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Netia reports 2013 third quarter results

WARSAW, Poland – November 7, 2013 – Netia SA ("Netia" or the "Company") (WSE: NET), Poland's largest alternative provider of fixed-line telecommunications services, today announced its unaudited consolidated financial results for the nine months ended September 30, 2013.

1 Key highlights

1.1 FINANCIAL

Revenue was PLN 1,425.3m for nine months of 2013, down by 11% versus the same period of 2012. In Q3 2013 revenue decreased sequentially by 4% to PLN 457.1m from PLN 477.5m. The decline in revenues was driven by a 6% year-on-year and a 1% sequential decline in services (RGUs) and by progressive falls in mobile termination rates (MTRs). The Company estimates that lower MTRs contributed 33% of revenue decline year-on-year and 43% sequentially. RGU decline continue to be concentrated in the Residential (B2C) sub-segment and particularly in fixed voice services, while the MTR declines mainly impacted revenues in the Carrier (B2B) sub-segment.

- *Adjusted EBITDA* was PLN 426.7m for the nine-month period, down by 4% versus the first nine months of 2012. In Q3 2013 Adjusted EBITDA was PLN 144.1m, up by 3% versus Q2 2013. Adjusted EBITDA margin was 29.9% for the nine months of 2013 and 31.5% in Q3 2013 versus 27.9% for the nine months of 2012 and 29.4% in Q2 2013. Higher Adjusted EBITDA margin both year-on-year and sequentially is due to the lower revenues being concentrated in low margin RGU categories such as off-net services, the impact of steadily rising integration synergies, lower acquisition cost on lower gross additions and falling MTR rates.

- *EBITDA* was PLN 417.5m for year-to-date 2013 and PLN 142.5m for Q3 2013, up by 3% versus year-to-date 2012 and by 5% versus Q2 2013. The unusual items for the first nine months of 2013 include Dialog Group and Crowley integration costs of PLN 5.8m, restructuring costs of PLN 2.8m, an impairment charge of PLN 0.4m recorded by Uni-Net, Netia's subsidiary providing radio trunking services, decrease in provision for universal service obligation payment of PLN 0.2m and costs of M&A projects of PLN 0.2m. The unusual items for the comparative period of 2012 include Dialog Group and Crowley integration costs of PLN 16.5m, restructuring costs of PLN 21.7m and costs of M&A projects of PLN 1.0m. EBITDA margin was 29.3% for 2013 year-to-date and 31.2% for Q3 2013 as compared to 25.4% for year-to-date 2012 and 28.6% for Q2 2013.

- *EBIT* was PLN 86.5m (Adjusted EBIT was PLN 95.7m profit when excluding all one-offs) in the first nine months of 2013 as compared to PLN 44.2m (PLN 83.4m profit when excluding one-offs) in the same period of 2012. EBIT for Q3 2013 was PLN 32.8m (PLN 34.5m profit when excluding one-offs) as compared to PLN 26.4m (PLN 30.6m profit when excluding one-offs) in Q2 2013.

- *Net profit* was PLN 35.8m for 2013 year-to-date versus net profit of PLN 21.2m for 2012 year-to-date. Net profit for Q3 2013 was PLN 14.1m versus a net profit of PLN 8.6m for Q2 2013. Reported net profit for the first nine months of 2013 included PLN 23.7m of interest to service the loan taken in 2011 to acquire Dialog Group versus PLN 35.8m of interest for this purpose in the first nine months of 2012. Moreover, reported net profit for 2013 year-to-date included an income tax charge of PLN 27.6m as opposed to the income tax benefit of PLN 10.4m recorded in the same period of 2012. The current period result reflects non-deductible expenses while in the prior period Netia recorded a non-cash gain of PLN 21m due to the recognition of deferred tax assets arising on the intragroup sale of network assets by Dialog to Netia.

- *Netia was operating free cash flow positive in both year-to-date and Q3 2013*. Operating free cash flow, measured as Adjusted EBITDA less capital investment excluding integration related capex and Ethernet acquisitions, was PLN 275.2m for the first nine months of 2013 and PLN 84.6m for Q3 2013 versus PLN 259.6m for the first nine months of 2012 and PLN 92.0m for Q2 2013. Seasonal acceleration in capital investment is responsible for the sequential decrease in operating free cash flow.

- *Netia's cash and short term deposits* at September 30, 2013 totalled PLN 130.9m, up by PLN 6.5m from June 30, 2013, with *total debt* at PLN 448.1m, down by PLN 74.8m from June 30, 2013. *Net debt* therefore stood at PLN 317.2m, down by PLN 81.3m from PLN 398.5m on June 30, 2013 and *financial leverage* was 0.58x Adjusted EBITDA guidance of PLN 550m for 2013 full year.

- *Adjustments to 2013 guidance*. Having observed a significant slowdown in RGU losses from 46k in Q2 2013 to 32k in Q3 2013, together with TV service net additions running at 10k in Q3 2013 and on-net broadband registering positive net additions during Q3 2013, Management is making minor modifications to its guidance for 2013. The full year net ending RGU guidance is being revised upwards to 2,540k from 2,525k. Revenue guidance is being revised down to PLN 1,875m from PLN 1,900m and Adjusted EBIT guidance is being revised up to PLN 110m. Adjusted EBITDA, Adjusted operating free cash flow and capex guidance remain unchanged at PLN 550m, PLN 325m and PLN 225m, respectively.

  Observing positive momentum on TV and NGA investments while off-net services continue to decline, Management has concluded that it must accelerate investment in 2014 and the medium-term in order to stabilise the Netia Group's financial results in the B2C segment. The Group's published medium-term strategic financial objectives are therefore now under review pending the conclusion of on-going planning activities for 2014 and the medium-term.

  Management maintains its stated policy objective of making distributions at the level of PLN 0.42 per share from 2014 onwards, subject to no major M&A transactions taking place. Financial leverage may grow towards 1.0x Adjusted EBITDA over the medium-term as necessary to meet this distribution objective.

1.2 OPERATIONAL

- *Number of services (RGUs)* was 2,560,019 at September 30, 2013 as compared to 2,734,070 at September 30, 2012 and 2,592,260 at June 30, 2013, with the year-on-year and quarterly decreases driven by the fall in the number of fixed voice services and generally intense competition on a weak telecommunications market. In Q3 2013 Netia added 9,818 on-net RGUs and recorded 42,059 off-net RGU disconnections while sequential net RGU losses fell by 29% to 32,241. Management is targeting 2013 as a year of transitioning to greater on-network sales focus and increased sales of on-net broadband and TV services. As a result of the visible progress made in Q3 2013, the Company is increasing RGU guidance from 2,525,000 to 2,540,000 services by the end of 2013.

- *Netia's TV services* reached 111,358 at September 30, 2013, growing by 53% from 72,805 at September 30, 2012 and by 10% from 100,879 at June 30, 2013. In Q3 2013 Netia added net 10,479 TV services as compared to 9,642 TV services added in Q2 2013.

- *Netia's broadband services* base was 854,165 at September 30, 2013, declining by 4% from 888,698 at September 30, 2012 and by 1% from 859,708 at June 30, 2013. Netia estimates that its total fixed broadband market share was approximately 12.8% versus 13.7% at September 30, 2012. Netia recorded a net decrease of 5,543 broadband customers during Q3 2013 versus a net decrease of 6,369 broadband customers during Q2 2013 (both total and organic as there were no Ethernet acquisitions in these quarters). Slow market growth and tougher price competition, including cable operators offering multiplay bundles, is reflected in the performance. Management is focusing on its own network and bundled services rather than regulated access or total services sold in order to defend gross margins. The own infrastructure-based broadband services (excluding WiMAX Internet) recorded a net increase of 1,677 during Q3 2013, being the second consecutive quarter to register growth. Of the total broadband customers served at September 30, 2013, 47% received service over Netia's own access infrastructure as compared to 46% at September 30, 2012.

- *Netia's fixed voice services*. Netia estimates that its total fixed voice market share was approximately 19.0% in Q3 2013 versus 20.0% in Q3 2012. Due to competitive market conditions and Netia's focus on higher-value customers, Netia is concentrating on defending voice revenues and margins as opposed to subscriber numbers. Netia's voice subscriber base was 1,519,265 at September 30, 2013 as compared to 1,677,766 at September 30, 2012 and 1,550,812 at June 30, 2013. In total, Netia recorded a net decrease of 31,547 voice subscribers during Q3 2013 versus 44,063 in Q2 2013. The Company expects the number of fixed voice services to continue to decline, mainly in connection with clients churning from traditional direct voice and WLR services. ARPU fell sequentially by 1 PLN to a blended PLN 43, with the improvement in net additions coming mainly from falling churn rates. Of the total voice customers served at September 30, 2013, 42% received service over Netia's own access infrastructure as compared to 39% at September 30, 2012.

- *Netia's mobile services* at September 30, 2013 were 28,063 for mobile broadband and 47,168 for mobile voice as compared to, respectively, 32,758 and 62,043 services at September 30, 2012 and 28,906 and 51,955 services at June 30, 2013. Netia is not actively promoting mobile services, but maintains its offering to provide competitive services to those customers looking for a convergent offering.

- *NGA network expansion.* During Q3 2013 Netia continued to expand its NGA standard network, which allows for providing, among others, high speed broadband and 3play services including IPTV and streaming TV services adding 68,000 homes passed. As of September 30, 2013, Netia covered in total 1,240,000 households with its NGA networks, including approximately 888,000 homes passed with VDSL copper networks, approximately 147,000 homes passed with passive optical networks (PON) and approximately 205,000 homes passed with the fast Ethernet networks and fiber to the building (FTTB). This represents sequential increases by approximately 60,000 homes passed with VDSL, 4,000 homes passed with PON and 4,000 homes passed with FTTB.

Miroslaw Godlewski, Netia's President and CEO, commented: *"In Q3 2013, Netia has made visible progress on several operational fronts whilst once again increasing Adjusted EBITDA margins to record levels. We noted steady progress with our on-network strategy in the Business-to-Consumer Segment (B2C) with TV net additions accelerating to over 10k in Q3 2013 and the total base reaching 111k services, up 53% on the prior year. Demand for TV services fed through into broadband results, with the on-net broadband base (Netia's own copper, Ethernet and fiber optic access networks) up sequentially by almost 2k with an improving trend now firmly established after several quarters of net losses through Q1 2013. Despite another quarter of stable broadband and WLR ARPUs, delivered by our value driven commercial strategy, we were able to cut total RGU losses by 29% sequentially from 46k to 32k and the losses remain concentrated in lower margin WLR services and in the B2C segment whilst Business-to-Business (B2B) RGUs continue to grow. With RGU improvement resulting mainly from falling churn rates, we were able to deliver sequential progress in Adjusted EBITDA, reporting PLN 144m for Q3 2013, up by 3% on Q2, and a record Adjusted EBITDA margin of 31.5%. Adjusted Operating Free Cash Flow advanced to PLN 275m for nine months of 2013, 6% ahead of the prior year at the nine month stage as both capex and opex continue to reflect strong progress from the Dialog and Crowley integrations.*

Management is committed to accelerating sales and improving penetration rates of broadband and TV services on Netia's own network of 2.9m homes passed. During Q3 2013we added 68k homes passed to our New Generation Access (NGA) networks, which now reach1.2m homes passed. In parallel, we are working at full-speed on the integration of the recently acquired cable TV network, which reaches in total around 450k homes in Warsaw and Krakow, into the Netia's backbone network in preparation for launch of a 3-play commercial offering early next year. This week Netia launched an exciting new TV service offering, allowing the customer to build a personally tailored TV service from blocks of thematically grouped channels, that we believe gives Netia an important advantage in providing our customers flexibility and value for money. This offering will be the cornerstone of our plan to significantly accelerate on-network TV and broadband sales over the coming quarters and represents the tangible evidence of our newly rolled out brand claim: 'GigaWolność' or 'GigaFreedom'.

Being now well into Q4 2013, we today announce minor adjustments to our 2013 full year guidance, improving our RGU forecast on the back of Q3's strong progress and holding Adjusted EBITDA and Adjusted Operating Free Cash Flow (OpFCF) targets unchanged whilst slightly downgrading revenue guidance in the face of weakening low margin carrier revenues. Looking ahead to 2014, it is clear to Management that further improvement in retention of the existing RGUs base and faster investment in TV services and NGA infrastructure is necessary to support acceleration of on-network services and stabilization of Netia's financial performance in the B2C Segment, whilst we look to continue to improve our B2B Segment in what should be an improving economic environment. Netia continues to enjoy low leverage with a net debt as at September 30, 2013 down to PLN 317m, just 0.58x 2013 Adjusted EBITDA guidance of PLN 550m. This comfortable financial position should enable us to continue investing in our networks and services whilst maintaining our stated policy of distributing PLN 0.42 per share from 2014 onwards while, in parallel, we continue to monitor the market for exceptional M&A opportunities to add value to the business."

Jon Eastick, Netia's CFO, commented: *"Netia's Q3 2013 financial results once again underlined the resilient nature of our B2B and B2C businesses as we were able to advance Adjusted EBITDA by 3% sequentially to PLN 144m despite a further 4% slide in sequential revenues to PLN 457m. A third and final cut in mobile termination rates (MTRs) to PLN 0.0429 from July 1, 2013 contributed approximately 43% of the PLN 20m sequential revenue decline, with a minimal profit impact as interconnect costs fell in line. Excluding the deflationary impact of MTRs on revenues, the remainder of the 11% year on year revenue decline to PLN 1,425m after nine months of 2013 is almost completely related to a 6% fall in services (RGUs), concentrated in B2C services and particularly in WLR fixed voice services. Q3 saw substantial progress with a 29% sequential fall in the number of services lost whilst WLR and broadband ARPUs remained stable as we look to maintain the value of our customer base in the face of fierce competition. With incremental quarterly improvement in on-net broadband and TV net adds and an exciting new TV offering launched for the key fourth quarter, we remain focused on further significant reductions in the rate of contraction of the customer base as a whole while we aim to grow the business over Netia's own network where margins are traditionally highest.*

Given that this encouraging improvement in customer statistics has come through later in the year than we had originally planned, it is now clear that 2014 must necessarily be another year of contracting revenues and margins. Direct sales margin must fall with declining year-on-year average customer numbers, while aggressive growth targets for on-network services and the launch of services over our newly acquired cable television network require higher spending on customer acquisition than those incurred in 2013. Moreover, with most of the Dialog and Crowley integration projects now completed, the incremental year on year contribution to a falling cost base will be lower in 2014 than was the case this year. However, based on the promising results in areas of Netia's network already upgraded to NGA standard and consistently improving performance of our TV services, Management is convinced that further and faster investment in network upgrades and TV services is key to our objective of early stabilization of the B2C segment. For this reason we currently put our long term plans "under review" and expect to update our medium term strategic financial goals along with announcing results for Q4 and 2013 full year.

Lower costs of restructuring, presented as adjustments to EBITDA, lower depreciation charges and lower interest costs on the falling net debt position (just 0.58x Adjusted EBITDA guidance for 2013 as at September 30, 2013) combined to increase Netia's YTD net profit by 69% year-on-year to PLN 35.8m. Subject to results of the annual impairment test of goodwill, Netia should finish 2013 with a positive net financial result."

2 Operational review

2.1 BROADBAND, TV & MOBILE SERVICES

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

Netia is constantly working to expand the number of its content partners. In Q3 2013 the TV offering in the basic 'Comfort' package was extended to include Canal+ thematic channels such as Domo+ HD, Kuchnia + HD, Teletoon/Hyper + HD and Planete+ HD.

In early October 2013 Netia introduced a new communications platform and a new brand claim 'GigaWolność' (GigaFreedom). The Company intends to focus its communications with the market on emotions and on moments of enlarged freedom in particular, aiming to associate this feeling with Netia's products and services. The new brand claim is a natural progression from the previous 'Wolność Wyboru' (Freedom of Choice). The first advertising campaign under the new communications platform was launched in October 2013 with respect to Netia's Personal Television services.

On November 4, 2013 Netia introduced an innovative offering of its TV services, which allows a customer to tailor freely his/her own Personal Television from more than a dozen thematic options available and over 170 channels, including 56 HD channels. During the first month, a customer has access to all TV packages at the minimum monthly fee of PLN 35. Thereafter, a customer may choose TV packages meeting his/her interest within one of five monthly fee plans ranging between PLN 35 and PLN 160. The newly launched TV offering is unified in terms of available packages and channels across the various TV transmission technologies deployed by Netia. Management believes this new offering will prove very attractive to potential customers and contribute to acceleration in TV services uptake over the coming quarters.

The number of active TV services in Netia grew to 111,358 as at September 30, 2013 up by 53% from 72,805 as at September 30, 2012 and by 10% from 100,879 as at June 30, 2013.

Number of TV services (k)	*Q3 2012*	*Q4 2012*	*Q1 2013*	*Q2 2013*	*Q3 2013*
Total	**72.8**	**79.3**	**91.2**	**100.9**	**111.3**

Netia added 10,479 TV services net in Q3 2013 as compared to 9,642 services added in Q2 2013. The net additions reflect the sales of smooth streaming-based TV, which is available over a wider footprint than IPTV and was introduced commercially in Q3 2012.

TV ARPU was PLN 37 in Q3 2013 as compared to PLN 42 in Q3 2012 and PLN 38 in Q2 2013. The ARPU decline reflects the increasing share of the narrower and cheaper smooth streaming offer in the service mix relative to IPTV based services. As the newest TV offering has identical content over both streaming and IPTV, an improvement in ARPU trend is expected in 2014.

Broadband services totalled 854,165 at September 30, 2013, down by 4% from 888,698 at September 30, 2012 and by 1% from 859,807 at June 30, 2013.

Netia provides its broadband services using the following technologies:

Number of broadband ports (k)	*Q3 12*	*Q4 12*	*Q1 13*	*Q2 13*	*Q3 13*
xDSL, FastEthernet and PON over own network	387.6	382.5	381.1	381.3	382.9
incl. Traditional networks (PON, VDSL, ADSL)	*262.6*	*261.5*	*263.1*	*266.1*	*271.2*
incl. acquired Ethernet Companies	*125.0*	*121.0*	*118.0*	*115.2*	*111.7*
WiMAX Internet	17.2	17.9	17.1	16.5	16.0
LLU	184.6	182.7	178.4	175.4	172.5
Bitstream access	299.3	291.6	289.5	286.5	282.8
Total	**888.7**	**874.8**	**866.1**	**859.7**	**854.2**

Broadband services net decrease totalled 5,543 during Q3 2013 as compared to 6,369 in Q2 2013. There were no additions from Ethernet network acquisitions in both Q3 2013 and Q2 2013.

Slower fixed broadband market growth and increased price competition on broadband products from both the incumbent and cable TV operators has eliminated Netia's retail price advantage on 1play BSA services and reduced gross additions run rates and increased churn rates across the broadband portfolio. In 2013 Netia is focusing on sales of its on-net products, including on-net broadband services. In Q3 2013 the Company recorded a net increase of 1,677 additions on its own broadband networks (excluding WiMAX Internet) with growth of 5,129 on PON and copper networks. While local Ethernet companies contracted net by 3,452 services in Q3 2013, Management is observing encouraging organic sales performance on the NGA upgraded part of the Ethernet networks and is evaluating opportunities to accelerate the upgrade program beyond the additional 54,000 HPs currently being rolled out.

Broadband ARPU was PLN 56 in Q3 2013 as compared to PLN 56 in Q3 2012 and PLN 56 in Q2 2013. Netia's conservative pricing policy and focus on higher value customer segments has resulted in a satisfactory ARPU performance over the past year, despite deep price cuts introduced by some of Netia's competitors.

Broadband SAC was PLN 187 as compared to PLN 178 in Q2 2013 and PLN 166 in Q1 2013.

Acquisitions of local Ethernet network operators. As of September 30, 2013, Netia's Ethernet networks provided broadband access to a total of 111,718 mostly residential customers as compared to 115,170 customers at June 30, 2013 and 124,971 customers at September 30, 2012, with approximately 621,000 homes passed. Despite continuing organic net disconnections on the Ethernet network as a whole, Management is observing encouraging organic sales performance on NGA upgraded Ethernet networks and is evaluating opportunities to accelerate the upgrade program 2013/2014. Netia is currently focused on upgrading Ethernet networks already acquired and therefore will likely acquire new networks at a much slower pace than seen in the past, if at all.

NGA network development. As at September 30, 2013, Netia covered in total 1,240,000 households with its NGA networks, including 147,000 PON HPs, 888,000 VDSL HPs and 205,000 Ethernet FTTB HPs. During Q3 2013 Netia expanded its NGA coverage by approximately 68,000 HPs (being 60,000 VDSL HPs, 4,000 PON HPs and 4,000 FTTB HPs). Moreover, Netia covered a further 181,000 IPTV ready HPs within its network coverage based on ADSL2+ technology. Combined with NGA ready HPs, all of which can deliver IPTV services, Netia had 1,421,000 IPTV ready HPs in its proprietary network coverage.

Netia has advanced plans to expand its NGA coverage by another 475,000 or more HPs inclusive of the recent acquisition of cable networks from UPC Polska. Once all upgrade projects are completed, Netia expects to cover in total approximately 1,715,000 NGA HPs which can be reached with 3play service bundles (IPTV + fixed NGA broadband + fixed voice). Furthermore, Netia has introduced smooth streaming technology, which expands the availability of its 3play bundle offer onto networks where line speeds are too slow to support IPTV and, potentially in the future, to homes where Netia does not provide the broadband connection. Management is presently focusing on optimizing sales, provisioning and maintenance processes around TV services in addition to constant development of the content offering and service functionalities.

Mobile services. Mobile broadband customer base totalled 28,063 at September 30, 2013 as compared to 32,758 at September 30, 2012 and 28,906 at June 30, 2013. *Mobile broadband ARPU* was PLN 27 in Q3 2013 as compared to PLN 27 in Q3 2012 and PLN 28 in Q2 2013. *Mobile voice services* totalled 47,168 at September 30, 2013 as compared to 62,043 at September 30, 2012 and 51,955 at June 30, 2013. *Mobile voice ARPU* was PLN 28 in Q3 2013 as compared to PLN 27 in Q3 2012 and PLN 27 in Q2 2013. Mobile broadband has similar economics to BSA services whilst mobile voice has benefited from improved terms of MVNO agreements with partners P4 and Polkomtel.

Number of mobile services (k)	*Q3 2012*	*Q4 2012*	*Q1 2013*	*Q2 2013*	*Q3 2013*
Mobile data	32.8	30.3	29.3	28.9	28.1
Mobile voice	62.0	60.2	56.4	52.0	47.2
Total	**94.8**	**90.5**	**85.7**	**80.9**	**75.2**

2.2 VOICE

2.2.1 Own network, WLR & LLU

Voice lines totalled 1,519,265 at September 30, 2013 as compared to 1,677,766 at September 30, 2012 and 1,550,812 at June 30, 2013. In Q3 2013 Netia recorded a net decrease of 31,547 voice lines versus 44,063 voice lines in Q2 2013 and 36,370 voice lines in 3Q 2012. The Company expects the number of fixed voice lines to continue to decline, mainly due to clients churning from traditional direct voice and WLR services.

The aggressive price competition from other providers on the market together with substitution from mobile and migrations to voice bundled with cable TV, has been putting pressure on the fixed voice subscriber base whilst Netia has been targeting higher ARPU customers and upselling unlimited fixed-line national call bundles in order to attract higher value customers. This policy is supporting ARPUs whilst substantial progress on customer churn in Q3 2013 led to a sequential 28% fall in net voice lines lost.

Netia is steadily growing its base of relatively low cost VoIP customers, principally in the business segments or over LLU and Ethernet to residential customers. Over time, the Company expects to gradually reduce its reliance on traditional switched telephony, thereby reducing its cost base.

The net decline during Q3 2013 in services was 1% on LLU voice over IP services and 4% on lower margin WLR services while higher margin own network services remained stable sequentially.

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

Number of fixed voice lines (k)	*Q2 2012*	*Q3 2012*	*Q4 2012*	*Q1 2013*	*Q2 2013*	*Q3 2013*
Traditional direct voice		578.2	563.7	553.3	545.1	537.4
Incl. ISDN		*233.9*	*237.0*	*236.6*	*235.4*	*235.3*
Incl. Legacy wireless		*44.4*	*44.8*	*45.1*	*42.9*	*42.5*
Voice over IP (excl. LLU)		53.0	69.3	74.6	80.0	86.6
WiMAX voice		15.0	14.7	13.8	13.2	12.6
Own network voice lines		**646.2**	**647.8**	**641.7**	**638.3**	**636.6**
WLR		903.8	869.2	828.9	789.0	760.5
LLU voice over IP		127.7	126.9	124.3	123.5	122.2
Total		**1,677.8**	**1,643.9**	**1,594.9**	**1,550.8**	**1,519.3**

Voice ARPU per WLR line was PLN 45 in Q3 2013 as compared to PLN 45 in Q3 2012 and PLN 45 in Q2 2013.

Voice ARPU per Netia network subscriber line was PLN 40 in Q3 2013 as compared to PLN 45 in Q3 2012 and PLN 42 in Q2 2013. The fall reflects more aggressive defence of the customer base than on WLR, aggressively priced voice over IP services to business customers and deep discounts given when voice is bundled in 3play.

Blended voice ARPU was PLN 43 in Q3 2013 as compared to PLN 46 in Q3 2012 and PLN 44 in Q2 2013.

2.2.2 Indirect voice

CPS lines (carrier pre selection) totalled 57,008 at September 30, 2013 as compared to 65,249 at September 30, 2012 and 58,358 at June 30, 2013. Netia is focused on the conversion of CPS customers to WLR and is not actively acquiring new CPS customers. CPS clients are not counted in the total voice subscriber base of 1,519,265 clients as at September 30, 2013.

Indirect voice ARPU per CPS line was PLN 26 in Q3 2013 as compared to PLN 42 in Q3 2012 and PLN 28 in Q2 2013. Tariff reductions, reduced call volumes and conversion of higher ARPU customers to Netia's WLR or LLU offers are responsible for the progressive ARPU decline.

2.3 OTHER

Headcount was 2,012 at September 30, 2013, compared to 2,240 at September 30, 2012 and 2,012 at June 30, 2013. Active headcount was 1,930 at September 30, 2013 versus 2,144 at September 30, 2012 and 1,948 at June 30, 2013.

The movement in headcount can be analyzed as follows:

	Active	Total
Headcount at September 30, 2012	**2,144**	**2,240**
Employees acquired in Ethernet acquisitions since September 30, 2012	-	-
Net headcount reductions since September 30, 2012	(214)	(228)
Headcount at September 30, 2013	**1,930**	**2,012**

Capital investment additions

Capital investment additions (PLN'M)	*YTD 2012*	*YTD 2013*	*Change %*	*Q2 2013*	*Q3 2013*	*Change %*
Existing network and IT	68.0	71.4	5%	26.6	26.2	-2%
Broadband networks	50.9	52.6	3%	16.3	20.8	28%
CPE broadband (mainly capitalised Netia Spot routers)	19.7	15.1	-23%	4.8	3.8	-21%
IPTV (incl. dedicated CPE – Netia Player)	19.3	12.4	-36%	0.8	8.8	1000%
CDN integration	9.0	13.0	45%	6.2	4.3	-31%
Total	**166.9**	**164.5**	**-1%**	**54.7**	**63.9**	**17%**
Dialog group and Crowley[1]	35.7	na	na	na	na	na
Total	**202.6**	**164.5**	**-19%**	**54.7**	**63.9**	**17%**

1 Starting from Q1 2013, the capital investments of the Dialog group and Crowley, which were acquired by Netia in December 2011, were fully integrated with other capital investment categories.

Capital investment in existing network and IT reflect extension of transmission network capacity to activate new business customers. Investments in broadband networks include mainly NGA development and upgrades for residential clients and works on integrating with Netia's broadband network the cable networks in Warsaw and Kraków, which were acquired from UPC Polska in May 2013. Year-on-year lower purchases of Netia Players reflect activations from existing stocks while the sequential increase in the category results from new supplies made in connection with developing TV services. Following the full integration of the Dialog and Crowley businesses into New Netia, capital investment necessary to support those acquired networks is included with the other capital investment categories. The reduced capital investment year-on-year reflects tighter control over projects in the newly acquired businesses, purchasing synergies and slower volume growth requirements.

3 Other Highlights

Integration of Netia, Dialog Group and Crowley into New Netia Group. In December 2011 Netia acquired 100% stakes in Telefonia Dialog SA ("Dialog", currently Telefonia Dialog Sp. z o.o.) and Crowley Data Poland Sp. z o.o. ("Crowley", currently merged into Netia). Both acquisitions, which transform Netia into a sizable European altnet with approximately 2.6m unique services, are in line with its Strategy 2020 announced in early 2011 and are expected to further strengthen the Company's market position in all four customer segments, leveraging Dialog's and Crowley's network assets, customer base and operating resources. In particular, the acquisitions are expected to facilitate the development of new generation broadband and TV services delivered through the NGA roll-out and deliver extensive operational synergies.

Completed and on-going integration projects have delivered cumulative synergies over seven quarters in the amount of PLN 183.3m at the Adjusted EBITDA level and PLN 39.9m from capital investments through September 30, 2013. The cumulative synergies achieved during nine months of 2013 reached PLN 107.1m and PLN 18.1m, respectively. From a total of well over 100 projects, over 90 Adjusted EBITDA level synergy initiatives and 40 Capex synergy initiatives have been completed. Total reorganization costs recorded in the nine months of 2013 amounted to PLN 8.6m (out of which PLN 2.8m related to the employment restructuring program and PLN 5.8m related to integration costs).

This comprehensive integration project which is expected to create a larger, more efficient and more competitive New Netia is progressing smoothly. Senior management is confident that synergy targets will be achieved with the final projects, mainly related to IT platform migrations, being concluded in Q1 2014. Completion of this and other open projects during the course of 2013 is planned to grow the base of delivered operational synergies from PLN 76.2m in 2012 to PLN 115m in 2013 and PLN 120m in 2014 with a further PLN 10m in recurring capex synergies, with changes to the Dialog Group's investment strategy expected to yield further reductions in capex run-rates.

Financing. On September 30, 2013, Netia had PLN 130.9m in cash and short term deposits and PLN 448.1m in total debt and accrued interest as compared to PLN 124.4m and PLN 522.9m, respectively, on June 30, 2013. The debt outstanding on September 30, 2013 comprised of principal and interest on a five-year senior debt facility drawn to acquire Dialog group. Debt at June 30, 2013 comprised PLN 447.2m for the same purpose, a revolving facility of PLN 50.2m to partly finance the Dialog acquisition and an overdraft facility of PLN 25.5m. Accordingly, Netia Group's net debt at September 30, 2013 was PLN 317.2m versus PLN 398.5m at June 30, 2013 and net debt to the Adjusted EBITDA forecast for 2013 of PLN 550m amounted to 0.58x.

On June 20, 2013 Netia extended the long-term loan facility by an additional tranche of PLN 200.0m, designated for the financing of capital expenditures and operating expenses of the Netia Group and for payments to shareholders of the Company. None of these new funds have been drawn, but are available until December 20, 2014. Moreover, in July 2013 Netia repaid and cancelled the PLN 50.0m revolving facility option.

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

Registration of a decrease in Netia's share capital. On October 24, 2013 the court registered the redemption of 38.4m treasury shares of Netia, which was adopted by the Company's annual shareholders meeting on June 28, 2013. The redeemed shares were acquired by the Company in relation to various tranches of the Company's buy-back program adopted by Netia's general shareholders meeting in June 2011 and completed in May 2013 to acquire and redeem up to 12.5% of the Company's share capital utilizing assigned funds totaling up to PLN 350.0m. As a result of this redemption, Netia's outstanding share capital fell to 347.9m shares.

New distribution policy. As previously announced, while remaining interested in a number of potential acquisition targets, Netia Management presently anticipates no likely short-term transactions and therefore targets to facilitate payments to shareholders through either dividends or offers to purchase shares directed to all shareholders or capital redemptions, depending on the evolution of distributable reserves in Netia SA, which stood at PLN 325.7m at September 30, 2013 and represent the key constraint on future distributions. Based on its free cash flow projections, Management estimates that the Company may distribute up to PLN 145m from 2014 onwards (pro forma PLN 0.42 per outstanding share) with some scope to moderately increase payments over time whilst allowing debt leverage to increase towards 1.0x Adjusted EBITDA over the medium term.

In 2013 the Company returned to its shareholders PLN 128.1m (a Proforma equivalent of PLN 0.35 per outstanding share) through the buy-back of 4.15% of the Company's share capital.

Disputed corporate income tax (CIT) for 2003. On October 10, 2013, given that previously the Supreme Administrative Court had upheld the cassation appeal brought by the Company, the Voivodship Administrative Court in Warsaw reconsidered the case and delivered a judgment (the "Judgment") on the decision (the "Decision") of the Director of the Tax Chamber in Warsaw (the "Tax Chamber Director"), pursuant to which Netia's corporate income tax ("CIT") due for the year 2003 was established at PLN 34.2 million plus penalty interest of approximately PLN 25.3m. The Decision was in turn a result of Netia's appeal of a decision of the Director of the Tax Control Office in Warsaw (the "UKS Director") pursuant to which Netia's CIT due for the year 2003 was assessed at PLN 58.7m plus penalty interest amounting to PLN 41.3m.

In the Judgment, the Voivodship Administrative Court annulled the Decision in its entirety. As a result, the Tax Chamber Director is now required to reconsider its Decision in the Company's appeal against the decision of the UKS Director, taking into account the legal assessment and recommendations contained in the judgments of the Voivodship Administrative Court and the Supreme Administrative Court as to how to proceed with the matter.

The Voivodship Administrative Court's judgment is not final. Both the Company and the Tax Chamber Director are entitled to lodge a cassation appeal to the Supreme Administrative Court and the parties are awaiting the written justification to the Judgment.

Accordingly, the ruling of the Voivodship Administrative Court represents a further step towards a potentially favorable conclusion of the dispute for Netia. Following the receipt of part of the amount of the tax paid by the Company from the fiscal authorities, Netia continues to seek the recovery of the remaining PLN 51.9m, with interest. However, it is not clear to the Management what steps the tax authorities may decide to take to defend their position and therefore it is not clear how long it may take for proceedings to be finalised.

In May 2013 *Netia acquired from UPC Polska a part of former Aster cable operator's network*, which was classified for resale according to the decision of the President of the Office of Competition and Consumer Protection (UOKiK) as of September 5, 2011 approving the acquisition of Aster cable operator by UPC Polska. Netia purchased from UPC Polska and UPC Poland Holding BV 100% of shares in Centrina Sp. z o.o. and Dianthus Sp. z o.o., which own cable networks in Warsaw and Krakow reaching a total of 446,000 homes passed. The transaction has been treated as a purchase of network assets and related liabilities with a net valuation of PLN 5.8m. Simultaneously, UPC Polska concluded with Centrina and Dianthus a 12-month network rental agreement in order to ensure service continuity to its customers during a transition period. Total consideration payable to Netia Group for this network rental amounts to PLN 4.5m. Moreover, Netia will receive discounts on certain ongoing commercial agreements between the Netia Group and UPC Polska. These discounts are estimated to amount to PLN 16.4m and will be recognized as they are received.

Netia is not gaining any retail customers, but the transaction increases the reach of Netia's proprietary network by 18% to 2.9 million households and allows the Company to strengthen its infrastructural market position in these regions of the Residential market segment where, until now, it did not hold a strong footprint. The acquisition is the next important step in the execution of Netia's strategy, which is based on developing on-line solutions focusing on the Company's own networks and may prove an excellent base for extracting synergies from future consolidation activities, not pursued before by Netia in this market segment.

Netia has begun works on connecting the cable network to its backbone network, defining the to-be service offering and procuring necessary network equipment and set-top boxes. The Group is targeting a commercial launch in early 2014.

New brand claim 'GigaWolność' (GigaFreedom). In early October 2013 Netia introduced a new communications platform and a new brand claim 'GigaWolność' (GigaFreedom). The Company intends to focus its communications with the market on emotions and on moments of enlarged freedom in particular, aiming to associate this feeling with Netia's products and services. The new brand claim is a natural progression from the previous 'Wolność Wyboru' (Freedom of Choice). The first advertising campaign under the new communications platform was launched in October 2013 with respect to Netia's Personal Television services.

Netia shares became a component of the new indices WIG30 and WIG30TR, which include the 30 largest and most liquid companies on the Warsaw Stock Exchange's Main Market. Warsaw Stock Exchange started publishing new WIG30 and WIG30TR indices as of 23 September 2013. WIG30 is a price index, which means that its calculation includes only the prices of transactions in its stocks. WIG30TR, on the other hand, is a total return index and is calculated not only on the basis of the prices of transactions in its stocks but also on returns on dividends and pre-emptive rights. The composition of the WIG30 reflects 13 sectors according to the Warsaw Stock Exchange's classification.

4Sails. In Q2 2013 Netia continued works on an internal project '4Sails' aimed at reviewing sales force operations to fully exploit opportunities arising from the Telefonia Dialog and Crowley Data Poland acquisitions. From July 2013 Netia reorganized its operating segments into two main divisions: B2B (comprising the previous Corporate and Carrier segments and the SME sub-segment) and B2C (comprising the previous Residential segment and SOHO sub-segment). The financial reporting according to the new segments was fully introduced from Q3 2013. The Company has introduced the 'Acquire, Grow and Retain' strategy for managing its B2B division and is preparing for its implementation in the B2C division. New IT applications have been implemented in the B2C division to measure sales efficiency and better manage the sales channels and the Company introduced a new set of KPIs defined for the B2C division. Among other initiatives, a new process of implementing the products and sales offerings has been defined and approved, with particular focus on quality of implementation, product positioning and specific for each offering KPIs and sales targets. A new partnership program for external sales partners has been launched, including the communications and measurement of KPIs dedicated to sales partners. Trainings schedules and functional competencies for the sales force have been prepared. The strategy for e-commerce has been approved.

PricewaterhouseCoopers Sp. z o.o. was selected for auditing Netia's stand-alone and Netia Group's consolidated financial statements for four consecutive years 2014-2017. Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa (previously Ernst & Young Audit Sp. z o.o.) had been the Group's auditor since 2007 and is being rotated out of the roll after seven years in accordance with Netia Group policy.

4 Updated guidance for FY2013, medium-term Strategic Financial Goals under review

Netia is revising its 2013 guidance as published previously (see Netia's current reports no. 109/2012 dated December 20, 2012 and no. 34/2013 dated August 8, 2013).

Having observed a significant slowdown in RGU losses from 46k in Q2 2013 to 32k in Q3 2013, together with TV service net additions running at 10k in Q3 2013 and on-net broadband registering positive net additions during Q3 2013, Management is making minor modifications to its guidance for 2013. The full year net ending RGU guidance is being revised upwards to 2,540k from 2,525k. Revenue guidance is being revised down to PLN 1,875m from PLN 1,900m and Adjusted EBIT guidance is being revised up to PLN 110m. Adjusted EBITDA, Adjusted operating free cash flow and capex guidance remain unchanged at PLN 550m, PLN 325m and PLN 225m, respectively.

Full updated guidance for 2013 is set out below:

FY2013 Guidance	*Previous*	*Updated*
Number of services (RGUs) ('000)	2,525	2,540
Revenues (PLN m)	1,900	1,875
Adjusted EBITDA (PLN m)	550	550
Adjusted EBITDA margin (%)	28.9%	29.3%
Adjusted EBIT (PLN m)	100	110
Capital investments (excl. M&A and integration capex) (PLN m)	225	225
Capital investments (excl. M&A and integration capex) to sales (%)	11.8%	12.0%
Adjusted operating free cash flow (Adj. OpFCF)[1](PLN m)	325	325

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

The above guidance excludes the impact of one-off integration costs and one-off integration capital investments, estimated at up to PLN 10 million and up to PLN 35 million, respectively.

Observing positive momentum on TV and NGA investments while off-net services continue to decline, Management has concluded that it must accelerate investment in 2014 and the medium-term in order to stabilise the Netia Group's financial results in the B2C segment.

The Group's published medium-term strategic financial objectives are therefore under review pending the conclusion of on-going planning activities for 2014 and the medium-term and Management currently expects to be able to update these objectives by the time of publishing Q4 2013 results, early in 2014.

Consolidated Financial Information

Please note that following the reorganisation of its sales channels structure as part of the 4Sails project (see section 3 Other Highlights), with effect from Q3 2013 Netia is modifying its segment reporting to comprise two main segments, Business to Consumer (B2C) and Business to Business (B2B). Pursuant to this change, the previous SOHO/SME segment has been split such that SOHO becomes a sub-segment of B2C and SME part of the Business sub- segment of B2B. Accordingly, segment reporting of B2C and B2B segments now includes sub-segments as follows: B2C (Home), B2C (SOHO), B2B (Business) and B2B (Carrier). For comparative purposes, KPIs and results have been prepared retrospectively for H1 2013 and FY 2012.

Please also refer to our financial statements for the nine-month period ended September 30, 2013.

2013 Year-to-Date vs. 2012 Year-to-Date

Revenue decreased by 11% YoY to PLN 1,425.3m for the nine-month period ended September 30, 2013 from PLN 1,601.8m for the same period in 2012. The B2C operating segment decreased by 12% or PLN 115.2m and the B2B segment by 10% or PLN 61.3m. The decline in revenues was driven by a 6% YoY decline in services provided (RGUs) and by falls in mobile termination rates (MTRs) which contributed approximately one third of the revenue decline. RGU declines continued to be concentrated in the B2C (Home) sub-segment and in fixed voice services and lower margin WLR services in particular. The proportion of RGUs delivered on-network has increased from 41% to 45% in the twelve months to September 30, 2013.

Telecommunications revenue decreased by 11% YoY to PLN 1,418.4m in the first nine months of 2013 from PLN 1,594.8m in the prior nine-month period, driven by a 14% or PLN 101.8m decrease in direct voice revenue to PLN 619.1m from PLN 720.9m in year-to-date 2012, associated with the decrease in the voice subscriber base and the drop in the number of WLR services in particular. Data revenue decreased by 5% or PLN 31.2m to PLN 545.4m from PLN 576.7m in the same period of 2012, mainly due to the lower number of BSA services. Revenues from interconnect and carrier services combined were down by 20% to PLN 148.7m from PLN 185.0m in nine months of 2012 following the introduction of lower MTRs in July 2012 and again in January 2013 and July 2013. Indirect voice services (CPS) revenue decreased by 46% or PLN 12.7m as a result of decreasing customer numbers and falling ARPUs. Other telecommunications revenue, which include TV and mobile services, increased between the compared periods by 7% or PLN 5.7m to PLN 90.1m in the first nine months of 2013 from PLN 84.4m in the same period of 2012 and represented 6% of total revenue versus 5% in the prior year period. Direct voice revenue as a share of total telecommunications revenue declined YoY from 45% to 44% and data revenue increased over the same period from 36% to 38%.

Cost of sales decreased by 15% YoY to PLN 952.5m from PLN 1,120.8m for the nine-month period ended September 30, 2012 and represented 67% of total revenue as compared to 70% in the prior year period. Lower interconnection costs following cuts to MTRs, a relatively faster decline in off-net services and synergies from Dialog Group and Crowley integration were the main drivers of the decreasing share of costs in relation to revenue.

Interconnection charges decreased by 31% to PLN 159.4m in the first nine months of 2013 as compared to PLN 231.4m for the same period of 2012, due to falling MTRs.

Network operations and maintenance cost decreased by 8% to PLN 446.9m from PLN 487.1m for the prior year period due to synergies from Dialog Group and Crowley integration and less off-net RGUs, partly offset by an increase in outsourced maintenance costs after transferring Dialog and Crowley network maintenance to Ericsson.

Depreciation and amortization related to cost of sales decreased by 9% to PLN 269.5m as compared to PLN 296.2m for the nine-month period ended September 30, 2012 following the reassessment of useful lives of the Netia Group's fixed assets in Q1 2013, resulting in reduction of depreciation rates.

Taxes, frequency fees and other expenses decreased by 21% to PLN 47.3m in year-to-date 2013 as compared to PLN 60.2m for year-to-date 2012, due to synergies from Dialog Group and Crowley integration.

Salaries and benefits related to the cost of sales decreased by 29% to PLN 24.1m from PLN 34.1m for the nine-month period ended September 30, 2012 following the headcount reduction process started in June 2012 in connection with the integration of Netia, Dialog Group and Crowley into the New Netia Group and the transfer of Dialog and Crowley maintenance staff to Ericsson in September 2012.

Gross profit for the nine-month period ended September 30, 2013 was PLN 472.7m as compared to PLN 481.0m for the corresponding period of 2012, a drop of just 2% despite revenue falling by 11%. Gross profit margin was 33.2% for year-to-date 2013 and 30.0% for year-to-date 2012. Increasing share of revenue from higher margin own-network services as well as synergies from the Dialog Group and Crowley integration, together with lower MTRs and lower depreciation charges mentioned above, are responsible for the improving percentage gross margin achieved.

Selling and distribution costs decreased by 9% YoY to PLN 270.5m from PLN 297.5m for the same period last year and represented 19% of total revenue in both compared periods. Synergies from Dialog Group and Crowley integration together with lower direct acquisition costs from fewer gross additions were the main drivers of the decreasing costs.

Billing, mailing and logistics costs decreased by 35% YoY to PLN 21.1m from PLN 32.3m while the average number of RGUs served fell only by 6% between the two year-to-date periods due to integration synergies.

Outsourced customer service cost decreased by 48% YoY to PLN 12.0m from PLN 23.2m due to extracting integration synergies and increased use of internal customer care resources.

Depreciation and amortization related to selling and distribution cost decreased by 14% to PLN 39.5m from PLN 45.8m in the first nine months of 2012 following the full amortization of certain intangible assets related to computer software and telecommunications licenses.

Third party commissions decreased by 17% YoY to PLN 17.9m from PLN 21.6m due to lower gross additions, particularly in voice services.

Impairment of receivables was higher by 39% and PLN 3.7m as the prior year period benefited from a one-off adjustment to the debt provision to reflect improved recovery rates. Provisions for doubtful debts for nine months of 2013 are nevertheless running at a moderate 0.9% of sales, despite the relatively poor economic environment.

Other expenses related to selling and distribution were higher by 29% and PLN 11.6m mainly on increased cost of TV content for a 53% higher base of TV customers.

Advertising and promotion cost remained broadly stable between the periods at PLN 24.5m for nine months of 2013 as compared to PLN 24.3m for the nine months of 2012.

General and administration costs decreased by 17% YoY to PLN 129.6m from PLN 156.5m for year-to-date 2012 and represented 9% of total revenue versus 10% for the first nine months of 2012. Synergies from Dialog Group and Crowley integration were the main drivers of the cost decrease.

Salaries and benefits related to general administration cost decreased by 17% to PLN 59.4m from PLN 72.0m in year-to-date 2012, reflecting mainly the headcount optimization process conducted in 2012 in connection with the Dialog Group and Crowley integration into the Netia group.

Other costs related to general administration cost decreased by 31% to PLN 17.8m from PLN 26.0m in the nine-month period ended September 30, 2012, due to significantly lower integration costs as the scale of the project is reduced with most synergy initiatives now completed.

Office and car maintenance costs decreased by 24% or PLN 3.3m between the periods due to extraction of integration synergies.

Electronic data processing cost increased by 33% or PLN 2.9m in connection with the on-going integration projects such as migration of Dialog's and Crowley's customer bases to Netia.

Other income, net of other expenses fell by 54% or PLN 7.9m mainly due to a decrease in reminder fees and penalties charged by Netia Group.

Other gains/(losses), net increased by 164% or PLN 4.5m on gain on sale of impaired receivables .

Adjusted EBITDA was PLN 426.7m, down by 4% from PLN 446.6m for the nine-month period ended September 30, 2012 as lower revenue was offset by higher percentage gross margins and lower SG&A expenses. Adjusted EBITDA margin was 29.9% as compared to 27.9% in the prior year period. Higher Adjusted EBITDA margin reflects Dialog Group and Crowley integration and synergies and lower base of both revenue and cost from MTR reductions, partially offset by falling gross profits from contracting voice services. Going forward into Q4 2013, Netia expects the Adjusted EBITDA margin to decline towards 26-27% due to higher advertising and seasonal increases in gross additions.

Including the Dialog Group and Crowley integration costs of PLN 5.8m in year-to-date 2013 and PLN 16.5m in year-to-date 2012, restructuring costs of PLN 2.8m in year-to-date 2013 and PLN 21.7m in year-to-date 2012, impairment charge of PLN 0.4m recorded in year-to-date 2013, a decrease in provision for universal service obligation of PLN 0.2m recorded in year-to-date 2013 and the costs of M&A projects of PLN 0.2m in year-to-date 2013 and PLN 1.0m in year-to-date 2012, *EBITDA* was PLN 417.5m for the nine-month period ended September 30, 2013 as compared to PLN 407.4m for the prior year period. EBITDA margin was 29.3% as compared to 25.4% for the nine-month period ended September 30, 2012.

Depreciation and amortization was PLN 331.0m, a decrease of 9% YoY as compared to PLN 363.2m in the first nine months of 2012. Following a comprehensive review of the useful lives of Netia's network assets, the useful economic lives of certain existing network assets, in particular telecommunications equipment, have been extended with effect from January 1, 2013 whilst certain other assets are now fully depreciated.

Operating profit (EBIT) was PLN 86.5m as compared to an operating profit of PLN 44.2m for the nine-month period ended September 30, 2012. Excluding unusual costs described above of PLN 9.1m in year-to-date 2013 and PLN 39.2m in year-to-date 2012, Adjusted EBIT was PLN 95.8m for the first nine months of 2013 versus PLN 83.4m for the same period of 2012.

Net financial cost was PLN 23.2m as compared to net financial cost of PLN 33.4m for the prior year period and the improvement is driven by the falls in net debt and in market interest rates between the periods.

Income tax charge of PLN 27.6m was recorded in the first nine months of 2013 as compared to income tax benefit of PLN 10.4m for the corresponding period of 2012. Income tax benefit in year-to-date 2012 included a non-cash gain of PLN 21m recorded due to the recognition of deferred tax assets arising on the intragroup sale of network assets by Dialog to Netia.

Net profit was PLN 35.8m for the nine-month period ended September 30, 2013 versus net profit of PLN 21.2m for the nine-month period ended September 30, 2012.

Cash outlays on purchase of fixed assets and computer software decreased by 12% to PLN 184.0m for the nine-month period ended September 30, 2013 versus PLN 209.9m for the corresponding period of 2012. In year-to-date 2013 PLN 5.1m was spent in cash on the acquisition of a cable network from UPC Polska while in year-to-date 2012 PLN 5.3m was spent on acquisitions of Ethernet operators and networks and PLN 2.8m was paid towards the final price adjustment in the Crowley acquisition.

Cash and short term deposits at September 30, 2013 totalled PLN 130.9m versus PLN 131.1m at September 30, 2012.

Debt and accrued interest at September 30, 2013 was PLN 448.1m as compared to PLN 590.0m in the prior year period.

Net debt at September 30, 2013 was PLN 317.2m as compared to PLN 458.8m in the prior year period. Over the 12 months to September 30, 2013, PLN 180.2m was returned to shareholders in the form of various tranches of share buy-backs.

Q3 2013 vs. Q2 2013

Sequential revenue decreased by 4% to PLN 457.1m in Q3 2013 from PLN 477.5m in Q2 2013. The decline in revenues was driven by a 1% sequential decline in services provided (RGUs), which continued to be concentrated in the B2C (Home) sub-segment and in fixed voice services, and by falls in mobile termination rates (MTRs), which contributed 43% of revenue decline. The Company estimates the sequential impact of lower MTRs on revenue at PLN 8.8m.

Telecommunications revenue decreased by 4% to PLN 455.5m in Q3 2013 versus PLN 474.7m in Q2 2013. Direct voice revenue fell by 4% QoQ to PLN 197.9m from PLN 205.9m in Q2 2013 as a result of the fall in the subscriber base and on-network ARPU declines partly related to passing on of MTR savings. Carrier segment revenue decreased sequentially by 18% or PLN 9.1m on lower voice termination/transit revenue due to lower MTRs. Data revenue declined by 1% to PLN 179.6m in Q3 2013 from PLN 181.5m in Q2 2013 following the decrease in the subscriber base. Other telecommunications revenue remained broadly stable between consecutive quarters growing by 1% or PLN 0.4m due to higher number of TV services offset with lower sales of telecommunications equipment.

Cost of sales decreased by 7% to PLN 300.9m as compared to PLN 322.5m in Q2 2013, representing 66% of total revenue in Q3 2013 as compared to 68% in Q2 2013. Interconnection charges decreased by 26% or PLN 15.0m on the introduction of lower rates for terminating traffic in mobile networks and lower usage in fixed voice services. Cost of network operations and maintenance decreased by 3% or 5.1m mainly as a result of less fees payable to TP SA on less wholesale access services.

Gross profit increased by 1% to PLN 156.1m from PLN 154.9m in Q2 2013, with gross profit margin at 34.2% versus 32.5% in Q2 2013.

Selling and distribution costs decreased by 2% QoQ to PLN 87.6m in Q3 2013 as compared to PLN 89.3m in Q2 2013 representing 19% of total revenue in both quarters. Advertising and promotion spending was down by 30% or PLN 2.9m as a result of less intensive advertising campaigns. Depreciation and amortization related to selling and distribution decreased by 6% or PLN 0.8m following integration synergies and full depreciation of certain assets. Outsourced customer service cost was down by 15% or PLN 0.5m following a shift towards more insourced activities, with the contact center fully managed internally since August 2013. Sequentially lower sales volumes and synergies resulted in a decrease of billing, mailing and logistics costs (by 5% or PLN 0.3m) and third party commissions (by 7% or PLN 0.4m). Impairment of receivables was higher by 60% or PLN 1.9m to build reserves against a slightly worsening customer payment profile.

General and administrative expenses decreased by 4% to PLN 41.0m in Q3 2013 from PLN 42.9m in Q2 2013, and represented 9% of total revenue in both quarters. The decrease was driven mainly by sequentially lower cost of salaries and benefits related to general administration (by 16% or PLN 3.3m) as the prior quarter comparative included one-off adjustments to increase bonus provisions and other expenses (by 12% or PLN 0.7m), mainly from less training activity through the summer months.

Adjusted EBITDA was PLN 144.1m versus PLN 140.5m for Q2 2013 and Adjusted EBITDA margin was 31.5% in Q3 2013 versus was 29.4% in Q2 2013.

EBITDA was PLN 142.5m as compared to PLN 136.4m in Q2 2013. EBITDA for Q3 2013 included Dialog Group and Crowley integration costs of PLN 1.0m, restructuring costs of PLN 0.7m, a decrease in provision for universal service obligation payment of PLN 0.2m and costs of M&A projects of PLN 0.1m. EBITDA for Q2 2013 included Dialog Group and Crowley integration costs of PLN 2.5m, restructuring costs of PLN 1.3m, an impairment charge of PLN 0.4m and a decrease in costs of M&A projects of PLN 0.1m.

Operating profit (EBIT) was PLN 32.8m as compared to operating profit of PLN 26.4m in Q2 2013. Excluding unusual items, EBIT for Q3 2013 would have been PLN 34.5m profit as compared to PLN 30.6m profit for Q2 2013.

Net financial cost was PLN 7.8m as compared to net financial cost of PLN 7.9m in Q2 2013.

Income tax charge of PLN 10.9m was recorded in Q2 2013 versus income tax charge of PLN 9.9m in Q2 2013.

Net profit for Q3 2013 was PLN 14.1m versus net profit of PLN 8.6m for Q2 2013.

Key Figures

PLN'000	YTD 2012	YTD 2013	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Revenues	1,601,824	1,425,258	521,073	519,532	490,690	477,492	457,076
y-o-y % change	*34.4%*	*(11.0%)*	*32.0%*	*21.8%*	*(9.8%)*	*(11.0%)*	*(12.3%)*
Adjusted EBITDA	446,639	426,669	157,448	144,526	142,005	140,541	144,123
Margin %	*27.9%*	*29.9%*	*30.2%*	*27.8%*	*28.9%*	*29.4%*	*31.5%*
y-o-y change %	*49.0%*	*(4.5%)*	*49.3%*	*33.3%*	*6.8%*	*(10.0%)*	*(8.5%)*
EBITDA	407,446	417,521	148,427	54,081	138,621	136,408	142,492
Margin %	*25.4%*	*29.3%*	*28.5%*	*10.4%*	*28.3%*	*28.6%*	*31.2%*
Adjusted EBIT	83,440	95,686	36,369	25,234	30,656	30,573	34,457
Margin %	*5.2%*	*6.7%*	*7.0%*	*4.9%*	*6.2%*	*6.4%*	*7.5%*
EBIT	44,247	86,538	27,348	(65,211)	27,272	26,440	32,826
Margin %	*2.8%*	*6.1%*	*5.2%*	*(12.6%)*	*5.6%*	*5.5%*	*7.2%*
Adjusted Profit of the Netia Group (consolidated)	52,953	43,204	17,342	(35,651)	15,885	11,932	15,387
Margin %	*3.3%*	*3.0%*	*3.3%*	*(6.9%)*	*3.2%*	*2.5%*	*3.4%*
Profit/(Loss) of the Netia Group (consolidated)	21,207	35,794	10,035	(108,911)	13,144	8,584	14,066
Margin %	*1.3%*	*2.5%*	*1.9%*	*(21.0%)*	*2.7%*	*1.8%*	*3.1%*
Profit/(Loss) of Netia SA (stand alone)[1]	(38,941)	(20,541)	(9,783)	(55,234)	(9,055)	(9,254)	(2,232)
Cash and short term deposits	131,122	130,931	131,122	142,702	98,304	124,401	130,931
Cash, restricted cash and short term deposits	133,385	130,944	133,385	144,965	229,750	126,524	130,944
Treasury bills (at amortized cost)	48	-	48	49	-	-	-
Debt	590,013	448,154	590,013	550,649	562,543	522,935	448,154
Capex related payments	209,900	184,146	68,027	52,606	71,628	55,165	57,353
Investments in tangible and intangible fixed assets	202,573	164,525	73,752	76,524	45,899	54,738	63,888

EUR'000[2]	YTD 2012	YTD 2013	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Revenues	379,912	338,035	123,585	123,220	116,379	113,249	108,407
y-o-y % change	*34.4%*	*(11.0%)*	*32.0%*	*21.8%*	*(9.8%)*	*(11.0%)*	*(12.3%)*
Adjusted EBITDA	105,932	101,195	37,343	34,278	33,680	33,333	34,182
Margin %	*27.9%*	*29.9%*	*30.2%*	*27.8%*	*28.9%*	*29.4%*	*31.5%*
y-o-y change %	*49.0%*	*(4.5%)*	*49.3%*	*33.3%*	*6.8%*	*(10.0%)*	*(8.5%)*
EBITDA	96,636	99,025	35,203	12,827	32,877	32,353	33,796
Margin %	*25.4%*	*29.3%*	*28.5%*	*10.4%*	*28.3%*	*28.6%*	*31.2%*
Adjusted EBIT	19,790	22,694	8,626	5,985	7,271	7,251	8,172
Margin %	*5.2%*	*6.7%*	*7.0%*	*4.9%*	*6.2%*	*6.4%*	*7.5%*
EBIT	10,494	20,525	6,486	(15,466)	6,468	6,271	7,785
Margin %	*2.8%*	*6.1%*	*5.2%*	*(12.6%)*	*5.6%*	*5.5%*	*7.2%*
Adjusted Profit of the Netia Group (consolidated)	12,559	10,247	4,113	(8,455)	3,768	2,830	3,649
Margin %	*3.3%*	*3.0%*	*3.3%*	*(6.9%)*	*3.2%*	*2.5%*	*3.4%*
Profit/(Loss) of the Netia Group (consolidated)	5,030	8,489	2,380	(25,831)	3,117	2,036	3,336
Margin %	*1.3%*	*2.5%*	*1.9%*	*(21.0%)*	*2.7%*	*1.8%*	*3.1%*
Profit/(Loss) of Netia SA (stand alone)[1]	(9,236)	(4,872)	(2,320)	(13,100)	(2,148)	(2,195)	(529)
Cash and short term deposits	31,099	31,054	31,099	33,845	23,315	29,505	31,054
Cash, restricted cash and short term deposits	31,636	31,057	31,636	34,382	54,491	30,008	31,057
Treasury bills (at amortized cost)	11	-	11	12	-	-	-
Debt	139,936	106,291	139,936	130,600	133,421	124,027	106,291
Capex related payments	49,783	43,675	16,134	12,477	16,988	13,084	13,603
Investments in tangible and intangible fixed assets	48,045	39,021	17,492	18,150	10,886	12,982	15,153

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

[2] The EUR amounts shown in this table and in the entire document have been translated using an exchange rate of PLN 4.2163 = EUR 1.00, the average rate announced by the National Bank of Poland on September 30, 2013. These figures are included for the convenience of the reader only.

Adjusted EBITDA, Adjusted EBIT and Adjusted Profit for 2012 exclude the following items as appropriate: an impairment charge of PLN 79.2m, New Netia (Dialog Group & Crowley) integration costs of PLN 26.3m, restructuring expenses related mainly to group staff redundancies to integrate New Netia Group in FY 2012 of PLN 22.6m and expenses related to M&A activities of PLN 1.5m and impact from these one-offs on the income tax charge of PLN 9.6m. Items excluded for YTD 2013 are as follows: New Netia (Dialog Group & Crowley) integration costs of PLN 5.8m, restructuring expenses of PLN 2.8m, impairment charge of PLN 0.4m and expenses related to M&A activities of PLN 0.2m, a decrease in provision for universal service obligation payment of PLN 0.2m and impact from these one-offs on the income tax charge of PLN 1.7m.

Key Operational Indicators

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Total services (RGUs)	**2,793,068**	**2,785,339**	**2,734,070**	**2,688,467**	**2,637,912**	**2,592,260**	**2,560,019**
Broadband data services							
Own infrastructure-based services	416,241	411,716	404,795	400,431	398,162	397,788	398,892
Own fixed-line networks	*397,680*	393,753	*387,600*	*382,540*	*381,078*	*381,255*	*382,932*
WiMAX	*18,561*	*17,963*	*17,195*	*17,891*	*17,084*	*16,533*	*15,960*
Bitstream access	312,103	309,878	299,272	291,621	289,522	286,465	282,792
LLU	184,064	182,353	184,631	182,726	178,393	175,455	172,481
Total broadband data services (end of period)	**912,408**	**903,947**	**888,698**	**874,778**	**866,077**	**859,708**	**854,165**
Voice services (excl. CPS)							
Traditional direct voice[1]	584,928	587,311	578,191	563,753	553,337	545,127	537,422
incl. ISDN equivalent of lines	*222,604*	*233,280*	*233,888*	*236,974*	*236,628*	*235,370*	*235,341*
incl. legacy wireless	*42,158*	*43,984*	*44,418*	*44,788*	*45,143*	*42,943*	*42,540*
Voice over IP (excl. LLU)	45,100	49,694	53,050	69,359	74,580	79,987	86,562
WiMAX voice	16,644	15,819	14,987	14,663	13,802	13,210	12,575
Netia network subscriber voice services	646,672	652,824	646,228	647,775	641,719	638,324	636,559
WLR	954,917	936,167	903,810	869,196	828,850	788,996	760,519
LLU voice over IP	126,240	125,145	127,728	126,933	124,306	123,492	122,187
Total voice services (end of period)	**1,727,829**	**1,714,136**	**1,677,766**	**1,643,904**	**1,594,875**	**1,550,812**	**1,519,265**
TV services (end of period)	**61,804**	**71,274**	**72,805**	**79,285**	**91,237**	**100,879**	**111,358**
Mobile Data services (end of period)	**30,446**	**33,415**	**32,758**	**30,281**	**29,272**	**28,906**	**28,063**
Mobile Voice services (end of period)	**60,581**	**62,567**	**62,043**	**60,219**	**56,451**	**51,955**	**47,168**
Total services (RGUs) by segment[2] (end of period)	**2,793,068**	**2,785,339**	**2,734,070**	**2,688,467**	**2,637,912**	**2,592,260**	**2,560,019**
B2B Division	413,203	431,971	437,478	454,656	460,730	464,612	469,603
Business segment	*408,311*	*426,712*	*432,231*	*450,300*	*456,571*	*460,330*	*465,285*
Carrier segment	*4,892*	*5,259*	*5,247*	*4,356*	*4,159*	*4,282*	*4,318*
B2C Division	2,344,539	2,318,390	2,261,642	2,198,786	2,142,387	2,093,098	2,056,016
Home segment	*2,077,853*	*2,050,950*	*1,995,231*	*1,933,745*	*1,877,839*	*1,830,042*	*1,792,530*
Share of lines with multiplay services	*30.7%*	*31.2%*	*31.4%*	*31.8%*	*32.2%*	*32.5%*	*32.8%*
SOHO segment	*266,686*	*267,440*	*266,411*	*265,041*	*264,548*	*263,056*	*263,486*
Share of lines with multiplay services	*46.2%*	*46.6%*	*46.5%*	*46.4%*	*47.1%*	*47.8%*	*48.1%*
Other[3] (Petrotel)	35,326	34,978	34,950	35,025	34,795	34,550	34,400
Other							
Total net additions in Broadband data services	838	(8,461)	(15,249)	(13,920)	(8,701)	(6,369)	(5,543)
Monthly Broadband ARPU (PLN)	57	57	56	57	56	56	56
Total net additions in Voice services	(16,894)	(13,693)	(36,370)	(33,862)	(49,029)	(44,063)	(31,547)
Monthly Voice ARPU in own network (PLN)	49	49	46	46	43	42	40
Monthly Voice ARPU for WLR (PLN)	45	45	45	45	45	45	45
Monthly Voice ARPU blended (PLN)	47	47	46	46	44	44	43
Monthly TV ARPU blended (PLN)	44	42	42	42	40	38	37
Monthly Mobile Data ARPU blended (PLN)	28	28	27	26	25	28	27
Monthly Mobile Voice ARPU blended (PLN)	24	26	27	26	27	27	28
CPS lines (cumulative)	70,029	67,480	65,249	62,241	62,013	58,358	57,008
Monthly Voice ARPU for CPS	48	44	42	37	30	28	26
Headcount	2,811	2,693	2,240	2,117	2,053	2,012	2,012
Active headcount	2,719	2,539	2,144	2,013	1,971	1,948	1,930

[1] The sequential improvement in the number of traditional direct voice services between Q1 and Q2 2012 results from a one-time upward adjustment in the number of traditional direct voice lines by 12,965 due to product definition changes to services sold by the Corporate Segment.

[2] Following the reorganisation of its sales channels structure as part of the 4Sails project (see section 3 Other Highlights), with effect from Q3 2013 Netia is modifying its segment reporting to comprise two main segments, Business to Consumer (B2C) and Business to Business (B2B). Pursuant to this change, the previous SOHO/SME segment has been split such that SOHO becomes a sub-segment of B2C and SME part of the Business sub-segment of B2B. Accordingly, segment reporting of B2C and B2B segments now includes sub-segments as follows: B2C (Home), B2C (SOHO), B2B (Business) and B2B (Carrier). For comparative purposes, KPIs and results have been estimated retrospectively for H1 2013 and FY 2012.

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

Income Statement

(PLN in thousands unless otherwise stated)

Time periods:	YTD 2012 *unaudited*	YTD 2013 *unaudited*	Q2 2013 *unaudited*	Q3 2013 *unaudited*
Direct Voice	720,936	619,139	205,874	197,861
Incl. monthly fees	*503,383*	*448,024*	*148,804*	*144,771*
Incl. calling charges	*217,293*	*170,537*	*56,829*	*52,939*
Indirect Voice	27,820	15,123	5,022	4,481
Data	576,665	545,426	181,534	179,652
Interconnection revenues	84,238	66,086	21,651	19,705
Wholesale services	100,820	82,596	30,105	22,893
Other telecommunications revenues	84,378	90,069	30,522	30,929
Total telecommunications revenue	**1,594,857**	**1,418,439**	**474,708**	**455,521**
Radio communications and other revenue	6,967	6,819	2,784	1,555
Total revenue	**1,601,824**	**1,425,258**	**477,492**	**457,076**
Cost of sales	**(1,120,789)**	**(952,510)**	**(322,544)**	**(300,972)**
Interconnection charges	(231,389)	(159,441)	(57,237)	(42,215)
Network operations and maintenance	(487,120)	(446,876)	(149,430)	(144,292)
Costs of goods sold	(6,554)	(4,835)	(1,809)	(1,676)
Depreciation and amortization	(296,156)	(269,524)	(89,627)	(89,475)
Salaries and benefits	(34,096)	(24,068)	(7,975)	(7,708)
Restructuring	(5,274)	(450)	(395)	(19)
Taxes, frequency fees and other expenses	(60,200)	(47,316)	(16,071)	(15,587)
Gross profit	**481,035**	**472,748**	**154,948**	**156,104**
Margin (%)	***30.0%***	***33.2%***	***32.5%***	***34.2%***
Selling and distribution costs	**(297,499)**	**(270,463)**	**(89,294)**	**(87,565)**
Advertising and promotion	(24,317)	(24,554)	(9,761)	(6,854)
Third party commissions	(21,628)	(17,942)	(6,154)	(5,742)
Billing, mailing and logistics	(32,293)	(21,104)	(6,757)	(6,417)
Outsourced customer service	(23,177)	(11,989)	(3,402)	(2,877)
Impairment of receivables	(9,299)	(12,961)	(3,152)	(5,034)
Depreciation and amortization	(45,834)	(39,497)	(13,351)	(12,538)
Salaries and benefits	(92,094)	(90,257)	(29,746)	(30,159)
Restructuring	(9,343)	(1,002)	(396)	(121)
Other costs	(39,514)	(51,157)	(16,575)	(17,823)
General and administration costs	**(156,539)**	**(129,600)**	**(42,938)**	**(40,997)**
Professional services	(7,714)	(6,836)	(1,786)	(2,367)
Electronic data processing	(8,810)	(11,711)	(3,842)	(4,187)
Office and car maintenance	(13,767)	(10,445)	(3,248)	(3,754)
Depreciation and amortization	(21,209)	(21,962)	(6,990)	(7,653)
Salaries and benefits	(71,963)	(59,450)	(20,601)	(17,266)
Restructuring	(7,123)	(1,398)	(507)	(528)
Other costs	(25,953)	(17,798)	(5,964)	(5,242)
Other income	17,374	8,257	2,653	3,259
Other expense	(2,868)	(1,657)	(1,018)	(563)
Other gains/ (losses), net	2,744	7,253	2,089	2,588
Impairment charge for non-current assets	-	-	-	-
EBIT	**44,247**	**86,538**	**26,440**	**32,826**
Margin (%)	***2.8%***	***6.1%***	***5.5%***	***7.2%***
Finance income	4,763	3,680	2,185	566
Finance cost	(38,166)	(26,848)	(10,118)	(8,389)
Profit before tax	**10,844**	**63,370**	**18,507**	**25,003**
Tax benefit / (charge)	10,363	(27,576)	(9,923)	(10,937)
Profit / (Loss)	**21,207**	**35,794**	**8,584**	**14,066**

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

Time periods:	YTD 2012 *unaudited*	YTD 2013 *unaudited*	Q2 2013 *unaudited*	Q3 2013 *unaudited*
Operating Profit	**44,247**	**86,538**	**26,440**	**32,826**
Add back:				
Depreciation and amortization	363,199	330,983	109,968	109,666
EBITDA	**407,446**	**417,521**	**136,408**	**142,492**
Add back:				
Impairment charge for non-current assets	-	431	431	-
Restructuring costs	21,739	2,850	1,298	668
M&A related costs	950	200	(152)	81
New Netia integration costs	16,504	5,817	2,556	1,032
Decrease in provision for universal service obligation payment	-	(150)	-	(150)
Adjusted EBITDA	**446,639**	**426,669**	**140,541**	**144,123**
Margin (%)	***27.9%***	***29.9%***	***29.4%***	***31.5%***

Note to Other Income
(PLN in thousands unless otherwise stated)

Time periods:	YTD 2012 *unaudited*	YTD 2013 *unaudited*	Q2 2013 *unaudited*	Q3 2013 *unaudited*
Reminder fees and penalties	12,059	6,092	1,593	2,818
Forgiveness of liabilities	373	621	163	295
Other operating income	4,648	1,544	897	146
Reversal of an impairment charge for non-current assets	294	-	-	-
Total	**17,374**	**8,257**	**2,653**	**3,259**

Note to Other Expense
(PLN in thousands unless otherwise stated)

Time periods:	YTD 2012 *unaudited*	YTD 2013 *unaudited*	Q2 2013 *unaudited*	Q3 2013 *unaudited*
Impairment charges for specific individual assets	(2,028)	(1,441)	(975)	(399)
Other expenses	(840)	(216)	(43)	(164)
Total	**(2,868)**	**(1,657)**	**(1,018)**	**(563)**

Note to Other Gains / (losses), net
(PLN in thousands unless otherwise stated)

Time periods:	YTD 2012 *unaudited*	YTD 2013 *unaudited*	Q2 2013 *unaudited*	Q3 2013 *unaudited*
Gain / (loss) on sale of impaired receivables	3,005	8,023	2,067	2,587
Gain / (loss) on disposal of fixed assets	(340)	(604)	209	(109)
Net foreign exchange gains / (losses)	78	(166)	(187)	110
Total	**2,743**	**7,253**	**2,089**	**2,588**

Total comprehensive income
(PLN in thousands unless otherwise stated)

Time periods:	YTD 2012 *unaudited*	YTD 2013 *unaudited*	Q2 2013 *unaudited*	Q3 2013 *unaudited*
Profit / (Loss)	**21,207**	**35,794**	**8,584**	**14,066**
Cash flow hedges	(9,326)	4,834	3,626	(434)
Income tax relating to components of other comprehensive income	1,705	(939)	(684)	88
Other comprehensive Income / (Loss)	**(7,621)**	**3,895**	**2,942**	**(346)**
Total comprehensive Income / (Loss)	**13,586**	**39,689**	**11,526**	**13,720**
Attributable to equity holders of the Company	*13,586*	*39,689*	*11,526*	*13,720*

Statement of financial position

(PLN in thousands unless otherwise stated)

Time periods:	December 31 2012 *audited*	March 31 2013 *unaudited*	June 30 2013 *unaudited*	September 30 2013 *unaudited*
Property, plant and equipment, net	2,066,304	2,018,333	1,984,723	1,957,160
Intangible assets	597,455	579,108	563,481	545,418
Investment property	-	26,267	26,141	26,067
Deferred income tax assets	101,687	99,778	95,124	89,194
Available for sale financial assets	115	115	115	116
Long-term receivables	1	1	1	-
Prepaid expenses and accrued income	11,082	9,281	7,354	6,170
Derivative financial instruments	-	-	814	595
Total non-current assets	**2,776,644**	**2,732,883**	**2,677,753**	**2,624,720**
Inventories	2,094	1,670	1,745	2,043
Trade and other receivables	248,270	222,480	216,925	195,223
Current income tax receivables	518	1,114	26	107
Prepaid expenses and accrued income	33,660	32,464	34,216	30,425
Derivative financial instruments	-	254	1,337	39
Financial assets at fair value through profit and loss	15	15	18	22
Held to maturity investments	49	-	-	-
Restricted cash	2,263	131,446	2,123	13
Cash and short-term deposits	142,702	98,304	124,401	130,931
	429,571	**487,747**	**380,791**	**358,803**
Assets held for sale	26,770	-	-	-
Total current assets	**456,341**	**487,747**	**380,791**	**358,803**
TOTAL ASSETS	**3,232,985**	**3,220,630**	**3,058,544**	**2,983,523**
Share capital	386,281	386,281	386,281	386,281
Treasury shares	(106,814)	(122,702)	(251,012)	(251,012)
Supplementary capital	2,060,076	2,060,076	1,971,500	1,971,500
Retained earnings	(62,432)	(49,288)	57,647	71,713
Other components of equity	19,184	20,996	14,986	15,262
TOTAL EQUITY	**2,296,295**	**2,295,363**	**2,179,402**	**2,193,744**
Bank loans	384,452	385,096	320,809	321,457
Provisions	18,189	18,053	20,397	19,177
Deferred income tax liabilities	17,683	19,745	21,227	21,027
Deferred income	20,769	21,185	19,646	18,856
Other financial liabilities	5,741	5,464	2,487	2,862
Other long-term liabilities	4,232	3,773	3,319	2,841
Total non-current liabilities	**451,066**	**453,316**	**387,885**	**386,220**
Trade and other payables	260,069	237,885	226,868	217,155
Derivative financial instruments	7,268	5,769	6,025	5,421
Borrowings	166,197	177,447	202,126	126,697
Other financial liabilities	66	66	66	66
Current income tax liabilities	1	1	946	1,123
Provisions	14,200	13,169	13,217	11,838
Deferred income	37,823	37,614	42,009	41,259
Total current liabilities	**485,624**	**471,951**	**491,257**	**403,559**
Total liabilities	**936,690**	**925,267**	**879,142**	**789,779**
TOTAL EQUITY AND LIABILITIES	**3,232,985**	**3,220,630**	**3,058,544**	**2,983,523**

Cash Flow Statement

(PLN in thousands unless otherwise stated)

Time periods:	YTD 2012 *unaudited*	YTD 2013 *unaudited*	Q2 2013 *unaudited*	Q3 2013 *unaudited*
Profit / (Loss)	**21,207**	**35,794**	**8,584**	**14,066**
Depreciation and amortization	363,199	330,983	109,968	109,666
An impairment charge on non-current assets	-	-	1	-
Impairment charges for specific individual assets	1,895	1,440	974	398
Reversal of impairment charges for specific assets	(293)	-	-	-
Deferred income tax charge / (benefit)	(10,294)	14,898	5,453	5,817
Interest expense and fees charged on bank loans	35,692	23,741	8,135	6,951
Other interest charged	384	210	80	38
Share-based compensation	2,329	2,627	874	1,145
Fair value (gains)/losses on financial assets/liabilities	1	(7)	(3)	(4)
Fair value (gains)losses on derivative financial instruments	1,936	(424)	(1,629)	839
Foreign exchange (gains)/losses	316	44	(68)	151
(Gain)/Loss on disposal of fixed assets	636	(66)	(209)	(1,011)
Changes in working capital	(14,835)	35,925	(2,042)	7,119
Net cash provided by operating activities	**402,173**	**445,165**	**130,118**	**145,175**
Purchase of fixed assets and computer software	(209,900)	(184,146)	(55,165)	(57,353)
Proceeds from sale of non-core assets	450	855	398	125
Purchase of Ethernet operators, net of received cash	(5,285)	-	-	-
Purchase price adjustment for Crowley	(2,775)	-	-	-
Net (purchase)/receipt of treasury bonds / notes	(48)	50	-	-
Purchase of non-controlling interest	(15)	-	-	-
Sale of investments	28	-	-	-
Net cash used in investing activities	**(217,545)**	**(183,241)**	**(54,767)**	**(57,228)**
Government grants received	6,595	601	-	-
Transfer from restricted cash	-	2,051	129,601	2,051
Proceeds from borrowings	-	50,000	-	-
Repurchase of own shares	(70,487)	(144,198)	(128,310)	-
Finance lease payments	(4,131)	(1,815)	(736)	(332)
Overdraft	-	(18,751)	25,530	(25,530)
Loan repayments	(116,981)	(115,000)	(65,000)	(50,000)
Interest repayments	(24,695)	(44,382)	(8,694)	(7,011)
Payments of fees relating to bank loans	-	(2,157)	(1,713)	(444)
Net cash used in financing activities	**(209,699)**	**(273,651)**	**(49,322)**	**(81,266)**
Net change in cash and short-term deposits	**(25,071)**	**(11,727)**	**26,029**	**6,681**
Effect of exchange rate change on cash and cash equivalents	(316)	(44)	68	(151)
Cash and short-term deposits at the beginning of the period	156,509	142,702	98,304	124,401
Cash and short-term deposits at the end of the period	**131,122**	**130,931**	**124,401**	**130,931**

Definitions	
Active headcount	• full-time employment equivalent with regard to employees who are not during maternity leaves, non-paid leaves nor long-term sick leaves (above 33 days during calendar year), who are not at military service or who were relieved from the obligation to perform work
Backbone	• a telecommunications network designed to carry the telecommunications traffic between the main junctions of the network;
Bitstream access	• a type of regulatory broadband access enabling provision of broadband service by an altnet to customers connected by a copper line owned by the incumbent. The altnet connects to the incumbent's data network and may only offer services identical to those of the incumbent, paying it on a retail minus basis for use of its network.
Broadband SAC	• a cost per unit related to the acquisition of new customers through broadband access (i.e., Bitstream, LLU, WiMAX, xDSL), including a one-time payment to the incumbent, sales commissions, postal services and the cost of modems sold;
Broadband ARPU	• average monthly revenue per broadband port during the period; Broadband ARPU is obtained by dividing the amount of monthly revenues from data services related to provisioning fixed Internet access by the average number of broadband ports, in each case for the referenced three-month period; Where significant promotional discounts are given at the beginning of contracts, revenues are averaged over the life of the contract.
Broadband port	• a broadband port which is active at the end of a given period;
Cash	• cash and cash equivalents at the end of period;
Cost of network operations and maintenance	• cost of rentals of lines and telecommunications equipment, as well as maintenance, services and related expenses necessary to operate our network;
Data revenues	• revenues from provisioning Frame Relay (including IP VPN-virtual private network services), lease of lines (including leased lines for carriers), Internet fixed-access services (provided, among others, through bitsteam and WiMAX types of access) and IP Transit;
Direct voice revenues	• telecommunications revenues from voice services offered by Netia to its subscribers (through various types of access, including, among others, WiMAX). Direct voice services include the following traffic fractions: local calls, domestic long-distance (DLD) calls, international long distance (ILD) calls, fixed-to-mobile calls and other services (incl. Internet dial-in, emergency calls and 0-80x/0-70x -type calls originated by Netia's subscribers);
DSLAM	• technical infrastructure that splits data from voice traffic over a copper line and is deployed in the local network of a telecommunications operator to provide ADSL services to customers connected to a given local network node.
EBITDA / Adjusted EBITDA	• to supplement the reporting of our consolidated financial information under IFRS, we will continue to present certain financial measures, including EBITDA. We define EBITDA as profit/(loss) as measured by IFRS, adjusted for depreciation and amortization, financial income and expense, income taxes and results of investments in associates. EBITDA has been further adjusted for a non-cash gain on reversal of earlier impairment charges, provision for universal service obligation payment, one-off restructuring expenses related to the cost reduction program, M&A expenses, New Netia integration expenses, a gain on disposal of the transmission equipment to P4 and a positive accounting impact from the settlement agreement with the incumbent and is therefore defined as Adjusted EBITDA. We believe EBITDA and related measures of cash flow from operating activities serve as useful supplementary financial indicators in measuring the operating performance of telecommunication companies. EBITDA is not an IFRS measure and should not be considered as an alternative to IFRS measures of profit/(loss) or as an indicator of operating performance or as a measure of cash flows from operations under IFRS or as an indicator of liquidity. The presentation of EBITDA, however, enables investors to focus on period-over-period operating performance, without the impact of non-operational or non-recurring items. It is also among the primary indicators we use in planning and operating the business. You should note that EBITDA is not a uniform or standardized measure and the calculation of EBITDA, accordingly, may vary significantly from company to company, and by itself provides no grounds for comparison with other companies;
Headcount	• full time employment equivalents;
Indirect voice revenues	• telecommunications revenues from the services offered through Netia's prefix (1055) or Tele2 Polska's prefix (1061) to customers being subscribers of other operators. Indirect access services include the following traffic fractions: domestic long-distance (DLD) calls, international long distance (ILD) calls and fixed-to-mobile calls;

Interconnection charges	• payments made by Netia to other operators for origination, termination or transfer of traffic using other operators' networks;
Interconnection revenues	• payments made by other operators to Netia for origination, termination or transfer of traffic using Netia's network, netted against the cost of traffic termination;
Local Loop Unbundling (LLU)	• a type of regulatory broadband access enabling provision of broadband service by an altnet to customers connected by a copper line owned by the incumbent. The altnet installs DSLAM equipment at the incumbent's local network node and connects it to its own backbone network. The altnet may offer broadband and voice service to any customer connected by the incumbent's copper line to the given node. The alnet can offer an unrestricted range of services and pays the incumbent space rental and monthly fees per customer line used.
Professional services	• costs of legal, financial and other services (excluding insurance and taxes and fees, which are presented separately) provided to Netia by third parties;
Other telecommunications services revenues	• revenues from TV, mobile voice and mobile data services, revenues from provisioning Internet dial-in services for Netia's indirect customers (based on a call-back principle and an access number (0-20)); revenues from provisioning free-phone, split-charge and premium rate services (i.e., 0-800, 0-801 and 0-70x type services), netted against the cost of revenue sharing; as well as other non-core revenues;
Radiocommunications revenue	• revenues from radio-trunking services provided by Netia's subsidiary, UNI-Net Poland Sp. z o.o.;
Subscriber line	• a connected line which became activated and generated revenue at the end of the period;
Voice ARPU	• average monthly revenue per direct voice line during the period; ARPU is obtained by dividing the amount of monthly revenues from direct voice services (excluding installation fees) by the average number of subscriber lines, in each case for the referenced three-month period;
Wholesale Line Rental (WLR)	• a type of regulatory voice access enabling provision of voice service by an altnet to customers connected by a copper line owned by the incumbent. The altnet connects to the incumbent's voice network and charges the customer for both line rental and calls made. The incumbent receives a payment for line rental plus call origination fees and keeps all interconnection revenues from incoming calls.
Wholesale services	• revenues from providing commercial network services such as voice termination, incoming Voice over Internet Protocol (VoIP), telehousing and collocation as well as backbone-based services.

Conference call on the Q3 2013 results

Netia management will hold a conference call to review the results on November 7, 2013 at 09:00 AM (UK) / 10:00 AM (Continent) / 04:00 AM (Eastern).

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Replay number:
(UK) +44 20 8196 1998
Passcode: 5860732#

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

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

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