 held by Third Avenue Management LLC on June 5, 2012 and constituting 15.72% of the Company's share capital and carrying 15.72% of the total number of votes at the General Shareholders' Meeting of the Company to 57,935,934 constituting 14.998% of the Company's share capital and carrying 14.998% of the total number of votes at the General Shareholders' Meeting of the Company.

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ING Otworthy Fundusz Emerytalny and ING Dobrowolny Fundusz Emerytalny

On March 4, 2013 ING Otworthy Fundusz Emerytalny and ING Dobrowolny Fundusz Emerytalny informed that ING Otworthy Fundusz Emerytalny and ING Dobrowolny Fundusz Emerytalny had increased their holdings of the Company's shares from 57,858,758 held by ING Otworthy Fundusz Emerytalny on February 20, 2013 and constituting 14.98% of the Company's share capital and carrying 14.98% of the total number of votes at the General Shareholders' Meeting of the Company to 59,077,592 constituting 15.29% of the Company's share capital and carrying 15.29% of the total number of votes at the General Shareholders' Meeting of the Company.

Subsidiaries of SISU Capital Fund Limited

Subsidiaries of SISU Capital Fund Limited held a total of 44,336,534 of the Company's shares constituting 11.48% of the Company's share capital and representing 11.48% of the total number of votes at the General Shareholders' Meeting. The Company has received no information concerning changes in the number of shares held by Subsidiaries of SISU Capital Fund Limited since February 25, 2011.

Aviva Otworthy Fundusz Emerytalny Aviva BZ WBK

Aviva Otworthy Fundusz Emerytalny Aviva BZ WBK held a total of 20,243,646 of the Company's shares constituting 5.24% of the Company's share capital and representing 5.24% of the total number of votes at the General Shareholders' Meeting. The Company has received no information concerning changes in the number of shares held by Aviva Otworthy Fundusz Emerytalny Aviva BZ WBK since May 22, 2012.

3. Changes in shares and share options held by members of the Company's Management Board and Supervisory Board (not in thousands)

New Plan

On May 26, 2010, the Annual Shareholders Meeting resolved to adopt a set of rules, 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, each option authorising its holder to receive, free of charge, up to ½ of a subscription warrant issued by the Company with the latest possible exercise date of May 26, 2020 (the "New Plan"). Each warrant entitles its holder to subscribe for one series L share for the nominal value of PLN 1, which shall be paid by the Company or its subsidiaries. In order to satisfy the claims arising from the exercise of the options under New Plan, the Shareholders Meeting resolved to authorize the issuance of up to 13,626,837 series L shares.

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% of options granted in 2011.

A conditional resolution of Supervisory Board regarding the performance criteria for the 1,725,000 options granted to Management Board members in 2012 was taken on February 26, 2013 and the performance level was determined at 68.6%. The resolution of the Supervisory Board came into force on June 28, 2013 and resulted in cancellation of 31.4% of options granted in 2012.

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

The new strike prices of the options granted to Management Board members range between PLN 4.54 to PLN 6.00.

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During the first half of 2013 the following changes took place in the number of options granted under the New Plan:

Six-month period ended June 30, 2013

Options

At the beginning of the period	2,402,351
Granted.....	1,725,000
Forfeited.....	(541,650)
At the end of the period	<u>3,585,701</u>

The following changes in the number of options granted to members of the Management Board occurred during the first half of 2013:

<i>Six-month period ended June 30, 2013</i>	At the beginning of the period	Granted	Forfeited	At the end of the period
Mirosław Godlewski	1,028,675	690,000	(216,660)	1,502,015
Jonathan Eastick.....	514,338	345,000	(108,330)	751,008
Tom Ruhan	514,338	345,000	(108,330)	751,008
Mirosław Suszek	345,000	345,000	(108,330)	581,670
Total.....	<u>2,402,351</u>	<u>1,725,000</u>	<u>(541,650)</u>	<u>3,585,701</u>

On March 27, 2013 Netia's Supervisory Board granted new stock options to the Management Board members.

Mr. Mirosław Godlewski, President of the Management Board, was granted 690,000 stock options, and Mr. Jonathan Eastick, Mr. Tom Ruhan and Mr. Mirosław Suszek were granted 345,000 stock options each. The strike price for the options granted to the Management Board was PLN 4.70 (PLN 4.54 after adjustment of PLN 0.16) and the earliest vesting date is March 27, 2016. The final exercise date for all granted stock options is May 26, 2020. Furthermore, these stock options may be cancelled in whole or in part depending on the Netia Group's performance against business criteria for 2013. These business criteria have been set by the Supervisory Board on the basis of the Netia Group's 2013 budget which in turn was accepted by the Supervisory Board.

The members of the Supervisory Board did not hold any options as at June 30, 2013 and as at the date of filing this report.

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

As at June 30, 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 577,385 and 605,000 shares of the Company, respectively.

As at June 30, 2013 and December 31, 2012, Mr. Jonathan Eastick, a member of the Company's Management Board, held 429,114 and 450,000 shares of the Company, respectively.

As at June 30, 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 529,790 and 555,575 shares of the Company, respectively.

Participation Units in the Value Creation Transactional Bonus, previously named 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 plan was renamed Value Creation Transactional Bonus (VCTB) on June 28, 2013. The VCTB 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 or dividend equivalents 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. As at June 30, 2013, the members of the Management Board held Participation Units in the Value Creation Transactional Bonus Scheme as follows:

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	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.

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

As at June 30, 2013 and December 31, 2012, Mr. Raimondo Eggink – a member of the Company's Supervisory Board – held 38,143 and 40,000 shares of the Company, respectively.

As at June 30, 2013 and December 31, 2012, Mr. Nicolas Maguin, – a member of the Company's Supervisory Board – held 20,311 and 21,300 shares of the Company, respectively.

As at June 30, 2013 and December 31, 2012, Mr. Tadeusz Radziński – a member of the Company's Supervisory Board – held 19,072 and 20,001 shares of the Company, respectively.

As at June 30, 2013 and December 31, 2012, Mr. Jerome de Vitry – a member of the Company's Supervisory Board – held 19,071 and 20,000 shares of the Company, respectively.

Restricted Stock Units (not in thousands)

As at June 30, 2013 and December 31, 2012, the total number of Restricted Stock Units ("RSU") held by the members of the Company's Supervisory Board was 780,000 and 715,000, respectively. An RSU corresponds to one ordinary share in the Company having the value equal to the market price of Company's shares. Changes in the number of RSU held by members of the Company's Supervisory Board in the six-month period ended June 30, 2013 are presented below:

	December 31, 2012	RSUs granted	June 30, 2013
Stan Abbeloos	80,000	-	80,000
Benjamin Duster	80,000	-	80,000
Raimondo Eggink.....	95,000	-	95,000
George Karaplis.....	80,000	-	80,000
Nicolas Maguin	95,000	-	95,000
Ewa Pawluczuk.....	95,000	-	95,000
Jerome de Vitry	95,000	-	95,000
Tadeusz Radziński	95,000	-	95,000
Jacek Czernuszenko	-	65,000	65,000
Total RSU	715,000	65,000	780,000

On July 27, 2013, a total of 120,000 RSUs were awarded to the Supervisory Board. Each Supervisory Board member, other than Mr. Jacek Czernuszenko, was awarded an additional 15,000 RSUs, which vest in three equal instalments on the anniversary award dates over the next three years. Mr. Czernuszenko received 50,000 RSUs on the day he was appointed to the Supervisory Board and a further 15,000 RSUs were awarded on the following day, June 29, 2013, in accordance with the rules of the Supervisory Board's remuneration.

4. Legal proceedings

Tax Authorities

A detailed description of an ongoing dispute with Tax Authorities is presented in point "Tax regulations and their interpretation" in section 5 below.

5. Factors which may have an impact on the result of the Netia Group

Risk of changes to the Netia Group's strategy

On January 13, 2011 the Company announced the main assumptions of its new long term strategy spanning over the period until year 2020 ("Strategy 2020"). Financial guidance regarding the Strategy 2020 was announced at the same time in order to reflect Netia's long term plans for the further roll out of Local Loop Unbundling ("LLU") as well as the upgrade of select regions of ETTH and copper network to broadband speeds of 30MB and higher (Next Generation Access "NGA"). Following Netia's acquisition of two sizeable telecom assets – Dialog Group and Crowley – in December 2011, the key assumptions of strategic financial guidance until 2020 were confirmed. However pricing pressure and falling numbers of active services in the Home segment have resulted in Management modifying its

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strategy to focus more on own network services and to stop targeting annual RGU growth. No assurance can be given as to whether the remaining strategic initiatives included in Netia's strategy 2020 will be successful and if not, whether this may adversely affect the operating activity of the Netia Group, its financial standing or its overall performance. Furthermore, Netia may seek to introduce new elements to strategy that might materially change expected cash flows or modify the risk profile of the Netia Group.

Risk of changes in the shareholder structure, which may influence business activity

Currently, Netia is not controlled by any strategic investors, and its shares are held by a large number of shareholders. Neither Netia's corporate documents nor the provisions of Polish law provide for any serious restrictions to changes in control over the Company in the event of third parties acquiring a considerable number of shares. Thus, such changes of control may materially affect the composition of the Company's Supervisory Board and the Management Board and, in turn, the strategy and business activity of the Netia Group. Due to the above, the Company cannot guarantee that any adopted strategy of the Netia Group will be pursued in accordance with its initial objectives.

Risk that changes to the organization of the Polish pension system being contemplated by the Polish Government may have a material impact on Netia's shareholder structure.

Management estimates that to the best of its knowledge as of 2012 year end no less than approximately 35% of its equity was held by the Polish pension funds ("OFE"). The activities of all such OFE are presently under review by the Polish Government and certain changes to their rules of operation have been proposed, but are yet to be voted into the law, that could result in part of the financial resources invested by the OFE on behalf of their individual clients being transferred to the management of the Polish state pension fund ("ZUS"). These legal changes, if they occur at all, might cause some or all of the OFE currently invested in Netia to make changes to their portfolio of the equity holdings that are currently difficult to predict. If such changes include significant changes to the ownership of Netia's equity, no assurance can be given that the new owners of such equity would continue to support Netia's existing strategy, the existing Management Board or Supervisory Board or the existing systems of corporate governance.

Risk connected with the impact of potential future takeovers and acquisitions of large-scale businesses

Revenues and financial performance of the Netia Group may be materially affected by takeovers of and mergers with other entities that operate large scale telecommunications businesses. Upon the Company's takeover of another entity, the process of fully integrating this entity may carry high risks, e.g. resignation of key employees, the loss of a certain segment of its customers or high costs of the entire integration process including the lack of certain portion of contemplated synergies to be extracted from the acquisition.

The already consolidating, however still relatively fragmented market of alternative operators rendering wire line telephone services may result in continuing consolidation within the Polish market. The Company intends to evaluate potential takeovers and acquisitions whenever such possibilities arise. The performance of such transactions requires the special involvement of the Company's high-ranking managers and may entail high costs connected with the identification and evaluation of the candidates for takeover, the negotiating of agreements and integration of the entities acquired. The Netia Group may require additional funding in order to conduct such transactions.

The benefits from potential takeovers will depend mostly on the extent to which the Netia Group is able to integrate the acquired entities into its structures. Future company acquisitions may entail acquiring existing liabilities and the risk of undisclosed liabilities. The Netia Group cannot guarantee that beneficial takeover possibilities will arise in the future, nor, if such possibilities arise, that they will result in the successful integration of the acquired entities with the Netia Group. Failure to integrate the acquired entities into the structures of the Netia Group and / or the failure to generate the expected operating and strategic synergies may adversely affect the operations and financial standing of the Netia Group.

Specific risks associated with the acquisition of Dialog S.A.

In addition to general risks inherent in acquisitions of businesses of significant scale relative to the buyer, the acquisition of Dialog is associated with certain risks specific to this integration:

- Full integration will require migration of Dialog billing and customer relationship management systems onto the Netia platform. This process is expected to take at least until late 2013 and certain material operational synergies are dependent on this migration being successful. Problems with the migration might lead to problems with billing and customer service for all or a significant part of the customer base.
- Netia is in the middle of a three year project to upgrade its core business IT platforms in a "Network Architecture Project". As part of this project, a Customer Relationship Management system should be selected for implementation in 2014 following the systems migration described above. Selecting and implementing a system that will satisfy the legacy requirements of both Netia and Dialog creates significant logistical and operational challenges.
- Significant elements of Dialog's network are located on leased premises. Should Dialog cease to be able to lease these properties at reasonable cost or at all, significant costs may be incurred to relocate or replace the affected infrastructure.
- Dialog has made significant investments in Passive Optical Networks ("PON") in recent years on the basis that a significant part of the investment will be reimbursed from European Union funds by Polish Agency for Enterprise Development ("PARP"). As at June 30, 2013 most reimbursements were recovered, however several commitments by Dialog towards PARP are still to be achieved. Given market conditions and the project of integrating with Netia, some of these requirements may not be achieved and the refunds may not be received in the amounts originally planned by Dialog. No assets have been recognized in respect to these grants

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in the acquisition balance sheet of Dialog and the PLN 17,210 already received together with potential penalty interests has been provided for until such time that its long term retention becomes reasonably certain.

Management can give no assurance that one or more of the above risks may not result in the Netia Group suffering significant additional costs or reduced cash flows.

Risks relating to the acquisition, integration and development of Ethernet network operators

An important element of Netia's strategy to expand its broadband subscriber base is the acquisition of Ethernet network operators. Our plans require that these companies, which typically have no more than 5,000 customers at the time of acquisition, are integrated into Netia's core operations. We aim to continue to grow the subscriber bases connected to the networks that we acquire and to upsell their customers voice and TV services in addition to the internet access that they currently purchase. We cannot provide any assurance that we will be successful in implementing this strategy in whole or in part in any or all of the Ethernet networks that we have acquired or will acquire. Costs of integration may exceed our plans or we may discover undisclosed liabilities post acquisition. Customers may prove reluctant to switch to services provided by Netia directly or unwilling to switch to Netia voice or TV services from their current providers. Moreover the price of such Ethernet networks may increase to the point that further acquisitions are uneconomic, making it more difficult for Netia to reach its subscriber growth objectives. Failure to fully implement our strategy in regard to Ethernet network operators may adversely affect the operations and financial standing of the Netia Group.

Technological risk

The telecommunications sector is an area witnessing dynamic technological changes. In designing and expanding its networks, the Netia Group uses the latest technical solutions. However, it is not possible to predict how the Netia Group's operations may be affected by technological advances in the field of wireless, mobile transmission, voice services based on cable television telephony and multimedia services provided over Internet by third-party – OTT (Over The Top). In particular, the business activities of the Netia Group may be affected by the trend to provide telecom services via wireless or portable platforms, with wireless broadband access and fourth generation mobile cellular telephone systems equipped with IP. Due to the difficulties in predicting future regulatory environment and exact market potential, Netia may sometimes invest in technologies that ultimately do not deliver the expected returns. When such a situation occurs, it can have a negative impact on our results and financial condition.

Risks related to the uptake of new services and the financial returns available from investment in upgraded networks

During the first half of 2011, Netia has piloted the introduction of upgraded broadband speeds to its copper and Ethernet ("ETTH") networks and adding television and content services to its offering. Whilst these pilots have delivered promising results and the Netia Group has decided to continue investing, no assurance can be given that these upgrade projects will be successful as financial results obtained in the future from such investments implemented on a wide scale may differ significantly from the results of those pilots.

The speed of roll-out and relative performance of fast mobile broadband networks (such as HSDPA and LTE), the speed of upgrade of cable networks and the incumbent's own investment plans may have a significant impact on the relative attractiveness of our broadband and television offers and sales results. Furthermore, our new content services may turn out to be inferior to those of key competitors and we may not be able to meet sales targets or ARPU targets as a result.

Risk associated with property rights

In order to deliver services to its customers, Netia owns, leases or uses properties through "rights of way" easements. In some cases the property rights are unclear or Netia may be unaware of the defects in the property rights used by the Company and Management can give no assurance that legal issues or challenges will not occur from time to time. This may result in Netia incurring significant costs to protect its rights or to move its infrastructure. Similarly, the leases may unexpectedly be cancelled by lessors with the result that Netia incurs significant expenses to relocate its network elements.

Foreign currency risk

Approximately 40% of Netia's annual capital investment programme and up to 10% of typical operating expenses are either invoiced in foreign currencies or are invoiced in Polish Złoty based on price lists expressed in foreign currencies. Netia operates a Risk Management Committee that decides, from time to time, to hedge these exposures to foreign currency risks and if so, the proportion of the exposure to be hedged. Whilst Netia's hedging activities are designed always to reduce Netia's exposure to earnings volatility through changes in exchange rates (i.e. Netia does not speculate), we can give no assurance that entering into hedging transactions will result in higher earnings or cash-flows than if we had not hedged the Company's currency exposures.

Interest rate risk

Netia's long term borrowings are all Polish Złoty denominated and the interest paid depends on floating WIBOR rates and a margin that is dependent on the Netia Group's financial leverage. To mitigate the risk of higher WIBOR rates leading to worse financial results, Netia's Risk Management Committee may decide to swap some or all interest rate risk into fixed rates coupons. Whilst Netia's hedging activities are designed always to reduce Netia's exposure to earnings volatility through changes in exchange rates (i.e. Netia does not speculate), we can give no assurance that entering into hedging transactions will result in higher earnings or cash-flows than if we had not hedged the Company's interest rate exposures.

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The level of profits and distributable reserves in Netia S.A. may differ materially from those of the Netia Group

With the acquisition of Dialog Group and Dialog Sp. z o.o. in particular, the Netia Group has acquired a material profitable subsidiary that Netia does not intend to merge into Netia S.A. over the medium term for operational reasons. As a result, projections show that a significant part of the Netia Group's earnings will accrue to Dialog Sp. z o.o. and that Netia S.A. operating profits shall be materially below those of Netia Group as a whole.

In these circumstances the level of distributable reserves in Netia S.A., which stood at PLN 381,662 on June 30, 2013 and the result for the year for Netia S.A. which was a profit of PLN 225,004 in 2011 and a loss of PLN 94,175 in 2012 and a loss of PLN 18,309 in the first six months of 2013, are likely to diverge from those of Netia Group as a whole. Whilst Netia shall take reasonable steps to ensure that profits and cash flows flow up to the parent company over time, Management can provide no assurance that Netia S.A. will always be in a position to pay a dividend or make other distributions to shareholders when the Netia Group as a whole records a net profit for a given year.

Netia S.A.'s earnings have historically been highly volatile and continued volatility may inhibit the Company's ability to pay dividends in predictable amounts in the future.

Net profits and losses of Netia S.A. have historically been very volatile with significant profits and losses recorded in different years due to various non-cash accounting issues that depend critically on Management's judgments about the Netia Group's future prospects. These non-cash accounting issues are principally:

- Annual impairment testing net book values of goodwill and non-current assets against Management's latest cash flow projections for the business,
- Estimates of future economic lives of non-current assets, which has a direct impact on the annual depreciation and amortization charges that constitute the Netia Group's largest single expense,
- Valuation of deferred tax assets.

Changes in the business, legal or regulatory environment can lead to material changes in Management's estimates and lead to material fluctuations in the above three non-cash items between years.

If Netia S.A. records a net loss in a given year this reduces distributable reserves and this may lead to Management being unable to recommend a dividend in respect of such a year.

Risk of employment termination by key executives and difficulties related to the recruitment of new, competent executives

The activity of the Netia Group is dependent on the quality of the work of its staff and employees in executive positions. The Management Board cannot guarantee that the possible termination of employment by some of its key executives will not adversely affect the financial standing and performance of the Netia Group, which, should some of its executives terminate their employment, may then lack executives with sufficient knowledge and experience in the field of management and operating activity. Changes in composition at the Company's executive levels may result in disruptions in the Netia Group's business activity.

Risk resulting from changes in the Telecommunications Law

The current Telecommunications Law came into force on September 3, 2004, except for certain regulations that came into force on January 1, 2005 in result of implementation of so-called "2002 directives package". On July 6, 2009, the act on the amendment of the Telecommunications Law and other acts entered into force. The purpose of the above-mentioned amendment was to further harmonize Polish provisions with the legal framework of the European Union.

A further amendment of the Telecommunications Law entered into force on July 20, 2010. According to this latest amendment, the definition of "subscriber" was changed, so that it now covers also users of services who have not concluded a written contract for the provision of telecommunications services. After the entry of this law into force, the obligations of telecommunications undertakings with regard to the conclusion, amendment, and performance of contracts apply to these users as well. Netia, as well as other telecommunications entrepreneurs, was obliged to adjust its standard client contracts to the new requirements within six months following the entry of the amendment into force.

On June 2, 2011, an amendment of the Telecommunications Law came into force, with regard to provisions concerning rules for verification whether fees for telecommunications access calculated by an operator with significant market power on the basis of justified or incurred costs are correct.

Pursuant to the amended law, as far as imposition of obligation to set fees on the basis of justified costs is concerned, in the absence of the auditor's opinion on the consistency of an annual regulatory accounting statement and the results of cost calculation with the binding regulations, or in case of a negative opinion or a qualified positive opinion, as well as in case of occurrence of significant discrepancies between the amount of fees calculated by an operator and established by the President of UKE on the basis of an auditor's opinion, the President of UKE establishes the amounts of fees for telecommunications access or their maximum or minimum levels, using methods specified in a decision designating an operator as holding significant market power and imposing an obligation to calculate fees for telecommunications access taking account of justified costs recovery.

As far as obligation to calculate fees on the basis of incurred costs is concerned, in a decision designating an operator as holding significant market power the President of UKE specifies methods of verification and calculation of fees. In order to verify whether the fees set by an operator on whom an obligation to calculate fees on the basis of incurred costs was imposed are correct, the President of UKE may apply the methods of fees verification specified in this decision. If the executed verification reveals that the amount of fees set by an operator is incorrect, the President of UKE establishes the amount of fees or their maximum or minimum level taking account of

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the promotion of efficiency and sustainable competition as well as the assurance of maximum benefits for end users. The fees shall be established in a separate decision.

Management Board is unable to assure neither that application of the amended regulations will not affect the costs of activity of the companies from the Netia Group, nor that whether – and when, as well as in what way – it will ensure the change of the amount of fees for telecommunications access to be borne by Netia after the end of this period.

On December 4, 2011, the amendment of the Telecommunications Law entered into force pursuant to which premium rate services providers were obliged, inter alia, to provide their subscribers with the right to block access to these services free of charge. On May 4th, 2012 new regulations have entered into force obliging the providers of these services to inform subscribers that the limit of payments due for such services that was established by them in their contracts was exceeded. The Management Board is unable to assure that the regulations after coming into force will be uniformly interpreted by the regulatory bodies and that this interpretation will allow for provision of premium rate services without requiring increase of costs of adjustment of the companies from the Netia Group to the obligations stipulated therein.

On July 17, 2010 the act „for the support of the development of telecommunications networks and services“ (hereinafter referred to as “the Act on Development”) entered into force. One of the goals of the act is to improve the investment process in telecommunications infrastructure. It authorizes municipalities to construct infrastructure and telecommunications networks, to make it available, and to provide telecommunications services in areas where the demand of end users is not satisfied by commercially provided access to telecommunications services. In such a case, subject to consent of the President of UKE, Internet access services can be provided for prices lower than market prices, and even for free, if the provision of services in a given area under such preferential conditions will not lead to a distortion of effective and equal competition.

Furthermore, if in order to satisfy group needs of the municipal community, the making available of the infrastructure and provision of services is entrusted to a telecommunications entrepreneur, and due to economic conditions the performance of this activity in a given area will not be financially profitable, the entrepreneur may use the municipal infrastructure for fees that will not recover its full construction cost. The cost borne due to the provision of telecommunications services in that area can be partially co-financed by the municipality.

The Act on Development imposed the following obligations on the selected groups of entities:

- real estate owners, real estate perpetual usufructuaries and real estate administrators – the obligation to ensure access to the building as well as to the place in a building in which the cables supplied to the premises in the building are gathered; the access is to be ensured in order to ensure telecommunications and to the benefit of telecommunications entrepreneur which supplied the building with the public telecommunications network;
- owners of the telecommunications ducts situated on the real estate or in the building – the obligation to make the telecommunications ducts accessible for telecommunications undertaking which has no possibility to use another, existing telecommunications ducts;
- owner of telecommunications cable supplied to or distributed within the building – the obligation to make the whole or a part of this cable accessible for telecommunications undertaking in case the supply of another telecommunications cable to the building is not possible;

In case no agreement describing the conditions for access to the infrastructure is executed, the President of UKE may, upon a motion of any of the parties, issue a decision substituting the agreement.

The Management Board is unable to assure that the agreements on the access to infrastructure, concluded by companies from the Netia Group in the scope of ownership rights to the cable and ducts infrastructure as well as the rights concerning real estate, will be in each case established with interested telecommunications undertaking in accordance with the principle of freedom of contract, without the necessity to settle the technical or financial conditions of co-operation by the President of UKE.

Under the Act on Development the President of UKE is also authorized to issue a decision obliging an operator authorized to use assigned frequencies in an area indicated by the President of UKE in a specified manner.

The Act on Development introduces the possibility of new sources of competition for Netia from municipalities and other interested entities and the risk of overbuild of our existing networks.

On October 12, 2012 Sejm passed an amendment to the Act on Development, also amending the Telecommunications Law in the area of co-usage of infrastructure. The amendment came into force on December 16, 2012. The aim of the amendment is to streamline the process of building telecommunication networks, in particular regional broadband networks and sharing real estate and buildings in order to install telecommunication infrastructure, but the amendment introduces more rigorous conditions that determine exercising obligation of gaining access to the real estates and the existing connections and the telecommunication infrastructure in the buildings by operators. New regulation amended also other Telecommunications Law regulation, regarding access to the infrastructure.

The Management Board is unable to assure that, in spite of intentions of legislator to facilitate investment process, the changes to the provisions will not cause opposite effects and will not cause difficulties in constructing telecommunication networks and the use of infrastructure belonging to other entities.

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On November 16, 2012, the Sejm passed amendments to the Telecommunications Act and some other acts including the Act on Development (hereinafter referred to as "Amendment"), aiming to implement the amendments of the 2002 Directives package, that entered into force in the EU in December 2009 and were to be transposed until May 2011. Most of the new regulations came into force on January 21, 2013. The Amendment, among other issues, forbids to enter into a first agreement to provide telecommunications services for private persons longer than 24 months and obliges telecommunications entrepreneurs to extend their offer addressed to end users to include no longer than 12 month contracts. The Amendment allowed to conclude contracts electronically using the form available on the website of the service provider. At the same time the Amendment broadens the obligatory content of contract for the provision of telecommunications services, and creates obligations with regard to network safety, including the prevention of unsolicited communications (spam).

Telecommunications undertakings are required to adjust the conditions of the contracts, including these stipulated in rules and regulations concerning the provision of publicly available telecommunications services or in price list of telecommunications services within 5 months of coming the Amendment into force, i.e. until June 21, 2013.

The Amendment regulated also specified principles of responsibility of telecommunications undertakings for delay in number portability or for number portability incompatibly with the will of the subscriber. In case of porting the number breaching the deadline established in Telecommunications Law, the undertaking that the subscriber is terminating the contract with, is obliged to pay the compensation in the amount of $\frac{1}{4}$ of the total monthly fees calculated according to the bills for the last three settlement periods, unless the impossibility to port the number occurred due to the reasons related to IT system managed by the President of UKE. In case when the porting the number has not occurred due to the reasons related to the current service provider, he is entitled to reimbursement of paid compensation in whole or in part from the entity responsible for the delay. In case of porting the number without consent of the subscriber, the subscriber is entitled to compensation from the new service provider in the amount of $\frac{1}{2}$ of the average monthly fees calculated according to the bills for the last three settlement periods for each day from the activation of the number in the new network.

The Management Board is unable to assure that regulation on principles of responsibility of undertakings who take part in number portability process, will not cause the abuse of these regulations, and in effect will not become the grounds for disputes related to enforcement of claims, including recourse claims between operators or service providers, rising from possible faults in realization of subscriber right to port numbers.

The Amendment also introduces new obligations regarding protection of telecommunications secrecy, network security, including acting against distribution of unsolicited content by service users. It excludes the obligation of the President of UKE to assign undertaking obligated to provide universal service. This competence now depends on decision of the President of UKE, based on the evaluation of availability, quality and affordability of the set of universal services in a given area. In case of lack of offers which met the conditions of contest for the undertaking assigned to realize the obligation to provide universal service or individual services, the President of UKE will assign a telecommunications undertaking providing such service or services, taking into account its economic and technical ability to provide these services on given area, ensuring availability of services and the need to support the fair and effective competition. In the decision obligating to provide universal service the President of UKE can impose on assigned undertaking an obligation to apply special tariffs for this service, maximum prices or unified tariffs.

The Management Board is unable to assure that none of the companies of the Netia Group will be obligated to provide universal service on any area of Poland and, in that case, that such company will not be forced to provide such service on unprofitable conditions requiring financing the cost of provided universal services, on given area until reimbursement of such cost in the amount of subsidy determined by the President of UKE in other decision.

In addition, the Amendment granted the President of UKE new competence to establish in a decision imposing obligation to provide conditions of access to the infrastructure, set forth therein, in case of need to ensure effective competition. The Amendment obligates telecommunications undertaking being the addressee of such decision to provide access to infrastructure under conditions which cannot be worse than conditions set forth in such decision. In case when the contract for access to the infrastructure will not be concluded within 30 days of filing the motion for access to the infrastructure, the President of UKE, acting ex officio or in effect of filing the motion, can issue decision which replaces the contract, as was possible before the Amendment.

In the Management Board opinion the real market needs determined by state of development of effective competition, most of all require interference of the President of UKE in the purpose of enforcement of telecommunications access related to regulated services, provision of which is obligation of the telecommunications undertaking holding SMP position on relevant markets. The Management Board is unable to assure that any of the companies of the Netia Group will not be obligated to provide access to its infrastructure under unprofitable conditions.

Moreover, the Amendment extends the obligation to provide facilities for disabled persons onto all telecommunications undertakings, increases the information obligations with regard to subscribers as well as extends the obligation to transfer data concerning telecommunications activity of a given telecommunications undertaking to the President of UKE. The Amendment reduces the data retention period to 12 months. It also change the rules of calculating (and provide increase) of maximum rates for the use of radio frequencies, however draft government regulation setting realistic rates do not provide a significant increase in relation of frequencies used by the companies of Netia Group.

The Management Board is unable to assure that in the future rates for the use of radio frequencies by the companies of the Netia Group will not increase by a larger amount nor that the amended rules for establishing the fees for extending the reservation of frequencies will not cause increase cost of provided services related to the frequencies used by the companies of Netia Group on the base of reservation which will require in the near future extending for the further period of time. The Management Board believes that most of the changes described above are likely to result in increased costs of running the business for the Netia Group.

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Risks resulting from the obligation to provide 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 S.A. 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 S.A. 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 S.A. The total amount claimed by TP S.A. on all applications for 2006-2011 was PLN 1,106,994. The last application was filed by TP S.A. on 29 June 2012 and included a request for subsidy for the period from January 1, 2011 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 S.A. was awarded subsidies towards incurred costs of several services falling within the scope of universal service as follows:

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

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

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

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

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

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

On April 5, 2013, the President of UKE issued the 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.

On June 29, 2013 TP filed for re-consideration of the case.

The Management Board is convinced of the validity of the issued decision, but cannot assure that the President of UKE will maintain the abovementioned decision in force and in TP S.A. files an appeal, that it shall be dismissed by the courts 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 statement companies of the Netia Group have 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 S.A. 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 S.A. 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 S.A. from the Netia Group amounts to approximately PLN 56,838 for the period from 2006 until 2011 inclusive as follows:

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	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 S.A. to provide universal service the above obligation of TP S.A. expired as of May 8, 2011. No undertaking obliged to provide USO as of May 8, 2011 has been designated to date according to the published position of the President. Nevertheless, on October 16, 2012 the President of UKE has begun consultations of 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.

No assurance can be also given that Management's best estimate of USO provision for 2006-2011 will be sufficient or that TP S.A. will not be successful in its appeal measures against decisions regarding subsidies for years 2006-2011 and the size of the subsidies will not be increased.

Risks related to holding a position of SMP

The President of the UKE issued the decision, whereby it has designated Netia, Dialog and Petrotel, as telecommunications operators holding significant market power in the market for call termination in its fixed public telephone network, in the area of the network where the termination is executed. At the same time, UKE imposed regulatory obligations that relate to:

- providing access to the network (including the use of network elements and associated facilities to the extent they are used to provide call termination services in the fixed public telephone network of Netia, Dialog and Petrotel),
- non-discrimination (obligation not to discriminate between telecommunications operators with regard to telecommunications access to the call termination services in its fixed public telecommunications network, in particular to offer the same conditions in comparable circumstances, as well as to offer the services and to provide the information on the conditions not less favorable than used within own enterprise or in relations with affiliates);
- transparency (comprising the publication of the information in matters concerning provision of telecommunications access with regard to the provision of call termination services in the fixed public telecommunications network of Netia, Dialog and Petrotel, on technical specifications of networks and telecommunications equipment, network characteristics, terms and conditions of the services and of the use of networks, as well as on the fees).

In the performance of the obligation imposed on Netia, Dialog and Petrotel, in the above mentioned decisions of the President of the UKE, Netia, Dialog and Petrotel published information on the conditions of telecommunications access with regard to call termination services in the fixed public telephone network of Netia by posting them on the internet site of Netia, at: http://www.netia.pl/files/netia_dla_korporacji/InterConnect/InterConnectoferta_ic_netii_28062013.pdf

Dialog at:

http://dialog.pl/sites/default/files/files/download/Informacja_w_sprawie_dost%C4%99pu_telekomunikacyjnego_do_sieci_Telefonii_DI ALOG.pdf

and Petrotel at:

<http://www.petrotel.pl/userfiles/file/regulaminy%20g%C5%82%C3%B3wne/UKE.pdf>

The published documents contain information as required in the Decision of the President of the UKE, necessary for the preparation by the interested entrepreneurs of an application pertaining to the provision of telecommunications access with regard to call termination services in the fixed public telephone network of Netia, Dialog and Petrotel.

The President of UKE is obliged to notify the assessment of the market analysis to the European Commission not less often than every 3 years. Given that this period lapsed, the President initiated a procedure for the determination of the market for the termination of calls in Netia's, and Dialog network, determination of Netia's, Dialog's and Petrotel's market power in that market, and evaluation whether there are reasons to uphold, amend, or waive Netia's, Petrotel's and Dialog's regulatory obligations.

No assurance can be given as to whether Netia, Dialog or Petrotel will not be obliged to perform some other duties set out in the Telecommunications Law imposed on a telecommunications operator holding significant market power in the market with respect to call termination services in the fixed public telephone network, or whether in the future a significant market power of another company of the Netia Group in this market is not determined or whether a significant market power of any company of the Netia Group in another wholesale market is not determined, as well as that any company of the Netia Group will not be subject to regulatory obligations specified in Telecommunications Law.

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Interconnection rates depend on the policy of UKE

The President of UKE issued a decision amending the agreement between Netia and TP S.A. on interconnection of networks in which it established the level of asymmetry of rates for call termination on Netia's network in relation to the rates for call termination on TP S.A.'s network. According to the above-mentioned decision, rates for the services will become symmetrical by January 1, 2014.

The Management Board is unable to give any assurance that the term for achieving rate symmetry for call termination in Netia's network in relation to the rates for call termination in TP S.A.'s network, will not be accelerated or otherwise changed by the President of UKE or the court settling the appeal raised by the TP S.A. Should such an adverse ruling occur, it would be likely to have a material adverse impact on Netia's profit margins.

The President of UKE issued decision by virtue of which it established the rules of asymmetry for termination of calls in the network Dialog in relation to rates for termination of calls in the network TP S.A. According to this decision as from January 1, 2014 rates for these services will be symmetric. Dialog appealed against this decision to SOKIK. Despite the fact that the Management Board is convinced of validity of the appeal, there is no certainty whether it will be accepted by the Court.

TP S.A. also appealed against this decision, demanding symmetry of termination rates or, alternatively asymmetry of termination rates differentiated in three tariff periods, instead of one tariff period. Despite the Management Board is convinced that there are no grounds for this appeal, there is no certainty whether it will be rejected by the Court.

TP S.A. filed an application to the President of UKE for amendment of rates for call termination in Netia's and Dialog's public fixed telephone networks by differentiation of the amounts of rates for each tariff period. The President of UKE by virtue of issued Decision refused the change of the Contracts pursuant to the applications of TP S.A. Despite the fact, that the decisions were issued in accordance with previous regulatory practice, the Management Board cannot assure that SOKIK will dismiss the TP S.A. appeals as well as decision refusing the change of FTR in Netia network and that the decisions will remain in force.

TP S.A. also filed with the President of UKE for the issuance of decision:

- 1) replacing the change of the contract on interconnection between Netia and TP S.A., by setting a flat rate for termination of calls of Netia's network in the amount symmetric to the rates of termination of calls in TP S.A.;
- 2) replacing the change of the contract on interconnection between Dialog and TP S.A. , by setting a flat rate for termination of calls of Dialog's network in the amount symmetric to the rates of termination of calls in TP S.A.;
- 3) replacing the change of the contract on interconnection between Netia and TP S.A. through making fees symmetric for use of Netia's infrastructure for the purposes of connection of the network to the fees for the use of TP S.A. infrastructure.

By the virtue of decisions of June 21, 2012, the President of UKE dismissed the TP S.A.'s applications for setting flat rates for termination of calls to Netia's and Dialog's networks. TP S.A. has submitted appeals against the President of UKE decisions to SOKIK. Netia and Dialog filed the court letters regarding TP S.A. appeals.

TP S.A. also submitted appeal against the decision of the President of UKE on conditions (and fees) of use of Dialog's infrastructure for the purposes of connection of the network. SOKIK dismissed TP S.A. appeal. However, the Management Board cannot assure that TP S.A. appeals shall not be successful and that the settlements rules set forth by the President of UKE will remain in force.

The Management Board believes that currently there are no grounds for application of rates for termination of calls in the networks of the companies of the Netia Group and use of their infrastructure for the purposes of the connection of the networks at the amount as claimed by TP S.A. One cannot assure, however, that the amount of these rates will not be changed in the future (by the decision of the President of UKE or court ruling), including that the amount of the rate of termination of calls in the Netia and Dialog network will not be amended before the end of the term following from the decision of the President of UKE, i.e. before January 1, 2014.

TP S.A. has also filed with the President of UKE for the issuance of decision replacing the change of the contract on interconnection between Netia and TP S.A. which includes defining fees for number portability. TP S.A. has also filed with the President of UKE for the issuance of decision replacing the contracts for telecommunications access with Netia, Dialog and Petrotel in order to adjust interconnection rules to the current TP S.A. reference offer providing frame terms of telecommunications access with regard to calls initiation and termination, wholesale access to TP network, access to subscribers lines in the mode ensuring both full and shared access, as well as access to subscriber lines through telecommunications network loops intended for the purposes of sale of broadband data transmission services. In the course of negotiation both Netia and Dialog demanded inclusion in negotiated contract the current and valid regulatory obligations imposed on TP, as well as the rules and conditions on telecommunications access which already exist on the grounds of contracts and decisions issued by the President of UKE. Finally Netia and Dialog concluded the agreement with TP S.A. ("SOR Agreements") which is limited to the TP S.A. services. The Management Board cannot assure that concluding the agreement will lead to the discontinuance of the proceedings.

Although the Management Board is convinced that statements filed in proceedings before the President of UKE started as a result of TP S.A. motions, were legitimate, it cannot assure that the conditions of telecommunications access related to each of regulated services, established in accordance with TP S.A. current reference offer will not be less attractive than conditions which are now in force. In particular, it cannot be assured that the President of UKE will lead to the discontinuance of the proceedings initiated by TP S.A. as groundless due to concluding the SOR Agreements and in the remaining scope will not issue decisions accepting TP S.A. motions and in such case, that terms and conditions of regulated services will not become less favourable and the costs of TP S.A. regulated services will not increase.

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Risk of changes of UKE decisions and changes in UKE's approach to regulations

The conditions of performing telecommunications services by the Netia Group are in part set out in decisions issued by the President of UKE and most of them are immediately enforceable. The Management Board is unable to exclude the risk that the decisions will not be reversed or amended by the court nor that the terms of telecommunications access established therein will not be changed by the President of UKE during the period within which the Netia Group's companies make use of the regulatory conditions introduced by such decisions. The Management Board cannot assure, that in such a case, costs of providing services by the Netia Group will not increase and that operators providing wholesale services based on such decisions will not raise the claims against the Netia Group.

Moreover, on February 1, 2012 a new President of UKE was appointed for a five year term of office and on April 15, 2012, a new Vice President of UKE.

On November 27, 2012 the President of UKE published the regulatory strategy for the term of office – "Regulatory Strategy until 2015" (hereinafter "Strategy"). According to the Strategy the main goal of the President of UKE is the improvement of service's quality and the development of new generation telecommunications infrastructure (NGN, NGA) of high bandwidth for the purposes of counteracting the digital exclusion and executing the Digital Agenda in relation to Poland. The President of UKE plans to execute its prerogatives stemming from Telecommunications Law, including in particular market analysis, in particular markets for call termination in each undertaking's network, the review of regulatory obligations imposed on undertakings and symmetry of fixed terminations rates (FTR) and mobile termination rates (MTR).

At this stage of realizing the strategy of the President of UKE, taking also into account the general area of interest of new President of UKE, it cannot be assured whether and to what extent in the period of time set forth in the Strategy the conditions of telecommunications access will be changed, as well as the obligations imposed on companies of Netia Group, in particular on markets for call termination on fixed networks. One cannot exclude the possibility that unless some of decisions issued by the President of UKE will lead to growth on fees for telecommunications access and new risks and challenges for the companies of Netia Group, not foreseen elsewhere in these risk factors.

Risks relating to regulatory access rates

On October 22, 2009 the President of UKE and TP S.A. signed an agreement laying down rules for the performance by TP S.A. of obligations with regard to telecommunications access ("The Settlement Agreement between the President of UKE and TP S.A. "). The Settlement Agreement provides that the fees for individual services in the scope of telecommunications access that follow from the applicable reference offers will be valid until December 31, 2012. This general rule in effect froze the cost of unbundled local loop services and wholesale line rental voice services.

On the basis of a draft understanding, constituting an appendix to the Settlement Agreement between the President of UKE and TP S.A., Netia and TP S.A. executed a separate understanding ("Understanding") on the December 23, 2009. The Understanding provides that the rates for specific services in the scope of telecommunications access, arising from reference offers, shall be binding until December 31, 2012. As the Understanding has not been noticed by any party, it was prolonged for unspecified period of time.

The wholesale rates for broadband access (BSA) were established at a fixed level taking account of retail prices in TP S.A. offer binding on October 10, 2009. Possible further decrease of rates established in the above manner, as well as wholesale rates paid to TP S.A. since implementation of new speeds to its BSA Offer, are controlled by a margin squeeze test („MS test") and price squeeze test („PS test"), rules for carrying out of which were established by the President of UKE ("MS/PS test").

Netia was surprised that TP S.A.'s new prices for the lowest transmission speeds somehow passed the margin squeeze tests carried out by the President of UKE. In view of the President of UKE's opinion that the TP S.A. retail offers examined with the use of the MS test do not constitute price discrimination of Alternative Operators and may be used with the current wholesale fees for BSA services, i.e. the fees calculated on the basis of a "retail-minus" methodology but expressed in nominal values, Netia has had its costs verified by an independent auditor, and after simulating the margin squeeze test, using the audited costs. On the basis of the received outcome of the test it still seems surprising that the TP S.A. retail offers for the lowest transmission speeds should pass the margin squeeze test.

On February 9, 2011, the President of UKE published a position indicating amendments to the MS/PS Test procedure that were introduced after carrying out consultations with the market players.

Within the amended MS test procedure, an operator that passed his relevant cost data to the President of UKE for the purposes of carrying out of MS test is provided with access to information on average costs accepted for the test. After market launch of a retail offer that underwent the MS test, an operator that passed his relevant cost data to the President of UKE is also granted right to access data included in TP S.A. application for carrying out of the MS test, i.e.: the price accepted for the test, as well as the validity period of an agreement concluded on the basis of this offer. Upon motion of such an operator the President of UKE is obliged to carry out the MS test concerning TP S.A. retail offer one more time.

If the MS test outcome indicates that the relation between prices included in the retail offer launched into the market and wholesale rates applied by TP S.A. is discriminatory towards operators using wholesale services, then, according to the changed rules of MS test procedure, TP S.A. is obliged to withdraw this retail offer from the market. In case of non-performance of this obligation by TP S.A. prices set out in it will constitute a basis for calculation of wholesale rates on the basis of "retail-minus" methodology.

In the opinion of the Management Board, the amendments to the procedure of the MS test, comparing with the previously binding procedure, increase protection of operators using TP S.A. network, including Netia, against price discrimination.

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Netia submitted to the President of UKE its cost data regarding the fiscal year 2010 for the purpose of MS test concerning examination of new TP S.A. retail offers. The submitted data are based on the results of the auditor's verification of the correctness of methodology applied for these costs calculation. The President of UKE considered them actual and reliable, accepted them and decided that they will be taken into account in the process of application to MS and PS tests. Similarly, Netia submitted to the President of UKE its cost data regarding the fiscal year 2011. The President of UKE considered them actual and reliable.

After having conducted with market participants subsequent agreements concerning the procedure of conduct of MS test, the President of UKE decided on January 24, 2012 not to introduce major modifications in the existing procedure. The introduced changes do not affect the rules for applying the MS test.

On June 22, 2012, the President of UKE published the statement amending the rules of performing the PS tests. In the statement President of UKE stated that in the process of analysis the TP S.A.'s retail offers which have no equivalent in wholesale regulated services, the TP S.A.'s wholesale costs shall be taken into account. In President of UKE opinion, such costs, as audited are reliable. KIGeIT communicated to the President of UKE that TP S.A.'s cost data relating to services that are beyond the scope of reference offer are in fact the projected costs and are not audited, while the alternative operators accessing the TP S.A. network should have guaranteed possibility at least to respond to the data projected by TP S.A. KIGeIT took legal actions to change the statement of the President of UKE, but in each and every case the President of UKE has refused to consider of KIGeIT's demands. KIGeIT has also submitted to the European Commission for intervention against changing MS/PS tests procedure without any consultation with Altnets, including Netia.

Although the Management Board is convinced of the validity of arguments taken by KIGeIT, the Management Board cannot assure that President of UKE shall amend its statement published on June 22, 2012, and, in particular, that the President of UKE shall allow to verify the costs data used in PS test.

On January, 2013, the President of UKE launched the consultation of next amendment of statement on rules regarding MS and PS tests. The proposed amendments consider inter alia acceptable range of modification of TP S.A. retail offer tested with MS/PS test, which does not require retesting, conducting test on the grounds of TP S.A. data and deadlines for providing prices of new retail services.

KIGeIT, which participates in consultation, objects to the draft amendments of MS/PS test. The Management Board is unable to assure that the President of UKE will accept KIGeIT's statement and will not amend MS/PS testing rules.

On March 22, 2013 the President of UKE published the "Statement of the President of UKE regarding detailed methods of processing the MS and PS tests". In the Statement the President of UKE confirmed that PS tests shall be performed basing on TP S.A. costs data. The President of UKE also accepted that TP S.A. shall not be obliged to file the motions for MS tests when the new retail offer is the modification of already existing offer. The President of UKE also stated that the PS tests result shall not be published.

Also on March 22, 2013 the President of UKE published the "Statement of the President of UKE in detailing the procedure of Time to Market". The TTM is the process which serves in providing the new TP S.A. wholesale services, described in the OR. In the new TTM process the President of UKE introduced a new appeal procedure, which is applied in case when TP S.A. objects to the President of UKE statement regarding regulatory character of the new wholesale service. The President of UKE also limited the participation of alternative operators in the first phases of TTM. The President of UKE established also the dates of PS test in connection with dates of launching of TP S.A. new wholesale services to the market.

The Management Board cannot assure that TTM Process as newly implemented by the President of UKE will sufficiently guarantee Netia's non-discrimination against TP S.A. Retail Part and will allow Netia to introduce new retail services basing on TP S.A. wholesale services in the same time TP S.A. retail services are introduced into the market.

The Management Board is also unable to assure that the MS/PS test procedures currently implemented and their possible future amendments will sufficiently guarantee TP S.A. price non-discrimination and effective protection against narrowing Netia's margin which can lead to loss of profits, cash flows or Netia market share. The Management Board is unable to assure that the President of UKE acceptance of TP S.A. retail offers on the grounds of MS/PS tests effects, and offering such services by TP S.A. will not cause loss of Netia's and Dialog' share in net connections and decrease of growth rate and thus will not cause risk of non-reaching our strategic and financial objectives.

The draft of the President of UKE's decision establishing fees on market for provision of wholesale broadband access services (Market 5) and the draft of decision accepting amendment of OR provides growth in some of fees for broadband acces and reduction of others. Although the Management Board is convinced that growth in fees for particular bandwidths (BSA services options) is groundless, it cannot be excluded that in case of issuance the decision establishing fees for broadband access higher that current fees adopted in relation between Netia and TP S.A., such decision will be reversed or amended by the court.

The Management Board is unable to assure that new prices stemming from mentioned above drafts will not lead to loss of profitability of services provided by Netia as well as cash flows and loss of market share.

Risks related to amendments to reference offers

Beyond reach of Netia's own network, provision of telecommunications services by the Netia Group is conditional upon access to the network of TP S.A. According to Telecommunications Law and the decisions of the President of UKE, TP S.A. is obliged to provide telecommunications access to telecommunications entrepreneurs, such as Netia, to its network and to offer frame terms and conditions of contracts on telecommunications access to its network for particular wholesale services, not worse than the terms and conditions specified in TP reference offers approved by the President of UKE.

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On September 29, 2010, by virtue of a decision of the President of UKE, a new Reference offer providing frame terms of telecommunications access with regard to calls initiation and termination, wholesale access to TP S.A. network, access to subscribers lines in the mode ensuring both full and shared access, as well as access to subscriber lines through telecommunications network loops intended for the purposes of sale of broadband data transmission services, was introduced (hereinafter referred to as the "RO"). The RO laid down frame terms of contracts for all kinds of telecommunications services that are currently used by Netia under contracts and decisions issued upon reference offers. The RO superseded all currently valid reference offers, apart from the offer for the lease of telecommunications fibers.

The RO introduced new solutions to cooperation of network providers, so far not included in telecommunications access regulations, including:

- 1) unification of rules and timeframes of regulated services provision;
- 2) regulation of terms of broadband service access (BSA) with IP DSLAM technology;
- 3) introduction of electronic form of communication with TP S.A. in the form of IT System Interface into the network providers cooperation.

The RO also introduced significant increases in the fees for fixed line number portability.

KIGEIT and TP S.A. filed for re-consideration of the case concluded by issuance of RO.

Upon such reconsideration, on April 5, 2011, the President of UKE issued a decision by virtue of which it amended the RO by reducing several fees, i.e.:

- a) due to LLU services provision, inter alia due to:
 - connection of subscriber's line to TP S.A. network within launch of the Non-active Line - from PLN 63.4 to 39.48 (not in thousands);
 - launch of service provided on the Active Line (switch-over of a pair of cables, servicing of orders for line) - from PLN 55.51 to 46.98 (not in thousands);
 - service deactivation (switch-over of a pair of cables, servicing) - from PLN 21.21 to 18.28 (not in thousands);
 - as well as due to number portability in such a way that its present amount remained not higher than the one binding prior to issue of the RO;
- b) as well as BSA, inter alia due to:
 - launch of service on the Subscriber's Line - from PLN 40.98 to 38.68 (not in thousands);
 - change of Service Options - from PLN 45.22 to 34.07 (not in thousands);
 - Service deactivation - from PLN 40.98 to 38.68 (not in thousands).

The RO does not provide for a fee due to cooperation between operators.

The procedure of MS test was amended, according to the position of the President of UKE of February 9, 2011.

TP S.A. introduced an appeal against the decision approving RO. WSA stated that the decision is in fact decision on regulatory obligations, therefore the competent court should not be administrative court but common court. The KIGEIT, the President of UKE and TP S.A. appealed against this ruling. NSA reversed the decision of WSA, but WSA against issued the same ruling. The KIGEIT appealed again against this ruling.

By a decision of September 4, 2011, the President of UKE amended the RO with regard to conditions for BSA telecommunications access with use of VDSL technology.

The Management Board cannot assure that the conditions established in the RO by the decision of the President of UKE will not be in future amended or reversed.

Due to the fact that the RO regulates the terms and rules of co-operation of TP S.A. with other telecommunications undertakings differently than compared to the binding relations with Netia, the Management Board cannot assure that the agreed terms on which Netia uses access to the network of TP S.A. will not be changed or deteriorated in the future with the aim to ensure competitiveness comparing with other alternative operators.

TP S.A. filed with the President of UKE a draft offer setting out frame terms of LLU services provision with regard to FTTx access. The offer that will be approved of by the President of UKE in this scope will make up frame terms of using LLU stipulated in the RO. TP S.A. also applied for amendment of the RO in the scope of BSA access including as regards application of Ethernet level, and also for modification of the BSA service in option with capacity 10 Mbit/s and canceling options: 1, 2 and 6 Mbit/s, since April 1, 2012. TP S.A. amended its application and withdrew it in relation to cancelation of 1, 2 and 6 Mbit/s options. The President of UKE conducted the consultation proceeding regarding the amendment of the OR in relation to BSA modification in option with capacity 10Mbit/s without canceling options: 1, 2 and 6 Mbit/s. At this stage of proceedings it cannot be predicted to what extent and when shall the projected conditions be adopted by the President of UKE to OR and how it will affect the conditions of doing business by Netia. The Management Board is

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unable to assure that fees for BSA services projected in draft of decision approving OR shall not be approved in the President of UKE decision and in effect that expenses related to access services will not rise.

TP S.A. applied also for approval of reference offer with regard to leased lines. Finally the President of UKE made minor modifications to an offer in the scope of using of analog lines. This change is not expected to significantly affect the conditions of doing business by Netia.

In the Understanding as of December 23, 2009, Netia and TP S.A. agreed that the amount of service rates for access to TP S.A. network will remain unchanged until December 31, 2012, which is why by that time any change to methodology of rates calculation into calculating them taking account of incurred costs would not affect settlement rules between Netia and TP S.A. due to access to local loop and local sub-loop built according to copper technology. Despite the fact, that Understanding is still binding, the Management Board cannot assure that no circumstances leading to increase of the amount of costs of using LLU service by Netia will not emerge in future.

The Management Board cannot assure, as well, that rules of access to LLU built using fiber technology will be sufficient for ensuring Netia the opportunity to use of access to fiber local loop in TP S.A. 's network on a mass scale.

Moreover, on January 31, 2012, the President of UKE obliged TP S.A. to change RO, i.a. in the scope of liquidation of tariff periods O1, O2, and O3 (it also concerns calculation of flat rate interconnection) and definition of fees for number portability. In consequence, the changed RO in accordance with the decision of the President of UKE may raise costs of using services of termination of calls in TP S.A. 's network by companies of the Netia Group. In the proceeding regarding the amendment of the offer in relation to origination and termination in TP S.A., network, including the fees for services provided on these markets, the growth in fees for connection termination and for flat interconnection rate is provided.

KIGEIT has appealed against this resolution as far as liquidation of tariff periods O1, O2 and O3 is concerned. On July 15, 2013 the President of UKE upheld the decision of January 31, 2012.

TP S.A. has also filed an application to the President of UKE for amendment of RO in relation to premium rate services provided within wholesale access to TP S.A. network (WLR). In management Board opinion not every amendments proposed by TP S.A. are necessary to perform duties stemming from amendment of Telecommunications Law related to provision of premium rate services. However, the Management Board cannot assure that the President of UKE shall not approve the RO amendment in a manner that will not increase the cost of WLR.

TP S.A. has also filed an application to the President of UKE for amendment of RO in relation to TP S.A. liability, including in particular the issue of penalty clauses. According to the TP S.A. application the conditions regarding TP S.A. liability are going to become unfavorable. Although the Management Board is convinced that TP S.A. application is not justified but it cannot assure that the President of UKE shall not amend the OR accordingly to the TP S.A. application and that in further effect the terms and conditions of regulatory services provided by TP S.A. which are used by Netia's Group companies shall not become unfavorable.

Risks related to the decisions of the President of UKE on the service of termination of calls in mobile networks (hereinafter referred to as "MTRs") (not in thousands)

In January and February 2009 the President of UKE issued temporary decisions ("Temporary decisions") amending agreements on the interconnection of networks concluded by Netia and Dialog with Polska Telefonia Cyfrowa S.A., Netia and Polkomtel Sp. z o.o. as well as Netia and Polska Telefonia Komórkowa Centertel Sp. z o.o. by lowering the mobile termination rates (MTRs) in public mobile telephone networks of the above-mentioned mobile networks operators to the level of PLN 0.2162 per minute. In June and July 2009 the President of UKE issued decisions (which replaced the above-mentioned temporary decisions) on the amendment of the interconnection agreements ("Final decisions"), concluded by Netia and Dialog with the above-mentioned operators, by setting the MTR at the level of PLN 0.1677 per minute. The same MTR was defined by President of UKE in the decision amending agreements on the interconnection of networks concluded by Petrotel with Polkomtel.

Polska Telefonia Komórkowa Centertel Sp. z o.o., Polkomtel Sp. z o.o. and Polska Telefonia Cyfrowa S.A. appealed against the temporary decisions of the President of UKE.

The following decisions were validly repealed:

- 1) Temporary decision amending MTRs stipulated in the agreement between Polska Telefonia Cyfrowa S.A and Netia. Netia filed the cassation complaint to the Supreme Court. The Management Board cannot assure that the Supreme Court shall accept this appeal for recognition and that the ruling reversing the decision shall be reversed.
- 2) Final decision amending MTRs set in the agreement between Polska Telefonia Cyfrowa S.A. and Netia is waiting for the justification of the Appellate Court,
- 3) The temporary decision changing MTR rates specified in the contract between Polska Telefonia Cyfrowa S.A. and Dialog. Dialog submitted the cassation to that decision. The Management Board cannot assure that the Supreme Court shall accept the cassation for recognition and that the ruling reversing the decision shall be reversed.
- 4) Final decision amending MTRs set in the Agreement between Polkomtel and Petrotel. Petrotel is waiting for the justification of the Appellate Court.

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SOKiK repealed also but are subject to appeal:

- 1) Temporary decision amending MTRs set in the agreement between Polska Telefonia Cyfrowa S.A. and Dialog. Dialog submitted appeal.
- 2) Temporary decision amending agreement between Petrotel and Polkomtel. Petrotel submitted appeal.

The Management Board cannot assure that the appeals will be successful.

In 2011 the agreements with Polska Telefonia Komórkowa Centertel Sp. z o.o., Polkomtel Sp. z o.o. and Polska Telefonia Cyfrowa S.A. (hereinafter the "MTR Agreement") were concluded. MTR Agreements were concluded by most of Alternative Operators being members of the KIGEiT, including Netia and Dialog. According to the MTR Agreement the forementioned mobile operators confirmed MTRs paid in accordance with the President of UKE decisions and limited the possibility of requesting retrospective claims. As a result of these agreements Polska Telefonia Komórkowa Centertel Sp. z o.o. and Polkomtel Sp. z o.o withdrew their appeals and these proceedings were discontinued.

Despite the fact that MTR Agreement was concluded between Netia, Dialog and Polska Telefonia Cyfrowa S.A., the Management Board cannot also assure that Polska Telefonia Cyfrowa S.A. shall not make claims related to the results of the abovementioned proceedings. The Management Board cannot predict the result of proceeding regarding such claims. Also, it cannot be excluded that Polkomtel sp. z o.o. will issue claims against Petrotel in case of final and valid revocation of the decision.

Along with other market participants, Netia, Dialog and Petrotel have made significant cuts in its customer tariffs for calls to mobile operators on the basis of the Regulator's MTR decision. In the event that the court raises the MTR rates once more, companies of the Netia Group will be unlikely to be able to pass on the higher costs to its customers through higher tariffs. No assurance can be given that possible damages claims against the State Treasury would be granted by the courts.

The President of UKE issued decisions stipulating the amount of MTRs to be paid to Polska Telefonia Komórkowa Centertel Sp. z o.o., Polkomtel Sp. z o.o. and Polska Telefonia Cyfrowa S.A.: as of July, 1, 2011 – at the level of PLN 0.1520 per minute and as of July 1, 2012 – at the level of PLN 0.1223 per minute, as well as the amount of MTRs to be paid to P4 Sp. z o.o., calculated on the basis of an index of asymmetry in relation to the remaining rates. Moreover, these decisions stipulate investment obligations of individual mobile networks operators in the so called "white areas", i.e. areas with low population density, excluded from GSM network coverage.

In MTR Agreements concluded by Netia and Dialog with mentioned mobile network operators the MTR provided by mentioned decisions were confirmed.

In August 2012 the President of UKE has published to consultation the drafts of new decisions decreasing MTRs to be paid at the symmetrical level to Polska Telefonia Komórkowa Centertel Sp. z o.o., Polkomtel Sp. z o.o., Polska Telefonia Cyfrowa S.A. and P4 sp. z o.o., as of January, 1, 2013 at the level of PLN 0.0826/ min and as of July, 1, 2013 at the level of PLN 0.0429/minute.

Draft decisions were sent to the consolidation proceedings before the European Commission in September 2012.

On December 14, 2012, the President of UKE issued decisions establishing MTR accordingly with consulted drafts. The new financial settlements stemming from these decisions were adopted in agreement amendments between Netia and Dialog with Polkomtel Sp. z o.o., Polska Telefonia Komórkowa Centertel Sp. z o.o and Polska Telefonia Cyfrowa S.A. then only as regards the first of the MTR rates at the level of PLN 0,0826/minute, which is effective until June 30, 2013. The amended contract between Netia and P4 Sp. z o.o. provides also the MTR level of PLN 0,0429/minute, effective from July 1, 2013.

Finally, agreements implementing MTRs at the level of 0.0429 PLN/min from July 1, 2013 were concluded also with Polkomtel sp. z o.o., PTK Centertel Sp. z o.o. and T-Mobile Polska S.A. (earlier Polska Telefonia Cyfrowa S.A.)

In case of suspension, repeal or change of the President of UKE decision setting the level of the MTRs of Polkomtel sp. z o.o. and in case of loss of binding force of the decision of the President of UKE setting the level of MTR of PTK Centertel sp. z o.o., the binding applicable rate with those operators would be 0,0826 PLN/min, unless application of that rate would be impossible due to the duty of application of another rate resulting from the decisions of the President of UKE or the judgment of the court.

Despite the conclusion of the agreements amending contracts with Netia and Dialog concerning MTRs from July 1, 2013 on the level of 0,0429 PLN/min with all abovementioned mobile operators, including T-mobile S.A. proceedings started earlier before the President of UKE proceedings for the issuance of decisions amending the agreements in relation to the 0,0429 PLN/min rate are not terminated. Netia and Dialog filed the statements underlining that SMP decision should be performed and were performed by concluding annexes instead of decisions. The Management Board is convinced that the proceeding shall be discontinued, but cannot assure that the President of UKE would terminate the proceedings in this way.

The Management Board also cannot assure that in case of filing the appeals against mentioned decisions providing MTR PLN 0,0826/minute and PLN 0,0429/minute, the court will not suspend the enforcement of these decisions or will not finally reverse or change these decisions and that such suspension, reversal or change will not affect the financial settlements with mobile operators and set them differently than in the agreements with those operators and these operators will not pursue the claims against Netia and Dialog.

In case the mobile operators potentially obtain final court orders against the Netia Group's companies the Management Board cannot assure that the Netia Group's companies' regress claims against the State Treasury will be successful.

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Risk related to reversal of President of UKE decisions stipulating conditions of the access to IN services in Netia and Dialog networks for mobile networks users

The President of UKE issued decisions stipulating conditions of access to IN services in Netia and Dialog networks for Polska Telefonia Cyfrowa S.A. and Polkomtel Sp. z o.o. users.

The Court of Appeal in Warsaw reversed these decisions stipulating access to IN services in Netia and Dialog networks for Polska Telefonia Cyfrowa S.A. users. Netia and Dialog have received the justifications of the rulings. Netia and Dialog submitted cassation complaints against the judgments of the Court of Appeal. The Supreme Court agreed to hear the cassation appeals. The Management Board cannot assure that the ruling reversing the decision shall be issued.

Polkomtel Sp. z o.o. has also appealed against the decisions stipulating conditions of the access to IN services in Netia and Dialog networks for users of Polkomtel Sp. z o.o. network. Due to the agreement worked out between Dialog and Polkomtel Sp. z o.o., Polkomtel Sp. z o.o. withdrew the appeal and asked to terminate the proceedings. The Management Board cannot assure that the decision for Netia will not be reversed as a result of the Polkomtel Sp. z o.o. appeal.

The Management Board cannot assure that agreements stipulating conditions of the access to IN services in Netia and Dialog networks for Polska Telefonia Cyfrowa S.A. and Polkomtel Sp. z o.o. users will be concluded, and if these enterprises shall not make claims related to results of mentioned proceedings. The Management Board cannot predict the result of proceeding regarding any eventual claims.

Risks related to the analysis of relevant markets

According to the amended Telecommunications Law, the President of UKE performs an analysis of telecommunications services market („relevant market”) not less often than every 3 years notifies to the European Commission the draft of the decision in which upholds, modifies or waives regulatory obligations imposed on an entrepreneur, who as a result of a previous analysis has held a significant market power.

TP S.A. holds significant market power in individual wholesale markets countrywide and is obliged, in particular, to provide telecommunications access to other entrepreneurs, under non-discriminatory terms.

On December 30, 2010, the President of UKE issued a decision defining a market, in which TP S.A. was so far obliged to provide access to local loop or a local sub-loop in copper technology, as a market of wholesale (physical) access to network infrastructure service provision (including full and shared access) in a fixed location, designated TP S.A. as holding a significant market power on the relevant market, as well as imposed regulatory obligations on TP S.A.

By virtue of the President of UKE decision TP S.A. was obliged to maintain telecommunications access to local loop and sub-local loop, as well as to provide access to the telecommunications ducts or to dark fibers, and - in case of lack of possibility of access provision for an operator applying for access to the above elements of infrastructure – to provide access to local loop and local sub-loop using fiber technology.

So far TP S.A. had an obligation to calculate costs and set telecommunications fees taking account of justified costs. This was replaced in the decision by an obligation to set fees taking account of incurred costs. The method TP S.A. is obliged to apply, allows for recovery of costs actually incurred in the process of telecommunications access provision and not justified costs i.e. costs that a hypothetical telecommunications undertaking would incur if it operated on a fully competitive market, with scope of activity and demand for its services comparable to those specific for an actually existing telecommunications undertaking obliged to run costs calculation.

In the opinion of the Management Board the amendment of the imposed obligation concerning method of calculation of costs of telecommunications access provision introduced by the President of UKE's decision is premature. No circumstances arose on the market that could justify application of the method of costs calculation taking account of incurred costs and not justified costs.

KIGEiT filed an appeal with SOKiK against the President of UKE's decision of December 30, 2010. In spite of its conviction of validity of the claims raised in the appeal, the Management Board is unable to assure that the decision will be changed in the scope of the appeal.

Netia and TP S.A. agreed that fees for telecommunications access in relation to LLU will not rise until December 31, 2012 which is why by that time any change to methodology of rates calculation into calculating them taking account of incurred costs would not affect settlement rules between Netia and TP S.A. in regard to LLU. The Management Board cannot assure that in case of issuance a decision establishing fees for LLU higher than fees currently adopted in relation between Netia and TP S.A., that such decision will be reversed or amended in this regard by the court and that the necessity to adopt new fees which are higher than current fees, will not lead to loss of profitability of services provided by Netia, reduced cash flows and loss of market share.

In December 2012, the European Commission published the draft of recommendation providing average fee for access to the local loop in the amount of 8-10 Euro (not in thousands), effective from January, 2017. Despite the criticism of the draft regulation, which was justified also by the perspective of significant growth in retail prices of telecommunications services, which criticism was addressed from European telecommunications undertakings competing with incumbents to Neelie Kroes (vice – president of European Commission) and the Management Board conviction that the draft does not take into account real economic and regulatory situation in particular Member States, it cannot be assured that European Commission will not decide to launch consultation proceeding of the recommendation in order to further works on implementation its guidelines. At this stage of proceeding it cannot be determined whether and in what form the Commission recommendation will be finally issued and if the recommendation will be amended before January 1, 2017 and how it will affect the conditions of doing business by the Netia.

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On April 28, 2011 the President of UKE issued a decision holding TP S.A. as having a significant market power in the market for provision of wholesale broadband access services. The analysis of the President of UKE included the national market, within which regulatory obligations of TP S.A. in the areas of separate groups of municipalities were differentiated. The decision also provides for change of obligation to establish telecommunications access fees according to cost calculation, from the method based on justified costs to incurred costs. Eleven municipalities were excluded from the national market area.

On July 27, 2011 the President of UKE commenced consultation and consolidation proceedings concerning a draft decision identifying a broadband access market within the administrative borders of eleven municipalities: Warszawa, Płońsk, Nowy Dwór Mazowiecki, Lublin, Zielona Góra, Bielawa, Olsztyn, Łomża, Białystok, Elbląg, Braniewo and stating that within the areas of these municipalities effective competition is present and no SMP undertaking operates.

On February 1, 2012, the President of UKE commenced consultation proceedings of the draft decision, in which it defines the relevant market as the market for provision of wholesale broadband access services, states that there is no competition on this market, TP S.A. has significant position on this market, and in this connection imposes regulatory obligations on TP S.A. Within administrative borders of four municipalities: Toruń, Lublin, Warszawa and Wrocław, in the area of which the competition distortions are in the opinion of the President of UKE significantly less important than in the rest of the country's market area, imposes on TP S.A. the obligation to assure telecommunication access along with obligation to keep realized access and obligation of non-discrimination. On March 26, 2012 within consolidation proceeding the President of UKE provided the draft of decision to the Body of European Regulators for Electronic Communications (BEREC) and national regulatory authorities in other member states.

The European Commission has started an in-depth investigation and has issued a serious doubts letter concerning the project of the decision in the scope of measures of the access to TP S.A.'s FTTH infrastructures proposed by Polish Regulator. President of UKE may work with the Commission and BEREC on regulatory rules of the access to TP S.A.'s FTTH infrastructures for three months. In the other case, President of UKE will not be allowed to issue the decision based on the project.

On August 27, 2012 the European Commission presented to the President of UKE position that decision shall be improved by imposing on TP S.A. obligation of using cost oriented rule with regard to the FTTH access or by establishing alternative measures of competition protection (an improved transparency obligation regarding FTTH, replicability requirement also for FTTH-based retail products and accounting separation obligation covering also FTTH products).

On September 11, 2012 in the letter to Ms Neelie Kroes, vice-president of the European Commission, the President of UKE withdrew from a proposed regulation of the market for wholesale broadband access. Then the president of UKE presented draft of other resolution concluding the existence of effective competition and abolishing TP S.A. regulatory obligations on this market on the area of 11 Polish municipalities. The European Commission notified serious doubts regarding correctness of drafted resolution and drew the attention of the President of UKE inter alia on the facts of the case contemplated under the drafted resolution, which are based on outdated data, coming from market analysis performed by the President of UKE in 2009, whereas in the moment of drafting the resolution the President of UKE had access to data from further analysis of this market. KIGEiT filed the statement to the President of UKE and the European Commission pointing the mentioned issue of outdated data and noted also other incorrectness of projected resolution, which, in the opinion of the Management Board excluded the possibility to issue the resolution in accordance to its draft. The European Commission obliged the President of UKE to withdraw the draft of the regulation. On February 8, 2013 the President of UKE published the information that the Regulatory Body has been going to conduct the new analysis of the market 5, taking into consideration the Commission's guidelines. Finally the President of UKE terminated the proceedings leading to the repeal of the regulatory obligations on the area of the 11 Polish municipalities.

In the opinion of the Management, relevant markets, including broadband access markets within the area of the municipalities comprised in the drafts of the President's of UKE decisions, are not developed sufficiently to allow for geographical or technological differentiation of TP S.A. regulatory obligations, nor are there any grounds, to hold that on the area of individual municipalities the regulatory obligations imposed on TP S.A. should be limited.

However, it cannot be said what will be the results of the new broadband market analysis and what kind of regulatory measures about access to the TP S.A. infrastructure will be set (including FTTH access). As a result, it cannot be predicted, what access conditions and on what area of Poland will be applied in the future. It also cannot be predicted how those changes will affect the existing ability of the Netia Group to offer services with the use of this type of access to the network of TP S.A.

Netia and TP S.A. established that the amount of rates for access to TP S.A. network within BSA will remain unchanged until December 31, 2012, which is why until this time, the change of methodology of setting fees into its calculation taking account of incurred costs would not have no impact on settlement rules between Netia and TP S.A. due to provision of access BSA lines unbundled according to the rules binding until the date of issue of the respective decision.

The Management Board cannot assure that in case of issuance the decision establishing fees for BSA higher than fees currently adopted in relation between Netia and TP S.A., such decision will be reversed or amended in this regard by the court and that the necessity to adopt new fees which are higher than current fees, will not lead to loss of profitability of services provided by Netia, cash flows and loss of market share.

On October 16, 2012 the European Commission began consultation on telecoms markets Recommendation. The Management Board cannot assure that change of the telecoms markets Recommendation as a result of applying it by Regulatory Body in Poland, will not lead to an increase in the cost of telecommunications access or decrease of conditions of telecommunications access.

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Risks related to Dialog's business

TP S.A. has summoned Dialog to pay the amount of PLN 667 (including interests) for account of outstanding receivables arising from the use of telecommunication access to the TP S.A.'s network by Dialog. Despite the fact that in the Management Board's opinion TP S.A.'s claims are at least partly unjustified, it cannot be assured that in case of court proceedings they will not be taken into account or that Dialog's claims for payment against TP S.A. arising from the contracts and decisions on telecommunication access or using Dialog's infrastructure by TP S.A. will be paid in the amount of exceeding the amount TP S.A.'s claims.

Moreover, TP S.A. has issued invoices for transit to ported numbers for a total amount of PLN 2 212 including interest of PLN 356. These invoices cover fees for period between January 1, 2012 and May 21, 2013. Dialog claims the invoices are unjustified because neither interconnection agreement nor agreement on number portability provide separate title for charging fees for such service, and from May 1, 2013 charging principles for transit to the NP numbers are the subject of the new Reference offer contract concluded by Dialog. Nonetheless, TP S.A. filed for payment and on October 12, 2012 an order for payment was issued, including the charge for the transit to ported numbers for the period January-June 2012, amounting to PLN 1,274 and statutory interest. The order for payment has expired on November 5, 2012 upon the submission of objections submitted by Dialog. Consequently, the case will be solved by the district court in Wrocław.

Despite the fact that in the Management Board's opinion TP S.A.'s claims are unjustified, it cannot be assured neither that they will not be recognized by the court, also for the period until the May 1, 2013, nor that Dialog's claims for payment against TP S.A. will be paid in the amount of exceeding the amount TP S.A.'s claims.

Despite the fact that in the Management Board's opinion the claim covered by Dialog's complaint, in the case of which the court has issued the order for payment by TP S.A. to Dialog amounting to PLN 40,461 and statutory interests for the penalties for not deleting failures on WLR links' on the dates described in the President's of UKE decisions, is valid, it cannot be assured that, in the light of objection submitted by TP S.A., the court will approve Dialog's claim and TP S.A. will pay Dialog the amounting covered by the order of payment in total or at least in part of it, which will be higher than potentially payable TP S.A.'s claims against Dialog.

Netia filed for payment of PLN 49,800 against TP S.A. due to non deleting failures on WLR links' on the dates described in the President's of UKE decisions. On December 21, 2012. The court issued order for payment. The Management Board cannot assure that, in the light of objection submitted by TP S.A., the court will approve Netia claim and TP S.A. will pay Netia the amounting covered by the order of payment in total or at least in part of it.

Risks arising from the presumption of the powers of the organizations for the collective administration of the rights of authors of neighboring rights.

The Law on Copyrights and Related Rights defined (hereinafter referred to as "Law on Copyrights") a presumption, that the organizations for the collective administration of the rights of authors of neighboring rights (hereinafter referred to as "OZZ") are entitled to give consent (grant license) to rebroadcast TV channels via cable networks and are entitled to collect remuneration for the hereinabove rebroadcasting in scope of the copyrights managed by certain OZZ. Tables of remuneration of the use of works or objects of related rights covered with collective management are established on the percentage basis in relation to the gross revenue earned by the operator from the rebroadcasting of the TV channels and are approved by the Copyrights Commission (Komisja Prawa Autorskiego; hereinafter referred to as "KPA") upon the application for the approval submitted by OZZ to KPA. KPA is also entitled to settle disputes connected with concluding of the contracts between OZZ and cable network operators.

The obligation of obtaining from OZZ the channels' rebroadcasting license following from The Law on Copyrights and Related Rights is contrary to the legal regulations of the EU Directive No 93/83/EWG. EU legislator compulsory excluded the said obligation in case where the cable networks operators are granted with this license directly by the TV channels' broadcasters. According to the constitutional principle of the EU law dominance over the Polish law, there is no need to obtain the additional OZZ's license in scope of the rights already granted directly by the broadcasters. Bearing in mind the practice of dealings in Poland, the Management Boards may not guarantee that the above mentioned UE law principle shall apply to Dialog, Netia and Petrotel. However, this contradiction in law does not exclude the statutory, resulting from The Law on Copyrights and Related Rights, obligation imposed upon the rebroadcasting operators to pay the so-called additional remuneration of the use of works or objects of related rights covered with collective management for the benefit of OZZs.

As regards the TV channels' rebroadcasting, it is Polish Filmmakers Association (hereinafter referred to as "SFP") that is widely entitled to represent the producer's rights and is involved in collective copyright management. However, as long as it is not proved which works or objects of related rights are covered with collective management by Authors' Association "ZAIKS" and others OZZ, it is not possible to determine the scope of the hereinabove presumption arising from The Law on Copyrights and Related Rights and if in case of the TV channels' rebroadcasting without the agreement with Authors' Association "ZAIKS" or other OZZ, on the basis of the Polish law, OZZs shall be entitled to request abandonment of further TV channels' rebroadcasting by Netia, Dialog or Petrotel effectively and payment of the compensation in the amount of triple amount of the remuneration due OZZ.

KPA had determined the remuneration of the use of works or objects of related rights covered with collective management of SFP in the amount of 1.6% and covered with collective management of Authors' Association "ZAIKS" in the amount of 0.6% (in UPC's case) and 0.9% (in Sat-Film case), but Commission judgments were appealed. In consequence the said remunerations in amounts defined by KPA are not in force. Polish Chamber for Electronic Communication has started negotiations with certain six OZZs aimed at concluding the general agreement. SFP and SAWP are among the said OZZs. The proposed (by OZZs) rate is 4% jointly for the benefit of all six OZZs. Moreover, some of the OZZs have applied jointly to KPA to approve the table of remuneration of the use of works or objects of related rights covered with collective management amount to 4%. At this stage, the Management Board may not foresee the result of neither these KPA's proceedings nor the negotiations of the general contract conducted by PIKE, in particular it is not possible to predict the amount of OZZ's remunerations, which will be defined, if it is higher or lower than jointly 4% or separately 1.6% (SFP) and 0.6-0.9%

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(Authors' Association "ZAIKS") and when this fact has an influence on accounting conditions between Netia, Dialog and Petrotel and OZZs.

According to the agreement currently in force, Dialog pays for the benefit of SFP the remuneration in the amount 2.2% of revenue earned by Dialog from rebroadcasting of the TV channels. The agreement between Dialog and Authors' Association "ZAIKS" is terminated, however Dialog paid in favour of Authors' Association "ZAIKS" the advance payments in the amount 0.6% of revenue earned by Dialog from rebroadcast of the TV channels and this OZZ accepted these payments till May 2012. Dialog also terminated the agreement with ZPAV (The Polish Society of the Phonographic Industry) effective on May 31, 2011. Simultaneously ZPAV didn't accept the proposed advance payments in the amount of 0.06% and in June 2012 requested to Dialog to cease all non-contractual payments as it shall be returned into Dialog's bank account. In order to avoid payment fees for rebroadcasting some works to both Artists Performing Music and Music-Verbal Works Association SAWP (hereinafter the SAWP) and Union of Performing Artist STOART (hereinafter the STOART) Dialog has served notices of termination with respect to agreements establishing current settlement rules with these organizations. Establishing the rights to represent by SAWP and STOART the property rights to works rebroadcasted by Dialog will require to point relevant organization by KPA and, in dispute cases, pursuing the mediation proceedings by KPA. In March 2012 SAWP took legal action against Dialog in order to conclude a settlement on payment of the remuneration in the amount of 48 PLN as a compensation of non-contractual use of works or objects of related rights covered with collective management during a period from 1st of September 2011 until February 29, 2012. Dialog proposed the percentage rate according to art. 110 of The Law on Copyrights and Related Rights as it takes into account the income amount of the use of works. This proposal was rejected by SAWP and as a consequence SAWP suggested the rate exclusively with reference to the number of subscribers. SAWP denied to accept the SAWP's advance payments in the amount of 25% of the expected remuneration and declared that such payments shall go toward the SAWP's claims and the lack of the SAWP's written declaration to conclude the agreement on SAWP's conditions shall be treated as the lack of will to respect the rights represented by SAWP that will force SAWP to pursue claims through the courts together with statutory interest.

In May 2013 the copy of the statement of claim of SAWP was delivered to Dialog, pursuant to the art. 105 par. 2 of the Law of the Copyrights, to provide information necessary to determine the level of remuneration and rates claimed by SAWP. Dialog submitted response to the statement of claim challenging the entire claim of SAWP. Moreover, Dialog applied for STOART to be joined the proceedings, due to the fact that the scope of the rights represented by SAWP and STOART overlap and both these OZZ claim the right for remuneration for the use by Dialog of the same kind of works – artistic music and word-and-music performances, in the same field of exploitation (rebroadcasting). With STOART joining to the proceedings, the judgment, in case of providing information to SAWP, will have effect that in case of accepting SAWP claim in whole or in part by the court, STOART would not be able to demand satisfaction of its claim within this scope.

In the Management Board opinion, the SAWP claims in relation to the number of subscribers are not justified, in particular taking into consideration fact that during the negotiations of the general contract conducted by SAWP with other OZZ and PIKE, the OZZ, including SAWP, proposed the jointly rate of 4% of revenue received from rebroadcasting of the works, the copyrights of which they represent. At this stage, the Management Board may not foresee the amount of remuneration of OZZ and if the remuneration shall not be higher than jointly 4% of revenue received from rebroadcasting for above mentioned OZZ.

Netia conducts activities aiming to regulate the compensation rules for rebroadcasting of TV channel with SFP and ZAIKS in the scope of copyrights they manage. Despite this fact, SFP summoned Netia to pay the amount of 2.2% of gross revenue earned by Netia from rebroadcasting of the TV channels during the period between August 1st, 2009 and December 31st, 2011 and proposed that the said rate shall apply for the future settlements between Netia and SFP. In December 2012 Netia and SFP have started negotiations of the remuneration rate for the rebroadcasting of TV channels via IP technology in Netia's network, which copyrights are managed by SFP. The Management Board cannot assure that the negotiations will end with concluding the contract concerning agreement about consent for rebroadcasting TV channels managed by SFP and setting the level of royalties no higher than 2.2% of gross revenue from rebroadcasting of the TV channels managed by SFP and set taking into account the predominant and final rule that rebroadcasting TV channels by Netia is being done only on demand of the user of the service. This manner of providing TV services means that the subject of the settlements with SFP shall be rebroadcasting that occurs sporadically, not permanently, as in the case of CATV operators.

Even though Netia doesn't provide activity in TVC technology and Management Board is convinced of that the amounts of compensation demanded by OZZ are unjustified, it couldn't be guaranteed that Netia, Dialog and Petrotel shall not be obliged to pay to SFP such amount of compensation demanded by OZZ until KPA approves the lower rate of the remuneration or the general contract with PIKE is concluded and the settlement rules with OZZ shall be amended on one of these grounds.

At this stage of Netia's activity of TV channels' rebroadcasting, taking into account the circumstances that it is conducted via IP technology, not cable technology, and taking also under consideration the legal and the factual doubts concerning the scope of the power of each OZZ and also lack of the approved SFP's and ZAIKS's tables of remuneration of the use of works or objects of related rights covered with collective management, it couldn't be predicted what the final part of the revenue earned from providing TV services by Netia, Dialog and Petrotel, they will be obliged to pay to OZZ. However, the Management Board is convinced of that, the total final amount of these receivables is expected to be lower than paid to OZZ by cable operators. On the basis of the resolutions of the disputes between cable networks operators and OZZs and tables of remuneration of the use of works or objects of related rights to be approved by KPA, Management Board estimates that total definitive amount of the remuneration to be paid by cable network operators to OZZ may be up to 4% of revenue earned by them.

Under the cinematography law of June 30 2005 the Polish Film Institute (Polski Instytut Sztuki Filmowej -PISF) summoned Netia and Dialog to pay the remuneration in the amount of 1,5 % of revenue earned by Netia and Dialog from fees for an access to TV channels rebroadcasted by Netia and Dialog and from fees for rebroadcasting services. According to the cinematography law of June 30 2005 the abovementioned remuneration shall be paid by two categories of entities: cable television operators and digital platform operators. In the Management Board opinion as long as Netia and Dialog rebroadcast TV channels via IP technology both of them are not obliged to pay the abovementioned remuneration demanded by PISF. However the Management Board cannot assure that in case PISF does not share the abovementioned opinion of the Management Board and will sue Netia or Dialog for the abovementioned remuneration

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starting the court proceedings the court judgment in these cases will be compliant with the abovementioned opinion of the Netia's Management Board and neither Netia nor Dialog will be obliged to pay PISF the demanded remuneration.

Other regulatory risks

The President of the UKE is regularly carrying out inspections of compliance of the companies from the Netia Group with the provisions of the Telecommunications Law and using frequency and numbering conditions. In cases provided for in the Telecommunications Law, the President of UKE may fine the companies from the Netia Group with a fine up to 3% of revenues of the previous calendar year.

The President of UKE has been carrying out several inspections of the use of radio frequencies by Netia Group's companies in accordance with the conditions described in radio permits and proceedings in case of imposing a fine in connection with the irregularities which have been noted in this scope.

On December 28, 2012 the President of UKE issued the decision imposing the fine on the Dialog in the amount of 21 PLN due to breach of the conditions of use of the frequencies stemming from the radio permission. Dialog filed the appeal against the decision. Although the Management Board is convinced of validity of the appeal it cannot assure that the appeal shall be accepted and that the decision shall be reversed.

The Management Board cannot assure that the President of UKE will take into account statements submitted by the Netia's Group companies and will discontinue other inspections and proceedings in case of imposing the fine, concerning the using of radio frequencies and in the opposite case that the President of UKE will not impose the higher amount of fine than in the decision issued in Dialog's case.

The Management Board cannot assure that with regard to all inspection procedures UKE agrees that the position of Netia and the activities of the Netia Group are consistent with regulatory requirements and the law to the extent that eliminates the risk of a fine.

President of UKE is also authorized to conduct the mediation proceedings in order to find amicable solution of the disputed interests between the subscribers that are consumers and provider of telecommunication services.

Although strategic aim of Netia Group is special solicitude about comfort of subscribers using or intending to use Netia Group companies services, the Management Board cannot ensure that undertaken efforts made by Members of the Netia Group or other operators acting on their behalf, won't be evaluated by President of UKE as requiring additional benefits for the subscribers, set out in mediation proceeding. However the entering into the mediation proceeding depends on decision made by the Management Board, taking into account point of view of President of UKE justifying such need, is crucial for such decision.

The President of UOKiK is entitled, inter alia, to conduct proceedings concerning compliance of standard terms and conditions applied by the companies belonging to the Netia Group with requirements stemming from the law on protection of competition and consumers, as well as other regulations aiming at protecting consumers' interest. In cases provided for in the law on protection of competition and consumers the President of UOKiK may impose on the companies belonging to the Netia Group a fine amounting up to 10% of their income earned in the preceding calendar year.

The Management Board is unable to assure that within the scope of the explanatory proceedings the President of UOKiK will consider standard terms and conditions applied by the companies belonging to the Netia Group to be compliant with the respective legal requirements, thus excluding the risk of fine imposition.

The business conducted by the companies of the Netia Group is also subject to control by other regulatory authorities and to inspections based on the relevant laws and within the scope of the granted to such authorities. If such regulatory authorities determine that the companies of the Netia Group are not acting in compliance with the respective laws the regulatory authorities may impose various administrative sanctions on the companies of the Netia Group as prescribed in the relevant laws, including monetary fines or orders prohibiting/compelling the companies of the Netia Group to perform certain actions.

The Management Board cannot assure that with regard to all inspection procedures the authorities conducting the control agree that the position of Netia or other companies of the Netia Group and the activities of the Netia Group are consistent with regulatory requirements and the law to the extent that eliminates the risk of a fine and prohibition of performing the activity being a subject of a control.

Risk of collective suits

On July 19, 2010, a law on prosecution of claims in collective procedure, which provides for possibility of bringing an action to the court by a group of at least 10 people, came into force. A judgment passed as a result of such a suit regards all the members of such a group. The Management Board cannot exclude risk of bringing such actions against the Company in the future.

Risk of growth of competition as market converge

The Company's current core offerings are voice telephony and broadband data services. In addition to the incumbent and other alternative operators, mobile operators and cable operators provide significant competition for both types of service.

Moreover cable operators and TP S.A. also offer television and content services and some cable operators now offer quadruple play bundles including mobile telephony. Certain satellite TV operators are responding to the situation by also moving into the resale of fixed telephony and/or broadband thereby further increasing the competition to Netia's core services. Companies of the Netia Group intend to respond to this competitive pressure and convergence of product offerings by itself offering television services over upgraded

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networks. However no assurance can be given that this tendency of operators of different types of infrastructure to offer similar multi-service bundles will not lead to the gradual erosion of margins, profitability and cash flows.

In addition, significant new operators may enter the Polish market or mergers between existing market participants may significantly alter the competitive landscape in a way that might materially deteriorate Netia's competitive position.

Risk of competition from TP S.A. and TP S.A. obedience to the UKE decisions

TP S.A. occupies a leading position in Poland among operators offering fixed telephony services. At the same time its position in the market of data transmission is well established. In the scope of cable phone services, Netia Group has to face competition from TP S.A. in all the geographic areas it operates on. TP S.A. is a much larger entity than Netia Group and possesses far broader backbone and access network. TP S.A. is engaged in many years' relations with numerous clients that constitute a target client group of Netia Group. Infrastructure exploited by TP S.A. in the main cities of the country is comparable in terms of advancement of applied technologies to the infrastructure of Netia Group. However, TP S.A. may also make use of the offer of its main subsidiary unit, the Orange mobile network operator, as well as of TV services, in a manner that Netia currently would not be able to copy. One cannot exclude that aggressive competition from TP S.A. will have a significant adverse effect on Netia Group revenues and its operating activities outcomes.

TP S.A. is the owner of local access networks (local loops) and offers access to these local loops networks to other operators on terms that in many cases make it unprofitable to connect client to the network. However, since 2006 the Regulator has issued decisions establishing reference offers for access to TP S.A. networks that currently is regarded by Netia to be commercially profitable. Due to the above in 2006 and in 2010 Netia signed a cooperation agreement with TP S.A. enabling Netia to offer Internet access to TP S.A. clients on the basis of regulatory TP S.A. wholesale offer called bit stream access. In June 2007 Netia and TP S.A. concluded networks interconnection agreements that complexly regulate terms of cooperation between operators. This agreement also applies to cooperation with TP S.A. in the scope previously addressed in separate agreements on networks interconnection concluded by companies from Netia Group, whose rights and obligations Netia entered into under regulations of the code of commercial partnerships and companies. By virtue of the Settlement Agreement Netia acknowledged this rule on January 22, 2010, placing with TP S.A. a binding statement on regarding the interconnection agreement between Netia and TP S.A. of June 30, 2007, as the basis for serving all of the Netia services users in the scope of networks interconnection. In January 2007 the President of UKE issued a decision on amendment of interconnection agreement between TP S.A. and Premium Internet – a company belonging to Netia Group (which in 2008 merged with Tele 2 Polska, the latter in February 2009 merged with Netia), in the scope of wholesale line rental (WLR). The decision of the President of UKE introduced a basis for a new form of access to TP S.A. network enabling Netia Group to offer voice services to TP S.A. clients. In October 2008 a WLR decision in favor of Netia was issued, as well. Moreover, in April 2007 Netia concluded an agreement with TP S.A. on full and shared local loop unbundling, with use of which Netia Group offers voice and data transmission services, interactive TV services (IPTV) and in the future plans to pay other different value-added services. Whereas the key commercial terms of these services provision laid down in the Regulator's decisions are currently attractive, still the operational cooperation with TP S.A. aiming at provision and maintenance of such services for end users will require closer cooperation than it used to be in the past.

The Settlement Agreement between the President of UKE and TP S.A. expired at the end of 2012. The Management Board is not able to guarantee that TP S.A. will cooperate on an adequate level of engagement, nor that the regulatory body will react forcing TP S.A. to realize the cooperation. Moreover, we are unable to give assurance that change of market situation, future court judgments or regulatory body decisions will not cause that currently existing possibilities of services provision for clients through use of TP S.A. access networks to be no longer profitable from the commercial point of view.

Possible future competition from new generation networks

The most modern fixed line telephony networks being deployed around Europe by incumbent operators and by cable TV operators utilize fiber to the curb (FTTC), fiber to the building (FTTB) or fiber to the home (FTTH) to significantly increase bandwidth delivered to the end user. New built Networks based on IP protocols may gradually eliminate the traditional telephony equipment and copper access cables and will replace it by fiber optic cables and new generation optical transmission systems. Moreover, many incumbents are lobbying to receive relief from regulatory obligations for a period of time in order to improve their returns from such large investments. In the future it may also become possible for public authorities or public/private partnerships to gain access to investment subsidies that could lead to new sources of competition from NGN networks. New generation networks (NGNs), if deployed in Poland, could materially deteriorate the economic returns Netia plans to earn from regulatory access products such as bitstream, WLR and LLU. Management can give no assurance that NGN networks will not be deployed in Poland by entities having access to public funding not available to Netia and, if this does occur, whether the regulator will ensure alternative network operators such as Netia enjoy fair access to such a network on acceptable economic terms.

Competition from cellular mobile telephone operators

In recent years, services offered by cellular telephone operators have negatively affected wire line telephone operators. This stems largely from mobile substitution, whereby subscribers choose to make telephone calls using their mobile phones in preference over fixed telephones, resulting either in less traffic or disconnections for fixed line operators. Mobile substitution becomes more pronounced as mobile tariffs decline, as they have in recent years, converging with traditionally lower cost fixed line tariffs. Similar substitution effects may also apply to broadband services, given the increased take-up of mobile broadband services offered by mobile operators.

To help mitigate the losses to mobile operators, Netia has begun to offer convergent products via a wholesale mobile service provider agreement to take mobile services, both voice and broadband, from P4 that Netia may then resell under the Netia brand to Netia customers.

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Since 2008, certain Polish mobile operators have been marketing fixed internet access services via the fixed access network of TP S.A., on the basis of regulated bitstream access decisions. This represents a significant new source of competition for market share in the fixed broadband market.

Competition from cable operators

Over the last several years, competition for voice and Internet services has increased from cable television operators. Triple play bundles (voice telephony, Internet access and cable television) have proven to be particularly challenging. Interactive TV services (IPTV) delivered by Companies of Netia Group offers fixed line telephone operators the ability to compete directly with cable television operators. The market importance of IPTV and related services (such as video on demand) is continually being analyzed in the context of Netia's strategy to expand its share of the broadband market. The Company is working on solutions to provide profitable TV services to its customers and expects that such services should reduce churn and increase margins per customer. However no assurance can be given that Netia will be successful in implementing a profitable TV service business model. Should such services be insufficiently well received by our existing and potential customers, it may adversely affect our revenues and margins in the future.

Market consolidation

Market consolidation through acquisitions remains an effective way for fixed line operators to strengthen their market position by utilizing the effects of scale. In the past Netia has successfully acquired several telecommunications operators making it the market leader for consolidation.

Whilst acquisitions of large scale telecommunications businesses are not crucial to the Company's strategy, Netia continues to closely monitor the situation of all its main altnet competitors and may choose to try to acquire one or more of these competitors in the future if the opportunity arises. Some acquisitions may consume a considerable portion of Netia's financial resources and no assurance can be given that expected synergies from such acquisitions will be reached as planned. In particular, acquisitions of other telecommunications enterprises or infrastructure are also likely to result in new regulatory risks or Netia's Group companies' legal obligations, which cannot be predicted at the moment of acquisition and may increase costs of running the business for the Netia Group.

Certain potential acquisition targets, should they become available for sale, would require Netia to raise significant amounts of financial indebtedness and / or to issue new shares or equity related instruments in order to fund a transaction. The Management Board cannot guarantee that such funding will be available when needed on acceptable terms or that such an acquisition would not significantly increase the funding risk profile of the Netia Group.

Moreover, should we be outbid by a competitor on any particular large acquisition opportunity, our position as the leading alternative operator on the Polish telecommunications market and the strategic advantages that this position creates may be materially affected.

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 S.A., 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 regulations and their interpretation

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.

Dispute over Corporate Income Tax (CIT) paid for 2003 (not in thousands)

In February 2010 the Director of the Tax Chamber in Warsaw ("Tax Chamber Director") issued a decision ("Decision") according to which Netia's corporate income tax due for the year 2003 was set at PLN 34.2 million plus penalty interest of approximately PLN 25.3 million. The decision closed proceedings related to Netia's appeal of a decision of the Director of the Tax Control Office in Warsaw ("UKS Director") according to which Netia's corporate income tax due for the year 2003 was set at PLN 58.7 million plus penalty interest amounting to PLN 41.3 million.

The decision of the Tax Chamber Director was issued despite legal arguments presented by the Company, which claimed that the conclusions delivered by the Tax Control Office were incorrect and groundless. According to the Tax Chamber Director and the UKS

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Director, Netia understated its taxable income by PLN 247.5 million by excluding from its revenues the accrued and not received interest from loans granted by Netia in earlier years to subsidiaries which subsequently merged with Netia on December 31, 2003. The Director of UKS, as the first instance tax authority, claimed in its earlier decision that Netia understated its taxable income by PLN 303 million.

According to Netia, the decisions of the UKS Director and the Tax Chamber Director are in conflict with the relevant tax regulations. In addition to major procedural faults, Netia believes that the tax authorities' decisions incorrectly interpret and apply a number of material regulations. According to the Company the following are the most important deficiencies:

1. Incorrect interpretation of art. 11 of the CIT Act (which deals with transfer pricing), especially the notion of "services" and "more favorable conditions" and assumption that the non-commencement of the execution procedure constitutes such a service of the lender towards the debtor on non-market conditions. Such interpretation of this provision and its application towards the Company is not justified in the light of the fact that in the decision issued by the tax authorities it was confirmed that loans were granted on market terms; (interest, payment terms, etc.).
2. Failure to consider the absolutely mandatory prohibition on broadening the interpretation of art. 11 of the CIT Act, which covers exceptions from the principle of taxing actual revenue, without special care and consideration of all business, legal and economic circumstances. In the case of Netia the tax authorities did not take into account issues such as:
 - Netia was not able to report interest income in 2003 because even if Netia had received interest from its subsidiaries the amount received would have been spent on the repayment of Netia's interest liabilities (and the repayment of the interest would have been a tax deductible cost);
 - the execution of interest by court enforcement proceedings, which according to the Tax Chamber Director and the UKS Director is the only proper way to proceed when debts remain unpaid, would be inefficient from a business and economic point of view and would have led to the bankruptcy of the subsidiaries. The Company chose the less expensive way, by settling its receivables through merger with its subsidiaries and thereby taking over their operating assets. In parallel to this restructuring, Netia restructured its own liabilities with the external lenders to the group;
 - to assess Netia's conduct of non-commencement of a formal execution procedure (comparable market transaction) in the case of loans granted to its subsidiaries the tax authorities considered exclusively the loan granted by Netia to Millennium Communications; in fact, Netia was involved in numerous litigations with Millennium Communications due to the unsuccessful acquisition of that company by Netia.
3. Ignoring the norms of art. 12 of the CIT Act by rejecting in the decision the rule that exclusively interest received constitutes taxable revenue (on the cash basis) and leading to the situation where the tax payer's revenue is assessed in violation of general principles relating to the mode of revenue generation.
4. Netia's taxable losses were settled incorrectly, resulting in a significant overstatement of tax being claimed. Whilst the Tax Chamber Director has recognized some of the Company's corrections to the CIT calculation in respect to 2003, reducing the claimed amount by PLN 15 million, the Company continues to claim other increases in taxable expenses that the Tax Chamber Director has not accepted.

The Tax Chamber Director's decision, which partially upheld the decision of the UKS Director, was enforceable as a decision of the second instance tax authority. The liability of PLN 59.6 million was settled in February 2010, from which PLN 1.3 million was subsequently conceded by the Tax Authority as overpayment.

Netia received opinions from several independent tax and legal advisors, as well as tax law experts, which concluded that the claims of the Directors of the Tax Control Office and the Tax Chamber have no legal grounds. Accordingly, following the payment of the PLN 58.3 million and having recourse to two levels of independent administrative courts in which to obtain a positive ruling, the Management Board took the position during 2010 that recovery through the courts is virtually certain did not recognize the Tax Chamber's decision as a taxation expense for the financial year ended December 31, 2010 and instead treated funds paid over to the tax authorities as an overpayment of tax.

However, having heard Netia's appeal of the decision of the Tax Chamber Director, on 15 March 2011 the Voivodeship Administrative Court ("WSA") in Warsaw announced a judgment with respect to the Decision and the Court dismissed the Company's claim in its entirety. On July 5, 2011 the Company received the written justification of this decision.

Following the WSA decision in favour of the tax office, the Management Board recognizes that there is now only one instance remaining to obtain a favourable ruling and the existence of strong tax opinions is no longer sufficient to maintain the judgment that recovery is virtually certain.

Consequently, in the first quarter of the year 2011 the Company recognized the taxes and related penalty interest already paid in 2010 as an income tax expense relating to the year 2003 of PLN 58,325 thousands.

The Voivodeship Administrative Court's judgment is not final. On August 3, 2011 the Company filed a cassation claim to the Supreme Administrative Court.

On December 30, 2011 and February 22, 2012 Netia received further repayments of PLN 6.4m and PLN 1.4m, respectively, related to penalty interests paid previously by the Company and subsequently conceded by Tax Authority as incorrectly claimed. Netia's claim for PLN 50,401 thousands plus interest is now being treated as a contingent asset in the Netia Group's accounts.

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On June 25, 2013 the Supreme Administrative Court in Warsaw set aside the appealed judgment upholding the decision of the Director of the Tax Chamber in Warsaw in its entirety and remanded the case for reconsideration to the first-instance court. The ruling of the Supreme Administrative Court opens the way for a potentially favorable to Netia conclusion of the dispute. Currently, the Company is awaiting a written justification of the Supreme Administrative Court's judgment.

Should the future binding court decisions be positive for the Company, all or part of the disputed tax paid plus interest will be treated as an overpayment and must be returned by the tax authorities together with interest.

Although the Management Board is committed to taking all possible legal steps to win this claim and continues to hold the view that the Company's legal arguments are strong, the Management Board can give no assurance that any or all of these amounts will be ultimately recovered from the tax authorities.

Possible Material Claims (not in thousands)

On June 22, 2011 the European Commission has fined TP S.A. 127 mln Euro for, abuse of dominant position by obstructing access to its wholesale broadband products which took place from August 3, 2005 until at least October 22, 2009. TP S.A. has appealed this judgement. The final judgment in this case may allow Netia to make significant follow-on claims against TP S.A. at some point in the future.

6. Transactions with related parties

A detailed list of transactions with related parties has been presented in the interim condensed consolidated financial statements of the Netia Group (Note 18) and interim condensed financial statements of Netia (Note 18).

7. Guidance for 2013 and Long-term strategic financial goals until 2020 (not in thousands)

Netia is revising its 2013 guidance and maintains its long-term strategic financial goals as originally published on December 20, 2012.

While Management notes solid progress in B2B, TV and on-net broadband RGUs in B2C in line with key strategic priorities for 2013, this progress is coming through more slowly than originally planned while losses of voice services, particularly over regulated access, are continuing at a faster pace than was previously expected. As a result, Management is today revising down its full year RGU and revenue guidance to 2,525k RGUs and PLN 1,900m, respectively. However, cost control, lower customer acquisitions related spending and capital investment savings allow for increasing both Adjusted EBITDA and Adjusted operating free cash flow performance by PLN 25m to PLN 550m and PLN 325m, respectively, and Adjusted EBIT guidance by PLN 35m to PLN 100m. The new guidance reflects the current year impact of capital investments necessary to integrate cable TV networks in Warsaw in Krakow.

Guidance for 2013:

Guidance 2013	Previous	Updated
Number of services (RGUs) ('000)	2,650	2,525
Revenue (PLN m)	1,925	1,900
Adjusted EBITDA (PLN m)	525	550
Adjusted EBITDA margin (%)	27.3%	28.9%
Adjusted EBIT (PLN m)	65	100
Capital investment (excl. M&A and integration capex) (PLN m)	225	225
Capital investment (excl. M&A and integration capex) to sales (%)	11.7%	11.8%
Adjusted operating free cash flow (Adj. OpFCF) (PLN m)*	300	325

*Adjusted EBITDA less capital investments

The above guidance excludes the impact of one-off integration costs and one-off integration capex, estimated at up to PLN 10.0m and up to PLN 35.0m, respectively.

The long-term strategic financial goals are as follows:

Long-term strategic financial goals (until 2020)
Services (RGUs) per subscriber to reach 2.0x
Continuously increasing value share
EBITDA margins in 27%-29% range throughout
Capex to sales ratio to stay below 15% during network upgrade (2012-2013) and falling to 10%-12% thereafter
OpFCF margin to sales continuously above 12%

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8. Loans, warranties and collaterals

On September 29, 2011, Netia and Interneta 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. In 2012 the Company repaid PLN 130,000 of instalments and PLN 65,000 was repaid in 2013. On March 7, 2013 the Company again drew down the revolving loan of PLN 50,000. As at June 30, 2013 the value of these outstanding loans at amortised cost was PLN 497,405.

The loans accrue annual interest at the rate of 3M WIBOR plus a margin established depending on the level of debt relative to the Group's profitability. 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, which as of June 30, 2013 was 5.7%. Total transaction costs included in the calculation of the effective interest rate amounted to PLN 11,577.

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 Interneta Sp. z o.o., registered pledges and financial pledges on the shares of Interneta 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.

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 outstanding balance of the overdraft credit as at June 30, 2013, amounted to PLN 25,530.

On June 20, 2013, the Company and Interneta Sp. z o.o. (the "Original Guarantor"), Netia Brand Management sp. z o.o. (the "Additional Guarantor") and Telefonía Dialog sp. z o.o. (the "Additional Guarantor") executed an annex to the Agreement with the Lenders under which the Lenders agreed to extend to the Borrower an additional PLN 200,000 amortising five year term facility, designated for the financing of capital expenditures and operating expenses of the Netia Group and for payments to shareholders of the Company (the "Additional Loan Facility"). The Additional Loan Facility can be drawn until December 20, 2014. According to the annex, the terms and conditions of the Additional Loan Facility including the interest and margin are essentially the same as set forth in the Loan Agreement. To secure the Lenders' claims under or related to the Additional Loan Facility the Borrower and the Guarantors agreed to establish in favour of the Lenders mortgages, registered pledges and to make relevant representations on submission to enforcement.

As of June 30, 2013 and as of the date of these financial statements the Company has not drawn any loan under the Additional Loan Facility. Transactions costs of PLN 1,532 were deferred as of June 30, 2013.

On July 8, 2013 the Company repaid the revolving loan and on July 9, 2013 cancelled the revolving facility.

9. Other information

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 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 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. Dianthus and Centrina are owners of part of former Aster cable operator's network reaching 446,000 (not in thousands) households in Warsaw and Kraków. The network was acquired without any retail subscribers and Netia intends to integrate it with its existing network and offer similar TV, broadband and fixed voice telephony services as are offered over its copper and fiber networks. The transaction increases the reach of Netia's proprietary network by 18% to 2.9 million (not in thousand) households.

According to the agreement, 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 customer customers still connected to the networks. Total consideration for the network rental amounts to PLN 4,500 and covers a 12 month period.

Reflecting the substance of the transaction, the acquisition was accounted for in the consolidated accounts as a purchase of fixed assets and not as a business acquisition. The consideration transferred for the network purchased, including provision for an estimated

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additional payment of PLN 690 and related transaction costs, amounted to PLN 5,791. The value of fixed assets purchased is PLN 7,154 and the difference of 1,363 PLN relates to net liabilities in purchased subsidiaries as at the acquisition date.

Offer to repurchase shares

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 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.

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 amounted to PLN 8.00 (not in thousands) per share. The transaction was settled on May 28, 2013 and resulted in the repurchase of 16,012,630 (not in thousands) shares for PLN 128,101 plus transaction costs of PLN 209.

With the completion of the offer to repurchase shares, the Company has utilized all available fund allocated to share buy-backs by the Shareholders Resolution from June 2, 2011 and the Company's share buy-back program is now completed.

The annual shareholders meeting held on June 28, 2013 redeemed a total of 38,370,130 (not in thousands) treasury shares acquired in relation to various tranches of the Company's buy-back program. Once this redemption is registered by the court, Netia's outstanding share capital shall fall to 347,910,774 (not in thousands) shares.

Warsaw, August 7, 2013