2013

Quarterly Financial Report

Containing:

- Independent auditor's review report
- Interim condensed consolidated financial statements as at and for the nine-month period ended September 30, 2013

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NETIA

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Netia S.A. ('the Group') as at September 30, 2013 and the related interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of cash flows, interim condensed consolidated statement of changes in equity for the 9 months period then ended and notes to interim condensed consolidated financial statements ('the interim condensed consolidated financial statements').

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

Scope of review

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

Conclusion

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

Convenience translations

The convenience translations are disclosed as part of the interim condensed consolidated financial statements. The convenience translation for the 9 months period ended September 30, 2013 has been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at September 30, 2013 of PLN 4.2163 to EUR 1.00. We have not reviewed these translations and accordingly we do not report thereon. The Euro amounts presented in these accompanying interim condensed consolidated financial statements should not be construed as a representation that the PLN amounts have been or could have been converted to Euro at this rate or at any other rate.

Ernst & Young Audyt sp zoo sp. k.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
(formerly: Ernst & Young Audit sp. z o.o.)

Warsaw, November 6, 2013

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As at and for the nine-month period ended September 30, 2013

Index to the interim condensed consolidated financial statements

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at September 30, 2013

(All amounts in thousands, except as otherwise stated)

	Note	September 30, 2013 (PLN)	December 31, 2012 (PLN)	Convenience Translation September 30, 2013 (EUR)
ASSETS				
Non-current assets				
Property, plant and equipment, net	5	1,957,160	2,066,304	464,189
Intangible assets	6	545,418	597,455	129,359
Investment property	8	26,067	-	6,182
Deferred income tax assets	14	89,194	101,687	21,155
Derivative financial instruments	9	595	-	141
Available for sale financial assets		116	115	28
Long term receivables		-	1	-
Prepaid expenses and accrued income		6,170	11,082	1,463
Total non-current assets		**2,624,720**	**2,776,644**	**622,517**
Current assets				
Inventories		2,043	2,094	485
Trade and other receivables		195,330	248,788	46,327
Prepaid expenses and accrued income		30,425	33,660	7,216
Derivative financial instruments	9	39	-	9
Financial assets at fair value through profit and loss		22	15	5
Held to maturity investments		-	49	-
Restricted cash	7	13	2,263	3
Cash and short term deposits	7	130,931	142,702	31,054
		358,803	**429,571**	**85,099**
Assets held for sale	8	-	26,770	-
Total current assets		**358,803**	**456,341**	**85,099**
Total assets		**2,983,523**	**3,232,985**	**707,616**

Mirosław Godlewski
President of the Company

Jonathan Eastick
Member of the Management Board
Chief Financial Officer

Tom Ruhan
Member of the Management Board

Mirosław Suszek
Member of the Management Board

Warsaw, Poland
November 6, 2013

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

(All amounts in thousands, except as otherwise stated)

	Note	September 30, 2013 (PLN)	December 31, 2012 (PLN)	Convenience Translation September 30, 2013 (EUR)
EQUITY				
Share capital	10	386,281	386,281	91,616
Treasury shares	10	(251,012)	(106,814)	(59,534)
Supplementary capital		1,971,500	2,060,076	467,590
Retained earnings		71,713	(62,432)	17,009
Other components of equity		15,262	19,184	3,620
Total equity		**2,193,744**	**2,296,295**	**520,301**
LIABILITIES				
Non-current liabilities				
Bank loans	11	321,457	384,452	76,241
Provisions		19,177	18,189	4,548
Deferred income tax liability	14	21,027	17,683	4,987
Deferred income		18,856	20,769	4,472
Derivative financial instruments	9	2,862	5,741	679
Other long term liabilities		2,841	4,232	674
Total non-current liabilities		**386,220**	**451,066**	**91,601**
Current liabilities				
Trade and other payables		218,344	260,136	51,785
Derivative financial instruments	9	5,421	7,268	1,286
Borrowings	11	126,697	166,197	30,049
Provisions		11,838	14,200	2,808
Deferred income		41,259	37,823	9,786
Total current liabilities		**403,559**	**485,624**	**95,714**
Total liabilities		**789,779**	**936,690**	**187,315**
Total equity and liabilities		**2,983,523**	**3,232,985**	**707,616**

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended September 30, 2013	Nine-month period ended September 30, 2013	Three-month period ended September 30, 2012	Nine-month period ended September 30, 2012	Convenience Translation Nine-month period ended September 30, 2013
		(PLN)	(PLN)	(PLN)	(PLN)	(EUR)
CONDENSED CONSOLIDATED INCOME STATEMENT						
Revenue		**457,076**	**1,425,258**	**521,073**	**1,601,824**	**338,035**
Cost of sales		(300,972)	(952,510)	(362,946)	(1,120,789)	(225,911)
Gross profit		**156,104**	**472,748**	**158,127**	**481,035**	**112,124**
Selling and distribution costs		(87,565)	(270,463)	(89,275)	(297,499)	(64,147)
General and administration costs		(40,997)	(129,600)	(45,137)	(156,539)	(30,738)
Other income		3,259	8,257	4,636	17,374	1,958
Other expenses		(563)	(1,657)	(958)	(2,868)	(393)
Other gains/(losses), net	12	2,588	7,253	(45)	2,744	1,720
Operating profit		**32,826**	**86,538**	**27,348**	**44,247**	**20,524**
Finance income	13	566	3,680	669	4,763	873
Finance costs	13	(8,389)	(26,848)	(11,017)	(38,166)	(6,368)
Profit before income tax		**25,003**	**63,370**	**17,000**	**10,844**	**15,029**
Income tax benefit/ (charge)	14	(10,937)	(27,576)	(6,965)	10,363	(6,540)
Profit		**14,066**	**35,794**	**10,035**	**21,207**	**8,489**
Profit attributable to owners of the Company		**14,066**	**35,794**	**10,035**	**21,207**	**8,489**
Earnings per share (expressed in PLN per share)						
- basic		0.04	0.10	0.03	0.06	0.03
- diluted		0.04	0.10	0.03	0.06	0.03

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended September 30, 2013 (PLN)	Nine-month period ended September 30, 2013 (PLN)	Three-month period ended September 30, 2012 (PLN)	Nine-month period ended September 30, 2012 (PLN)	Convenience Translation Nine-month period ended September 30, 2013 (EUR)
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME						
Profit		**14,066**	**35,794**	**10,035**	**21,207**	**8,489**
Interest rate cash flow hedges	9	752	3,022	(2,222)	(4,976)	717
Foreign exchange rate cash flow hedges (equipment and construction contracts)	9	(1,186)	1,812	(2,795)	(4,147)	430
Foreign exchange rate cash flow hedges (acquisitions)		-	-	-	(203)	-
Income tax relating to components of other comprehensive income		88	(939)	862	1,705	(223)
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**(346)**	**3,895**	**(4,155)**	**(7,621)**	**924**
TOTAL COMPREHENSIVE INCOME		**13,720**	**39,689**	**5,880**	**13,586**	**9,413**

(All amounts in thousands, except as otherwise stated)

	Note	Share capital	Treasury shares	Supplementary capital: Share premium	Supplementary capital: Other supplementary capital	Retained earnings	Other components of equity: Employee share option scheme	Other components of equity: Hedging reserve	Other components of equity: Other reserve	Total
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2013		**386,281**	**(106,814)**	**1,324,693**	**735,383**	**(62,432)**	**19,173**	**(9,764)**	**9,775**	**2,296,295**
Profit for the period		-	-	-	-	35,794	-	-	-	35,794
Other comprehensive income		-	-	-	-	-	-	3,895	-	3,895
Total comprehensive income		-	-	-	-	35,794	-	3,895	-	39,689
Coverage of Netia's 2012 net loss		-	-	-	(84,400)	94,175	-	-	(9,775)	-
Coverage of Netia's loss on merger		-	-	-	(4,176)	4,176	-	-	-	-
Repurchase of own shares	10	-	(144,198)	-	-	-	-	-	-	(144,198)
Employee share option scheme:										
- value of services provided	10	-	-	-	-	-	1,958	-	-	1,958
Balance as at September 30, 2013		**386,281**	**(251,012)**	**1,324,693**	**646,807**	**71,713**	**21,131**	**(5,869)**	**-**	**2,193,744**

(All amounts in thousands, except as otherwise stated)

				Supplementary capital			Other components of equity					
	Note	Share capital (PLN)	Treasury shares (PLN)	Share premium (PLN)	Other supplementary capital (PLN)	Retained earnings (PLN)	Employee share option scheme (PLN)	Hedging reserve (PLN)	Other reserve (PLN)	Total (PLN)	Non-controlling interest	Total equity
Balance as at January 1, 2012		**391,602**	**(49,582)**	**1,357,768**	**509,653**	**251,012**	**38,486**	**1,429**	**-**	**2,500,368**	**5**	**2,500,373**
Profit for the period		-	-	-	-	21,207	-	-	-	21,207	-	21,207
Other comprehensive loss		-	-	-	-	-	-	(7,621)	-	(7,621)	-	(7,621)
Total comprehensive income		-	-	-	-	21,207	-	(7,621)	-	13,586	-	13,586
Transfer of Netia's 2011 profit		-	-	-	225,004	(225,004)	-	-	-	-	-	-
Transfer of 2010 adjustment to Netia's 2009 and earlier profits		-	-	-	726	(726)	-	-	-	-	-	-
Repurchase of own shares		-	(70,487)	-	-	-	-	-	-	(70,487)	-	(70,487)
Redemption of own shares		(9,775)	49,582	(49,582)	-	-	-	-	9,775	-	-	-
Employee share option scheme:												
- value of services provided		-	-	-	-	-	1,327	-	-	1,327	-	1,327
- issuance of series K shares		4,385	-	15,690	-	-	(20,075)	-	-	-	-	-
Cost of issuance		-	-	(124)	-	-	-	-	-	(124)	-	(124)
Acquisition of non-controlling interest		-	-	-	-	(10)	-	-	-	(10)	(5)	(15)
Balance as at September 30, 2012		**386,212**	**(70,487)**	**1,323,752**	**735,383**	**46,479**	**19,738**	**(6,192)**	**9,775**	**2,444,660**	**-**	**2,444,660**

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

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the nine-month period ended September 30, 2013

(All amounts in thousands, except as otherwise stated)

	Note	Nine-month period ended September 30, 2013	Nine-month period ended September 30, 2012	Convenience Translation Nine-month period ended September30, 2013
		(PLN)	(PLN)	(EUR)
Cash flows from operating activities:				
Profit		**35,794**	**21,207**	**8,489**
Adjustments for:				
Depreciation and amortization	5, 6, 8	330,983	363,199	78,501
Impairment charges for specific individual assets	5	1,440	1,895	342
Reversal of impairment charges		-	(293)	-
Deferred income tax (benefit)/charge	14	14,898	(10,294)	3,533
Interest expense and fees charged on bank loans	13	23,741	35,692	5,631
Other interest charged		210	384	50
Share-based compensation		2,627	2,329	623
Fair value losses/ (gains) on financial assets / liabilities		(7)	1	(2)
Fair value losses/(gains) on derivative financial instruments	9	(424)	1,936	(100)
Foreign exchange losses		44	316	10
Loss/(gain) on disposal of fixed assets		(66)	636	(16)
Changes in working capital	16	35,925	(14,835)	8,520
Net cash provided by operating activities		**445,165**	**402,173**	**105,581**
Cash flows from investing activities:				
Purchase of fixed assets and computer software		(184,146)	(209,900)	(43,675)
Proceeds from sale of fixed assets		855	450	203
Purchase of Ethernet operators, net of cash received		-	(5,285)	-
Purchase price adjustment for Crowley		-	(2,775)	-
Purchase of non-controlling interest		-	(15)	-
Sale of investments		-	28	-
Purchase of treasury bonds / notes		-	(48)	-
Repurchase of treasury bonds / notes		50	-	12
Net cash used in investing activities		**(183,241)**	**(217,545)**	**(43,460)**
Cash flows from financing activities:				
Government grants received		601	6,595	143
Transfer from restricted cash		2,051	-	486
Proceeds from borrowings	11	50,000	-	11,859
Loan payments	11	(115,000)	(116,981)	(27,275)
Payments of interests, fees and interest rate swap settlements relating to bank loans		(46,539)	(24,695)	(11,038)
Repurchase of own shares	4,15	(144,198)	(70,487)	(34,200)
Finance lease payments		(1,815)	(4,131)	(430)
Net cash used in financing activities		**(254,900)**	**(209,699)**	**(60,455)**
Net change in cash and cash equivalents		**7,024**	**(25,071)**	**1,666**
Exchange losses on cash and cash equivalents		**(44)**	**(316)**	**(10)**
Cash and cash equivalents at beginning of period	7	123,951	156,509	29,398
Cash and cash equivalents at end of period		**130,931**	**131,122**	**31,054**

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

1. The Company and the Netia Group

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

The interim condensed consolidated financial statements of Netia S.A. for the nine-month period ended September 30, 2013 comprise the Company and its subsidiaries.

These interim condensed consolidated financial statements were approved for issuance by the Company's Management Board on November 6, 2013 and were subject to a review by an independent auditor.

The Company and its subsidiaries (together, the "Netia Group") is the largest alternative fixed-line telecommunication operator in Poland. The Netia Group provides various voice telephony, data transmission, television, mobile voice and broadband services. The Group's services are provided to retail customers by sales organizations targeting residential, small business and large corporate customers and also to other telecommunications operators via a Carrier sales unit. Between inception and 2005, services were principally provided over copper access networks built by the Netia Group.

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

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

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

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

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

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

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

In 2013 Netia acquired a cable TV network covering 446,000 (not in thousands) homes passed in Warsaw and Kraków from UPC Polska Sp. z o.o. (UPC). The network 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 Netia Group is also engaged in the installation and supply of specialized mobile radio communication services (public trunking) in Poland through its subsidiary UNI-Net Poland Sp. z o.o. (established in May 2009 through a corporate separation from UNI-Net Sp. z o.o.).

The Company's ordinary shares have been listed on the Warsaw Stock Exchange ("WSE") since July 2000. The Company's shares are currently a component of the WIG30 and WIG30TR indexes comprising the WSE's 30 biggest and most liquid stocks. The Company is subject to periodic reporting requirements under the Polish regulations regarding reporting for companies listed on the WSE.

Going concern

As at September 30, 2013, the Group's equity amounted to PLN 2,193,744 and the Netia Group had negative net working capital of PLN 44,756 inclusive of cash available of PLN 130,931. As at September 30, 2013 the Netia Group had senior secured debt of PLN 448,154. In addition, the Netia Group had a further PLN 200,000 of undrawn senior secured debt facilities available for the financing of capital expenditures and operating expenses of the Netia Group and for payments to shareholders of the Company. Netia's operations were free cash flow generative in 2012 and in the nine-month period ended September 30, 2013 and Management expects this to continue over the medium term. Based on this position, the Management does not believe that events or conditions exist which may cast significant doubt on the Company's ability to continue as a going concern.

2. Summary of significant accounting policies

Basis of preparation

Following European Union regulations, commencing January 1, 2005 Netia as a public company in Poland prepares consolidated financial statements, as required by the Accounting Act of September 29, 1994 (Journal of Laws of 2009, No. 152, item 1,223 with later amendments, "the Accounting Act") in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). As of November 6, 2013, in light of the current process of IFRS endorsement in the EU and the nature of the Netia Group's activities, there is no difference between IFRS applied by the Netia Group and IFRS endorsed by the EU.

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

Certain Group entities (acquired in 2012 and 2013) keep books of accounts in accordance with accounting policies specified in the Accounting Act and regulations issued based on that Act ("Polish Accounting Standards"). The consolidated financial statements include a number of adjustments not included in the books of account of the Group entities, which were made in order to bring the financial statements of those entities into conformity with IFRS.

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

All Euro amounts shown as supplementary information in the consolidated financial statements have been translated from PLN only as a matter of arithmetic computation using the official rate of the National Bank of Poland at September 30, 2013 of PLN 4,2163 to EUR 1.00. These amounts are included for the convenience of the reader only. Such translation should not be construed as a representation that the PLN amounts have been or could be converted into Euros at this or any other rate.

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

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

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

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

Changes in estimates

In the nine-month period ended September 30, 2013 the Netia Group reassessed the useful lives of its computer software, fixed telecommunication network, telecommunications equipment and machinery and equipment and in consequence, for certain non-current assets the remaining period over which they will be depreciated was extended or shortened and depreciation rates were changed accordingly.

(All amounts in thousands, except as otherwise stated)

The following table summarizes main changes in these estimates:

Non-current assets	Main changes in the period of depreciation	Increase/ (decrease) in the depreciation charge recognized in current period	Relevant (decrease) /increase in the depreciation charge for the remaining useful life
Computer software	- useful lives of certain assets were shortened until the end of 2013	114	(114)
Fixed telecommunications network	- useful lives of certain assets were extended until the end of 2014	(88)	88
Telecommunications equipment	- useful lives of certain assets were extended until the end of 2014, 2015 and 2017	(4,650)	4,650
Telecommunications equipment	- useful lives of certain assets were shortened until the end of 2013	937	(937)
Machinery and equipment	- useful lives of certain assets were extended until the end of 2014 and 2015	(6)	6
Total impact		**(3,693)**	**3,693**

New standards, interpretations and amendments to existing standards

Adoption of new accounting standards, interpretations and amendments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Amendments to IAS 27 reissued as IAS 27 "Separate Financial Statements", effective for annual periods beginning on or after 1 January 2013. Consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10. In EU effective at the latest for annual periods beginning on or after January 1, 2014.

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

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

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

- IFRIC 21 "Levies" – effective for financial years beginning on or after 1 January 2014. The interpretation has not yet been endorsed by EU.

- Amendments to IAS 36 "Recoverable Amounts Disclosures for Non-Financial Assets" (issued on 29 May 2013) – effective for financial years beginning on or after 1 January 2014. The amendments have not yet been endorsed by EU.

- Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" (issued on 27 June 2013) – effective for financial years beginning on or after 1 January 2014. The amendments have not yet been endorsed by EU.

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

3. Segment information

Following a sales force reorganization that was effective from July1, 2013, for management purposes the Netia Group is organized into business units based on their customer segments, and has two reportable operating segments, as follows:

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

Starting from the third quarter of 2013 the Netia Group modified retrospectively the presentation of its operating segments, which were reorganized into two main divisions: B2B (comprising the previous Corporate and Carrier segments and the SME component of the previous SOHO/SME segment) and B2C (comprising the previous Residential segment and the SOHO component of previous SOHO/SME segment). Moreover, the previous Corporate segment and SME sub-segments are now presented jointly as a new Business sub-segment. The previous segments monitored by the Management were as follows:

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

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

Group subsidiaries Petrotel and Uni-Net are assigned to the unallocated segment as they operate as separate organizations from the rest of the Netia Group.

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

The following tables present revenue and profit / (loss) information regarding the Netia Group's operating segments for the nine-month and the three-month periods ended September 30, 2013 and 2012, respectively:

(All amounts in thousands, except as otherwise stated)

	Home	SOHO	**B2C**	Business	Carriers	**B2B**	**Total reportable segments**	Unallocated	Total
	(PLN)	(PLN)	**(PLN)**	(PLN)	(PLN)	**(PLN)**	**(PLN)**	(PLN)	(PLN)
Nine-month period ended September 30, 2013									
Revenue from external customers	708,593	124,460	**833,053**	432,815	134,875	**567,690**	**1,400,743**	24,515	1,425,258
Adjusted EBITDA	175,942	46,017	**221,959**	232,924	58,308	**291,232**	**513,191**	(86,522)	426,669
Expenses incurred on mergers and acquisitions	-	-	**-**	-	-	**-**	**-**	(200)	(200)
Integration costs	-	-	**-**	-	-	**-**	**-**	(5,817)	(5,817)
Restructuring costs	-	-	**-**	-	-	**-**	**-**	(2,850)	(2,850)
Impairment loss	-	-	**-**	-	-	**-**	**-**	(431)	(431)
USO provision	-	-	**-**	-	-	**-**	**-**	150	150
EBITDA	175,942	46,017	**221,959**	232,924	58,308	**291,232**	**513,191**	(95,670)	417,521
Depreciation and Amortization	(56,862)	(29,005)	**(85,867)**	(150,197)	(51,119)	**(201,316)**	**(287,183)**	(43,800)	(330,983)
Operating profit / (loss)	119,080	17,012	**136,092**	82,727	7,189	**89,916**	**226,008**	(139,470)	86,538
Finance income/ (costs), net	-	-	**-**	-	-	**-**	**-**	(23,168)	(23,168)
Income tax charge	-	-	**-**	-	-	**-**	**-**	(27,576)	(27,576)
Profit / (Loss)	119,080	17,012	**136,092**	82,727	7,189	**89,916**	**226,008**	(190,214)	35,794
Capital expenditure	51,800	4,451	**56,251**	50,790	15,958	**66,748**	**122,999**	48,680	171,679

(All amounts in thousands, except as otherwise stated)

	Home	SOHO	**B2C**	Business	Carriers	**B2B**	**Total reportable segments**	Unallocated	Total
	(PLN)	(PLN)	**(PLN)**	(PLN)	(PLN)	**(PLN)**	**(PLN)**	(PLN)	(PLN)
Nine-month period ended September 30, 2012									
Revenue from external customers	817,511	130,716	**948,227**	451,812	177,255	**629,067**	**1,577,294**	24,530	1,601,824
Adjusted EBITDA	191,442	46,905	**238,347**	239,937	67,028	**306,965**	**545,312**	(98,671)	446,641
Expenses incurred on mergers and acquisitions	-	-	**-**	-	-	**-**	**-**	(950)	(950)
Integration costs	-	-	**-**	-	-	**-**	**-**	(16,505)	(16,505)
Restructuring costs	-	-	**-**	-	-	**-**	**-**	(21,740)	(21,740)
EBITDA	191,442	46,905	**238,347**	239,937	67,028	**306,965**	**545,312**	(137,866)	407,446
Depreciation and Amortization	(93,477)	(35,020)	**(128,497)**	(132,215)	(48,986)	**(181,201)**	**(309,698)**	(53,501)	(363,199)
Operating profit / (loss)	97,965	11,885	**109,850**	107,722	18,042	**125,764**	**235,614**	(191,367)	44,247
Finance income/ (costs), net	-	-	**-**	-	-	**-**	**-**	(33,403)	(33,403)
Income tax benefit	-	-	**-**	-	-	**-**	**-**	10,363	10,363
Profit / (Loss)	97,965	11,885	**109,850**	107,722	18,042	**125,764**	**235,614**	(214,407)	21,207
Capital expenditure	66,725	4,934	**71,659**	52,811	15,774	**68,585**	**140,244**	62,329	202,573

(All amounts in thousands, except as otherwise stated)

	Home	SOHO	**B2C**	Business	Carriers	**B2B**	**Total reportable segments**	Unallocated	Total
	(PLN)	(PLN)	**(PLN)**	(PLN)	(PLN)	**(PLN)**	**(PLN)**	(PLN)	(PLN)
Three-month period ended September 30, 2013									
Revenue from external customers	228,464	41,559	**270,023**	140,519	38,801	**179,320**	**449,343**	7,733	457,076
Adjusted EBITDA	58,524	17,376	**75,900**	77,961	19,059	**97,020**	**172,920**	(28,797)	144,123
Expenses incurred on mergers and acquisitions	-	-	**-**	-	-	**-**	**-**	(81)	(81)
Integration costs	-	-	**-**	-	-	**-**	**-**	(1,032)	(1,032)
Restructuring costs	-	-	**-**	-	-	**-**	**-**	(668)	(668)
USO provision	-	-	**-**	-	-	**-**	**-**	150	150
EBITDA	58,524	17,376	**75,900**	77,961	19,059	**97,020**	**172,920**	(30,428)	142,492
Depreciation and Amortization	(18,878)	(9,630)	**(28,508)**	(49,866)	(16,972)	**(66,838)**	**(95,346)**	(14,320)	(109,666)
Operating profit / (loss)	39,646	7,746	**47,392**	28,095	2,087	**30,182**	**77,574**	(44,748)	32,826
Finance income/ (costs), net	-	-	**-**	-	-	**-**	**-**	(7,823)	(7,823)
Income tax charge	-	-	**-**	-	-	**-**	**-**	(10,937)	(10,937)
Profit / (Loss)	39,646	7,746	**47,392**	28,095	2,087	**30,182**	**77,574**	(63,508)	14,066
Capital expenditure	18,650	1,491	**20,141**	16,905	5,991	**22,896**	**43,037**	20,851	63,888

(All amounts in thousands, except as otherwise stated)

	Home	SOHO	**B2C**	Business	Carriers	**B2B**	**Total reportable segments**	Unallocated	Total
	(PLN)	(PLN)	**(PLN)**	(PLN)	(PLN)	**(PLN)**	**(PLN)**	(PLN)	(PLN)
Three-month period ended September 30, 2012									
Revenue from external customers	264,732	42,822	**307,554**	149,708	55,162	**204,870**	**512,424**	8,649	521,073
Adjusted EBITDA	66,710	15,872	**82,582**	81,521	22,044	**103,565**	**186,147**	(28,697)	157,450
Expenses incurred on mergers and acquisitions	-	-	**-**	-	-	**-**	**-**	(256)	(256)
Integration costs	-	-	**-**	-	-	**-**	**-**	(4,537)	(4,537)
Restructuring costs	-	-	**-**	-	-	**-**	**-**	(4,230)	(4,230)
EBITDA	66,710	15,872	**82,582**	81,521	22,044	**103,565**	**186,147**	(37,720)	148,427
Depreciation and Amortization	(29,718)	(11,705)	**(41,423)**	(45,793)	(16,159)	**(61,952)**	**(103,375)**	(17,704)	(121,079)
Operating profit / (loss)	36,992	4,167	**41,159**	35,728	5,885	**41,613**	**82,772**	(55,424)	27,348
Finance income/ (costs), net	-	-	**-**	-	-	**-**	**-**	(10,348)	(10,348)
Income tax charge	-	-	**-**	-	-	**-**	**-**	(6,965)	(6,965)
Profit / (Loss)	36,992	4,167	**41,159**	35,728	5,885	**41,613**	**82,772**	(72,737)	10,035
Capital expenditure	18,829	1,605	**20,434**	17,044	6,467	**23,511**	**43,945**	29,807	73,752

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

	Three -month period ended September 30, 2013	Nine -month period ended September 30, 2013	Three -month period ended September 30, 2012	Nine -month period ended September 30, 2012
	(PLN)	(PLN)	(PLN)	(PLN)
Operating profit for reportable segments	77,574	226,008	82,772	235,614
Operating profit for Petrotel business	425	2,907	1,525	3,919
Operating loss for the Uni-Net radio communication business	(70)	(604)	(152)	(470)
General fixed costs (incl. administration, IT, professional services)	(33,833)	(104,671)	(35,171)	(122,616)
Reorganization and restructuring costs	(668)	(2,850)	(4,230)	(21,740)
Integration costs	(1,032)	(5,817)	(4,537)	(16,505)
Other operating income	2,797	9,481	2,914	13,796
Depreciation and amortization of unallocated assets (excluding Petrotel and radio communication business)	(12,367)	(37,916)	(15,773)	(47,751)
Financial income/(costs), net	(7,823)	(23,168)	(10,348)	(33,403)
Income tax benefit/ (charge)	(10,937)	(27,576)	(6,965)	10,363
Profit	**14,066**	**35,794**	**10,035**	**21,207**

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

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

Acquisition of cable television network

On May 10, 2013 following the receipt of consent from the President of the Office of Competition and Consumer Protection Netia purchased from UPC Polska Sp. z o.o. and UPC Poland Holding B.V. all shares in Centrina Sp. z o.o. ("Centrina") constituting 100% of the shares in the share capital of Centrina and representing 100% of the votes at the meetings of the shareholders of Centrina and all shares in Dianthus Sp. z o.o. ("Dianthus") constituting 100% of the shares in the share capital of Dianthus and representing 100% of the votes at the meetings of the shareholders of Dianthus. 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 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 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 purchase own shares

On March 13, 2013 Netia, in connection with the implementation by the Company of the General Program (see note 15), 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 a repurchase of 16,012,630 (not in thousands) shares for PLN 128,101 plus transaction costs of PLN 209.

(All amounts in thousands, except as otherwise stated)

5. Property, plant and equipment

Current period:

	Buildings (PLN)	Land (PLN)	Fixed telecommunications network (PLN)	Telecommunications equipment (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at January 1, 2013	116,625	7,860	2,515,679	2,388,304	137,503	88,958	2,173	113,786	5,370,888
Additions	-	-	-	587	101	451	-	133,590	134,729
Purchase of operational networks	-	-	6,979	175	-	-	-	-	7,154
Transfers	264	9	41,469	74,066	3,392	4,215	-	(123,415)	-
Disposals	(6)	-	(409)	(3,224)	(260)	(4,278)	(659)	(158)	(8,994)
Other movements	(18)	-	7,221	(8,717)	1,928	(469)	55	-	-
Gross book value as at September 30, 2013	116,865	7,869	2,570,939	2,451,191	142,664	88,877	1,569	123,803	5,503,777
Accumulated depreciation as at January 1, 2013	41,120	-	1,059,797	1,380,467	84,589	66,393	1,536	-	2,633,902
Depreciation expense	4,996	-	103,073	126,633	7,024	6,395	348	-	248,469
Disposals	(1)	-	(108)	(1,969)	(177)	(3,905)	(562)	-	(6,722)
Other movements	(9)	-	733	(1,733)	1,093	(105)	21	-	-
Accumulated depreciation as at September 30, 2013	46,106	-	1,163,495	1,503,398	92,529	68,778	1,343	-	2,875,649
Accumulated impairment as at January 1, 2013	7,322	-	359,456	277,100	13,980	4,720	18	8,086	670,682
Impairment charge for specific assets	-	-	-	-	-	-	-	1,009	1,009
Impairment charge for assets	73	-	1	231	110	4	-	7	426
Disposals	-	-	(24)	(1)	(26)	(342)	-	(756)	(1,149)
Other movements	-	-	(162)	(73)	228	7	-	-	-
Accumulated impairment as at September 30, 2013	7,395	-	359,271	277,257	14,292	4,389	18	8,346	670,968
Net book value as at January 1, 2013	68,183	7,860	1,096,426	730,737	38,934	17,845	619	105,700	2,066,304
Net book value as at September 30, 2013	**63,364**	**7,869**	**1,048,173**	**670,536**	**35,843**	**15,710**	**208**	**115,457**	**1,957,160**

(All amounts in thousands, except as otherwise stated)

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

Comparative period:

	Buildings (PLN)	Land (PLN)	Fixed telecommunications network (PLN)	Telecommunications equipment (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at January 1, 2012 (restated)	114,326	8,477	2,462,104	2,229,024	127,660	84,291	4,447	107,423	5,137,752
Additions	55	-	914	551	185	1,990	53	176,729	180,477
Transfer to assets held for sale	-	(631)	-	-	-	-	-	(33)	(664)
Transfer from investment property	283	-	156	-	-	2,078	-	-	2,517
Purchase of subsidiary	11	12	80	31	2	74	32	5	247
Transfers	2,209	-	49,508	118,172	8,097	3,639	175	(181,800)	-
Disposals	(162)	(11)	(227)	(1,598)	(2,178)	(6,866)	(920)	(84)	(12,046)
Other movements	(41)	-	(1,088)	(219)	1,035	565	(208)	161	205
Gross book value as at September 30, 2012	116,681	7,847	2,511,447	2,345,961	134,801	85,771	3,579	102,401	5,308,488
Accumulated depreciation as at January 1, 2012	34,287	-	926,780	1,186,824	75,815	60,364	1,159	-	2,285,229
Depreciation expense	5,238	-	102,162	145,923	7,475	6,976	1,819	-	269,593
Transfer from investment property	13	-	98	-	-	2,010	-	-	2,121
Disposals	(40)	-	(22)	(498)	(1,808)	(5,561)	(729)	-	(8,658)
Other movements	(14)	-	(676)	51	687	(48)	-	-	-
Accumulated depreciation as at September 30, 2012	39,484	-	1,028,342	1,332,300	82,169	63,741	2,249	-	2,548,285
Accumulated impairment as at January 1, 2012	7,301	-	359,747	277,530	13,967	5,092	18	4,117	667,772
Impairment charge for specific assets	-	-	-	-	-	-	-	1,895	1,895
Reversal of impairment charge for specific assets	-	-	-	-	-	-	-	(293)	(293)
Transfer from investment property	23	-	28	-	-	68	-	-	119
Disposals	-	-	-	(62)	(307)	(436)	-	(23)	(828)
Other movements	(2)	-	(101)	(182)	285	-	-	-	-
Accumulated impairment as at September 30, 2012	7,322	-	359,674	277,286	13,945	4,724	18	5,696	668,665
Net book value as at January 1, 2012	72,738	8,477	1,175,577	764,670	37,878	18,835	3,270	103,306	2,184,751
Net book value as at September 30, 2012	**69,875**	**7,847**	**1,123,431**	**736,375**	**38,687**	**17,306**	**1,312**	**96,705**	**2,091,538**

(All amounts in thousands, except as otherwise stated)

6. Intangible assets

Current period:

			Licences				Computer software costs			
	Goodwill	Trademark/ other	Local telecommunication licenses / permits	Data communications and internet licenses / permits	Domestic long-distance licenses / permits	WiMAX licenses	Computer software	Capital work in progress	Customer relationships	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Gross book value as at January 1, 2013	359,904	18,266	432,823	7,417	107,354	20,329	437,725	6,200	226,233	1,616,251
Additions	-	-	-	-	-	-	11	29,785	-	29,796
Transfers	-	44	-	-	-	-	29,816	(29,860)	-	-
Disposals	-	-	-	-	-	-	(446)	-	-	(446)
Gross book value as at September 30, 2013	359,904	18,310	432,823	7,417	107,354	20,329	467,106	6,125	226,233	1,645,601
Accumulated amortization as at January 1, 2013	-	8,969	271,194	1,539	68,701	8,047	298,245	-	104,450	761,145
Amortization expense	-	3,402	15,196	-	5,513	1,056	28,595	-	28,049	81,811
Disposals	-	-	-	-	-	-	(411)	-	-	(411)
Accumulated amortization as at September 30, 2013	-	12,371	286,390	1,539	74,214	9,103	326,429	-	132,499	842,545
Accumulated impairment as at January 1, 2013	79,203	-	115,549	5,878	13,231	974	42,617	-	199	257,651
Impairment charge for assets	-	-	-	-	-	-	5	-	-	5
Disposals	-	-	-	-	-	-	(18)	-	-	(18)
Accumulated impairment as at September 30, 2013	79,203	-	115,549	5,878	13,231	974	42,604	-	199	257,638
Net book value as at January 1, 2013	280,701	9,297	46,080	-	25,422	11,308	96,863	6,200	121,584	597,455
Net book value as at September 30, 2013	**280,701**	**5,939**	**30,884**	**-**	**19,909**	**10,252**	**98,073**	**6,125**	**93,535**	**545,418**

(All amounts in thousands, except as otherwise stated)

6. Intangible assets (cont'd)

Comparative period:

			Licences				Computer software costs			
	Goodwill	Trademark/ know how	Local telecommunication licenses / permits	Data communications and internet licenses / permits	Domestic long-distance licenses / permits	WiMAX licenses	Computer software	Capital work in progress	Customer relationships	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Gross book value as at January 1, 2012 (restated)	355,974	17,477	432,823	7,417	107,354	20,329	409,856	5,959	224,529	1,581,718
Additions	-	2	-	-	-	-	6,804	15,291	-	22,097
Purchase of subsidiary	3,930	-	-	-	-	-	-	-	1,704	5,634
Transfers	-	-	-	-	-	-	11,053	(11,053)	-	-
Disposals	-	-	-	-	-	-	(663)	-	-	(663)
Other movements	-	-	-	-	-	-	4,950	(4,995)	-	(45)
Gross book value as at September 30, 2012	359,904	17,479	432,823	7,417	107,354	20,329	432,000	5,202	226,233	1,608,741
Accumulated amortization as at January 1, 2012	-	3,185	242,152	1,539	61,350	6,637	257,894	-	65,238	637,995
Amortization expense	-	3,846	21,782	-	5,513	1,057	31,695	-	29,713	93,606
Disposals	-	-	-	-	-	-	(557)	-	-	(557)
Accumulated amortization as at September 30, 2012	-	7,031	263,934	1,539	66,863	7,694	289,032	-	94,951	731,044
Accumulated impairment as at January 1, 2012	-	-	115,549	5,878	13,231	974	42,617	-	199	178,448
Disposals	-	-	-	-	-	-	(20)	-	-	(20)
Accumulated impairment as at September 30, 2012	-	-	115,549	5,878	13,231	974	42,597	-	199	178,428
Net book value as at January 1, 2012	355,974	14,292	75,122	-	32,773	12,718	109,345	5,959	159,092	765,275
Net book value as at September 30, 2012	**359,904**	**10,448**	**53,340**	**-**	**27,260**	**11,661**	**100,371**	**5,202**	**131,083**	**699,269**

7. Cash, short term deposits and restricted cash

	September 30, 2013 (PLN)	December 31, 2012 (PLN)
Cash and short term deposits	130,931	142,702

	September 30, 2013 (PLN)	December 31, 2012 (PLN)
Restricted cash	13	2,263

As at September 30, 2013, restricted cash in the amount of PLN 13 represented collateral securing payments to vendors.

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

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

	September 30, 2013 (PLN)	December 31, 2012 (PLN)
Cash and short term deposits	130,931	142,702
Bank overdrafts (see Note 11)	-	(18,751)
Cash and cash equivalents	**130,931**	**123,951**

8. Investment property and assets held for sale

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

The sale agreement with Tilia SKA was not finalized and on March 31, 2013 the Company ceased to classify these assets as held for sale and instead presented them as investment property. The depreciation charge that would have been recognized through March 31, 2013 had the assets not been classified as held for sale amounted to PLN 503 and decreased net book value of the investment property as of March 31, 2013. The fair value of this property was estimated by an independent, professionally qualified valuer at PLN 26,514 as at August 27, 2013.

	Nine-month period ended September 30, 2013 (PLN)	Nine-month period ended September 30, 2012 (PLN)
Gross book value at the beginning of the year	-	34,637
Reclassification to assets held for sale	-	(32,120)
Reclassification to property, plant and equipment	-	(2,517)
Reclassification from assets held for sale	32,786	-
Gross book value at the end of the period	32,786	-
Accumulated depreciation at the beginning of the year	-	7,359
Reclassification to assets held for sale	-	(5,255)
Reclassification to property, plant and equipment	-	(2,121)
Reclassification from assets held for sale	5,256	-
Adjustment for depreciation expense due to reclassification	503	-
Depreciation expense	200	17
Accumulated depreciation at the end of the period	5,959	-
Accumulated impairment at the beginning of the year	-	879
Reclassification to assets held for sale	-	(760)
Reclassification to property, plant and equipment	-	(119)
Reclassification from assets held for sale	760	-
Accumulated impairment at the end of the period	760	**-**
Net book value at the beginning of the year	-	26,399
Net book value at the end of the period	**26,067**	**-**

(All amounts in thousands, except as otherwise stated)

9. Financial instruments

Derivative financial instruments

Derivative financial assets:	September 30, 2013	December 31, 2012
	(PLN)	(PLN)
Forward contracts	39	-
Interest rate swap contracts	595	
	634	**-**
Of which:		
Current	39	-
Non-current	595	-

Derivative financial liabilities:	September 30, 2013	December 31, 2012
	(PLN)	(PLN)
Forward contracts	1,289	3,588
Interest rate swap contracts	6,994	9,421
	8,283	**13,009**
Of which:		
Current	5,421	7,268
Non-current	2,862	5,741

Forward contracts

In order to mitigate the currency risk related to the planned payments to be made under equipment and construction contracts which are indexed to foreign currencies the Company entered into several forward transactions to purchase USD and EUR for periods consistent with currency transaction exposures, generally up to 12 months. For these forward contracts hedge accounting was applied. Net fair value losses on forward contracts recognized in the hedging reserve in equity as of September 30, 2013 amounted to PLN 823 (PLN 686, net of tax). Net fair value gains on forward contracts recognized in other comprehensive income on these contracts in the nine-month period ended September 30, 2013 amounted to PLN 1,812 (PLN 1,447, net of tax). During the nine-month period ended September 30, 2013 PLN 1,480 of net cash losses on closed forward contracts were capitalized, and the ineffective portion of open forward contracts of PLN 21 was recorded as finance costs.

Furthermore, in order to mitigate the currency risk related to the planned payments to be made under commercial contracts associated with various types of operating expense which are linked to foreign currency, the Company entered into several forward transactions to purchase USD and EUR for periods consistent with currency transaction exposures, generally up to 12 months. For these forward contracts hedge accounting was not applied. During the nine-month period ended September 30, 2013, PLN 445 of fair value gains on open forward contracts were recorded as finance income.

Moreover, as of September 30, 2013 the Company had other open forward contracts to purchase EUR with corresponding forward contracts to sell EUR on the same dates. These open contracts to purchase EUR were entered into in 2012 for hedging purposes. Based on revised budgets, planned payments to be made under equipment and construction contracts as well as commercial contracts which are indexed to EUR will be lower than initially planned and some of the forward contracts entered into in 2012 will be not needed for hedging purposes. Consequently, the Company entered into reverse transactions to sell EUR on corresponding dates. During the nine-month period ended September 30, 2013, PLN 21 of fair value losses on open other forward contracts no longer required for hedging purposes were recorded as finance costs. During the same period net cash losses on closed other forward contracts no longer required for hedging purposes amounted to PLN 348.

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

	Hedged nominal amount	Hedged nominal amount	Fair value			
			Asset	Liability	Other comprehensive (loss)/income	Financial (costs)/income
	(EUR)	(USD)	(PLN)	(PLN)	(PLN)	(PLN)
As at September 30, 2013						
Forward transactions related to equipment and construction contracts	3,740	4,320	11	(738)	1,812	-
Forward transactions related to commercial contracts	2,750	3,090	7	(507)	-	445
Other forward transactions to purchase currency	1,230	-	-	(44)	-	(42)
Other forward transaction to sell currency	1,230	-	21	-	-	21
As at September 30, 2012						
Forward transactions related to equipment and construction contracts	7,600	6,050	-	(2,332)	(4,147)	-
Forward transactions related to commercial contracts	3,400	1,650	1	(905)	-	(1,903)
As at December 31, 2012						
Forward transactions related to equipment and construction contracts	7,590	3,410	-	(2,642)	(4,195)	-
Forward transactions related to commercial contracts	6,050	1,650	-	(946)	-	(1,945)

Interests rate risk hedging instruments

In 2012 the Company entered into interest rate swap ("IRS") contracts hedging interest rate risk associated with interest payments in the amount of fifty per cent of all amounts projected to be outstanding under the Term Loan and on May 29, 2013 the Company entered into further interest rate swap contracts increasing the hedged interest rate risk to seventy five per cent of all amounts projected to be outstanding under the Term Loan (See Note 11 Borrowings). For these IRS contracts hedge accounting was applied. As at September 30, 2013 net fair value losses on IRS contracts recognized in the hedging reserve in equity amounted to PLN 6,399 (PLN 5,183, net of tax). Net fair value gains on IRS contracts recognized in other comprehensive income in the nine-month period ended September 30, 2013 amounted to PLN 3,022 (PLN 2,448, net of tax). During the nine-month period ended September 30, 2013, PLN 2,967 of net realized cash losses on IRS contracts increased interest costs.

10. Shareholders' equity

Share capital (not in thousands)

At September 30, 2013 and December 31, 2012, the Company's share capital consisted of 386,279,904 ordinary shares and 1,000 series A1 shares with a par value of PLN 1 per share. Each ordinary share has one vote at the shareholders' meeting. The holder of 1,000 series A1 shares has the right to nominate one member of the Supervisory Board. The majority of votes of the Supervisory Board elect the Management Board. All shares issued by the Company were fully paid and registered in the National Court Registry by the date of signing these consolidated financial statements.

Treasury shares

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

On May 28, 2013 the Company repurchased a further 16,012,630 (not in thousands) shares constituting 4.15% of Company share capital for PLN 128,101 plus transaction costs of PLN 209 (see Note 15).

As a result of these and earlier share buy-backs (see Note 15), Netia held 38,370,130 (not in thousands) treasury shares from a total outstanding share capital of 386,280,904 (not in thousands) shares as at September 30, 2013. On June 28, 2013 the Annual General Meeting of the Company resolved to redeem these treasury shares and the redemption is effective from October 24, 2013 when the notice of redemption filed by the Company was registered by the National Court Registry.

Supplementary capital

The Annual General Meeting of the Company, held on June 28, 2013, resolved that the Company's net loss incurred in the year 2012, in the amount of PLN 94,175 and the uncovered loss from previous years of PLN 4,176 resulting from a merger of a subsidiary with the Company during the year 2012 will be covered in full from the other reserve capital of PLN 9,775 established according to the resolution No. 4 of the Extraordinary General Meeting of Netia S.A. dated 15 December 2011 and in the remaining part from supplementary capital.

Distributable reserves

In accordance with the Polish Code of Commercial Companies of 15 September 2000 (Journal of Laws of 2000, No. 94, item 1037 as amended) only those reserves, which relate to net profits of individual companies shown in their statutory financial statements, are available for distribution to shareholders. As at September 30, 2013, the distributable reserves of Netia S.A. amounted to PLN 325,672.

Stock options (not in thousands)

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

As at September 30, 2013 and December 31, 2012, the total number of options approved by the Supervisory Board and issued under the New Plan was 10,991,000 and 7,322,000 respectively. Out of these approved options 7,666,746 options were outstanding as at September 30, 2013 and 5,405,404 were outstanding as at December 31, 2012. As at September 30, 2013, the weighted average remaining contractual life of the outstanding options was 6.6 years. The outstanding options are exercisable until May 26, 2020. Upon exercise of the options, Netia will issue to each exercising participant the number of shares representing such participant's financial gain resulting from the exercise of the options, being the difference between the market price of the Company's shares as of the date of exercise of the options and the strike price of the options, limited to half of one series L share for each option exercised. The participant will not be required to pay the strike price.

On June 28, 2013 the Supervisory Board of Netia adopted a resolution on decreasing by PLN 0.16 the strike price of all existing options issued to the Management Board members and the employees of the Company and its subsidiaries in connection with the New Plan. This decrease of the strike price of all the existing options granted to the participants of the New Plan was necessary to neutralize the impact of the acquisition by the Company on May 28, 2013 of 16,012,630 of its shares for the price of PLN 8 per share in the performance of the share buy-back program conducted by the Company (see Note 15). The purchase by the Company of its own shares on the terms described above had a proforma impact on the market value of the Company's shares equivalent to a dividend payment and therefore it resulted in a decrease of the market value of the Company's shares and a corresponding decrease of the value of all the existing options granted to the participants of the New Plan. The plan makes specific provisions for the reduction of strike prices to neutralize the effect of dividend payments on the value of the plan and, furthermore, authorizes the Supervisory Board to make adjustments to the plan to neutralize the impact of unusual or one-off events, such as this repurchase of shares.

The new strike prices of the options range between PLN 4.54 to PLN 6.00.

The Company recognizes the cost of share-based awards to employees (including share options) over the vesting period and the fair value of options is determined using a binomial pricing model and taking into account business performance criteria in the financial year in which the options were granted. The cost of New Plan options recorded in the nine-month periods ended September 30, 2013 and 2012 amounted to PLN 1,958 thousands and PLN 1,239 thousands, respectively.

In the nine-month period ended September 30, 2013 and 2012 the following changes took place in the number of options granted under the New Plan:

	Nine-month period ended September 30, 2013		Nine-month period ended September 30, 2012 (restated*)	
Options	**Average strike price**	**Options**	**Average strike price**	**Options**
At the beginning of the period	5.70	5,405,404	5.08	3,621,000
Granted	4.54	3,669,000	6.00	3,669,000
Terminated	5.88	(1,407,658)	5.09	(1,835,710)
At the end of the period	**5.11**	**7,666,746**	**5.70**	**5,454,290**

* average strike price has been decreased by PLN 0.16

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

Company and the Netia Group by the Annual General Meeting of the Company. 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 the cancellation of 41.1% of options granted in 2011. A conditional resolution of Supervisory Board regarding the performance criteria for the 3,669,000 options granted in 2012 was taken on February 26, 2013 and the performance level was determined at 68.6%. The resolution of the Supervisory Board came into force on June 28, 2013 and resulted in the cancellation of 31.4 % of options granted in 2012.

2003 Plan

As at September 30, 2012 the total number of options approved by the Supervisory Board and issued under the 2003 Plan was 87,877,470. Of these approved options 22,758,814 options were outstanding and vested as September 30, 2012. The outstanding options were exercisable until December 20, 2012.

In the nine-month period ended September 30, 2012 the following changes took place in the number of options granted under the 2003 Plan:

	Nine-month period ended September 30, 2012	
Options	**Average strike price**	**Options**
At the beginning of the period	6.22	46,754,751
Exercised	4.97	(23,566,937)
Forfeited	7.00	(429,000)
At the end of the period	**7.49**	**22,758,814**

The cost of 2003 Plan options recorded in the nine-month period ended September 30, 2012 amounted to PLN 88 thousands.

11. Borrowings

	September 30, 2013	December 31, 2012
	(PLN)	(PLN)
Bank loans	448,154	531,898
Bank overdraft	-	18,751
	448,154	**550,649**
Of which:		
Current	126,697	166,197
Non-current	321,457	384,452

Bank loans

On September 29, 2011, Netia and Internetia Sp. z o.o. (the "Borrowers") executed a loan agreement (the "Agreement") with Rabobank Polska S.A. (the "Facility Agent"), BNP Paribas S.A., BRE Bank S.A., Raiffeisen Bank Polska S.A. and Raiffeisen Bank International AG (jointly with the Facility Agent, the "Lenders"), whereunder the Lenders agreed to extend to the Borrowers a term facility maturing in five years with a total of PLN 650,000, designated for the Company to acquire 19,598,000 (not in thousands) shares in Dialog, constituting 100% of its share capital, and a PLN 50,000 revolving facility for general operating purposes. The term loan was drawn on December 16, 2011 and the revolving loan was drawn on December 15, 2011. According to the agreement, the term loan is to be repaid in 10 equal semi-annual instalments of PLN 65,000 each. The revolving loan was repaid in full on March 15, 2012. 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, repaying it in full once more on July 8, 2013 and then cancelled the revolving facility on July 9, 2013.

As at September 30, 2013 the value of these outstanding loans at amortised cost was PLN 448,154.

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 September 30, 2013 was 5.7%. Total transaction costs included in the calculation of the effective interest rate amounted to PLN 11,580.

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

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 May 29, 2014. The terms and conditions of the agreement comply with market practice and are not different from the terms and conditions generally applied to such types of agreements. The Company had no outstanding balance under the overdraft credit as at September 30, 2013.

(All amounts in thousands, except as otherwise stated)

On June 20, 2013, the Company and Internetia Sp. z o.o. (the "Original Guarantor"), Netia Brand Management Sp. z o.o. (the "Additional Guarantor") and Dialog (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 September 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 and commitment fees of PLN 2,144 were deferred as of September 30, 2013.

12. Other gains, net

	Nine-month period ended September 30, 2013	Nine-month period ended September 30, 2012
	(PLN)	(PLN)
Gain on sale of impaired receivables	8,023	3,005
Loss on sale of fixed assets	(604)	(340)
Net foreign exchange (losses)/ gains	(166)	79
	7,253	**2,744**

13. Finance income and finance costs

Finance income

	Nine-month period ended September 30, 2013	Nine-month period ended September 30, 2012
	(PLN)	(PLN)
Interest income on cash and short term deposits	3,227	4,737
Amortization of held to maturity investments	1	-
Fair value gains on open forward contracts hedging commercial exposures (see Note 9)	445	-
Net foreign exchange gains	-	23
Income on financial asset valuation	7	3
	3,680	**4,763**

Finance costs

	Nine-month period ended September 30, 2013	Nine-month period ended September 30, 2012
	(PLN)	(PLN)
Interests and fees charged on bank loans	(23,741)	(35,783)
Interests and fees charged on overdraft	(131)	(44)
Interests accrued on PON grants provision	(1,973)	-
Amortization of finance lease liability	(133)	(305)
Amortization of provisions	(77)	(79)
Net foreign exchange losses	(737)	-
Fair value losses on open forward contracts hedging commercial exposures (see Note 9)	-	(1,903)
Fair value losses on other open forward contracts (see Note 9)	(21)	-
Ineffective portion of cash flow hedges (see Note 9)	(21)	(34)
Loss on financial asset valuation	-	(4)
Other finance costs	(14)	(14)
	(26,848)	**(38,166)**

(All amounts in thousands, except as otherwise stated)

14. Corporate income tax

	Nine-month period ended September 30, 2013	Nine-month period ended September 30, 2012
	(PLN)	(PLN)
Current income tax	(12,678)	(1,393)
Penalty interests relating to current income tax for the year 2003	-	1,462
Deferred income tax (charge)/ benefit , net	(14,898)	10,294
Income tax (charge)/ benefit	**(27,576)**	**10,363**

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

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

As at September 30, 2013 Netia Group had a net deferred income tax asset of PLN 68,167. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred income tax liabilities of PLN 21,027 presented in the consolidated statement of the financial position as of September 30, 2013 relate to net deferred income tax liabilities recognized in Netia and one of its subsidiaries (after intercompany eliminations).

	September 30, 2013	December 31, 2012
	(PLN)	(PLN)
Deferred income tax assets	89,194	101,687
Deferred income tax liabilities	21,027	17,683
Deferred income tax assets, net	**68,167**	**84,004**

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

	September 30, 2013	December 31, 2012
	(PLN)	(PLN)
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	68,974	90,370
- Deferred income tax assets to be recovered within 12 months	64,491	66,799
	133,465	157,169
Deferred income tax liabilities:		
- Deferred income tax liabilities to be recovered after more than 12 months	21,764	27,498
- Deferred income tax liabilities to be recovered within 12 months	43,534	45,667
	65,298	73,165
Deferred income tax assets, net	**68,167**	**84,004**

(All amounts in thousands, except as otherwise stated)

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

	September 30, 2013	**December 31, 2012**
	(PLN)	**(PLN)**
Deferred income tax assets:		
- Tax losses	50,750	64,610
- Accrued expenses	23,142	20,754
- Impairment provisions for receivables	8,972	8,918
- Depreciation and impairment	48,528	57,394
- Interest	-	2,432
- Forward and IRS contracts	1,574	2,472
- Other	499	589
	133,465	157,169
Deferred income tax liabilities:		
- Depreciation and impairment	51,115	57,022
- Accrued revenue	6,926	8,902
- Interest	517	-
- Forward contracts	120	-
- Other	6,620	7,241
	65,298	73,165
Deferred income tax assets, net	**68,167**	**84,004**

Deferred income tax recognized as a decrease in equity as at September 30, 2013 in the amount of PLN 939 (an increase of PLN 2,626 as at December 31, 2012) relates to the hedging reserve.

Deferred income tax assets are recognized for deductible temporary differences and tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. As of September 30, 2013, the Netia Group had total net deductible temporary differences of PLN 740,489 and unutilised tax loss carry-forwards of PLN 277,374 (total potential deferred income tax asset net of PLN 193,394).

The Netia Group did not recognize deferred income tax assets of PLN 1,951 relating to tax losses of PLN 10,270 of the Company's subsidiaries, due to insufficient likelihood of future taxable profits to realize these tax losses before they expire. These unrecognized tax losses of the Netia Group available for use as at September 30, 2013 will expire in the following years: PLN 5,873 in 2013, PLN 2,736 in 2014, PLN 1,052 in 2015, PLN 422 in 2016 and 187 in 2017.

Furthermore, due to the lack of conclusive evidence of future taxable profits, the Netia Group did not recognize deferred income tax assets of PLN 123,276, relating to deductible temporary differences of PLN 648,821 as follows:

	Timing differences	**Potential deferred income tax asset**
	(PLN)	**(PLN)**
Depreciation and impairment	563,506	107,066
Trademark	69,232	13,154
Deferred income	8,005	1,521
Other	8,078	1,535
	648,821	**123,276**

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

15. Dividends per share and offer to repurchase shares

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

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

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

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.

Netia's distributable reserves are disclosed in Note 10.

16. Supplemental disclosures to consolidated cash flow statement

Changes in working capital components:

	Nine-month period ended September 30, 2013	Nine-month period ended September 30, 2012
	(PLN)	**(PLN)**
Receivables	53,825	5,339
Inventories	51	2,845
Prepaid expenses	9,993	(6,922)
Provisions, accruals and payables	(29,666)	(11,209)
Restricted cash	199	-
Deferred income	1,523	(4,888)
	35,925	**(14,835)**
Out of which:		
Change in long -term position	*(189)*	*(817)*

Supplemental disclosures to operating activities:

	Nine-month period ended September 30, 2013	Nine-month period ended September 30, 2012
	(PLN)	**(PLN)**
Income taxes paid	(11,627)	(1,234)
Interest received	3,227	4,737

17. The Management Board and Supervisory Board

Management Board

As at September 30, 2013 and December 31, 2012 the Company's Management Board consisted of the following members:

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

Supervisory Board

On June 28, 2013 the Annual General Meeting of the Company determined the number of the Supervisory Board members at nine persons and appointed Mr. Jerome de Vitry as member of the Supervisory Board for the next term of office and Mr. Jacek Czernuszenko as a new member of the Supervisory Board.

Due to the above change as at September 30, 2013 the Company's Supervisory Board consisted of the following members:

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

18. Related party transactions

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

As at September 30, 2013 and December 31, 2012 the total number of options held by members of the Company's Management Board under the New Plan was 3,585,701 and 2,402,351, respectively, none of which had vested as of that date. Strike prices for the options granted to the Management Board range between PLN 4.54 and 6.00 per share (after strike prices reduction by PLN 0.16, see Note 10). The market price of the Company's shares at September 30, 2013 was PLN 4.90 per share. Moreover, as at September 30, 2012 total number of options held by members of the Company's Management Board under the 2003 Plan was 13,800,000

The movements in the number of options held by members of the Company's Management Board in the nine-month periods ended September 30, 2013 and September 30, 2012 are presented below:

Options	**New Plan Nine-month period ended September 30, 2013**	**New Plan Nine-month period ended September 30, 2012**	**2003 Plan Nine-month period ended September 30, 2012**
At the beginning of the period	2,402,351	1,725,000	36,489,064
Granted	1,725,000	1,725,000	-
Exercised	-	-	(15,354,814)
Forfeited	(541,650)	(472,649)	-
Resignation from Management Board	-	(575,000)	(7,334,250)
At the end of the period	**3,585,701**	**2,402,351**	**13,800,000**

As at September 30, 2013 Mr. Mirosław Godlewski - the Company's President of the Management Board - held 1,502,015 options, none of which had vested. As at December 31, 2012 Mr. Mirosław Godlewski held 1,028,675 options, none of which had vested

As at September 30, 2013 Mr. Jonathan Eastick - a member of the Company's Management Board - held 751,008 options, none of which had vested. As at December 31, 2012 Mr. Jonathan Eastick held 514,338 options, none of which had vested.

As at September 30, 2013 Mr. Tom Ruhan - a member of the Company's Management Board - held 751,008 options, none of which had vested. As at December 31, 2012 Mr. Tom Ruhan held 514,338 options, none of which had vested.

As at September 30, 2013 Mr. Mirosław Suszek - a member of the Company's Management Board - held 581,670 options, none of which had vested. As at December 31, 2012 Mr. Mirosław Suszek held 345,000 options, none of which had vested.

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

As at September 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. Mirosław Godlewski, held 577,385 and 605,000 shares of the Company, respectively.

As at September 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 September 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 Scheme, 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 Scheme (CoCTB) for the Company's Management Board Members. The plan was renamed Value Creation Transactional Bonus Scheme ("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. See also Note 20.

As at September 30, 2013, the members of the Management Board held Participation Units in the Value Creation Transactional Bonus Scheme as follows:

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

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

See also: Possible liabilities under the Value Creation Transactional Bonus Scheme in Note 20.

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

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

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

Restricted Stock Units (not in thousands)

As at September 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 855,000 and 715,000, respectively. RSUs entitle the holder to receive additional cash remuneration equal to the value of restricted stock units, which corresponds to the market price of the Company's shares. The vesting period for the RSU ranges from 12 to 36 months after the grant date. The Company recognizes the cost of cash-settled share-based payment transactions (including RSU) over the vesting period by accruing cost provisions pro-rata to elapsed time and the market price of the Company's shares.

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 installments 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, which vest on the third anniversary award date, and a further 15,000 RSUs, which vest in three equal installments on the anniversary award dates over the next three years, were awarded on the following day, June 29, 2013, in accordance with the rules of the Supervisory Board's remuneration.

Changes in the number of RSU held by members of the Company's Supervisory Board in the nine-month period ended September 30, 2013 are presented below:

	December 31, 2012	RSU granted	RSUs exercised	September 30, 2013
Stan Abbeloos	80,000	15,000	-	95,000
Jacek Czernuszenko	-	65,000	-	65,000
Benjamin Duster	80,000	15,000	-	95,000
Raimondo Eggink	95,000	15,000	-	110,000
George Karaplis	80,000	15,000	(15,000)	80,000
Nicolas Maguin	95,000	15,000	-	110,000
Ewa Pawluczuk	95,000	15,000	-	110,000
Tadeusz Radzimiński	95,000	15,000	-	110,000
Jerome de Vitry	95,000	15,000	(30,000)	80,000
Total RSU	**715,000**	**185,000**	**(45,000)**	**855,000**

The cost of RSU recorded in the nine-month period ended September 30, 2013 amounted to PLN 897 thousands (PLN 1,273 thousands in the nine-month period ended September 30, 2012).

Management Board remuneration

Compensation and related costs associated with members of the Company's Management Board during the nine-month periods ended September 30, 2013 and 2012 amounted to PLN 4,639 and PLN 5,675, respectively. In addition, the gross cost of share-based payments in the amounts of PLN 1,005 and PLN 720 was recognized in the respective periods.

Amounts paid and payable to former Management Board members in the course of termination of their employment relationship with the Netia Group during the nine-month periods ended September 30, 2013 and 2012 amounted to nil and PLN 879, respectively.

Compensation and related costs associated with members of the Management Boards of the Company's subsidiaries during the nine-month periods ended September 30, 2013 and 2012 amounted to PLN 603 and PLN 1,556, respectively. These amounts were paid to certain employees of the Netia Group who are neither past nor present members of the Management Board of Netia S.A.

Supervisory Board remuneration

Compensation and related costs associated with members of the Company's Supervisory Board during the nine-month periods ended September 30, 2013 and 2012 amounted to PLN 691 and PLN 630, respectively.

Compensation and related costs associated with members of the Supervisory Boards of the Company's subsidiaries during the nine-month periods ended September 30, 2013 and 2012 amounted to PLN 2 and PLN 58, respectively.

Incidental expenses of the Supervisory Board Members reimbursed by the Company amounted to PLN 192 and PLN 198 during the nine-month periods ended September 30, 2013 and 2012, respectively, and mainly related to travel and accommodation.

Other transactions with related parties

During the nine-month periods ended September 30, 2013 and 2012, respectively the Netia Group has not been a party to any other material transactions, or proposed transactions, apart from transactions mentioned above, in which any member of the key management personnel or close members of their families, had or was to have a direct or indirect material interest.

19. Commitments

Capital commitments

Capital expenditures contracted for at the reportig date but not recognized in the consolidated financial statements amounted to PLN 52,451 as at September 30, 2013 and PLN 15,536 as at December 31, 2012 of which, PLN 10,406 and PLN 2,350 respectively, related to the planned acquisition of intangible assets.

20. Contingencies

Universal services

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

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

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

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

Following TP SA requesting the Regulator to reconsider cases commenced with issuing 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 SA was awarded subsidies towards incurred costs of several services falling within the scope of universal service for 2010 amounting to PLN 55,102 due to provision of facilities for customers with disabilities as well as provision of telephone services with use of public pay phones. Following TP SA requesting the Regulator to reconsider, this decision was upheld on April 11, 2012.

TP SA appealed the decisions of the President of UKE to the Voivodship Administrative Court (further "WSA"). WSA dismissed the complaints of TP SA 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 decisions, but cannot assure that the TP SA appeals will be dismissed and that the awarded subsidies shall not be increased.

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

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

On June 29, 2013 TP SA filed for re-consideration of the case. On September 20, 2013 the President of UKE, after re-consideration of the case, issued a new decision granting TP SA subsidy towards costs of provision of universal service in 2011 amounting to 14,903 PLN.

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

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

The total amount of potential obligation of Companies of the Netia Group, estimated by the Management Board taking into account their market shares in 2006 – 2011, decisions of the President of UKE, in which the amounts of subsidies towards the costs of providing universal service in years 2006 – 2011 were granted in the total amount of PLN 136,999 and estimated amount of potential subsidy to the cost of USO, is PLN 7,006. The Companies of the Netia Group have made a provision for this amount to cover potential obligations under the subsidy for universal service provided in the years 2006 – 2011.

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

On the basis of the full amount of subsidies claimed by TP SA and of the Company's estimations concerning revenues of telecommunications services providers that may participate in subsidies towards universal services, the amount of subsidy towards universal service that might conceivably be claimed by TP SA from the Netia Group amounts to approximately PLN 54,002 for the period from 2006 until 2011 inclusive as follows:

	Maximum subsidies	**Provision**
	PLN	*PLN*
2006	6,293	34
2007	10,862	63
2008	9,202	80
2009	11,964	3,199
2010	13,888	2,840
2011	1,793	790
	54,002	**7,006**

Pursuant to the decision of the President of UKE designating TP SA to provide universal service the above obligation of TP SA expired as of May 8, 2011. To date no undertaking has been obliged to provide USO from May 9, 2011 onwards and, according to the published position of the President of UKE, will not be. Nevertheless, on October 16, 2012 the President of UKE began consultations on a new model of USO. At this stage of the Regulatory work on the model, the Management Board cannot assure that the President of UKE would not aim to change to a new model of USO, and in such a case that it would not be associated with additional costs to be incurred by Netia Group.

Tax contingent liability

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

Overpayment of tax (not in thousands)

On August 17, 2009 Company received 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 58.7m plus penalty interest.

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

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

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

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

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

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

On June 25, 2013 the Supreme Administrative Court in Warsaw set aside the appealed judgment of the Voivodship Administrative Court upholding the decision of the Director of the Tax Chamber in Warsaw in its entirety and remanded the case for reconsideration back to to the first-instance court.

On October 10, 2013, the Voivodship Administrative Court in Warsaw annulled the Decision of the Director of the Tax Chamber in its entirety. In connection with the judgment so rendered, the Tax Chamber Director is required to reconsider 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 ruling of the Voivodship Administrative Court represents a further step towards a potentially favourable conclusion of the dispute for Netia.

Should the future binding decisions of the Director of the Tax Chamber or the Voivodship Administrative Court be positive for the Company, all or part of the disputed tax paid plus interest will be treated as an overpayment and should be returned by the tax authorities together with interest. However, it is not clear to the Management Board 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.

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

Possible liabilities under the Value Creation Transactional Bonus Scheme(VCTB) (not in thousands)

Following a decision of the Supervisory Board on April 25, 2012, the current four members of Netia's Management Board have been awarded Participation Units (PUs) in a new cash paid bonus scheme known as the Value Creation Transactional Bonus Scheme (VCTB) (see also Note 18). As of the date of these financial statements, a total of 9,500,000 from a possible 11,400,000 PUs have been allocated to the Management Board Members.

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

The PUs will expire without value if there is no Trigger Event on or prior to December 31, 2015 or if the Management Board Member to whom they are allocated resigns prior to the Trigger Event or if the Trigger Event occurs at a price below the Adjusted Strike Price, which stood at 7.49 on September 30, 2013. Conversely, had a Trigger Event occurred for an acquisition price of 10 zloty or above occurred on September 30, 2013 and with all four Management Board Members still performing their duties at the Company on the day of the Trigger Event, the maximum possible liability incurred by the Company would have been 23,845,000 PLN. This amount will fall towards zero as December 31, 2015 approaches without a Trigger Event occurring and as the Adjusted Strike Price increases towards 10 zloty per share. In calculating the Adjusted Strike Price as at September 30, 2013, Management has applied the same 16 groszy reduction that the Supervisory Board elected to apply to the Company's outstanding stock options in order to neutralise the impact of the offer to repurchase shares (see Note 10) as its effect was similar to that of a dividend payment.

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

21. Subsequent events

Redemption of shares (not in thousands)

On October 24, 2013 the decrease of the Company's share capital (see Note 10) was registered in the National Court Registry. The redemption of shares resulted in a decrease of share capital by PLN 38,370,130 and a decrease in other supplementary capital by PLN 251,012,190 from which PLN 38,370,130 was transferred to the separate reserve capital of the Company established in accordance with Article 457, §2 of the Commercial Companies Code. The Company's share capital as of the date of the approval of these financial statements amounted to PLN 347,910,774.