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Netia reports 2013 full year and fourth quarter results

WARSAW, Poland – February 20, 2014 – Netia SA ("Netia" or the "Company") (WSE: NET), Poland's largest alternative provider of fixed-line telecommunications services, today announced its audited consolidated financial results for the full year and unaudited results for the quarter ended December 31, 2013.

1 Key highlights

1.1 FINANCIAL

- *Netia reports the following results versus the adjusted guidance for 2013*:

FY2013 Guidance and Results	*Original Guidance[1]*	*1st Guidance Revision [2]*	*2nd Guidance Revision [3]*	*Actual Results*
Number of services (RGUs) ('000)	2,650	2,525	2,540	2,526
Revenues (PLN m)	1,925	1,900	1,875	1,876
Adjusted EBITDA (PLN m)	525	550	550	551
Adjusted EBITDA margin (%)	27.3%	28.9%	29.3%	29.4%
Adjusted EBIT (PLN m)	65	100	110	111
Capital investments (excl. M&A and integration capex) (PLN m)	225	225	225	240
Capital investments (excl. M&A and integration capex) to sales (%)	11.7%	11.8%	12.0%	12.8%
Adjusted operating free cash flow (Adj. OpFCF)[4](PLN m)	300	325	325	311

1 As per original Netia guidance for 2013 published on December 20, 2012 (see Netia's current report No. 109/2012)
2 As per revised Netia guidance for 2013 published on August 8, 2013 (see Netia's current report No. 34/2013)
3 As per revised Netia guidance for 2013 published on November 7, 2013 (see Netia's current report No. 45/2013)
4 Adjusted EBITDA less Capital Investments excluding Dialog and Crowley integration related capex and acquisitions

Netia delivered its Revenue, Adjusted EBITDA and Adjusted EBIT guidance. Adjusted Operating Free Cash Flow of PLN 311m was 4% below revised guidance due to faster than expected capital investments mainly spent on acquisitions of new B2B customers and a one-off decision taken in Q4 with regard to Netia's property at Poleczki St. RGUs missed guidance by 1% on sequentially lower than anticipated uptake of TV services.

- *Revenue* was PLN 1,876.0m for 2013, down by 12% versus 2012. In Q4 2013 revenue decreased sequentially by 1% to PLN 450.8m from PLN 457.1m. The decline in revenues was driven by a 6% year-on-year and a 1% sequential decline in services (RGUs). In addition, the Company estimates that falls in mobile termination rates (MTRs) during 2013 contributed 34% of revenue decline both year-on-year and sequentially. RGU decline continued to be concentrated in the B2C (Residential) sub-segment and particularly in fixed voice services, while the MTR declines mainly impacted revenues in the B2B (Carrier) sub-segment.
- *Adjusted EBITDA* was PLN 550.8m for 2013, down by 7% versus 2012. In Q4 2013 Adjusted EBITDA was PLN 124.2m, down by 14% versus Q3 2013. Adjusted EBITDA margin was 29.4% for 2013 and 27.6% in Q4 2013 versus 27.9% for 2012 and 31.5% in Q3 2013. Higher Adjusted EBITDA margin year-on-year is due to the lower revenues being concentrated in low margin RGU categories such as off-net services, the impact of steadily rising integration synergies, lower acquisition cost on lower gross additions and falling MTR rates. The sequential decrease in Adjusted EBITDA margin reflects mainly lower gross margin on lower sales, higher year end maintenance costs, increased advertising and promotion cost and the cost of liquidating certain obsolete fixed assets.

- *EBITDA* was PLN 532.7m for 2013 and PLN 115.2m for Q4 2013, up by 15% versus 2012 and down by 19% versus Q3 2013. The unusual items for 2013 totalled PLN 18.1m of net expense and include Dialog Group and Crowley integration costs of PLN 9.5m, restructuring costs of PLN 3.6m, an impairment charge of PLN 2.6m related to the market valuation of Netia's investment property in Warsaw at Poleczki Street, costs related to Netia's reorganisation into B2B and B2C Business Units (N^2 Project) of PLN 1.5m, costs of M&A projects of PLN 0.6m, an impairment charge of PLN 0.4m recorded by Uni-Net, Netia's subsidiary providing radio trunking services and decrease in provision for universal service obligation payments of PLN 0.2m. The unusual items for 2012 totalled a net expense of PLN 129.6m and included an impairment charge for non-current assets of PLN 79.2m, Dialog Group and Crowley integration costs of PLN 26.3m, restructuring costs of PLN 22.6m and costs of M&A projects of PLN 1.5m. EBITDA margin was 28.4% for 2013 and 25.6% for Q4 2013 as compared to 21.8% for 2012 and 31.2% for Q3 2013.

- *EBIT* was PLN 92.7m (Adjusted EBIT was PLN 110.9m profit when excluding all one-offs) in 2013 as compared to PLN 21.0m loss (PLN 108.7m profit when excluding one-offs) in 2012. EBIT for Q4 2013 was PLN 6.2m (PLN 15.2m profit when excluding one-offs) as compared to PLN 32.8m (PLN 34.5m profit when excluding one-offs) in Q3 2013.

- *Net profit* was PLN 46.3m for 2013 versus net loss of PLN 87.7m for 2012. Net profit for Q4 2013 was PLN 10.5m versus a net profit of PLN 14.1m for Q3 2013. Reported net profit for 2013 included PLN 30.7m of interest to service the loan taken in 2011 to acquire Dialog Group versus PLN 43.1m of interest for this purpose in 2012. Moreover, reported net profit for 2013 included an income tax charge of PLN 18.1m versus a deferred tax charge of PLN 26.8m recorded in 2012. The current period result reflects non-deductible expenses while in the prior period Netia recorded a non-cash gain of PLN 21m due to the recognition of deferred tax assets arising on the intragroup sale of network assets by Dialog to Netia. *Netia SA (the parent company) recorded a net profit for 2013* of PLN 30.7m versus a net loss of PLN 94.2m in 2012.

- *Netia was operating free cash flow positive both in the full year and Q4 2013*. Operating free cash flow, measured as Adjusted EBITDA less capital investment excluding integration related capex and acquisitions, was PLN 311.1m for 2013 and PLN 35.9m for Q4 2013 versus PLN 334.2m for 2012 and PLN 84.6m for Q3 2013. Seasonal acceleration in capital investment, lower gross profit contribution and higher general and administrative expenses are mainly responsible for the sequential decrease in operating free cash flow.

- *Netia's cash and short term deposits* at December 31, 2013 totalled PLN 93.4m, down by PLN 37.6m from September 30, 2013, with *total debt* at PLN 384.1m, down by PLN 64.1m from September 30, 2013. *Net debt* therefore stood at PLN 290.7m, down by PLN 26.5m from PLN 317.2m on September 30, 2013 and *financial leverage* was 0.53x Adjusted EBITDA of PLN 550.8m for 2013 full year.

- *2014 guidance*. Netia announced today its guidance for FY2014, projecting revenue at PLN 1,735m, Adjusted EBITDA at PLN 505m and Adjusted EBIT at PLN 75m. Capital investments excluding integration capex and acquisitions are expected at PLN 200m and Adjusted OpFCF at PLN 305m.

  Management expects continued declines in off-net RGUs while on-net RGUs, including TV services and broadband services in particular, are planned to continue growing.

  Mid-term guidance, which was put under review in November 2013, is being withdrawn and will be reassessed during 2014 once the new B2B and B2C business units have had sufficient time to review their long-term strategic priorities.

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

1.2 OPERATIONAL

- *Number of services (RGUs)* was 2,526,357 at December 31, 2013 as compared to 2,688,467 at December 31, 2012 and 2,560,019 at September 30, 2013, with the year-on-year and quarterly decreases driven by the fall in the number of fixed voice services and generally intense competition on a weak telecommunications market. In Q4 2013 Netia added 14,243 on-net RGUs and recorded 47,905 off-net RGU disconnections while sequential net RGU losses increased by 4% to 33,662. The most recently revised RGU guidance of 2,540,000 services at 2013 year-end was missed by 1% after the expected incremental progress in on-net gross additions failed to materialise. Management views the lack of progress as disappointing, but mainly attributable to mistakes in commercial execution and expects to resume progress in 2014. Churn rates continue to fall following further improvements to retention processes.

  In 2014 Management expects to continue growth in on-net services with broadband, TV and B2B services being the main focus. However, as the short-term priority is to add additional TV functionality and improve processes in order to sell more effectively in subsequent periods, 2014 is seen as a year of consolidation and therefore no RGU guidance is being published.

- *Netia's TV services* reached 120,321 at December 31, 2013, growing by 52% from 79,285 at December 31, 2012 and by 8% from 111,358 at September 30, 2013. In Q4 2013 Netia added net 8,963 TV services as compared to 10,479 TV services added in Q3 2013. Management was not satisfied with the customer uptake of Netia's innovative new customised programming offer but sees tactical issues with media communications and distribution as the main causes of the net additions slow down.

- *Netia's broadband services* base was 848,909 at December 31, 2013, declining by 3% from 874,778 at December 31, 2012 and by 1% from 854,165 at September 30, 2013. Netia estimates that its total fixed broadband market share was approximately 12.7% versus 13.3% at December 31, 2012. Netia recorded a net decrease of 5,256 broadband customers during Q4 2013 versus a net decrease of 5,543 broadband customers during Q3 2013 (both total and organic as there were no Ethernet acquisitions in these quarters). Slow market growth and tougher price competition, including cable operators offering multiplay bundles, is reflected in the performance. Management is focusing on its own network and bundled services rather than regulated access or total services sold in order to defend gross margins. The own infrastructure-based broadband services (excluding WiMAX Internet) recorded a net increase of 3,855 during Q4 2013 versus 1,677 in Q3 2013, being the third consecutive quarter to register growth. Of the total broadband customers served at December 31, 2013, 47% received service over Netia's own access infrastructure as compared to 46% at December 31, 2012.

- *Netia's fixed voice services*. Netia estimates that its total fixed voice market share was approximately 18.8% in Q4 2013 versus 19.8% in Q4 2012. Due to competitive market conditions and focus on higher-value customers, Netia is concentrating on defending voice revenues and margins as opposed to subscriber numbers. Netia's voice subscriber base was 1,488,610 at December 31, 2013 as compared to 1,643,904 at December 31, 2012 and 1,519,265 at September 30, 2013. In total, Netia recorded a net decrease of 30,655 voice subscribers during Q4 2013 versus 31,547 in Q3 2013. The Company expects the number of fixed voice services to continue to decline, mainly in connection with clients churning from traditional direct voice and WLR services. ARPU fell sequentially by 1 PLN to a blended PLN 42, with the improvement in net additions coming mainly from falling churn rates. Of the total voice customers served at December 31, 2013, 43% received service over Netia's own access infrastructure as compared to 39% at December 31, 2012.

- *Netia's mobile services* at December 31, 2013 were 26,397 for mobile broadband and 42,120 for mobile voice as compared to, respectively, 30,281 and 60,219 services at December 31, 2012 and 28,063 and 47,168 services at September 30, 2013. Netia is not actively promoting mobile services, but maintains its offering to provide competitive services to those customers looking for a convergent offering.

- *NGA network expansion.* During Q4 2013 Netia continued to expand its NGA standard network, which allows for providing, among others, high speed broadband and 3play services including IPTV and streaming TV services adding 41,000 homes passed. As of December 31, 2013, Netia covered in total 1,281,000 households with its NGA networks, including approximately 897,000 homes passed with VDSL copper networks, approximately 148,000 homes passed with passive optical networks (PON) and approximately 236,000 homes passed with the fast Ethernet networks and fiber to the building (FTTB). This represents sequential increases by approximately 31,000 homes passed with FTTB, 9,000 homes passed with VDSL and 1,000 homes passed with PON.

- *Netia splits its operations into B2B and B2C Business Units (N^2 Project).* On January 24, 2014 Netia announced a reorganization of its operations into two distinct Business Units: Business to Business (B2B) and Business to Consumers (B2C), with a view to best support the needs of its business and residential customers and the Company's key strategic objectives. The reorganization is expected to go live from the beginning of Q2 2014 *(see section 'Other Highlights')*.

Miroslaw Godlewski, Netia's President and CEO, commented: *"Netia delivered 2013 full year revenue of PLN 1,876m and Adjusted EBITDA of PLN 551m, with a record Adjusted EBITDA margin of 29.4%, while Adjusted Operating Free Cash Flow topped PLN 300m for the second consecutive year, following our successful acquisitions of Dialog and Crowley.*

Although 2013 proved a challenging operating environment, with deflationary telecoms pricing and falling mobile termination rates combining to cut Netia's revenues by 12% on an annual basis, Management expects that the steps it has been taking provide firm foundations for more stable future performance. Our B2B segment is a highly resilient free cash flow generator that is continuing to grow in terms of RGUs delivered. Moreover, in B2C we made big strides with TV services, increasing subscriptions by 52% to 120k by 2013 year end, with 31% of our on-net broadband client base now taking TV service from Netia. TV services allow us to compete head-on with CATV competitors and 2013 saw steady progress in on-net broadband net additions growing sequentially from – 1.5k in Q1 to 3.8k by Q4. We have continued steady investment in NGA quality networks and can now offer NGA broadband speeds to nearly 1.3m homes passed, up 241k over 2013, with an exciting launch of Netia HFC-based TV services over 400k homes passed in Warsaw and Krakow to come in the course of 2014. During 2013 we implemented various sales efficiency initiatives under the project '4Sales', including defining new B2B and B2C sales functions. For 2014 we have taken this new segmentation a step further with the creation of B2B and B2C Business Units, each comprising sales, marketing, product, customer care and service delivery capability dedicated to serving their target customers and supported by a single network, IT infrastructure and back-office. We expect that this new organizational configuration will deliver improved commercial performance for Netia over the coming quarters.

The outlook for 2014 calls for a slow-down in revenue decline to –8% or PLN 1,735m while Adjusted EBITDA is planned for PLN 505m and Adjusted Operating Free Cash Flow is once again above PLN 300m. Though a fundamental goal of Netia is to grow the overall number of services and RGUs per subscriber, Netia is dispensing with the RGU guidance for 2014 as the key focus will be organization, product, process and cost improvements to ready Netia for steady growth over the long term. Netia's strong financial position means that Management will be pleased to propose a 42 groszy per share dividend at this year's AGM and, as ever, remains alert to value enhancing M&A opportunities.

For the past seven years it has been my pleasure to lead Netia's Management Board and the Group's tremendous team of dedicated employees, during which time the Group has more than doubled in size and cemented its position as the undisputed leading alternative fixed line operator on the Polish market. After much consideration, I have decided that the time has come for me to seek a new professional challenge and, in agreement with the Company's Supervisory Board, I shall stand-down from the Management Board. The Supervisory Board and I have furthermore agreed that I will not formally resign from my position before 31 August this year in order to provide the time that may be necessary to find a suitable replacement to lead the Netia Group's future development. However, should the new Chief Executive be identified sooner, then we have agreed that I will resign earlier and the Supervisory Board and I will do everything possible to ensure a smooth transition to new leadership.

The new chief executive will be inheriting a highly professional, talented and creative team of management and employees at the Netia Group and I trust that he or she will be able to build on the exciting progress made thus far to deliver increased shareholder value."

Jon Eastick, Netia's CFO, commented: *"Netia delivered a record high annual Adjusted EBITDA margin of 29.4% despite 12% lower revenues caused in roughly equal measure by the deflationary effects of lower mobile termination rates and the steady erosion of our off-net customer base as we consciously chose not to accept further margin decline in B2C off-net services. The integration of Dialog and Crowley into the Netia group is nearly complete with PLN 143m of EBITDA synergies recorded for 2013 versus PLN 76m in the prior year and with total headcount dropping from nearly 2,800 at the time of concluding both acquisitions to just over 1,900 at present. Much of our PLN 551m Adjusted EBITDA is being reinvested in acquiring new B2B customers, expanding on-net broadband and TV customer bases and building out additional NGA coverage of fast broadband networks.*

In fact, we over-ran our full year Adjusted Capital Investment guidance of PLN 225m, finishing with PLN 240m due mainly to higher than expected demand from B2B customers during the fourth quarter. Furthermore, we made a late one-off decision, not included in our initial guidance, to spend PLN 6m on the freehold to the land under our former head-office as we seek to monetize this attractive property to further focus Netia's balance sheet on core telecom infrastructure.

The Netia Group registered a consolidated net profit of PLN 46m for the full year 2013 versus a loss in the prior year and Management will, as indicated previously, be proposing a PLN 146m, 42 groszy per share, dividend for 2013. Our net debt level dipped to PLN 291m at the end of 2013, representing 0.53x Adjusted EBITDA, and we expect to deleverage further in the course of 2014 while we monitor opportunities for further market consolidation."

2 Operational review

2.1 BROADBAND, TV & MOBILE SERVICES

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

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

The number of active TV services in Netia grew to 120,321 as at December 31, 2013 up by 52% from 79,285 as at December 31, 2012 and by 8% from 111,358 as at September 30, 2013.

Number of TV services (k)	*Q4 2012*	*Q1 2013*	*Q2 2013*	*Q3 2013*	*Q4 2013*
Total	**79.3**	**91.2**	**100.9**	**111.3**	**120.3**

Netia added 8,965 TV services net in Q4 2013 as compared to 10,479 services added in Q3 2013. Although the offer has been very well received, customer uptake in Q4 2013 was not as fast as expected and Netia plans to make various tactical adjustments to its commercial stance to improve sales in 2014. TV penetration has now reached a satisfactory 31% of the on-net broadband base and the key objective for 2014 will be to increase TV sales to completely new customers for Netia, both over upgraded NGA networks and over the former Aster cable TV network acquired during 2013.

TV ARPU was PLN 37 in Q4 2013 as compared to PLN 42 in Q4 2012 and PLN 37 in Q3 2013. As the newest TV offering has identical content over both streaming and IPTV, an improvement in ARPU trend is expected in 2014.

Broadband services totalled 848,909 at December 31, 2013, down by 3% from 874,778 at December 31, 2012 and by 1% from 854,165 at September 30, 2013.

Netia provides its broadband services using the following technologies:

Number of broadband ports (k)	*Q4 2012*	*Q1 2013*	*Q2 2013*	*Q3 2013*	*Q4 2013*
xDSL, FastEthernet and PON over own network	382.5	381.1	381.3	382.9	386.8
incl. Traditional networks (PON, VDSL, ADSL)	*261.5*	*263.1*	*266.1*	*271.2*	*276.0*
incl. acquired Ethernet Companies	*121.0*	*118.0*	*115.2*	*111.7*	*110.8*
WiMAX Internet	17.9	17.1	16.5	16.0	15.3
LLU	182.7	178.4	175.4	172.5	169.9
Bitstream access	291.6	289.5	286.5	282.8	276.9
Total	**874.8**	**866.1**	**859.7**	**854.2**	**848.9**

Broadband services net decrease totalled 5,256 during Q4 2013 as compared to 5,543 in Q3 2013. There were no additions from Ethernet network acquisitions throughout 2013.

Slower fixed broadband market growth and increased price competition on broadband products from both the incumbent and cable TV operators has eliminated Netia's retail price advantage on 1play BSA services and reduced gross additions run rates and increased churn rates across the broadband portfolio. In 2013 Netia was focusing on sales of its on-net products, including on-net broadband services. In Q4 2013 the Company recorded a net increase of 3,855 additions on its own broadband networks (excluding WiMAX Internet) with growth of 4,819 on PON and copper networks. While local Ethernet companies contracted net by 694 services in Q4 2013 versus 3,452 services in Q3 2013, Management is observing encouraging organic sales performance on the NGA upgraded part of the Ethernet networks and is focused on continuing the acceleration in on-net broadband subscriptions growth.

Broadband ARPU was PLN 56 in Q4 2013 as compared to PLN 57 in Q4 2012 and PLN 56 in Q3 2013. Netia's conservative pricing policy and focus on higher value customer segments has resulted in a satisfactory ARPU performance over the past year, despite deep price cuts introduced by some of Netia's competitors.

Broadband SAC was PLN 164 as compared to PLN 178 in Q4 2012 and PLN 187 in Q3 2013.

Acquisitions of local Ethernet network operators. As of December 31, 2013, Netia's Ethernet networks provided broadband access to a total of 110,754 mostly residential customers as compared to 111,718 customers at September 30, 2013 and 121,005 customers at December 31, 2012, with approximately 621,000 homes passed. Netia is currently focused on upgrading Ethernet networks already acquired and therefore will likely acquire new networks at a much slower pace than seen in the past, if at all. There were no additions of Ethernet networks completed during 2013.

NGA network development. As at December 31, 2013, Netia covered in total 1,281,000 households with its NGA networks, including 148,000 PON HPs, 897,000 VDSL HPs and 236,000 Ethernet FTTB HPs. During Q4 2013 Netia expanded its NGA coverage by approximately 41,000 HPs (being 31,000 FTTB HPs, 9,000 VDSL HPs and 1,000 PON HPs). Moreover, at December 31, 2013 Netia covered a further 172,000 TV ready HPs within its network coverage based on ADSL2+ technology. Combined with NGA ready HPs, all of which can deliver TV services, Netia had 1,453,000 TV ready HPs in its proprietary network coverage.

Netia has advanced plans to expand its NGA coverage by another 400,000 or more HPs inclusive of the recent acquisition of cable networks from UPC Polska. Once all upgrade projects are completed, Netia expects to cover in total approximately 1,720,000 NGA HPs which can be reached with 3play service bundles (TV + fixed NGA broadband + fixed voice). Furthermore, Netia has introduced smooth streaming technology, which expands the availability of its 3play bundle offer onto networks where line speeds are too slow to support IPTV (extra + 240k on-net HPs) and, potentially in the future, to homes where Netia does not provide the broadband connection. Management is presently focusing on optimizing sales, provisioning and maintenance processes around TV services in addition to constant development of the content offering and service functionalities in the course of 2014.

Mobile services. The mobile broadband customer base totalled 26,397 at December 31, 2013 as compared to 30,281 at December 31, 2012 and 28,063 at September 30, 2013. *Mobile broadband ARPU* was PLN 27 in Q4 2013 as compared to PLN 26 in Q4 2012 and PLN 27 in Q3 2013. *Mobile voice services* totalled 42,120 at December 31, 2013 as compared to 60,219 at December 31, 2012 and 47,168 at September 30, 2013. *Mobile voice ARPU* was PLN 29 in Q4 2013 as compared to PLN 26 in Q4 2012 and PLN 28 in Q3 2013. Mobile broadband has similar economics to BSA services whilst mobile voice has benefited from improved terms of MVNO agreements with partners P4 and Polkomtel.

Number of mobile services (k)	*Q4 2012*	*Q1 2013*	*Q2 2013*	*Q3 2013*	*Q4 2013*
Mobile data	30.3	29.3	28.9	28.0	26.4
Mobile voice	60.2	56.4	52.0	47.2	42.1
Total	**90.5**	**85.7**	**80.9**	**75.2**	**68.5**

2.2 VOICE

2.2.1 Own network, WLR & LLU

Voice lines totalled 1,488,610 at December 31, 2013 as compared to 1,643,904 at December 31, 2012 and 1,519,265 at September 30, 2013. In Q4 2013 Netia recorded a net decrease of 30,655 voice lines versus 31,547 voice lines in Q3 2013 and 33,862 voice lines in Q4 2012. The Company expects the number of fixed voice lines to continue to decline, mainly due to clients churning from traditional direct voice and WLR services.

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

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

The net decline during Q4 2013 in services was 1% on LLU voice over IP services and 4% on lower margin WLR services while higher margin own network services remained stable sequentially thanks to the more aggressive re-pricing policy.

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

Number of fixed voice lines (k)	*Q4 2012*	*Q1 2013*	*Q2 2013*	*Q3 2013*	*Q4 2013*
Traditional direct voice	563.7	553.3	545.1	537.4	532.6
Incl. ISDN	*237.0*	*236.6*	*235.4*	*235.3*	*236.4*
Incl. Legacy wireless	*44.8*	*45.1*	*42.9*	*42.5*	*42.6*
Voice over IP (excl. LLU)	69.3	74.6	80.0	86.6	94.0
WiMAX voice	14.7	13.8	13.2	12.6	12.0
Own network voice lines	**647.8**	**641.7**	**638.3**	**636.6**	**638.6**
WLR	869.2	828.9	789.0	760.5	728.7
LLU voice over IP	126.9	124.3	123.5	122.2	121.3
Total	**1,643.9**	**1,594.9**	**1,550.8**	**1,519.3**	**1,488.6**

Voice ARPU per WLR line was PLN 45 in Q4 2013 as compared to PLN 45 in Q4 2012 and PLN 45 in Q3 2013.

Voice ARPU per Netia network subscriber line was PLN 39 in Q4 2013 as compared to PLN 46 in Q4 2012 and PLN 40 in Q3 2013. The fall reflects more aggressive defence of the customer base than on WLR, aggressively priced voice over IP services to business customers and deep discounts given when voice is bundled in 3play.

Blended voice ARPU was PLN 42 in Q4 2013 as compared to PLN 46 in Q4 2012 and PLN 43 in Q3 2013.

2.2.2 Indirect voice

CPS lines (carrier pre selection) totalled 55,922 at December 31, 2013 as compared to 62,241 at December 31, 2012 and 57,008 at September 30, 2013. Netia is focused on the conversion of CPS customers to WLR and is not actively acquiring new CPS customers. CPS clients are not reflected in the total voice subscriber base of 1,488,610 clients as at December 31, 2013.

Indirect voice ARPU per CPS line was PLN 24 in Q4 2013 as compared to PLN 37 in Q4 2012 and PLN 26 in Q3 2013. Tariff reductions, reduced call volumes and conversion of higher ARPU customers to Netia's WLR or LLU offers are responsible for the progressive ARPU decline.

2.3 OTHER

Headcount was 2,012 at December 31, 2013, compared to 2,117 at December 31, 2012 and 2,012 at September 30, 2013. Active headcount was 1,917 at December 31, 2013 versus 2,013 at December 31, 2012 and 1,930 at September 30, 2013.

The movement in headcount can be analyzed as follows:

	Active	Total
Headcount at December 31, 2012	**2,013**	**2,117**
Employees acquired in Ethernet acquisitions since December 31, 2012	-	-
Net headcount reductions since December 31, 2012	(96)	(105)
Headcount at December 31, 2013	**1,917**	**2,012**

Capital investment additions

Capital investment additions (PLN'M)	FY 2012	FY 2013	Change %	Q3 2013	Q4 2013	Change %
Existing network and IT	96.6	106.8	11%	26.2	35.4	35%
Broadband networks	70.3	89.0	27%	20.8	36.4	75%
CPE broadband (mainly capitalised Netia Spot routers)	21.5	18.4	(14%)	3.8	3.3	(13%)
TV (incl. dedicated CPE – Netia Player)	21.6	19.1	(12%)	8.8	6.7	(24%)
Dialog group and Crowley[1]	47.0	na	na	na	na	na
Netia's real estate at Poleczki St. (transformation from perpetual usufruct to freehold)	na	6.5	na	na	6.5	na
Adjusted capex	**257.0**	**239.8**	(6%)	**59.6**	**88.3**	**48%**
CDN integration	22.1	32.6	47%	4.3	19.6	356%
Purchase of CATV networks	na	7.2	na	na	na	na
Total capex	**279.1**	**279.6**	**0%**	**71.1**	**107.9**	**52%**

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

In Q4 2013 Netia overrun its earlier adopted capital investment guidance of PLN 225m due to better than expected completion of B2B segment new customer access projects, which should support B2B revenues in 2014. Furthermore, a late decision was made by Management to invest PLN 6.5m in acquiring the freehold to the plots at Netia's former head office on Poleczki street in Warsaw. In the medium term, this investment is expected to improve prospects to develop the site and monetize the asset for Netia's investors.

Capital investment in existing network and IT reflect extension of transmission network capacity to activate new business customers. Investments in broadband networks include mainly NGA development and upgrades for residential clients and works on integrating with Netia's broadband network the cable networks in Warsaw and Kraków, which were acquired from UPC Polska in May 2013. Year-on-year lower purchases of Netia Players reflect activations from existing stocks while the sequential decrease in the category results from new supplies made in Q3 2013 in connection with developing TV services. Following the full integration of the Dialog and Crowley businesses into New Netia, capital investment necessary to support those acquired networks is included with the other capital investment categories.

3 Other Highlights

Integration of Netia, Dialog Group and Crowley into New Netia Group. In December 2011 Netia acquired 100% stakes in Telefonia Dialog SA ("Dialog", currently Telefonia Dialog Sp. z o.o.) and Crowley Data Poland Sp. z o.o. ("Crowley", currently merged into Netia).

Completed and on-going integration projects have delivered cumulative synergies over eight quarters in the amount of PLN 219.3m at the Adjusted EBITDA level and PLN 46.0m from capital investments through December 31, 2013. The cumulative synergies achieved during twelve months of 2013 reached PLN 143.2m and PLN 24.2m, respectively. This represents a surplus of PLN 28m over PLN 115 of operational synergies planned originally for 2013. From a total of well over 100 projects, 97 Adjusted EBITDA level synergy initiatives and 40 Capex synergy initiatives have been completed. The final projects, mainly related to IT platform migrations, are to be concluded at the beginning of Q2 2014.

Total reorganization costs recorded in the twelve months of 2013 amounted to PLN 13.1m (out of which PLN 3.6m related to the employment restructuring program and PLN 9.5m related to integration costs).

Financing. On December 31, 2013, Netia had PLN 93.4m in cash and short term deposits and PLN 384.1m in total debt and accrued interest as compared to PLN 130.9m and PLN 448.1m, respectively, on September 30, 2013. The debt outstanding on both December 31, 2013 and September 30, 2013 comprised of principal and interest on a five-year senior debt facility drawn to acquire Dialog group. During Q4 2013 a PLN 65.0m debt instalment was repaid to the banks. Accordingly, Netia Group's net debt at December 31, 2013 was PLN 290.7m versus PLN 407.9m at December 31, 2012 and PLN 317.2m at September 30, 2013 and net debt to the 2013 Adjusted EBITDA of PLN 550.8m amounted to 0.53x.

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

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

New distribution policy. As previously announced, while remaining interested in a number of potential acquisition targets, Netia Management presently anticipates no likely short-term transactions and therefore targets to facilitate payments to shareholders through either dividends or offers to purchase shares directed to all shareholders or capital redemptions, depending on the evolution of distributable reserves in Netia SA, which stood at PLN 376.9m at December 31, 2013 and represent the key constraint on future distributions. Based on its free cash flow projections, Management estimated that the Company may distribute up to PLN 146m from 2014 onwards (pro forma PLN 0.42 per outstanding share) with some scope to moderately increase payments over time whilst allowing debt leverage to increase towards 1.0x Adjusted EBITDA over the medium term.

In 2013 the Company returned to its shareholders PLN 144.0m in the form of various tranches of share buy-backs, including PLN 128.1m distributed through the buy-back of 4.15% of the Company's share capital at a substantial premium of PLN 8 per share (a Proforma equivalent of PLN 0.35 per outstanding share).

For 2014 Management will propose a PLN 0.42 per share dividend, totaling PLN 146.1m, to the Annual Shareholders Meeting.

In addition, Management is considering proposal of a new share buy-back programme to maximise future flexibility in the form of payment.

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

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

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

Notwithstanding the above, on December 30, 2013 the Company filed a cassation appeal against the judgment of the Voivodship Administrative Court in Warsaw dated 10 October 2013, due to the Company's view that the justification of the judgment of the Voivodship Administrative Court did not fully reflect the position presented by the Company during the Voivodship Administrative Court proceedings held as a result of the judgment of the Supreme Administrative Court which ruled in favour of the cassation appeal filed previously by the Company. The Company hopes to ultimately secure an even clearer favorable decision from the Voivodship Administrative Court.

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

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

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

4Sails. In Q4 2013 Netia continued works on an internal project '4Sails' aimed at reviewing sales force operations to fully exploit opportunities arising from the Telefonia Dialog and Crowley Data Poland acquisitions. Following the reorganization of operating segments into two main divisions: B2B and B2C and the implementation of the 'Acquire, Grow and Retain' strategy for managing the B2B division in Q3 2013, during Q4 2013 the same strategy was adopted for the B2C division. The main focus was put on the strategy's operationalization and the introduction of processes that would allow measuring the results. Moreover, in Q4 2013 Netia started the implementation of the 'Acquire, Grow and Retain' strategy for e-commerce sales channel, which is expected to result in increasing its customer reach and efficiency. Due to completing the majority of initiatives, the main work stream under the 4Sails project is now concentrated on supporting soft areas, such as implementing processes and tools to develop competencies, trainings and career paths for sales force and operational support to the newly established Business Units (see below).

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

This transformation is to be completed by the end of Q1 2014.

Changes to Netia's Supervisory Board. Effective June 28, 2013 Mr. Jacek Czernuszenko and Mr. Jerome do Vitry were appointed to Netia's Supervisory Board as a new member and for the next term of office, respectively. Effective November 13, 2013 Mr. Ben Duster resigned from his position as a Chairman and member of Netia's Supervisory Board. Effective November 21, 2013 Mr. George Karaplis and Mr. Jacek Czernuszenko serve as Chairman and Deputy Chairman of Netia's Supervisory Board, respectively. Effective January 13, 2014 Mr. Bogusław Kułakowski was appointed to Netia's Supervisory Board as a new member.

Changes to Netia's Management Board. On November 21, 2013 Netia's Supervisory Board appointed Mr. Tomasz Szopa as member of the Management Board and Residential Market General Manager, effective February 3, 2014. Mr. Tomasz Szopa will be managing Netia's B2C Business Unit created in January 2014 as described above. On February 19, 2014 Netia's President and CEO, Mr. Mirosław Godlewski in agreement with the Supervisory Board decided to stand-down from his current position. In agreement with the Supervisory Board, Mirosław Godlewski has agreed to remain in his position while the Supervisory Board search for a suitable replacement and would stand down from the Management Board on 31 August, 2014 or earlier if his replacement is able to take over his responsibilities at an earlier date.

Netia's shares continued to be a composite of the RESPECT Index of the Warsaw Stock Exchange, following its annual review in December 2013. The RESPECT Index covers Polish and foreign companies listed on the Warsaw Stock Exchange's Main Market which follow the highest corporate governance, reporting and investor relations standards, and which also include environmental, social and governance factors. The participating companies are screened by the Warsaw Stock Exchange and the Association of Listed Companies (SEG) in a three-stage process of review of all these factors and additionally audited by the project partner since the first edition: Deloitte. Currently, the RESPECT Index comprises 23 companies.

4 Guidance for FY2014, medium-term Strategic Financial Goals withdrawn

Netia today sets out its guidance for FY2014.

Management expects 2014 to be a year of consolidation with a focus on providing the foundations for the B2B and B2C Business Units to deliver accelerating performance in future periods.

While Management expects to continue growth in on-net services with broadband, TV and B2B services all registering growth, the short-term priority will be to add additional product features, improve processes and reduce the cost base in order to sell more effectively in subsequent years. Accordingly, guidance is being limited to key financial measures with no RGU guidance being provided.

Guidance for 2014 is set out below:

FY2014 Guidance	*FY 2013 Actual*	*FY 2014 Guidance*
Revenues (PLN m)	1,876	1,735
Adjusted EBITDA (PLN m)	551	505
Adjusted EBITDA margin (%)	29.4%	29.1 %
Adjusted EBIT (PLN m)	111	75
Capital investments (excl. M&A and integration capex) (PLN m)	240	200
Capital investments (excl. M&A and integration capex) to sales (%)	12.8%	11.5%
Adjusted operating free cash flow (Adj. OpFCF)[1](PLN m)	311	305

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

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

The Group's medium-term strategic financial guidance, which was put under review in November 2013 at the time of publishing Q3 2013 results (see Netia's current report No. 45/2013), is today being withdrawn. Management will await the results of the next mid-term perspective planning round together with the Company's Supervisory Board and which will be undertaken with key input from the two new, more autonomous B2B and B2C Business Units before deciding on whether to once again issue such medium-term guidance.

Consolidated Financial Information

Please note that following the reorganisation of its sales channels structure as part of the 4Sails project (see section 3 Other Highlights), with effect from Q3 2013 Netia has modified its segment reporting to comprise two main segments, Business to Consumer (B2C) and Business to Business (B2B). Pursuant to this change, the previous SOHO/SME segment has been split such that SOHO becomes a sub-segment of B2C and SME part of the Business sub-segment of B2B. Accordingly, segment reporting of B2C and B2B segments now includes sub-segments as follows: B2C (Home), B2C (SOHO), B2B (Business) and B2B (Carrier). For comparative purposes, KPIs and results have been prepared retrospectively for H1 2013 and FY 2012. The recent announcement of the creation of B2B and B2C Business Units with effect from Q2 2014 is not expected to result in further changes to revenue reporting.

Please also refer to our financial statements for the year ended December 31, 2013.

2013 vs. 2012

Revenue decreased by 12% YoY to PLN 1,876.0m for 2013 from PLN 2,121.3m for 2012. The B2C operating segment decreased by 12% or PLN 149.3m and the B2B segment by 11% or PLN 92.8m. The decline in revenues was driven by a 6% YoY decline in services provided (RGUs) and by falls in mobile termination rates (MTRs) which contributed approximately one third of the revenue decline. RGU declines continued to be concentrated in the B2C (Home) sub-segment and in fixed voice services and lower margin WLR services in particular. The proportion of RGUs delivered on-network has increased from 43% to 46% in the twelve months to December 31, 2013.

Telecommunications revenue decreased by 11% YoY to PLN 1,867.6m in 2013 from PLN 2,108.7m in the prior year, driven by a 15% or PLN 139.3m decrease in direct voice revenue to PLN 809.2m from PLN 948.4m in 2012, associated with the decrease in the voice subscriber base and the drop in the number of WLR services in particular. Data revenue decreased by 5% or PLN 40.9m to PLN 724.7m from PLN 765.6m in 2012, mainly due to the lower number of BSA services. Revenues from interconnect and carrier services combined were down by 22% to PLN 192.3m from PLN 245.8m in 2012 following the introduction of lower MTRs in July 2012, in January 2013 and again in July 2013. Indirect voice services (CPS) revenue decreased by 45% or PLN 15.8m as a result of decreasing customer numbers and falling ARPUs. Other telecommunications revenue, which include TV and mobile services, increased between the compared periods by 7% or PLN 8.4m to PLN 122.2m in 2013 from PLN 113.8m in 2012 and represented 7% of total revenue versus 5% in the prior year. Direct voice revenue as a share of total telecommunications revenue declined YoY from 45% to 43% and data revenue increased over the same period from 36% to 39%.

Cost of sales decreased by 15% YoY to PLN 1,265.3m from PLN 1,484.2m for 2012 and represented 67% of total revenue as compared to 70% in the prior year. Lower interconnection costs following cuts to MTRs, a relatively faster decline in off-net services and synergies from Dialog Group and Crowley integration and lower depreciation and amortization expenses were the main drivers of the decreasing share of costs in relation to revenue.

Interconnection charges decreased by 34% to PLN 201.3m in 2013 as compared to PLN 306.1m for 2012, due to falling MTRs.

Network operations and maintenance cost decreased by 8% to PLN 593.4m from PLN 647.6m for the prior year due to synergies from Dialog Group and Crowley integration and less off-net RGUs, partly offset by an increase in outsourced maintenance costs after transferring Dialog and Crowley network maintenance to Ericsson.

Depreciation and amortization related to cost of sales decreased by 9% to PLN 359.6m as compared to PLN 394.1m for 2012 following the reassessment of useful lives of the Netia Group's fixed assets in Q1 2013, resulting in reduction of depreciation rates.

Taxes, frequency fees and other expenses decreased by 12% to PLN 68.9m in 2013 as compared to PLN 78.1m for 2012, due to synergies from Dialog Group and Crowley integration.

Salaries and benefits related to the cost of sales decreased by 22% to PLN 32.2m from PLN 41.1m for 2012 following the headcount reduction process started in June 2012 in connection with the integration of Netia, Dialog Group and Crowley into the New Netia Group and the transfer of Dialog and Crowley maintenance staff to Ericsson in September 2012.

Gross profit for 2013 was PLN 610.7m as compared to PLN 637.1m for 2012, a drop of just 4% despite revenue falling by 12%. Gross profit margin was 32.6% for 2013 and 30.0% for 2012. Increasing share of revenue from higher margin own-network services as well as synergies from the Dialog Group and Crowley integration, together with lower MTRs and lower depreciation charges mentioned above, are responsible for the improving percentage gross margin achieved.

Selling and distribution costs decreased by 9% YoY to PLN 358.5m from PLN 392.1m for last year and represented 19% of total revenue as compared to 18% in 2012. Synergies from Dialog Group and Crowley integration together with lower direct acquisition costs from fewer gross additions were the main drivers of the decreasing costs.

Outsourced customer service cost decreased by 52% YoY to PLN 14.4m from PLN 30.0m due to extracting integration synergies and increased use of internal customer care resources.

Billing, mailing and logistics costs decreased by 32% YoY to PLN 28.2m from PLN 41.4m while the average number of RGUs served fell only by 6% between the two years due to integration synergies.

Depreciation and amortization related to selling and distribution cost decreased by 16% to PLN 50.5m from PLN 60.0m in 2012 following the full amortization of certain intangible assets related to computer software and telecommunications licenses.

Third party commissions decreased by 20% YoY to PLN 22.9m from PLN 28.5m due to lower gross additions, particularly in voice services.

Impairment of receivables was higher by 6% and PLN 1.0m as the prior year benefited from a one-off adjustment to the debt provision to reflect improving recovery rates. Provisions for doubtful debts for 2013 are nevertheless running at a moderate 0.7% of sales.

Advertising and promotion cost increased by 7% YoY to PLN 39.1m for 2013 as compared to PLN 36.7m for 2012 in connection with more intense advertising towards the year-end and introduction of a new company claim and communication platform.

Other expenses related to selling and distribution were higher by 25% and PLN 13.6m mainly on increased cost of TV content for a 52% higher base of TV customers.

General and administration costs decreased by 14% YoY to PLN 179.2m from PLN 207.6m for 2012 and represented 10% of total revenue in both 2013 and 2012. Synergies from Dialog Group and Crowley integration were the main drivers of the cost decrease.

Salaries and benefits related to general administration cost decreased by 16% to PLN 77.2m from PLN 92.2m in 2012, reflecting mainly the headcount optimization process conducted in 2012 in connection with the Dialog Group and Crowley integration into the Netia group.

Other costs related to general administration cost decreased by 21% to PLN 29.2m from PLN 37.0m in 2012, due to significantly lower integration costs as the scale of the project is reduced with most synergy initiatives now completed.

Office and car maintenance costs decreased by 15% or PLN 2.6m between the periods due to extraction of integration synergies.

Professional services costs decreased by 14% or PLN 1.6m principally due to integration synergies.

Electronic data processing cost increased by 22% or PLN 3.0m in connection with the on-going integration projects such as migration of Dialog's and Crowley's customer bases to Netia.

Other income, net of other expenses decreased by 38% to PLN 10.5m from PLN 16.8m following significantly lower revenue from reminder fees and penalties.

Other gains/(losses), net increased by 135% to PLN 9.3 from PLN 4.0m on gain on sale of impaired receivables.

Adjusted EBITDA was PLN 550.8m, down by 7% from PLN 591.2m for 2012 as lower revenue was offset by higher percentage gross margins and lower SG&A expenses. Adjusted EBITDA margin was 29.4% as compared to 27.9% in 2012. Higher Adjusted EBITDA margin reflects Dialog Group and Crowley integration synergies and lower base of both revenue and cost from MTR reductions, partially offset by falling gross profits from contracting voice services.

Including the Dialog Group and Crowley integration costs of PLN 9.5m in 2013 and PLN 26.3m in 2012, restructuring costs of PLN 3.6m in 2013 and PLN 22.6m in 2012, impairment charge of PLN 0.4m in 2013 and PLN 79.2m in 2012, the costs of M&A projects of PLN 0.6m in 2013 and PLN 1.5m in 2012, a decrease in provision for universal service obligation of PLN 0.2m recorded in 2013, PLN 2.6m impairment charge on valuation of investment property recorded in 2013, and cost of N^2 Project of PLN 1.5m recorded in 2013, *EBITDA* was PLN 532.7m for 2013 as compared to PLN 461.5m for 2012. EBITDA margin was 28.4% as compared to 21.8% for 2012.

Depreciation and amortization was PLN 440.0m, a decrease of 9% YoY as compared to PLN 482.5m in 2012. Following a comprehensive review of the useful lives of Netia's network assets, the useful economic lives of certain existing network assets, in particular telecommunications equipment, have been extended with effect from January 1, 2013 whilst certain other assets are now fully depreciated.

Operating profit (EBIT) was PLN 92.7m as compared to an operating loss of PLN 21.0m for 2012. Excluding unusual items described above of PLN 18.1m of net costs in 2013 and PLN 129.6m of costs in 2012, Adjusted EBIT was PLN 110.9m profit for 2013 versus PLN 108.7m profit for 2012.

Net financial cost was PLN 28.3m as compared to net financial cost of PLN 39.9m for the prior year and the improvement is driven by the falls in net debt and in market interest rates between the periods.

Income tax charge of PLN 18.1m was recorded in 2013 as compared to income tax charge of PLN 26.8m for 2012.

Net profit was PLN 46.3m for 2013 versus net loss of PLN 87.7m for 2012.

Cash outlays on purchase of fixed assets and computer software increased by 7% to PLN 281.8m for 2013 versus PLN 262.5m for 2012 driven by investments in broadband networks including NGA development. In 2013 PLN 6.5m was spent in cash on transformation of ownership of Netia's real estate at Poleczki St. to freehold and PLN 5.1m was spent on the acquisition of a cable network from UPC Polska while in 2012 PLN 5.3m was spent on acquisitions of Ethernet operators and networks.

Cash and short term deposits at December 31, 2013 totalled PLN 93.4m versus PLN 142.7m at December 31, 2012.

Debt and accrued interest at December 31, 2013 was PLN 384.1m as compared to PLN 550.6m in the prior year.

Net debt at December 31, 2013 was PLN 290.7m as compared to PLN 407.9m in the prior year. Over the 12 months to December 31, 2013, PLN 144.0m was returned to shareholders in the form of various tranches of share buy-backs including an offer to purchase Netia shares.

Netia SA (the parent company) net profit for 2013 was PLN 30.7m versus a net loss of PLN 94.2m for 2012 with improved adjusted EBIT, a dividend of PLN 70.0m from its subsidiary Telefonia Dialog SA and the lack of a major impairment loss of PLN 26.6m in the 2013 result responsible for the improvement. As a result, Netia SA's distributable reserves stood at PLN 376.9m on December 31, 2013.

Q4 2013 vs. Q32013

Sequential revenue decreased by 1% to PLN 450.8m in Q4 2013 from PLN 457.1m in Q3 2013. The decline in revenues was driven by a 1% sequential decline in services provided (RGUs), which continued to be concentrated in the B2C (Home) sub-segment and in fixed voice services, and by falls in mobile termination rates (MTRs), which contributed 34% of revenue decline via their knock-on effects on B2B retail results. The Company estimates the sequential impact of lower MTRs on revenue at PLN 2.2m.

Telecommunications revenue decreased by 1% to PLN 449.2m in Q4 2013 versus PLN 455.5m in Q3 2013. Direct voice revenue fell by 4% QoQ to PLN 190.0m from PLN 197.9m in Q3 2013 as a result of the fall in the subscriber base and on-network ARPU declines partly related to passing on of MTR savings. Other telecommunications revenue increased by 4% or PLN 1.2m due to higher number of TV services. Carrier segment revenue increased sequentially by 2% or PLN 1.0m on higher traffic volumes. Data revenue remained broadly stable at PLN 179.3m in Q4 2013 versus 179.6m in Q3. Indirect voice revenue decreased sequentially by 9% or PLN 0.4m on lower customer base.

Cost of sales increased by 4% to PLN 312.8m as compared to PLN 301.0m in Q3 2013, representing 69% of total revenue in Q4 2013 as compared to 66% in Q3 2013. Taxes, frequency fees and other expenses increased by 38% or PLN 6.0m driven by liquidation of certain obsolete assets. Cost of goods sold increased by 171% or PLN 2.9m following higher sale of equipment to business customers.

Gross profit decreased by 12% to PLN 137.9m from PLN 156.1m in Q3 2013, with gross profit margin at 30.6% versus 34.2% in Q3 2013.

Selling and distribution costs increased by 1% QoQ to PLN 88.1m in Q4 2013 as compared to PLN 87.6m in Q3 2013 representing 20% of total revenue in Q4 2013 as compared to 19% in Q3 2013. Advertising and promotion spending was up by 112% or PLN 7.7m as a result of more intensive advertising campaigns. Impairment of receivables was down by 91% or PLN 4.6m reflecting an improving customer payment profile versus the reserves built in the previous quarters. Depreciation and amortization related to selling and distribution decreased by 12% or PLN 1.5m following full depreciation of certain assets.

General and administrative expenses increased by 21% to PLN 49.6m in Q4 2013 from PLN 41.0m in Q3 2013, and represented 11% of total revenue in Q4 2013 as compared to 9% in Q3 2013. The increase was driven mainly by sequentially higher "Other expenses" category associated with liquidation of certain obsolete fixed assets.

Adjusted EBITDA was PLN 124.2m versus PLN 144.1m for Q3 2013 and Adjusted EBITDA margin was 27.6% in Q4 2013 versus was 31.5% in Q3 2013.

EBITDA was PLN 115.2m as compared to PLN 142.5m in Q3 2013. EBITDA for Q4 2013 included Dialog Group and Crowley integration costs of PLN 3.7m, restructuring costs of PLN 0.8m, an impairment charge on valuation of Netia's investment property in Warsaw of PLN 2.6m, costs of Netia's B2B/B2C divisional split (N^2 Project) of PLN 1.5m, and costs of M&A projects of PLN 0.4m. EBITDA for Q3 2013 included Dialog Group and Crowley integration costs of PLN 1.0m, restructuring costs of PLN 0.7m, a decrease in provision for universal service obligation payment of PLN 0.2m and costs of M&A projects of PLN 0.1m.

Operating profit (EBIT) was PLN 6.2m as compared to operating profit of PLN 32.8m in Q3 2013. Excluding unusual items, EBIT for Q4 2013 would have been PLN 15.2m profit as compared to PLN 34.5m profit for Q3 2013.

Net financial cost was PLN 5.2m as compared to net financial cost of PLN 7.8m in Q3 2013.

Income tax benefit of PLN 9.4m was recorded in Q4 2013 versus income tax charge of PLN 10.9m in Q3 2013.

Net profit for Q4 2013 was PLN 10.5m versus net profit of PLN 14.1m for Q3 2013.

Key Figures

PLN'000	2012	2013	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Revenues	2,121,356	1,876,016	519,532	490,690	477,492	457,076	450,758
y-o-y % change	*31.0%*	*(11.6%)*	*21.8%*	*(9.8%)*	*(11.0%)*	*(12.3%)*	*(13.2%)*
Adjusted EBITDA	591,165	550,855	144,526	142,005	140,541	144,123	124,186
Margin %	*27.9%*	*29.4%*	*27.8%*	*28.9%*	*29.4%*	*31.5%*	*27.6%*
y-o-y change %	*44.8%*	*(6.8%)*	*33.3%*	*6.8%*	*(10.0%)*	*(8.5%)*	*(14.1%)*
EBITDA	461,527	532,753	54,081	138,621	136,408	142,492	115,232
Margin %	*21.8%*	*28.4%*	*10.4%*	*28.3%*	*28.6%*	*31.2%*	*25.6%*
Adjusted EBIT	108,674	110,861	25,234	30,656	30,573	34,457	15,175
Margin %	*5.1%*	*5.9%*	*4.9%*	*6.2%*	*6.4%*	*7.5%*	*3.4%*
EBIT	(20,964)	92,759	(65,211)	27,272	26,440	32,826	6,221
Margin %	*(1.0%)*	*4.9%*	*(12.6%)*	*5.6%*	*5.5%*	*7.2%*	*1.4%*
Adjusted Profit of the Netia Group (consolidated)	17,303	60,953	(35,651)	15,885	11,932	15,387	17,749
Margin %	*0.8%*	*3.2%*	*(6.9%)*	*3.2%*	*2.5%*	*3.4%*	*3.9%*
Profit/(Loss) of the Netia Group (consolidated)	(87,704)	46,290	(108,911)	13,144	8,584	14,066	10,496
Margin %	*(4.1%)*	*2.5%*	*(21.0%)*	*2.7%*	*1.8%*	*3.1%*	*2.3%*
Profit/(Loss) of Netia SA (stand alone)[1]	(94,175)	30,724	(55,234)	(9,055)	(9,254)	(2,232)	51,265
Cash and short term deposits	142,702	93,356	142,702	98,304	124,401	130,931	93,356
Cash, restricted cash and short term deposits	144,965	93,369	144,965	229,750	126,524	130,944	93,369
Treasury bills (at amortized cost)	49	0	49	-	-	-	-
Debt	550,649	384,077	550,649	562,543	522,935	448,154	384,077
Capex related payments	262,506	281,826	52,606	71,628	55,165	57,353	97,680
Investments in tangible and intangible fixed assets and investment property	279,097	279,574	76,524	45,899	61,921	63,888	107,866

EUR'000[2]	2012	2013	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Revenues	511,515	452,357	125,273	118,318	115,136	110,213	108,690
y-o-y % change	*31.0%*	*(11.6%)*	*21.8%*	*(9.8%)*	*(11.0%)*	*(12.3%)*	*(13.2%)*
Adjusted EBITDA	142,546	132,826	34,849	34,241	33,888	34,752	29,945
Margin %	*27.9%*	*29.4%*	*27.8%*	*28.9%*	*29.4%*	*31.5%*	*27.6%*
y-o-y change %	*44.8%*	*(6.8%)*	*33.3%*	*6.8%*	*(10.0%)*	*(8.5%)*	*(14.1%)*
EBITDA	111,286	128,461	13,040	33,425	32,892	34,359	27,785
Margin %	*21.8%*	*28.4%*	*10.4%*	*28.3%*	*28.6%*	*31.2%*	*25.6%*
Adjusted EBIT	26,204	26,732	6,085	7,392	7,372	8,308	3,659
Margin %	*5.1%*	*5.9%*	*4.9%*	*6.2%*	*6.4%*	*7.5%*	*3.4%*
EBIT	(5,055)	22,367	(15,724)	6,576	6,375	7,915	1,500
Margin %	*(1.0%)*	*4.9%*	*(12.6%)*	*5.6%*	*5.5%*	*7.2%*	*1.4%*
Adjusted Profit of the Netia Group (consolidated)	4,172	14,697	(8,596)	3,830	2,877	3,710	4,280
Margin %	*0.8%*	*3.2%*	*(6.9%)*	*3.2%*	*2.5%*	*3.4%*	*3.9%*
Profit/(Loss) of the Netia Group (consolidated)	(21,148)	11,162	(26,261)	3,169	2,070	3,392	2,531
Margin %	*(4.1%)*	*2.5%*	*(21.0%)*	*2.7%*	*1.8%*	*3.1%*	*2.3%*
Profit/(Loss) of Netia SA (stand alone)[1]	(22,708)	7,408	(13,318)	(2,183)	(2,231)	(538)	12,361
Cash and short term deposits	34,409	22,511	34,409	23,704	29,996	31,571	22,511
Cash, restricted cash and short term deposits	34,955	22,514	34,955	55,399	30,508	31,574	22,514
Treasury bills (at amortized cost)	12	-	12	-	-	-	-
Debt	132,776	92,611	132,776	135,644	126,094	108,062	92,611
Capex related payments	63,297	67,956	12,685	17,271	13,302	13,829	23,553
Investments in tangible and intangible fixed assets and investment property	67,298	67,413	18,452	11,067	14,931	15,405	26,009

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

[2] The EUR amounts shown in this table and in the entire document have been translated using an exchange rate of PLN 4.1472 = EUR 1.00, the average rate announced by the National Bank of Poland on December 31, 2013. These figures are included for the convenience of the reader only.

Adjusted EBITDA, Adjusted EBIT and Adjusted Profit for 2012 exclude the following items as appropriate: an impairment charge of PLN 79.2m, New Netia (Dialog Group & Crowley) integration costs of PLN 26.3m, restructuring expenses related mainly to group staff redundancies to integrate New Netia Group in FY 2012 of PLN 22.6m and expenses related to M&A activities of PLN 1.5m and impact from these one-offs on the income tax charge of PLN 9.6m. Items excluded for 2013 are as follows: New Netia (Dialog Group & Crowley) integration costs of PLN 9.5m, restructuring expenses of PLN 3.6m, impairment charge of PLN 0.4m, expenses related to M&A activities of PLN 0.6m, a decrease in provision for universal service obligation payment of PLN 0.2m, an impairment charge on valuation of investment property of PLN 2.6, costs of B2B/B2C divisional split of PLN 1.5m and impact from these one-offs on the income tax charge of PLN 3.4m.

Key Operational Indicators

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Total services (RGUs)	**2,793,068**	**2,785,339**	**2,734,070**	**2,688,467**	**2,637,912**	**2,592,260**	**2,560,019**	**2,526,357**
Broadband data services								
Own infrastructure-based services	416,241	411,716	404,795	400,431	398,162	397,788	398,892	402,140
Own fixed-line networks	*397,680*	*393,753*	*387,600*	*382,540*	*381,078*	*381,255*	*382,932*	*386,787*
WiMAX	*18,561*	*17,963*	*17,195*	*17,891*	*17,084*	*16,533*	*15,960*	*15,353*
Bitstream access	312,103	309,878	299,272	291,621	289,522	286,465	282,792	276,857
LLU	184,064	182,353	184,631	182,726	178,393	175,455	172,481	169,912
Total broadband data services (end of period)	**912,408**	**903,947**	**888,698**	**874,778**	**866,077**	**859,708**	**854,165**	**848,909**
Voice services (excl. CPS)								
Traditional direct voice[1]	584,928	587,311	578,191	563,753	553,337	545,127	537,422	532,639
incl. ISDN equivalent of lines	*222,604*	*233,280*	*233,888*	*236,974*	*236,628*	*235,370*	*235,228*	*236,429*
incl. legacy wireless	*42,158*	*43,984*	*44,418*	*44,788*	*45,143*	*42,943*	*42,540*	*42,621*
Voice over IP (excl. LLU)	45,100	49,694	53,050	69,359	74,580	79,987	86,562	93,969
WiMAX voice	16,644	15,819	14,987	14,663	13,802	13,210	12,575	11,983
Netia network subscriber voice services	646,672	652,824	646,228	647,775	641,719	638,324	636,559	638,591
WLR	954,917	936,167	903,810	869,196	828,850	788,996	760,519	728,693
LLU voice over IP	126,240	125,145	127,728	126,933	124,306	123,492	122,187	121,326
Total voice services (end of period)	**1,727,829**	**1,714,136**	**1,677,766**	**1,643,904**	**1,594,875**	**1,550,812**	**1,519,265**	**1,488,610**
TV services (end of period)	**61,804**	**71,274**	**72,805**	**79,285**	**91,237**	**100,879**	**111,358**	**120,321**
Mobile Data services (end of period)	**30,446**	**33,415**	**32,758**	**30,281**	**29,272**	**28,906**	**28,063**	**26,397**
Mobile Voice services (end of period)	**60,581**	**62,567**	**62,043**	**60,219**	**56,451**	**51,955**	**47,168**	**42,120**
Total services (RGUs) by segment [2] (end of period)	**2,793,068**	**2,785,339**	**2,734,070**	**2,688,467**	**2,637,912**	**2,592,260**	**2,560,019**	**2,526,357**
B2B Division	413,203	431,971	437,478	454,656	460,730	464,612	469,603	477,713
Business segment	*408,311*	*426,712*	*432,231*	*450,300*	*456,571*	*460,330*	*465,285*	*473,502*
Carrier segment	*4,892*	*5,259*	*5,247*	*4,356*	*4,159*	*4,282*	*4,318*	*4,211*
B2C Division	2,344,539	2,318,390	2,261,642	2,198,786	2,142,387	2,093,098	2,056,016	2,014,144
Home segment	*2,077,853*	*2,050,950*	*1,995,231*	*1,933,745*	*1,877,839*	*1,830,042*	*1,792,530*	*1,749,930*
Share of lines with multiplay services	*30.7%*	*31.2%*	*31.4%*	*31.8%*	*32.2%*	*32.5%*	*32.8%*	*33.7%*
SOHO segment	*266,686*	*267,440*	*266,411*	*265,041*	*264,548*	*263,056*	*263,486*	*264,214*
Share of lines with multiplay services	*46.2%*	*46.6%*	*46.5%*	*46.4%*	*47.1%*	*47.8%*	*48.1%*	*48.8%*
Other[3] (Petrotel)	35,326	34,978	34,950	35,025	34,795	34,550	34,400	34,500
Other								
Total net change in Broadband data services	838	(8,461)	(15,249)	(13,920)	(8,701)	(6,369)	(5,543)	(5,256)
Monthly Broadband ARPU (PLN)	57	57	56	57	56	56	56	56
Total net change in Voice services	(16,894)	(13,693)	(36,370)	(33,862)	(49,029)	(44,063)	(31,547)	(30,655)
Monthly Voice ARPU in own network (PLN)	49	49	46	46	43	42	40	39
Monthly Voice ARPU for WLR (PLN)	45	45	45	45	45	45	45	45
Monthly Voice ARPU blended (PLN)	47	47	46	46	44	44	43	42
Monthly TV ARPU blended (PLN)	44	42	42	42	40	38	37	37
Monthly Mobile Data ARPU blended (PLN)	28	28	27	26	25	28	27	27
Monthly Mobile Voice ARPU blended (PLN)	24	26	27	26	27	27	28	29
CPS lines (cumulative)	70,029	67,480	65,249	62,241	62,013	58,358	57,008	55,922
Monthly Voice ARPU for CPS	48	44	42	37	30	28	26	24
Headcount	2,811	2,693	2,240	2,117	2,053	2,012	2,012	2,012
Active headcount	2,719	2,539	2,144	2,013	1,971	1,948	1,930	1,917

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

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

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

Income Statement

(PLN in thousands unless otherwise stated)

Time periods:	2012 *audited*	2013 *audited*	Q3 2013 *unaudited*	Q4 2013 *unaudited*
Direct Voice	948,455	809,188	197,861	190,049
Incl. monthly fees	*662,808*	*588,397*	*144,771*	*140,373*
Incl. calling charges	*284,904*	*220,223*	*52,939*	*49,686*
Indirect Voice	34,976	19,203	4,481	4,080
Data	765,658	724,721	179,652	179,295
Interconnection revenues	109,588	85,288	19,705	19,202
Wholesale services	136,242	107,003	22,893	24,407
Other telecommunications revenues	113,789	122,189	30,929	32,120
Total telecommunications revenue	**2,108,708**	**1,867,592**	**455,521**	**449,153**
Radio communications and other revenue	12,648	8,424	1,555	1,605
Total revenue	**2,121,356**	**1,876,016**	**457,076**	**450,758**
Cost of sales	**(1,484,216)**	**(1,265,342)**	**(300,972)**	**(312,832)**
Interconnection charges	(306,056)	(201,301)	(42,215)	(41,860)
Network operations and maintenance	(647,586)	(593,399)	(144,292)	(146,523)
Costs of goods sold	(11,600)	(9,383)	(1,676)	(4,548)
Depreciation and amortization	(394,143)	(359,562)	(89,475)	(90,038)
Salaries and benefits	(41,101)	(32,175)	(7,708)	(8,107)
Restructuring	(5,608)	(629)	(19)	(179)
Taxes, frequency fees and other expenses	(78,122)	(68,893)	(15,587)	(21,577)
Gross profit	**637,140**	**610,674**	**156,104**	**137,926**
Margin (%)	***30.0%***	***32.6%***	***34.2%***	***30.6%***
Selling and distribution costs	**(392,069)**	**(358,526)**	**(87,565)**	**(88,063)**
Advertising and promotion	(36,663)	(39,080)	(6,854)	(14,526)
Third party commissions	(28,503)	(22,854)	(5,742)	(4,912)
Billing, mailing and logistics	(41,431)	(28,237)	(6,417)	(7,133)
Outsourced customer service	(30,034)	(14,375)	(2,877)	(2,386)
Impairment of receivables	(12,664)	(13,401)	(5,034)	(440)
Depreciation and amortization	(59,981)	(50,519)	(12,538)	(11,022)
Salaries and benefits	(118,592)	(120,468)	(30,159)	(30,211)
Restructuring	(9,619)	(1,456)	(121)	(454)
Other costs	(54,582)	(68,136)	(17,823)	(16,979)
General and administration costs	**(207,610)**	**(179,186)**	**(40,997)**	**(49,586)**
Professional services	(11,088)	(9,499)	(2,367)	(2,663)
Electronic data processing	(13,410)	(16,383)	(4,187)	(4,672)
Office and car maintenance	(18,125)	(15,475)	(3,754)	(5,030)
Depreciation and amortization	(28,367)	(29,913)	(7,653)	(7,951)
Salaries and benefits	(92,198)	(77,193)	(17,266)	(17,743)
Restructuring	(7,429)	(1,546)	(528)	(148)
Other costs	(36,993)	(29,177)	(5,242)	(11,379)
Other income	22,438	15,728	3,259	7,471
Other expense	(5,634)	(5,274)	(563)	(3,617)
Other gains/ (losses), net	3,974	9,343	2,588	2,090
Impairment charge for non-current assets	(79,203)	-	-	-
EBIT	**(20,964)**	**92,759**	**32,826**	**6,221**
Margin (%)	***(1.0%)***	***4.9%***	***7.2%***	***1.4%***
Finance income	6,271	3,885	566	205
Finance cost	(46,213)	(32,224)	(8,389)	(5,376)
Profit before tax	**(60,906)**	**64,420**	**25,003**	**1,050**
Tax benefit / (charge)	(26,798)	(18,130)	(10,937)	9,446
Profit / (Loss)	**(87,704)**	**46,290**	**14,066**	**10,496**

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

Time periods:	2012 *audited*	2013 *audited*	Q3 2013 *unaudited*	Q4 2013 *unaudited*
Operating Profit	**(20,964)**	**92,759**	**32,826**	**6,221**
Add back:				
Depreciation and amortization	482,491	439,994	109,666	109,011
EBITDA	**461,527**	**532,753**	**142,492**	**115,232**
Add back:				
Impairment charge for non-current assets	79,203	431	-	-
Restructuring costs	22,656	3,631	668	781
M&A related costs	1,504	618	81	418
New Netia integration costs	26,275	9,500	1,032	3,683
B2B/B2C split costs (N^2 Project)	-	1,469	-	1,469
Impairment charge on market valuation of investment property in Warsaw	-	2,603	-	2,603
Decrease in provision for universal service obligation payment	-	(150)	(150)	-
Adjusted EBITDA	**591,165**	**550,855**	**144,123**	**124,186**
Margin (%)	***27.9%***	***29.4%***	***31.5%***	***27.6%***

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

Time periods:	2012 *audited*	2013 *audited*	Q3 2013 *unaudited*	Q4 2013 *unaudited*
Reminder fees and penalties	13,880	5,402	2,818	(690)
Forgiveness of liabilities	453	701	295	80
Reversal of impairment charges and provisions	1,398	2,465	-	2,465
Returned VAT]	1,264	-	-	-
Other operating income	5,443	7,160	146	5,616
Total	**22,438**	**15,728**	**3,259**	**7,471**

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

Time periods:	2012 *audited*	2013 *audited*	Q3 2013 *unaudited*	Q4 2013 *unaudited*
Impairment charges for specific individual assets	(4,611)	(5,184)	(399)	(3,743)
Other expenses	(1,023)	(90)	(164)	126
Total	**(5,634)**	**(5,274)**	**(563)**	**(3,617)**

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

Time periods:	2012 *audited*	2013 *audited*	Q3 2013 *unaudited*	Q4 2013 *unaudited*
Gain / (loss) on sale of impaired receivables	3,758	10,331	2,587	2,308
Gain / (loss) on disposal of fixed assets	471	(801)	(109)	(197)
Net foreign exchange gains / (losses)	(255)	(187)	110	(21)
Total	**3,974**	**9,343**	**2,588**	**2,090**

Total comprehensive income
(PLN in thousands unless otherwise stated)

Time periods:	2012 *audited*	2013 *audited*	Q3 2013 *unaudited*	Q4 2013 *unaudited*
Profit / (Loss)	**(87,704)**	**46,290**	**14,066**	**10,496**
Cash flow hedges	(13,819)	4,461	(434)	(373)
Income tax relating to components of other comprehensive income	2,626	(848)	88	91
Net other comprehensive Income / (Loss) to be reclassified to profit or loss in subsequent periods	**(11,193)**	**3,613**	**(346)**	**(282)**
Re-measurement gains on a defined benefit plan	-	105	-	105
Income tax relating to re- measurement gains on a defined benefit plan	-	(1)	-	(1)
Net other comprehensive Income / (Loss) not to be reclassified to profit or loss in subsequent periods	**-**	**104**	**-**	**104**
Other comprehensive Income / (Loss)	**(11,193)**	**3,717**	**(346)**	**(178)**
Total comprehensive Income / (Loss)	**(98,897)**	**50,007**	**13,720**	**10,318**

Statement of financial position

(PLN in thousands unless otherwise stated)

Time periods:	December 31 2012 *audited*	March 31 2013 *unaudited*	June 30 2013 *unaudited*	September 30 2013 *unaudited*	December 31 2013 *audited*
Property, plant and equipment, net	2,066,304	2,018,333	1,984,723	1,957,160	1,956,680
Intangible assets	597,455	579,108	563,481	545,418	538,340
Investment property	-	26,267	26,141	26,067	27,142
Deferred income tax assets	101,687	99,778	95,124	89,194	92,501
Available for sale financial assets	115	115	115	116	116
Long-term receivables	1	1	1	-	-
Prepaid expenses and accrued income	11,082	9,281	7,354	6,170	5,544
Derivative financial instruments	-	-	814	595	326
Total non-current assets	**2,776,644**	**2,732,883**	**2,677,753**	**2,624,720**	**2,620,649**
Inventories	2,094	1,670	1,745	2,043	2,664
Trade and other receivables	248,270	222,480	216,925	195,223	191,000
Current income tax receivables	518	1,114	26	107	5,258
Prepaid expenses and accrued income	33,660	32,464	34,216	30,425	24,638
Derivative financial instruments	-	254	1,337	39	33
Financial assets at fair value through profit and loss	15	15	18	22	25
Held to maturity investments	49	-	-	-	-
Restricted cash	2,263	131,446	2,123	13	13
Cash and short-term deposits	142,702	98,304	124,401	130,931	93,356
	429,571	**487,747**	**380,791**	**358,803**	**316,987**
Assets held for sale	26,770	-	-	-	-
Total current assets	**456,341**	**487,747**	**380,791**	**358,803**	**316,987**
TOTAL ASSETS	**3,232,985**	**3,220,630**	**3,058,544**	**2,983,523**	**2,937,636**
Share capital	386,281	386,281	386,281	386,281	347,911
Treasury shares	(106,814)	(122,702)	(251,012)	(251,012)	-
Supplementary capital	2,060,076	2,060,076	1,971,500	1,971,500	1,720,488
Retained earnings	(62,432)	(49,288)	57,647	71,713	82,313
Other components of equity	19,184	20,996	14,986	15,262	53,792
TOTAL EQUITY	**2,296,295**	**2,295,363**	**2,179,402**	**2,193,744**	**2,204,504**
Bank loans/Borrowings	384,452	385,096	320,809	321,457	257,211
Provisions	18,189	18,053	20,397	19,177	1,876
Deferred income tax liabilities	17,683	19,745	21,227	21,027	17,746
Deferred income	20,769	21,185	19,646	18,856	34,175
Other financial liabilities/Derivative financial instruments	5,741	5,464	2,487	2,862	2,587
Other long-term liabilities	4,232	3,773	3,319	2,841	3,143
Total non-current liabilities	**451,066**	**453,316**	**387,885**	**386,220**	**316,738**
Trade and other payables	260,069	237,885	226,868	217,155	231,652
Derivative financial instruments	7,268	5,769	6,025	5,421	6,449
Borrowings	166,197	177,447	202,126	126,697	126,866
Other financial liabilities	66	66	66	66	66
Current income tax liabilities	1	1	946	1,123	57
Provisions	14,200	13,169	13,217	11,838	11,265
Deferred income	37,823	37,614	42,009	41,259	40,039
Total current liabilities	**485,624**	**471,951**	**491,257**	**403,559**	**416,394**
Total liabilities	**936,690**	**925,267**	**879,142**	**789,779**	**733,132**
TOTAL EQUITY AND LIABILITIES	**3,232,985**	**3,220,630**	**3,058,544**	**2,983,523**	**2,937,636**

Cash Flow Statement
(PLN in thousands unless otherwise stated)

Time periods:	2012 *audited*	2013 *audited*	Q3 2013 *unaudited*	Q4 2013 *unaudited*
Profit / (Loss)	**(87,704)**	**46,290**	**14,066**	**10,496**
Depreciation and amortization	482,491	439,994	109,666	109,011
Impairment charges for specific individual assets	83,814	5,184	398	3,744
Reversal of impairment charges for specific assets	(296)	(1,415)	-	(1,415)
Deferred income tax charge / (benefit)	27,111	8,400	5,817	(6,498)
Interest expense and fees charged on bank loans	43,185	30,681	6,951	6,940
Other interest charged	501	259	38	49
Share-based compensation	1,913	3,068	1,145	441
Fair value (gains)/losses on financial assets/liabilities	1	(10)	(4)	(3)
Fair value (gains)losses on derivative financial instruments	1,945	131	839	555
Foreign exchange (gains)/losses	435	47	151	3
(Gain)/Loss on disposal of fixed assets	(21)	6,358	(1,011)	6,424
Changes in working capital	(11,989)	36,284	7,119	359
Net cash provided by operating activities	**541,386**	**575,271**	**145,175**	**130,106**
Purchase of fixed assets and computer software	(262,506)	(281,826)	(57,353)	(97,680)
Proceeds from sale of non-core assets	2,145	956	125	101
Purchase of Ethernet operators, net of received cash	(5,285)	-	-	-
Purchase price adjustment for Crowley	(4,323)	-	-	-
Transfer from restricted cash	-	2,051	2,051	-
(Purchase)/repurchase of treasury bonds / notes	(48)	50	-	-
Purchase of non-controlling interest	(15)	-	-	-
Sale of investments	28	-	-	-
Net cash used in investing activities	**(270,004)**	**(278,769)**	**(55,177)**	**(97,579)**
Government grants received	16,551	3,089	-	2,488
Proceeds from borrowings	-	50,000	-	-
Repurchase of own shares	(106,814)	(144,198)	-	-
Finance lease payments	(4,981)	(2,024)	(332)	(209)
Overdraft	18,751	(18,751)	(25,530)	-
Loan repayments	(182,049)	(180,000)	(50,000)	(65,000)
Interest repayments	(24,682)	(50,948)	(7,011)	(6,566)
Payments of fees relating to bank loans	(1,530)	(2,969)	(444)	(812)
Net cash used in financing activities	**(284,754)**	**(345,801)**	**(83,317)**	**(70,099)**
Net change in cash and short-term deposits	**(13,372)**	**(49,299)**	**6,681**	**(37,572)**
Effect of exchange rate change on cash and cash equivalents	(435)	(47)	(151)	(3)
Cash and short-term deposits at the beginning of the period	156,509	142,702	124,401	130,931
Cash and short-term deposits at the end of the period	**142,702**	**93,356**	**130,931**	**93,356**

Definitions	
Active headcount	• full-time employment equivalent with regard to employees who are not during maternity leaves, non-paid leaves nor long-term sick leaves (above 33 days during calendar year), who are not at military service or who were relieved from the obligation to perform work
Backbone	• a telecommunications network designed to carry the telecommunications traffic between the main junctions of the network;
Bitstream access	• a type of regulatory broadband access enabling provision of broadband service by an altnet to customers connected by a copper line owned by the incumbent. The altnet connects to the incumbent's data network and may only offer services identical to those of the incumbent, paying it on a retail minus basis for use of its network.
Broadband SAC	• a cost per unit related to the acquisition of new customers through broadband access (i.e., Bitstream, LLU, WiMAX, xDSL), including a one-time payment to the incumbent, sales commissions, postal services and the cost of modems sold;
Broadband ARPU	• average monthly revenue per broadband port during the period; Broadband ARPU is obtained by dividing the amount of monthly revenues from data services related to provisioning fixed Internet access by the average number of broadband ports, in each case for the referenced three-month period; Where significant promotional discounts are given at the beginning of contracts, revenues are averaged over the life of the contract.
Broadband port	• a broadband port which is active at the end of a given period;
Cash	• cash and cash equivalents at the end of period;
Cost of network operations and maintenance	• cost of rentals of lines and telecommunications equipment, as well as maintenance, services and related expenses necessary to operate our network;
Data revenues	• revenues from provisioning Frame Relay (including IP VPN-virtual private network services), lease of lines (including leased lines for carriers), Internet fixed-access services (provided, among others, through bitsteam and WiMAX types of access) and IP Transit;
Direct voice revenues	• telecommunications revenues from voice services offered by Netia to its subscribers (through various types of access, including, among others, WiMAX). Direct voice services include the following traffic fractions: local calls, domestic long-distance (DLD) calls, international long distance (ILD) calls, fixed-to-mobile calls and other services (incl. Internet dial-in, emergency calls and 0-80x/0-70x -type calls originated by Netia's subscribers);
DSLAM	• technical infrastructure that splits data from voice traffic over a copper line and is deployed in the local network of a telecommunications operator to provide ADSL services to customers connected to a given local network node.
EBITDA / Adjusted EBITDA	• to supplement the reporting of our consolidated financial information under IFRS, we will continue to present certain financial measures, including EBITDA. We define EBITDA as profit/(loss) as measured by IFRS, adjusted for depreciation and amortization, financial income and expense and income taxes. EBITDA has been further adjusted for non-cash impairment charges for non-current assets, one-off restructuring expenses related to the cost reduction program, M&A expenses, New Netia integration expenses, B2B/B2C split costs (Project N^2), impairment charge on market valuation of Netia's investment property and a decrease in provision for universal service obligation payment and is therefore defined as Adjusted EBITDA. We believe EBITDA and related measures of cash flow from operating activities serve as useful supplementary financial indicators in measuring the operating performance of telecommunication companies. EBITDA is not an IFRS measure and should not be considered as an alternative to IFRS measures of profit/(loss) or as an indicator of operating performance or as a measure of cash flows from operations under IFRS or as an indicator of liquidity. The presentation of EBITDA, however, enables investors to focus on period-over-period operating performance, without the impact of non-operational or non-recurring items. It is also among the primary indicators we use in planning and operating the business. You should note that EBITDA is not a uniform or standardized measure and the calculation of EBITDA, accordingly, may vary significantly from company to company, and by itself provides no grounds for comparison with other companies;
Headcount	• full time employment equivalents;
Indirect voice revenues	• telecommunications revenues from the services offered through Netia's prefix (1055) or Tele2 Polska's prefix (1061) to customers being subscribers of other operators. Indirect access services include the following traffic fractions: domestic long-distance (DLD) calls, international long distance (ILD) calls and fixed-to-mobile calls;
Interconnection charges	• payments made by Netia to other operators for origination, termination or

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

Conference call on the FY 2013 results

Netia management will hold a conference call to review the results on February 20, 2014 at 09:00 AM (UK) / 10:00 AM (Continent) / 04:00 AM (Eastern).

Dial in numbers:
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(UK) +44 20 3003 2666
(US) +1 212 999 6659

Replay number:
(UK) +44 20 8196 1998
Passcode: 3830793#

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

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

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