2013

Annual Financial Report

Containing:

- Independent auditor's opinion
- Consolidated financial statements
  as at and for the year ended December 31, 2013

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NETIA

Building a better
working world

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INDEPENDENT AUDITORS' OPINION

To the Shareholders and Supervisory Board of Netia S.A.

We have audited the attached consolidated financial statements of Netia Group ('the Group'), for which the holding company is Netia S.A. ('the Company'), which comprise the consolidated statement of financial position as at 31 December 2013 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to consolidated financial statements ("the attached consolidated financial statements").

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of the attached consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the attached consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the attached consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the attached consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the attached consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

The convenience translations are disclosed as part of the consolidated financial statements. The convenience translation for the year ended 31 December 2013 has been presented in Euro, as a matter of arithmetic computation using the official rate of the National Bank of Poland at 31 December 2013 of PLN 4.1472 to EUR 1.00. We have not audited these translations and accordingly we do not report thereon. The Euro amounts presented in these consolidated financial statements should not be construed as a representation that the PLN amounts have been or could have been converted to Euro at this rate or at any other rate.

Ernst & Young

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.

Warsaw, 19 February 2014

Ernst & Young Audyt Polska
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NETIA S.A.
CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended December 31, 2013

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NETIA S.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at December 31, 2013

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2013 (PLN)	December 31, 2012 (PLN)	Convenience Translation December 31, 2013 (EUR)
ASSETS				
Non-current assets				
Property, plant and equipment	7	1,956,680	2,066,304	471,807
Intangible assets	8	538,340	597,455	129,808
Investment property	9	27,142	-	6,545
Deferred income tax assets	31	92,501	101,687	22,304
Available for sale financial assets		116	115	28
Long term receivables		-	1	-
Prepaid expenses and accrued income	12	5,544	11,082	1,337
Derivative financial instruments	14	326	-	79
Total non-current assets		**2,620,649**	**2,776,644**	**631,908**
Current assets				
Inventories	10	2,664	2,094	642
Trade and other receivables	11	191,000	248,270	46,055
Current income tax receivables		5,258	518	1,268
Prepaid expenses and accrued income	12	24,638	33,660	5,941
Derivative financial instruments	14	33	-	8
Financial assets at fair value through profit and loss		25	15	6
Held to maturity investments		-	49	-
Restricted cash	13	13	2,263	3
Cash and short term deposits	13	93,356	142,702	22,511
		316,987	**429,571**	**76,434**
Assets held for sale	9	-	26,770	-
Total current assets		**316,987**	**456,341**	**76,434**
Total assets		**2,937,636**	**3,232,985**	**708,342**

Mirosław Godlewski
President of the Company

Jonathan Eastick
Member of the Management Board
Chief Financial Officer

Tom Ruhan
Member of the Management Board

Mirosław Suszek
Member of the Management Board

Tomasz Szopa
Member of the Management Board

Warsaw, Poland
February 19, 2014

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2013 (PLN)	December 31, 2012 (PLN)	Convenience Translation December 31, 2013 (EUR)
EQUITY				
Share capital	15	347,911	386,281	83,891
Treasury shares		-	(106,814)	-
Supplementary capital		1,720,488	2,060,076	414,855
Retained earnings		82,313	(62,432)	19,848
Other components of equity		53,792	19,184	12,971
Total equity		**2,204,504**	**2,296,295**	**531,565**
LIABILITIES				
Non-current liabilities				
Borrowings	17	257,211	384,452	62,020
Provisions	16	1,876	18,189	452
Deferred income tax liability	31	17,746	17,683	4,279
Deferred income	20	34,175	20,769	8,241
Derivative financial instruments	14	2,587	5,741	624
Other long term liabilities	18	3,143	4,232	758
Total non-current liabilities		**316,738**	**451,066**	**76,374**
Current liabilities				
Trade and other payables	18	231,718	260,135	55,873
Derivative financial instruments	14	6,449	7,268	1,555
Borrowings	17	126,866	166,197	30,591
Current income tax liabilities		57	1	14
Provisions	16	11,265	14,200	2,716
Deferred income	20	40,039	37,823	9,654
Total current liabilities		**416,394**	**485,624**	**100,403**
Total liabilities		**733,132**	**936,690**	**176,777**
Total equity and liabilities		**2,937,636**	**3,232,985**	**708,342**

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

(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2013 (PLN)	Year ended December 31, 2012 (PLN)	Convenience Translation Year ended December 31, 2013 (EUR)
CONSOLIDATED INCOME STATEMENT				
Revenue	21	**1,876,016**	**2,121,356**	**452,357**
Cost of sales	22	(1,265,342)	(1,484,216)	(305,107)
Gross profit		**610,674**	**637,140**	**147,250**
Selling and distribution costs	23	(358,526)	(392,069)	(86,450)
General and administration costs	24	(179,186)	(207,610)	(43,206)
Other income	26	15,728	22,438	3,792
Other expenses	27	(5,274)	(5,634)	(1,272)
Other gains, net	28	9,343	3,974	2,253
Impairment losses	5	-	(79,203)	-
Operating profit / (loss)		**92,759**	**(20,964)**	**22,367**
Finance income	29	3,885	6,271	937
Finance costs	29	(32,224)	(46,213)	(7,770)
Profit/ (loss) before income tax		**64,420**	**(60,906)**	**15,534**
Income tax charge	31	(18,130)	(26,798)	(4,372)
Profit/ (loss)		**46,290**	**(87,704)**	**11,162**
Earnings/ (loss) per share (expressed in PLN per share)				
- basic	32	0.13	(0.23)	0.03
- diluted	32	0.13	(0.23)	0.03

(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2013 (PLN)	Year ended December 31, 2012 (PLN)	Convenience Translation Year ended December 31, 2013 (EUR)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
Profit /(loss)		**46,290**	**(87,704)**	**11,162**
Interest rate cash flow hedges	14	3,039	(9,421)	733
Foreign exchange rate cash flow hedges (acquisitions)		-	(203)	-
Foreign exchange rate cash flow hedges (equipment and construction contracts)	14	1,422	(4,195)	343
Income tax relating to cash flow hedges	31	(848)	2,626	(205)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**3,613**	**(11,193)**	**871**
Re-measurement gains on a defined benefit plan	16	105	-	25
Income tax relating to re-measurement gains on a defined benefit plan		(1)	-	-
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**104**	**-**	**25**
Other comprehensive income for the year, net of tax		**3,717**	**(11,193)**	**896**
TOTAL COMPREHENSIVE INCOME/ (LOSS)		**50,007**	**(98,897)**	**12,058**

(All amounts in thousands, except as otherwise stated)

	Note	Share capital	Treasury shares	Supplementary capital: Share premium	Supplementary capital: Other supplementary capital	Retained earnings	Other components of equity: Employee share option scheme	Other components of equity: Hedging reserve	Other components of equity: Other reserve	Total
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2013		**386,281**	**(106,814)**	**1,324,693**	**735,383**	**(62,432)**	**19,173**	**(9,764)**	**9,775**	**2,296,295**
Profit for the period		-	-	-	-	46,290	-	-	-	46,290
Other comprehensive income		-	-	-	-	104	-	3,613	-	3,717
Total comprehensive income		-	-	-	-	46,394	-	3,613	-	50,007
Coverage of Netia's 2012 net loss		-	-	-	(84,400)	94,175	-	-	(9,775)	-
Coverage of Netia's loss on merger		-	-	-	(4,176)	4,176	-	-	-	-
Repurchase of own shares	15	-	(144,198)	-	-	-	-	-	-	(144,198)
Redemption of own shares	15	(38,370)	251,012	(251,012)	-	-	-	-	38,370	-
Employee share option scheme:										
- value of services provided	15	-	-	-	-	-	2,400	-	-	2,400
Balance as at December 31, 2013		**347,911**	**-**	**1,073,681**	**646,807**	**82,313**	**21,573**	**(6,151)**	**38,370**	**2,204,504**

NETIA S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2013

(All amounts in thousands, except as otherwise stated)

				Supplementary capital			Other components of equity					
	Note	**Share capital**	**Treasury shares**	**Share premium**	**Other supplementary capital**	**Retained earnings**	**Employee share option scheme**	**Hedging reserve**	**Other reserve**	**Total**	**Non-controlling interest**	**Total equity**
		(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**		
Balance as at January 1, 2012		**391,602**	**(49,582)**	**1,357,768**	**509,653**	**251,012**	**38,486**	**1,429**	**-**	**2,500,368**	**5**	**2,500,373**
Profit /(loss)for the period		-	-	-	-	(87,704)	-	-	-	(87,704)	-	(87,704)
Other comprehensive loss		-	-	-	-	-	-	(11,193)	-	(11,193)	-	(11,193)
Total comprehensive loss		-	-	-	-	(87,704)	-	(11,193)	-	(98,897)	-	(98,897)
Transfer of Netia's 2011 profit		-	-	-	225,004	(225,004)	-	-	-	-	-	-
Transfer of 2010 adjustment to Netia's 2009 and earlier profits		-	-	-	726	(726)	-	-	-	-	-	-
Repurchase of own shares		-	(106,814)	-	-	-	-	-	-	(106,814)	-	(106,814)
Redemption of own shares		(9,775)	49,582	(49,582)	-	-	-	-	9,775	-	-	-
Employee share option scheme:												
- value of services provided		-	-	-	-	-	1,774	-	-	1,774	-	1,774
- issuance of series K shares		4,454	-	16,633	-	-	(21,087)	-	-	-	-	-
Cost of issuance		-	-	(126)	-	-	-	-	-	(126)	-	(126)
Acquisition of non-controlling interest		-	-	-	-	(10)	-	-	-	(10)	(5)	(15)
Balance as at December 31, 2012		**386,281**	**(106,814)**	**1,324,693**	**735,383**	**(62,432)**	**19,173**	**(9,764)**	**9,775**	**2,296,295**	**-**	**2,296,295**

NETIA S.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended December 31, 2013

(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2013 (PLN)	Year ended December 31, 2012 (PLN)	Convenience Translation Year ended December 31, 2013 (EUR)
Cash flows from operating activities:				
Profit/(loss)		**46,290**	**(87,704)**	**11,162**
Adjustments for:				
Depreciation and amortization	7, 8, 9	439,994	482,491	106,094
Impairment loss		-	79,203	-
Reversal of impairment charges for specific assets	7	(1,415)	(296)	(341)
Impairment charges for specific individual assets		5,184	4,611	1,250
Deferred income tax charge	31	8,400	27,111	2,025
Interest expense and fees charged on bank loans	29	30,681	43,185	7,398
Other interest charged		259	501	62
Share-based compensation	15, 36	3,068	1,913	740
Fair value (gains)/ losses on financial assets / liabilities		(10)	1	(2)
Fair value losses on derivative financial instruments		131	1,945	32
Foreign exchange losses		47	435	11
Loss/ (gain) on disposal of fixed assets		6,358	(21)	1,533
Changes in working capital	34	36,284	(11,989)	8,749
Net cash provided by operating activities		**575,271**	**541,386**	**138,713**
Cash flows from investing activities:				
Purchase of fixed assets and computer software		(281,826)	(262,506)	(67,956)
Proceeds from sale of fixed assets		956	2,145	231
Transfer from restricted cash		2,051	-	495
Purchase of ethernet operators, net of cash received		-	(5,285)	-
Purchase price adjustment for Crowley		-	(4,323)	-
Purchase of non-controlling interest		-	(15)	-
Proceeds from sale of investments		-	28	-
Purchase of treasury bonds / notes		-	(48)	-
Repurchase of treasury bonds / notes		50	-	12
Net cash used in investing activities		**(278,769)**	**(270,004)**	**(67,218)**
Cash flows from financing activities:				
Government grants received		3,089	16,551	745
Proceeds from borrowings	17	50,000	-	12,056
Repurchase of own shares	15	(144,198)	(106,814)	(34,770)
Finance lease payments		(2,024)	(4,981)	(488)
Loan payments	17	(180,000)	(182,049)	(43,403)
Payments of interests, fees and interest rate swap settlements relating to bank loans		(53,917)	(26,212)	(13,001)
Net cash used in financing activities		**(327,050)**	**(303,505)**	**(78,861)**
Net change in cash and cash equivalents		**(30,548)**	**(32,123)**	**(7,366)**
Exchange losses on cash and cash equivalents		**(47)**	**(435)**	**(11)**
Cash and cash equivalents at beginning of period		123,951	156,509	29,888
Cash and cash equivalents at end of period	13	**93,356**	**123,951**	**22,511**

1. The Company and the Netia Group

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

The consolidated financial statements of Netia S.A. for the year ended December 31, 2013 comprise the Company and its subsidiaries. A list of the Company's subsidiaries is set out in Note 2.

These consolidated financial statements were approved for issuance by the Company's Management Board on February 19, 2014.

The Company and its subsidiaries (together, the "Netia Group") is the largest alternative fixed-line telecommunication operator in Poland. The Netia Group provides various voice telephony, data transmission, television, mobile voice and broadband services. The Group's services are provided to customers by two sales organizations. The business-to-business ("B2B") sales force targets large corporates, small and medium sized enterprises ("SMEs") and other telecommunication operators and the business-to-consumer ("B2C") sales force targets residential and small business customers.

Between inception and 2005, services were principally provided over copper access networks built by the Netia Group. Starting from 2006, the Netia Group has been providing voice and broadband services using WIMAX technology running over 3.6 – 3.8 GHz frequencies that were acquired by the Group in 2005.

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

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

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

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

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

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

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

In 2013 the Netia Group was also engaged in the installation and supply of specialized mobile radio communication services (public trunking) in Poland through its subsidiary UNI-Net Poland Sp. z o.o. (established in May 2009 through a corporate separation from UNI-Net Sp. z o.o. and sold in 2014).

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

(All amounts in thousands, except as otherwise stated)

Going concern

As at December 31, 2013, the Group's equity amounted to PLN 2,204,504 and the Netia Group had negative net working capital of PLN 99,407 inclusive of cash available of PLN 93,356. As at December 31, 2013 the Netia Group had senior secured debt of PLN 384,077. In addition, the Netia Group had a further PLN 200,000 of undrawn senior secured debt facilities available for the financing of capital expenditures and operating expenses of the Netia Group and for payments to shareholders of the Company. Netia's operations were free cash flow generative in 2013 and Management expects this to continue over the medium term. Based on this position, the Management does not believe that events or conditions exist which may cast significant doubt on the Company's ability to continue as a going concern.

2. Significant subsidiaries of the Company

The consolidated financial statements include the accounts of the Company's directly or indirectly held subsidiaries:

	Ownership Percentage	
Subsidiary	**December 31, 2013**	**December 31, 2012**
Subsidiaries held directly:		
Centrina Sp. z o.o.	100	NA
Dianthus Sp. z o.o.	100	NA
InterNetia Holdings Sp. z o.o.	100	100
Netia Brand Management Sp. z o.o.	100	100
Net 2 Net Sp. z o.o.	100	100
Netia 2 Sp. z o.o.	100	100
Sanetja Sp. z o.o. [1]	N/A	100
STI Sp. z o.o. [1]	N/A	100
Telefonia DIALOG Sp. z o.o.	100	100
Subsidiaries held indirectly:		
Internetia Sp. z o.o.	100	100
Petrotel Sp. z o.o.	100	100
UNI-Net Poland Sp. z o.o.	100	100

Shares held by Netia in its subsidiaries give the Company a corresponding share of votes at the shareholders' meetings.

All the Company's subsidiaries are incorporated in Poland.

[1] legally merged with Internetia Sp. z o.o.

3. Summary of significant accounting policies

Basis of preparation

Following European Union regulations, commencing January 1, 2005 Netia as a public company in Poland prepares consolidated financial statements, as required by the Accounting Act of September 29, 1994 (Journal of Laws of 2013, No. 330 with later amendments, "the Accounting Act") in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). As of December 31, 2013, in light of the current process of IFRS endorsement in the EU and the nature of the Netia Group's activities, there is no difference between IFRS applied by the Netia Group and IFRS endorsed by the EU.

These consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU, issued and effective as at the time of preparing these consolidated financial statements. The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2012, except for new accounting standards adopted as of January 1, 2013.

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

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

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. The areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(All amounts in thousands, except as otherwise stated)

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

All Euro amounts shown as supplementary information in the consolidated financial statements have been translated from PLN only as a matter of arithmetic computation using the official rate of the National Bank of Poland at December 31, 2013 of PLN 4.1472 to EUR 1.00. These amounts are included for the convenience of the reader only. Such translation should not be construed as a representation that the PLN amounts have been or could be converted into Euros at this or any other rate.

Changes in estimates

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

The following table summarizes main changes in these estimates:

Non-current assets	Main changes in the period of depreciation	Increase/ (decrease) in the depreciation charge recognized in current period	Relevant (decrease) /increase in the depreciation charge for the remaining useful life
Computer software	- useful lives of certain assets were shortened until the end of 2013	57	(57)
Fixed telecommunications network	- useful lives of certain assets were extended until the end of 2014	(36)	36
Telecommunications equipment	- useful lives of certain assets were extended until the end of 2014, 2015 and 2017	(3,704)	3,704
Telecommunications equipment	- useful lives of certain assets were shortened until the end of 2013	474	(474)
Machinery and equipment	- useful lives of certain assets were extended until the end of 2014 and 2015	7	(7)
Total impact		**(3,202)**	**3,202**

New standards, interpretations and amendments to existing standards

Adoption of new accounting standards, interpretations and amendments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- IFRS 9 "Financial Instruments", effective date postponed by IASB without proposing potential deadline for endorsement. IFRS 9 is the Phase 1 of the Board's project to replace IAS 39. IFRS 9 improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. This standard has not yet been endorsed by the EU.

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

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

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

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

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

- Amendments to IFRS 10, IFRS 12 and IAS 27 "Investment Entities" (issued on 31 October 2012) – effective for financial years beginning on or after 1 January 2014.

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

- Amendments to IAS 36 "Recoverable Amounts Disclosures for Non-Financial Assets" (issued on 29 May 2013) – effective for financial years beginning on or after 1 January 2014.

- Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" (issued on 27 June 2013) – effective for financial years beginning on or after 1 January 2014.

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (issued on 21 November 2013) – effective for financial years beginning on or after 1 July 2014. The amendments have not yet been endorsed by the EU.

- Annual Improvements to IFRSs 2010-2012 – some amendments effective for financial years beginning on or after 1 July 2014 and some effective prospectively for transactions occurring on or after 1 July 2014. The amendments have not yet been endorsed by the EU.

- Annual Improvements to IFRSs 2011-2013 – effective for financial years beginning on or after 1 July 2014. The amendments have not yet been endorsed by the EU.

- IFRS 14 Regulatory Deferral Accounts – effective for financial years beginning on or after 1 January 2016. The amendments have not yet been endorsed by the EU.

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

Consolidation

Subsidiaries

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

(All amounts in thousands, except as otherwise stated)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

Indemnification assets and liabilities in business combinations

When an indemnification asset appears during purchase price allocation, it is treated as a separate element purchased by the Netia Group in addition to the business acquired. This asset is not offset against the contingent liability recognised during valuation of the acquired companies. Any amount received under the indemnity is treated as a realisation of that asset and is not adjusted against the cost of the business combination.

Contingent assets are recognized when it is virtually certain that inflow of economic benefits will arise. In situations where the Netia Group has agreed to share the benefits of such contingent assets with the seller, a corresponding liability is also recognized if it is probable that the outflow of future economic benefits will be required.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board. The Management monitors the operating results of its customer segments separately for the purpose of making decisions about resource allocation and performance assessment.

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. As at each reporting day assets and liabilities denominated in foreign currencies are revalued at average exchange rates of the National Bank of Poland prevailing at the date of financial statement.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment in value, plus related inflation adjustment through December 31, 1996. Fixed assets under construction represent the accumulation of costs associated with the construction of telecommunication and data transmission networks and other tangible fixed assets. The Netia Group includes in the construction cost of its networks all eligible borrowing costs and expenditures that are directly attributable to the acquisition or bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Costs relating to the fixed assets under construction are transferred to the related property, plant and equipment account and depreciation begins when they are available for use.

Subsequent costs are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Netia Group and the cost can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Upon purchase, fixed assets are divided into components, which represent items with a significant value and to which a separate useful life can be allocated.

Depreciation expense is recorded utilizing the straight-line method over the estimated useful lives of the assets. These lives are summarized as follows:

	Term
Buildings	10 to 40 years
Fixed telecommunications network	15 to 40 years
Telecommunications equipment	5 to 15 years
Machinery and equipment	5 to 12 years
Office machinery and equipment	3 to 10 years
Vehicles	5 to 8 years

Land and fixed assets under construction are not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.
An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

Investment property

Investment property consists of the former head office held to earn rentals or for capital appreciation (only an insignificant portion may be held for supply of services or for administrative purposes). Investment property is measured at cost less any accumulated depreciation and impairment losses.

Depreciation expense is recorded utilizing the straight-line method over the estimated useful lives of the assets. These lives are summarized as follows:

	Term
Buildings	10 to 40 years
Fixed telecommunications network	15 to 40 years
Office machinery and equipment	3 to 10 years

Land is not depreciated.

Non-current assets classified as held for sale

Non-current assets are classified as held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. Those assets are available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets and the sale is highly probable.

Leases

(a) Group as a lessee

Leases where the Netia Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other payables. The interest element of the finance cost is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset. If there is no reasonable certainty that the Netia Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the lease term and its useful life.

Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

(b) Group as a lessor

Leases where a significant portion of the risks and rewards of ownership are retained by the Group (the lessor) are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Intangible assets

(a) Licenses and license fee liabilities

Licenses are stated at cost less accumulated amortization and impairment losses. If payment for the license is deferred beyond normal credit terms, its cost is the net present value of the obligation. The present value of the obligation is calculated using the Netia Group's effective borrowing rates at the time the license was granted. Any differences between the nominal price of the license and its present value are treated as interest costs. Interest costs are capitalized until substantially all the activities to prepare the asset for its intended use are complete and are then recognized as interest expense over the period of the obligation. Amortization of the license also commences once the related network is capable of operating in the manner intended by management and is calculated on a straight-line basis until the end of the grant period. The amortization period is 12 to 15 years. As at December 31, 2013 the Netia Group possessed only telecommunication licenses.

(b) Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(c) Computer software costs

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortized over their estimated useful lives (up to 5 years).

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Netia Group and that will probably generate economic benefits, exceeding costs, beyond one year, are recognized as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads. Computer software development costs, recognized as assets, are amortized using the straight-line method over their estimated useful lives, not exceeding a period of 5 years.

(d) Customer relationships

Customer relationships acquired separately are measured on initial recognition at cost. The cost of customer relationship acquired in a business combination is recognized at fair value as at the date of acquisition. Customer relationships are amortized using the straight-line method over their estimated useful lives of 3 - 5 years.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses relating to non-financial assets other than goodwill may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. That increased carrying amount cannot exceed the lower of its recoverable amount and the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such a reversal is recognized in the income statement. After such a reversal the depreciation charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial assets

The Netia Group classifies its financial assets in the following categories: available-for-sale financial assets, financial assets at fair value through profit and loss, held-to-maturity investments and loans and receivables.

(a) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless Management intends to dispose of the financial assets within 12 months of the balance sheet date.

(b) Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Financial assets, designated as at fair value through profit or loss at inception, are those that are managed and their performance is evaluated on a fair value basis, in accordance with the Netia Group's documented investment strategy. Information about these financial assets is provided internally on a fair value basis to the Netia Group's key management personnel. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

(d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" in the balance sheet.

Purchase and sales of financial assets are recognized at the trade date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Netia Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets at fair value through profit and loss category are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

The Netia Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Netia Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Netia Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Netia Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, purchases of fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory, or in depreciation in case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Gains and losses arising from changes in fair value of derivatives that economically hedge commercial transactions and were not designated as hedging instruments are presented within finance income / cost.

Inventories

Inventories are stated at the lower of cost and net realizable value, determined on a first-in first-out (FIFO) basis. Net realizable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. If it is probable that the Netia Group will not be able to collect amounts due, according to the original terms of receivables, a provision for impairment is recognized in the income statement within "Selling and distribution costs". The amount of the provision is measured as the difference between the carrying amount of receivables and the present value of expected future cash flows, discounted at the effective interest rate. Any amounts reversed during the period are presented net with the impairment provisions. The carrying amount of the asset is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Cash and short term deposits

Cash and short term deposits include cash in hand, cash at bank and short-term deposits with an original maturity of three months or less. Cash is carried in the balance sheet at nominal value.

Share capital

All shares outstanding issued by the Company are classified as equity. External costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Share-based compensation

In 2013 he Netia Group operated an equity-settled, share-based compensation plan. Under this plan, options are granted to employees and board members of the managing bodies of the Company. Upon exercise of the options, the Company will issue to each exercising participant the number of shares representing the value equivalent to the participant's gain from the exercise of the options. No proceeds are received when the options are exercised.

The Netia Group's option plan, which was accepted by the Annual Shareholders' Meeting on May 26, 2010 and expires on May 26, 2020, provides for vesting over a three year service period subject also to performance against goals set by the Supervisory Board.

The fair value of the employee services received in exchange for the grant of options is recognized as an employee benefit expense with a corresponding increase in other reserves. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the Company revises its estimate of the number of options that are expected to become exercisable based on estimates of leaver rates and fulfillment of performance criteria as applicable to the relevant plan. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to other reserves.

Post-employment benefits

The Netia Group makes contributions to the Government's retirement benefit scheme at the applicable rate during the period based on gross salary payments (the "State Plan").

The State Plan is funded on a pay-as-you-go basis, i.e. the Netia Group is only obliged to pay the contributions as they fall due based upon a percentage of salary and if the Netia Group ceases to employ members of the State Plan, it will have no obligation to pay any additional benefits. The State Plan is a defined contribution plan. The expense for the contributions is charged to the income statement in the same period as the related salary expense.

Employees are legally entitled to severance payments in the form of a one-off payment on retirement in an amount defined in the Labour Code (an average monthly remuneration). These retirement severance payments qualify as a defined benefit plan. The provision recognised in the Netia Group's statement of financial position in respect of retirement severance payments is the estimated present value of this future obligation. This provision is calculated annually by independent actuaries using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income (OCI) in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss (under 'cost of sales', 'administration expenses' and 'selling and distribution expenses') in consolidated statement of profit or loss on the earlier of:

- the date of the plan amendment or curtailment, and
- the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset and is presented as finance cost.

Provisions

Provisions are recognized when the Netia Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Netia Group has recognized provisions for loss on rental contracts, a contract related to voice termination services (onerous contracts)legal claims and restructuring. Costs related to the ongoing activities of Netia Group are not provided in advance. Provisions are not recognized for future operating losses.

Provisions for onerous contracts are recognized when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Provisions for claims (legal, regulatory and contractual) are recognized when, based on all available evidence, it is more likely than not that a present obligation exists at the balance sheet date, the outflow of benefits relating to the claim is probable and it is possible to estimate this reliably.

Provisions for claims are recorded at the estimated value of costs to be incurred. Provisions for onerous contracts are calculated based on the value of future net cash outflows by the termination of a contract. If a contract is concluded for a period exceeding the 12-month period from the balance sheet date, the provision is recorded based on the discounted value of net cash outflows.

Employment restructuring and termination benefits provisions comprise employee termination payments and are recognized in the period in which Netia Group becomes legally or constructively committed to payment.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Corresponding borrowing costs are recognized in profit or loss in the period in which they are incurred, unless they are capitalized.

Borrowings are derecognized when the obligation under the liability is discharged or cancelled or expires. Where existing borrowings are replaced by others from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

When funds are borrowed specifically to finance an asset or assets, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. When funds are part of a general pool, the eligible amount is determined by applying a capitalisation rate to the expenditure incurred on each asset while it is part of construction in progress The capitalisation rate is the weighted average of the borrowing costs applicable to the general pool after adjusting by the effect of the hedge accounting in case of a designated hedging relationship.

Capitalisation is suspended during periods in which active development is interrupted or when substantially all of the activities necessary to prepare the asset for its intended use are complete.

Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Netia Group’s activities. Revenue is shown net of value added tax, rebates and discounts and after eliminated sales within the Group.

Telecommunications revenue includes direct voice products, such as monthly charges and calling charges. Revenue from calling charges is recognized in the income statement at the time a call is made over the Netia Group’s network. Telecommunications revenue includes also services other than traditional direct voice, such as indirect voice, data transmission, interconnection, wholesale and other telecommunication services, as well as sales of goods. Other telecommunication revenue comprises intelligent network services, the provision of Internet dial-in services for Netia's indirect customers, Internet callback services, as well as other non-core revenues. Other telecommunication revenues are recognized in the income statement in the period to which the services relate.

Revenues relating to promotional offers are stated net of discounts. For certain commercial offers where customers are offered a free or significantly discounted service over a certain period in exchange for contracting for a fixed period (time-based incentives), the total revenue generated under the contract is spread over the fixed, non cancelable period of the contract, thereby creating accrued income.

Interconnection revenues are derived from calls and other traffic that originate in other domestic or foreign operators’ networks but use the Netia Group’s network. The Netia Group receives interconnection fees based on agreements entered into with other telecommunication operators. These revenues are recognized in the income statement in the period the services relate to.

Radio communications revenue includes revenue from specialized mobile radio service (public trunking), through the Company’s subsidiary UNI-Net Poland Sp. z o.o. Service revenues are recorded when the service is provided. Revenue from the sale of equipment is recorded when the equipment is delivered to the customer.

Other services revenue includes revenues from construction services rendered by the Company’s subsidiary Petrotel Sp. z o.o.

Deferred income

Deferred income is recognized when the income is invoiced during an accounting period, but for which the Netia Group has still to supply the related services. It includes deferred revenues from rental contracts and subscriptions relating to future periods. Deferred income is classified as current if the service is expected to be supplied within 12 months of the balance sheet date.

Deferred income also includes government grants relating to property, plant and equipment. Government grants are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Interconnection charges

Interconnection with other telecommunication operators is required to complete calls that originate in but terminate outside of the Netia Group’s network or originate outside the network and terminate within it, or are only transferred through the Netia Group's network. The Netia Group pays interconnection charges based on agreements entered into with other telecommunication operators.

Subscriber acquisition costs

Subscriber acquisition costs are recognized as an expense of the period in which they are incurred. Customer premises equipment (“CPE”) sold to the customer when installed is expensed as part of the subscriber acquisition costs whereas CPE that remains the property of the Group is capitalized as a fixed asset.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. Interest income on impaired loans is recognized either as cash is collected or on a cost-recovery basis as conditions warrant.

Interest and foreign exchange gains / (losses)

The amounts of interest and foreign exchange gains / (losses), which do not relate to debt and management of cash and cash equivalents are presented at appropriate categories of revenues and operating income/expenses.

Current and deferred income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in Poland where the company's subsidiaries operate and generate taxable income.

Deferred income tax is provided, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes and for tax losses. Currently enacted tax rates are used to determine deferred income tax. The principal temporary differences arise from different valuations of depreciable assets and accruals for tax and accounting purposes.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilized based on the estimated taxable profits to be generated over the following five years. Deferred income tax assets are also recognized for unused tax losses carried forward and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of goodwill, an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, the Company or its subsidiaries have a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable base.

Value Added Tax

Revenues, expenses and assets are recognised net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Dividend distribution

Dividend distributions to the Company's shareholders are recognized as a liability in the Netia Group's consolidated financial statements in the period in which the dividends are approved by the Company's General Shareholders' Meeting.

4. Financial risk management

Financial risk factors

The Netia Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk and liquidity risk. The Netia Group's overall risk management program focuses on minimizing potential adverse effects of those risks on the financial performance of the Netia Group. The Netia Group uses derivative financial instruments to hedge certain risk exposure. The Management Board provides written principles for overall risk management, as well as written policies covering specific areas, such as use of derivative financial instruments, credit risk and price risk.

Market risk

- Currency risk:

The Netia Group's revenues and costs are predominately denominated in the Polish Złoty, other than some payments made under equipment and construction contracts, which are mainly linked to Euro and U.S. Dollars. In order to mitigate the currency risk the Netia Group sometimes holds deposits in Euro and U.S. Dollars for servicing those payments. Furthermore, in the year ended December 31, 2013 the Company entered into several forward transactions to hedge exposure against currency risk related to planned capital expenditures and expected operational expenses which are either payable in foreign currencies or priced in foreign currencies but invoiced in the Polish Złoty.

At December 31, 2013, if the Polish Złoty had weakened (strengthened) by 1% against the Euro with all other variables held constant, consolidated profit for the year ended December 31, 2013 would have been PLN 37 lower (higher), mainly as a result of foreign exchange losses (gains) on translation of Euro denominated trade and investment payables, partially offset by Euro denominated cash deposits and trade receivables, offset by a PLN 115 higher (lower) result on fair value gains (losses) on Euro denominated forward contracts. Furthermore, at December 31, 2013, the hedging reserve in shareholders' equity would have been PLN 154 higher (lower).

At December 31, 2012, if the Polish Złoty had weakened (strengthened) by 1% against the Euro with all other variables held constant, consolidated loss for the year ended December 31, 2012 would have been PLN 5 lower (higher), mainly as a result of foreign exchange gains (losses) on translation of Euro denominated Euro denominated cash deposits and trade receivables, partially offset by Euro denominated trade and investment payables, offset by a PLN 140 higher (lower) result of fair value gains (losses) on Euro denominated forward contracts Furthermore, at December 31, 2012, the hedging reserve in shareholders' equity would have been PLN 309 higher (lower).

At December 31, 2013, if the Polish Złoty had weakened (strengthened) by 1% against the U.S. Dollar with all other variables held constant, consolidated profit for the year ended December 31, 2013 would have been PLN 5 lower (higher), mainly as a result of foreign exchange losses (gains) on translation of U.S. Dollar denominated trade and investment payables, partially offset by U.S. Dollar denominated cash deposits and trade receivables, offset by PLN 113 higher (lower) result on of fair value gains (losses) on U.S. Dollar denominated forward contracts. Furthermore, at December 31, 2013, the hedging reserve in shareholders' equity would have been PLN 108 higher (lower).

At December 31, 2012, if the Polish Złoty had weakened (strengthened) by 1% against the U.S. Dollar with all other variables held constant, consolidated loss for the year ended December 31, 2012 would have been PLN 43 lower (higher), mainly as a result of foreign exchange gains (losses) on translation of U.S. Dollar denominated cash deposits and trade receivables, partially offset by U.S. Dollar denominated trade and investment payables and further reduced (increased) by a PLN 52 lower (higher) result on fair value gains (losses) on U.S. Dollar denominated forward contracts. Furthermore, at December 31, 2012, the hedging reserve in shareholders' equity would have been PLN 186 higher (lower).

- Interest rate risk:

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term loan and finance lease obligations with floating interest rates. If the market interest rates had been 50 basis points higher/ (lower) during the year ended December 31, 2013, interest costs relating to bank loan and finance lease obligations would have been PLN 2,213 higher/ (lower) and the capitalized interests would have been PLN 210 higher/ (lower). In January 2012 the Company entered into IRS contracts hedging interest rate risk associated with interest payments in the amount of fifty per cent of all amounts projected to be outstanding under the Term Loan and on May 29, 2013 the Company entered into further interest rate swap contracts increasing the hedged interest rate risk to seventy five per cent of all amounts projected to be outstanding under the Term Loan (See Note 14 Other financial instruments). As a result of these transactions the effect of a 50 basis point higher/ (lower) market interests rate would have decreased from PLN 2,213 higher/ (lower) to PLN 795 higher/ (lower) for interests costs and from PLN 210 higher/ (lower) to PLN 75 higher/ (lower) for capitalized interests. The above analysis holds interests earned on the Group's deposits constant.

If the market interest rates had been 50 basis points higher/ (lower) during the year ended December 31, 2012, interest costs relating to bank loan and finance lease obligations would have been PLN 3,127 higher /(lower). In January 2012 the Company entered into IRS contracts hedging interest rate risk associated with interest payments. As a result of these transactions the effect of a 50 basis point higher/ (lower) market interests rate would have decreased from PLN 3,127 higher/ (lower) to 1,630 higher/(lower). The above analysis holds interests earned on the Group's deposits constant.

Credit risk

Credit risk arises from cash and cash equivalents, including deposits with banks, as well as credit exposures to customers, including outstanding receivables.

The Netia Group had no significant concentrations of credit risk throughout the year 2013. Cash deposits are limited to high credit quality financial institutions. The Netia Group has a large number of customers, nationally dispersed, and there are policies in place to ensure that sales of services to significant customers are preceded by appropriate verification of their credit history. For wholesale (in particular international carriers) and large business customers credit rating and scoring tools are used. For these customers transactions are only concluded with recognised, creditworthy counterparties or credit collaterals are established. In addition receivables from the bulk business are managed separately. Retail customers verification and dunning processes are more automatic and base on CRM and billing systems functionalities. Utilization of the usage limits, sales limits and receivables balances are monitored on an ongoing basis and if necessary further business with customer that exceeds its limit is ceased.

(All amounts in thousands, except as otherwise stated)

Liquidity risk

Management monitors rolling forecasts of the Netia Group's liquidity reserves on the basis of expected cash flow. The Company invests surplus cash in interest bearing current accounts, time deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient cash to service forecasted payments.

The table below analyses the Netia Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted future cash flows, including interests and fees where applicable.

	Less than 1 year (PLN)	Between 1 and 2 years (PLN)	Between 2 and 5 years (PLN)	Over 5 years (PLN)	Total (PLN)	Net carrying amount (PLN)
As at December 31, 2013						
Trade and other payables excluding statutory liabilities	207,212	1,179	744	-	209,135	212,046
Bank borrowings	146,571	140,578	134,347	-	421,496	384,077
Total	**353,783**	**141,757**	**135,091**	**-**	**630,631**	**596,123**

	Less than 1 year (PLN)	Between 1 and 2 years (PLN)	Between 2 and 5 years (PLN)	Over 5 years (PLN)	Total (PLN)	Net carrying amount (PLN)
As at December 31, 2012						
Trade and other payables excluding statutory liabilities	241,092	773	1,475	-	243,340	246,916
Bank borrowings	199,181	152,020	280,107	-	631,308	550,649
Total	**440,273**	**152,793**	**281,582**	**-**	**874,648**	**797,565**

The table below analyses the Netia Group's derivative financial instruments with a negative fair value, that will be settled on a net basis, based on their contractual maturities. The table presents the gross undiscounted cash flows and a reconciliation of those amounts to their carrying amounts.

As at December 31, 2013	Less than 1 year (PLN)	Between 1 and 2 years (PLN)	Between 2 and 5 years (PLN)	Over 5 years (PLN)
EUR forward contracts				
Inflows	27,200	-	-	-
Outflows	(27,997)	-	-	-
Net	(797)	-	-	-
Discounted at the applicable interbank rates	(788)	-	-	-
USD forward contracts				
Inflows	22,436	-	-	-
Outflows	(23,960)	-	-	-
Net	(1,524)	-	-	-
Discounted at the applicable interbank rates	(1,507)	-	-	-
IRS contracts				
Inflows	6,709	3,622	1,672	-
Outflows	(10,927)	(5,704)	(2,315)	-
Net	(4,218)	(2,082)	(643)	-
Discounted at the applicable interbank rates	(4,154)	(1,991)	(596)	-

(All amounts in thousands, except as otherwise stated)

As at December 31, 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	(PLN)	(PLN)	(PLN)	(PLN)
EUR forward contracts				
Inflows	45,713	-	-	-
Outflows	(47,593)	-	-	-
Net	(1,880)	-	-	-
Discounted at the applicable interbank rates	(1,851)	-	-	-
USD forward contracts				
Inflows	24,239	-	-	-
Outflows	(26,006)	-	-	-
Net	(1,767)	-	-	-
Discounted at the applicable interbank rates	(1,735)	-	-	-
IRS contracts				
Inflows	8,431	5,840	5,129	-
Outflows	(12,208)	(9,012)	(8,061)	-
Net	(3,777)	(3,172)	(2,932)	-
Discounted at the applicable interbank rates	(3,681)	(3,063)	(2,678)	-

Fair value estimation

Effective January 1, 2009, the Netia Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Netia Group's assets and liabilities that are measured at fair value at December 31, 2013:

	Level 1	Level 2	Level 3	Total balance
	(PLN)	(PLN)	(PLN)	(PLN)
Assets				
Financial assets at fair value through profit or loss				
- Securities	25	-	-	25
- Derivatives	-	-	-	-
Derivatives used for hedging	-	359	-	359
Available-for-sale financial assets	-	-	116	116
Total assets	**25**	**359**	**116**	**500**
Liabilities				
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	1,077	-	1,077
Derivatives used for hedging	-	7,959	-	7,959
Total liabilities	**-**	**9,036**	**-**	**9,036**

The following table presents the Netia Group's assets and liabilities that are measured at fair value at December 31, 2012:

	Level 1	Level 2	Level 3	Total balance
	(PLN)	(PLN)	(PLN)	(PLN)
Assets				
Financial assets at fair value through profit or loss				
- Securities	15	-	-	15
- Derivatives	-	-	-	-
Derivatives used for hedging	-	-	-	-
Available-for-sale financial assets	-	-	115	115
Total assets	**15**	**-**	**115**	**130**
Liabilities				
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	946	-	946
Derivatives used for hedging	-	12,063	-	12,063
Total liabilities	**-**	**13,009**	**-**	**13,009**

(All amounts in thousands, except as otherwise stated)

The fair value of financial instruments traded in active markets (such as equity securities) is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The fair value of forward currency contracts is determined using quoted forward exchange rates at the balance sheet date. Estimated discounted cash flows are used to determine fair value for the remaining financial instruments.

The management assessed that cash and short-term deposits, trade receivable, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Capital risk management

The Netia Group's objectives when managing capital are to safeguard the Netia Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Netia Group may return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Netia Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital employed. Net debt is calculated as total borrowings, as shown in the consolidated balance sheet, less cash and cash equivalents. Total capital employed is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The gearing ratio as at December 31, 2013 was 11.7% as compared to 15.1% as at December 31, 2012.

Financial instruments by category

December 31, 2013	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available for sale financial assets	Held to maturity investments	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Financial assets						
Available-for-sale financial assets	-	-	-	116	-	116
Trade and other receivables excluding statutory receivables	187,005	-	-	-	-	187,005
Derivative financial instruments	-	-	359	-	-	359
Financial assets at fair value through profit or loss	-	25	-	-	-	25
Held to maturity investments	-	-	-	-	-	-
Restricted cash	13	-	-	-	-	13
Cash and short term deposits	93,356	-	-	-	-	93,356
Total financial assets	**280,374**	**25**	**359**	**116**	**-**	**280,874**

December 31, 2013	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Finance leases	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Financial liabilities					
Finance leases	-	-	-	1,813	1,813
Trade and other payables excluding statutory liabilities	-	-	210,167	-	210,167
Derivative financial instruments	1,077	7,959	-	-	9,036
Borrowings	-	-	384,077	-	384,077
Other financial liabilities	-	-	66	-	66
Total financial liabilities	**1,077**	**7,959**	**594,310**	**1,813**	**605,159**

December 31, 2012	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available for sale financial assets	Held to maturity investments	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Financial assets						
Available-for-sale financial assets	-	-	-	115	-	115
Trade and other receivables excluding statutory receivables	245,317	-	-	-	-	245,317
Derivative financial instruments	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	15	-	-	-	15
Held to maturity investments	-	-	-	-	49	49
Restricted cash	2,263	-	-	-	-	2,263
Cash and short term deposits	142,702	-	-	-	-	142,702
Total financial assets	**390,282**	**15**	**-**	**115**	**49**	**390,461**

(All amounts in thousands, except as otherwise stated)

December 31, 2012	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Finance leases	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Financial liabilities					
Finance leases	-	-	-	3,483	3,483
Trade and other payables excluding statutory liabilities	-	-	243,367	-	243,367
Derivative financial instruments	946	12,063	-	-	13,009
Borrowings	-	-	550,649	-	550,649
Other financial liabilities	-	-	66	-	66
Total financial liabilities	**946**	**12,063**	**794,082**	**3,483**	**810,574**

5. Critical accounting estimates and judgments

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current or next financial year are described below.

(a) Impairment of goodwill and other non-financial assets

The Netia Group tests annually whether goodwill has suffered any impairment and assesses at each balance sheet date whether there is any indication that an asset may be impaired.

For the purpose of impairment testing of goodwill the total amount of goodwill was allocated to the following operating segments as of December 31, 2013:

Home	SOHO	**B2C**	Business	Carriers	**B2B**	**Total reportable segments**	Unallocated	**Total goodwill as of December 31, 2013**
(PLN)	(PLN)	**(PLN)**	(PLN)	(PLN)	**(PLN)**	**(PLN)**	(PLN)	(PLN)
139,611	19,344	**158,955**	100,321	12,596	**112,917**	**271,872**	8,829	280,701

Goodwill in Unallocated represents goodwill assigned to Petrotel. Petrotel has been assigned to the unallocated segment as it continues to operate as a separate organization serving multiple customer segments.

For the purpose of impairment testing of other non-financial assets the Management identified the entire Netia Group excluding the non-current assets of UNI-Net Poland Sp. z o.o. as one cash-generating unit ("CGU").

The recoverable amount of operating segments to which goodwill was allocated and the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on assumptions underlying the budget for the next year and the approved updated business plan covering a five-year period. Only currently active projects are included in the projections. Cash flows beyond the five-year period are extrapolated using a long term nominal growth rate of 0.0%, reflecting rising free cash flows at the end of the projection period and long term industry projections for the operations concerned. The discount rate used of 9.4% (10.8% in 2012) is pre-tax and reflects Management assessment of the Company's weighted average cost of capital ("WACC"). In estimating WACC, Management assesses specific risks relating to the Netia Group operations, such as regulatory and technology risks, that may increase volatility of expected cash flows. Following substantial completion of the Dialog and Crowley integrations and the more conservative commercial stance taken on regulated access services, Management reduced the specific risk adjustment to the cost of equity from 1.00% to 0.50% between 2012 and 2013. In addition, lower estimates of the Company's equity beta, higher observed market debt leverage levels and elimination of a small capitalization premium, partly offset by a higher risk free rate, were responsible for the fall in the WACC between years. The post-tax equivalent of the WACC used in value-in-use calculations is 8.39% (9.64% in 2012).

The impairment test of non-current assets showed that the recoverable amount, before tax, of the CGU was higher by 386,233 PLN than its carrying value. As a result no impairment loss has been recognized. If the estimated pre-tax discount rate applied to the discounted cash flows had been higher than 10.89%, with other assumptions unchanged, the Netia Group would have to recognise an impairment loss. The results of the test are highly sensitive to key assumptions as illustrated in the following table:

(All amounts in thousands, except as otherwise stated)

	Total impairment charge		
	(PLN)	(PLN)	(PLN)
Change in key assumptions	*increase*	*base*	*decrease*
WACC of 8.39% after-tax			
(increase / decrease by 2 percentage points)	158,831	-	-
Terminal growth rate of 0.0 % per annum			
(increase / decrease by 2 percentage points)	-	-	22,943
Cash flow projections			
(increase / decrease by 15% in each year)	-	-	44,444
Rate of Growth in BB and TV			
(increase / decrease by 20 % in each year)	-	-	-
Rate of drop in voice ARPU			
(increase / decrease by 10 percentage points in each year)	163,913	-	-
Regulated access rates			
(increase / decrease by 20 %)	77,061	-	-
Capital investment			
(increase / decrease by 20 % in each year)	60,208	-	-
Unallocated operating expenses			
(increase / decrease by 30 % in each year)	71,212	-	-

The recoverable amount of operating segments to which goodwill was allocated is higher than their carrying amounts and as a result no impairment loss has been recognized. Sensitivity of the estimated pre-tax WACC of 9.4% applied to the discounted cash flows of each operating segment is summarized in the following table:

	Home	SOHO	B2C	Business	Carriers	B2B
The Netia Group would have to recognise an impairment loss on goodwill assigned to segments if the pre-tax WACC of 9.4% had been increased to	15.3%	21.1%	**17.3%**	20.0%	18.2%	**19.8%**

As a result of the impairment test of non-current assets as of December 31, 2012 the Netia Group has recognized 79,203 PLN of impairment losses in profit and loss during the year ended December 31, 2012. The prior year impairment loss of 79,203 was reflected in the goodwill allocated to segment Home. The results of the impairment test of non-current assets as of December 31, 2013 showed that the recoverable amount, before tax, of the CGU was higher by 386,233 PLN than its carrying value and therefore no further impairment charge as of December 31, 2013 is required.

The determination of impairment of goodwill and non-current assets is based on estimates of a large number of factors, such as changes in the current competitive conditions, expectations of growth in the telecommunications industry, regulated access and interconnection rates, cost of capital, technological obsolescence and other changes in circumstances that indicate an impairment exists. While the estimation of recoverable amount is based on current assessment of telecommunication market conditions and Management's best estimates and judgment, these estimates include a considerable amount of uncertainty. The actual outcome is uncertain and Management estimates may change in the future to reflect changes in the economic, technological and competitive environment, in which the Company operates.

(b) Deferred income tax

As part of the process of preparing the consolidated financial statements, the Management is required to estimate the Netia Group's income taxes. This process involves estimating the Netia Group's actual current tax exposure together with assessing temporary differences resulting from different treatment for tax purposes compared to the accounting treatment, such as the valuation of tangible fixed assets, accruals and provisions. These differences result in deferred income tax assets and liabilities, which are recognized in the consolidated balance sheet.

The deferred income tax calculation is based on the probability that future taxable profit will be available against which temporary differences, the unused tax losses and unused tax credits can be utilized. That calculation is based upon Management's estimates, which contain a considerable amount of uncertainty.

The Management is required to assess the likelihood that deferred income tax assets will be recovered from future taxable income, and to the extent the recovery is probable the deferred income tax assets are recognized. Significant management estimates are required in the valuation of the Netia Group's deferred income tax assets. These estimates take into consideration future taxable income projections, potential volatility in those projections, historical results and ongoing tax planning strategies. Management's assessment also considered such factors as: the stability and trend of past earnings, the nature of the business and industry, the economic environment in which the Netia Group operates and the stability of local legislation.

Based on the above assumptions and Management's assessment of the Netia Group tax position as of December 31, 2013, including tax projections, deferred income tax assets of PLN 92,501 and deferred income tax liabilities of PLN 17,746 were recognized in the consolidated statement of financial position.

Because of the above and also due to results of final reviews of our tax returns by tax authorities actual results may differ and our estimates may be altered to reflect changes in the economic, technological, regulatory and competitive environment in which the Netia Group operates. Consequently, we may need to adjust the valuation of our deferred income tax assets in the future, which could potentially materially impact our financial position and results of operations.

(c) Useful lives of non-current assets

Non-current assets, consisting primarily of property, plant and equipment and intangibles, comprise a significant portion of the Netia Group's total assets. Changes in the intended use of these assets, technological development and market conditions may cause the estimated period of use or the value of these assets to change. The Netia Group perform internal studies on an annual basis to confirm the appropriateness of its estimates of the economic useful lives for each category of current property, plant and equipment and other non-current assets. In determining the initial and remaining estimated useful life of a fixed asset, Management considers:

- the physical life of the asset;
- the technological life of the asset;
- the lives for similar productive assets; and
- the expected period that benefits will be derived from the asset.

The foregoing estimates and assumptions are inherently uncertain and subject to change, including as a result of factors outside the Netia Group's control. If the estimated useful life is shortened, the Netia Group depreciates or amortizes the remaining value of the asset over the revised remaining life of the asset. Likewise, if the anticipated technological or other changes occur more slowly than expected, the life of the group could be extended based on the life assigned to new assets added to the group. This could result in a reduction of depreciation and amortization expense in future periods. Management's estimates of useful lives affect the amount of gains or losses reported on the disposal or retirement of non-current assets.

(d) Customer relationships

In 2012 and previous years the Netia Group acquired Dialog Group, Crowley, Tele2 Polska, Pro Futuro and numerous internet service providers or local networks. In the purchase price allocation process the Netia Group identified customer relationships as an intangible asset. The fair value of customer relationships was estimated using the excess earnings method. This method considers the expected present value of the future economic benefits that will flow to an owner of an intangible asset. These analyses require certain assumptions including: the expected annual cash flows, the period in which the economic benefits will flow to the owner and the risk-adjusted discount rate.

6. Segment information

Following a sales force reorganization that was effective from July 1, 2013, for management purposes the Netia Group is organized into business units based on their customer segments, and has two reportable operating segments, as follows:

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

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

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

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

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

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

In 2013 the Company began planning a reorganisation to transition from a functional organisational supporting sales forces as described above into two business units serving B2B and B2C segments, served by a single network organisation and support functions. The project to implement this reorganisation began in January 2014 and is expected to result in material changes to the segment information presented above once fully implemented and reflected retrospectively in 2013 comparative information. Whilst revenue trends are unlikely to be affected, costs are likely to shift from the unallocated segment to the business units, resulting in significant changes to the Adjusted EBITDA margins of each segment.

(All amounts in thousands, except as otherwise stated)

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

	Home	SOHO	**B2C**	Business	Carriers	**B2B**	**Total reportable segments**	Unallocated	Total
	(PLN)	(PLN)	**(PLN)**	(PLN)	(PLN)	**(PLN)**	**(PLN)**	(PLN)	(PLN)
Year ended December 31, 2013									
Revenue from external customers	930,971	165,666	**1,096,637**	571,318	175,011	**746,329**	**1,842,966**	33,050	1,876,016
Adjusted EBITDA	225,707	61,996	**287,703**	303,238	78,941	**382,179**	**669,882**	(119,027)	550,855
Expenses incurred on mergers and acquisitions	-	-	**-**	-	-	**-**	**-**	(618)	(618)
Integration costs	-	-	**-**	-	-	**-**	**-**	(9,500)	(9,500)
Restructuring costs	-	-	**-**	-	-	**-**	**-**	(3,631)	(3,631)
Impairment loss	-	-	**-**	-	-	**-**	**-**	(3,034)	(3,034)
USO provision	-	-	**-**	-	-	**-**	**-**	150	150
Reorganization costs	-	-	**-**	-	-	**-**	**-**	(1,469)	(1,469)
EBITDA	225,707	61,996	**287,703**	303,238	78,941	**382,179**	**669,882**	(137,129)	532,753
Depreciation and Amortization	(75,558)	(38,542)	**(114,100)**	(199,580)	(67,926)	**(267,506)**	**(381,606)**	(58,388)	(439,994)
Operating profit / (loss)	150,149	23,454	**173,603**	103,658	11,015	**114,673**	**288,276**	(195,517)	92,759
Finance income/ (costs), net	-	-	**-**	-	-	**-**	**-**	(28,339)	(28,339)
Income tax charge	-	-	**-**	-	-	**-**	**-**	(18,130)	(18,130)
Profit / (Loss)	150,149	23,454	**173,603**	103,658	11,015	**114,673**	**288,276**	(241,986)	46,290
Capital expenditure	82,571	6,666	**89,237**	76,753	25,012	**101,765**	**191,002**	84,770	275,772

(All amounts in thousands, except as otherwise stated)

	Home	SOHO	**B2C**	Business	Carriers	**B2B**	**Total reportable segments**	Unallocated	Total
	(PLN)	(PLN)	**(PLN)**	(PLN)	(PLN)	**(PLN)**	**(PLN)**	(PLN)	(PLN)
Year ended December 31, 2012									
Revenue from external customers	1,073,124	172,848	**1,245,972**	605,702	233,456	**839,158**	**2,085,130**	36,226	2,121,356
Adjusted EBITDA	247,142	61,864	**309,006**	322,368	88,012	**410,380**	**719,386**	(128,220)	591,166
Expenses incurred on mergers and acquisitions	-	-	**-**	-	-	**-**	**-**	(1,504)	(1,504)
Integration costs	-	-	**-**	-	-	**-**	**-**	(26,276)	(26,276)
Restructuring costs	-	-	**-**	-	-	**-**	**-**	(22,656)	(22,656)
Impairment losses	(79,203)	-	**(79,203)**	-	-	**-**	**(79,203)**	-	(79,203)
EBITDA	167,939	61,864	**229,803**	322,368	88,012	**410,380**	**640,183**	(178,656)	461,527
Depreciation and Amortization	(122,720)	(46,538)	**(169,258)**	(177,278)	(64,885)	**(242,163)**	**(411,421)**	(71,070)	(482,491)
Operating profit / (loss)	45,219	15,326	**60,545**	145,090	23,127	**168,217**	**228,762**	(249,726)	(20,964)
Finance income/ (costs), net	-	-	**-**	-	-	**-**	**-**	(39,942)	(39,942)
Income tax charge	-	-	**-**	-	-	**-**	**-**	(26,798)	(26,798)
Profit / (Loss)	45,219	15,326	**60,545**	145,090	23,127	**168,217**	**228,762**	(316,466)	(87,704)
Capital expenditure	88,292	7,270	**95,562**	78,200	24,024	**102,224**	**197,786**	81,311	279,097

(All amounts in thousands, except as otherwise stated)

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

	Year ended December 31, 2013	Year ended December 31, 2012
	(PLN)	(PLN)
Operating profit for reportable segments	288,276	228,762
Operating profit for Petrotel business	4,183	5,650
Operating loss for the Uni-Net radio communication business	(312)	(749)
General fixed costs (incl. administration, IT, professional services)	(141,111)	(159,051)
Reorganization and restructuring costs	(3,631)	(22,656)
Integration costs	(9,500)	(26,276)
Other operating income	5,352	16,695
Depreciation and amortization of unallocated assets (excluding Petrotel and Uni-Net)	(50,498)	(63,339)
Financial costs, net	(28,339)	(39,942)
Income tax charge	(18,130)	(26,798)
Profit / (loss)	**46,290**	**(87,704)**

(All amounts in thousands, except as otherwise stated)

7. Property, plant and equipment

Current period:

	Buildings (PLN)	Land (PLN)	Fixed telecommunications network (PLN)	Telecommunications equipment (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at January 1, 2013	116,625	7,860	2,515,679	2,388,304	137,503	88,958	2,173	113,786	5,370,888
Additions	-	-	-	530	101	839	-	219,228	220,698
Purchase of operational networks	-	-	7,008	175	-	-	-	-	7,183
Transfers	846	2,723	71,888	120,971	7,835	7,680	56	(211,999)	-
Disposals	(3,990)	-	(425)	(26,864)	(702)	(6,078)	(752)	(398)	(39,209)
Other movements	(803)	-	8,066	(9,155)	2,303	(467)	56	2,281	2,281
Gross book value as at December 31, 2013	112,678	10,583	2,602,216	2,473,961	147,040	90,932	1,533	122,898	5,561,841
Accumulated depreciation as at January 1, 2013	41,120	-	1,059,797	1,380,467	84,589	66,393	1,536	-	2,633,902
Depreciation expense	6,639	-	138,064	168,940	9,433	8,657	448	-	332,181
Disposals	(2,609)	-	(128)	(18,425)	(528)	(5,686)	(655)	-	(28,031)
Other movements	(571)	-	1,350	(1,634)	1,359	(108)	33	-	429
Accumulated depreciation as at December 31, 2013	44,579	-	1,199,083	1,529,348	94,853	69,256	1,362	-	2,938,481
Accumulated impairment as at January 1, 2013	7,322	-	359,456	277,100	13,980	4,720	18	8,086	670,682
Impairment charge for specific assets	-	-	-	-	-	-	-	2,145	2,145
Impairment charge for assets	73	-	1	231	110	4	-	7	426
Reversal of impairment charge for assets	-	-	(10)	(1,715)	(10)	-	-	-	(1,735)
Disposals	(465)	-	(25)	(2,770)	(77)	(366)	(2)	(909)	(4,614)
Other movements	(184)	-	36	(394)	308	10	-	-	(224)
Accumulated impairment as at December 31, 2013	6,746	-	359,458	272,452	14,311	4,368	16	9,329	666,680
Net book value as at January 1, 2013	68,183	7,860	1,096,426	730,737	38,934	17,845	619	105,700	2,066,304
Net book value as at December 31, 2013	**61,353**	**10,583**	**1,043,675**	**672,161**	**37,876**	**17,308**	**155**	**113,569**	**1,956,680**

(All amounts in thousands, except as otherwise stated)

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

Comparative period:

	Buildings (PLN)	Land (PLN)	Fixed telecommunications network (PLN)	Telecommunications equipment (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at January 1, 2012	114,326	8,477	2,462,104	2,229,024	127,660	84,291	4,447	107,423	5,137,752
Additions	3	-	291	1,631	534	2,851	137	243,668	249,115
Transfer to assets held for sale	-	(631)	-	-	-	-	-	(33)	(664)
Transfer from investment property	283	-	156	-	-	2,078	-	-	2,517
Purchase of ethernet operators	11	12	80	31	2	74	32	5	247
Transfers	2,512	-	65,924	153,322	10,530	4,190	175	(236,653)	-
Disposals	(163)	(11)	(1,208)	(4,033)	(2,416)	(6,962)	(2,488)	(624)	(17,905)
Other movements	(347)	13	(11,668)	8,329	1,193	2,436	(171)	-	(215)
Gross book value as at December 31, 2012	116,625	7,860	2,515,679	2,388,304	137,503	88,958	2,132	113,786	5,370,847
Accumulated depreciation as at January 1, 2012	34,287	-	926,780	1,186,824	75,815	60,364	1,159	-	2,285,229
Depreciation expense	6,899	-	136,136	193,972	9,950	9,349	2,249	-	358,555
Transfer from investment property	13	-	98	-	-	2,010	-	-	2,121
Disposals	(40)	-	(450)	(1,751)	(2,004)	(5,716)	(1,913)	-	(11,874)
Other movements	(39)	-	(2,767)	1,422	828	343	-	-	(213)
Accumulated depreciation as at December 31, 2012	41,120	-	1,059,797	1,380,467	84,589	66,350	1,495	-	2,633,818
Accumulated impairment as at January 1, 2012	7,301	-	359,747	277,530	13,967	5,092	18	4,117	667,772
Impairment charge for specific assets	-	-	-	-	-	-	-	4,611	4,611
Reversal of impairment charge for specific assets	-	-	-	-	-	-	-	(296)	(296)
Transfer from investment property	23	-	28	-	-	68	-	-	119
Disposals	-	-	(99)	(299)	(340)	(397)	-	(346)	(1,481)
Other movements	(2)	-	(220)	(131)	353	-	-	-	-
Accumulated impairment as at December 31, 2012	7,322	-	359,456	277,100	13,980	4,763	18	8,086	670,725
Net book value as at January 1, 2012	72,738	8,477	1,175,577	764,670	37,878	18,835	3,270	103,306	2,184,751
Net book value as at December 31, 2012	**68,183**	**7,860**	**1,096,426**	**730,737**	**38,934**	**17,845**	**619**	**105,700**	**2,066,304**

The transfers recorded in the year ended December 31, 2013 mainly relate to transfers from fixed assets under construction to fixed assets brought into use.

During the year ended December 31, 2013 the Netia Group recognized specific impairment charges of PLN 2,145 relating mainly to obsolete telecommunication equipment. In 2012 the Netia Group recognized specific impairment charges of PLN 4,611 relating mainly to obsolete telecommunication equipment.

Subsequent costs directly attributable to the acquisition or bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Management amounting to PLN 17,191 and PLN 16,905 were capitalized to fixed assets under construction during the year ended December 31, 2013 and December 31, 2012, respectively. Furthermore the Company capitalized PLN 2,041 of net cash losses on closed forward contracts and PLN 2,924 of interests costs. In the year ended December 31, 2012 the Company capitalized PLN 994 of net cash losses on closed forward contracts and PLN 1,691 of interests costs.

The net carrying value of assets held under finance leases as at December 31, 2013 and December 31, 2012 is presented below:

	December 31, 2013 (PLN)	December 31, 2012 (PLN)
Fixed telecommunications network	1,757	1,916
Telecommunications equipment	2,571	4,996
Machinery and equipment	-	7
Vehicles	102	351
	4,430	**7,270**

Acquisition of cable television network

On May 10, 2013 following the receipt of consent from the President of the Office of Competition and Consumer Protection Netia purchased from UPC Polska Sp. z o.o. and UPC Poland Holding B.V. all shares in Centrina Sp. z o.o. ("Centrina") constituting 100% of the shares in the share capital of Centrina and representing 100% of the votes at the meetings of the shareholders of Centrina and all shares in Dianthus Sp. z o.o. ("Dianthus") constituting 100% of the shares in the share capital of Dianthus and representing 100% of the votes at the meetings of the shareholders of Dianthus. Dianthus and Centrina are owners of part of former Aster cable operator's network reaching 446,000 (not in thousands) households in Warsaw and Kraków. The network was acquired without any retail subscribers and Netia intends to integrate it with its existing network and offer similar TV, broadband and fixed voice telephony services as are offered over its copper and fiber networks. The transaction increases the reach of Netia's proprietary network by 18% to 2.9 million (not in thousand) households.

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

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

Reflecting the substance of the transaction, the acquisition was accounted for in the consolidated accounts as a purchase of fixed assets and not as a business acquisition. The consideration transferred for the network purchased, including provision for an estimated additional payment of PLN 690 and related transaction costs, amounted to PLN 5,821. The value of fixed assets purchased is PLN 7,183 and the difference of 1,362 PLN relates to net liabilities in purchased subsidiaries as at the acquisition date.

(All amounts in thousands, except as otherwise stated)

8. Intangible assets

Current period:

	Goodwill	Trademark	Licences: Local telecommunication licenses / permits	Licences: Data communications and internet licenses / permits	Licences: Domestic long-distance licenses / permits	Licences: WiMAX licenses	Computer software costs: Computer software	Computer software costs: Capital work in progress	Customer relationships	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Gross book value as at January 1, 2013	359,904	18,266	432,823	7,417	107,354	20,329	437,725	6,200	226,233	1,616,251
Additions	-	-	-	-	-	-	11	47,880	-	47,891
Transfers	-	44	-	-	-	-	39,192	(39,236)	-	-
Disposals	-	-	-	-	-	-	(446)	-	-	(446)
Gross book value as at December 31, 2013	359,904	18,310	432,823	7,417	107,354	20,329	476,482	14,844	226,233	1,663,696
Accumulated amortization as at January 1, 2013	-	8,969	271,194	1,539	68,701	8,047	298,245	-	104,450	761,145
Amortization expense	-	4,514	19,857	-	7,351	1,409	37,929	-	35,925	106,985
Disposals	-	-	-	-	-	-	(412)	-	-	(412)
Accumulated amortization as at December 31, 2013	-	13,483	291,051	1,539	76,052	9,456	335,762	-	140,375	867,718
Accumulated impairment as at January 1, 2013	79,203	-	115,549	5,878	13,231	974	42,617	-	199	257,651
Impairment charge for assets	-	-	-	-	-	-	5	-	-	5
Disposals	-	-	-	-	-	-	(18)	-	-	(18)
Accumulated impairment as at December 31, 2013	79,203	-	115,549	5,878	13,231	974	42,604	-	199	257,638
Net book value as at January 1, 2013	280,701	9,297	46,080	-	25,422	11,308	96,863	6,200	121,584	597,455
Net book value as at December 31, 2013	**280,701**	**4,827**	**26,223**	**-**	**18,071**	**9,899**	**98,116**	**14,844**	**85,659**	**538,340**

(All amounts in thousands, except as otherwise stated)

8. Intangible assets (cont'd)

Comparative period:

			Licences				Computer software costs			
	Goodwill	**Trademark**	**Local telecommunication licenses / permits**	**Data communications and internet licenses / permits**	**Domestic long-distance licenses / permits**	**WiMAX licenses**	**Computer software**	**Capital work in progress**	**Customer relationships**	**Total**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
Gross book value as at January 1, 2012	355,974	17,477	432,823	7,417	107,354	20,329	409,856	5,959	224,529	1,581,718
Additions	-	2	-	-	-	-	6,839	23,208	-	30,049
Purchase of ethernet operators	3,930	-	-	-	-	-	-	-	1,704	5,634
Transfers	-	134	-	-	-	-	11,793	(11,927)	-	-
Disposals	-	-	-	-	-	-	(1,365)	-	-	(1,365)
Other movements	-	653	-	-	-	-	10,602	(11,040)	-	215
Gross book value as at December 31, 2012	359,904	18,266	432,823	7,417	107,354	20,329	437,725	6,200	226,233	1,616,251
Accumulated amortization as at January 1, 2012	-	3,185	242,152	1,539	61,350	6,637	257,894	-	65,238	637,995
Amortization expense	-	5,131	29,042	-	7,351	1,410	41,790	-	39,212	123,936
Disposals	-	-	-	-	-	-	(1,028)	-	-	(1,028)
Other movements	-	653					(411)	-	-	242
Accumulated amortization as at December 31, 2012	-	8,969	271,194	1,539	68,701	8,047	298,245	-	104,450	761,145
Accumulated impairment as at January 1, 2012	-	-	115,549	5,878	13,231	974	42,617	-	199	178,448
Impairment charge	79,203	-	-	-	-	-	-	-	-	79,203
Disposals	-	-	-	-	-	-	-	-	-	-
Accumulated impairment as at December 31, 2012	79,203	-	115,549	5,878	13,231	974	42,617	-	199	257,651
Net book value as at January 1, 2012	355,974	14,292	75,122	-	32,773	12,718	109,345	5,959	159,092	765,275
Net book value as at December 31, 2012	**280,701**	**9,297**	**46,080**	**-**	**25,422**	**11,308**	**96,863**	**6,200**	**121,584**	**597,455**

Telecommunication licenses / permits

Prior to the completion of the legal merger of the Company with its operating subsidiaries on December 31, 2003, its subsidiaries held fixed-term permits for the operation of local telecommunication networks on a non-exclusive basis in specified areas throughout Poland. Those permits were obtained through their conversion from telecommunication licenses issued under the regulations of the previous Telecommunication Act. The conversion took place by virtue of the 2001 Telecommunication Act on January 1, 2001. Licenses for telecommunications services in Poland were issued for 15-year periods. The remaining amortization periods of the permits range between 1 and 2 years.

Domestic long-distance licenses / permits

In May 2000, one of the operating subsidiaries currently legally merged into Netia, was granted a domestic long-distance license. The license, currently converted into a permit, covers the entire territory of Poland and enables the Company to provide intercity telecommunication services. The remaining amortization period of the permit is 2 years.

Data communications and internet licenses / permits

In April 1999, one of the operating subsidiaries currently merged into Netia, obtained a data communications license covering the entire territory of Poland. This license was fully impaired in 2003.

WiMAX licenses

On October 27, 2005 the Company's subsidiaries, Netia WiMax S.A. (merged with Netia in July 2006) and Netia WiMax II S.A. (since November 2006 operating under the name "Netia WiMax S.A.", merged with Netia in October 2008), received the reservation of the 3.6-3.8 GHz frequencies, which are used to provide telecommunication services based on WiMAX technology. The license covers the entire territory of Poland and is valid for 15 years. The remaining amortization period of the permit is 7 years.

9. Investment property

On March 23, 2012 the Company and Tilia SKA, a Company related to Ghelamco Group signed a conditional purchase agreement to sell Netia's land totalling 23,600 m2 (not in thousands) in Warsaw at Poleczki 13 and two buildings located thereon. Consequently, from March 31, 2012, property of PLN 26,105 (reclassified from investment property), land of PLN 631 and infrastructure of PLN 34 (reclassified from land) that was intended to be sold to Tilia SKA were presented as assets held for sale. The sale agreement with Tilia SKA was not finalized and on March 31, 2013 the Company ceased to classify these assets as held for sale and instead presented them as investment property. The depreciation charge that would have been recognized through March 31, 2013 had the assets not been classified as held for sale amounted to PLN 503 and decreased net book value of the investment property as of March 31, 2013.

At the end of the year ended December 31, 2013 the Company transformed its rights of perpetual usufruct of plots relating to the investment property into freehold land. The costs of the transformation amounted to PLN 3,803 and increased the book value of the investment property.

The fair value of this property after the transformation was estimated by an independent, professionally qualified valuer at PLN 27,142 as at January 23, 2014, resulting in recognition of an impairment charge of PLN 2,603.

	Year ended December 31, 2013 (PLN)	Year ended December 31, 2012 (PLN)
Gross book value at the beginning of the year	-	34,637
Reclassification to assets held for sale	-	(32,120)
Reclassification to property, plant and equipment	-	(2,517)
Reclassification from assets held for sale	32,786	-
Additions	3,803	-
Gross book value at the end of the period	36,589	-
Accumulated depreciation at the beginning of the year	-	7,359
Reclassification to assets held for sale	-	(5,255)
Reclassification to property, plant and equipment	-	(2,121)
Reclassification from assets held for sale	5,256	-
Adjustment for depreciation expense due to reclassification	503	-
Depreciation expense	325	17
Accumulated depreciation at the end of the period	6,084	-
Accumulated impairment at the beginning of the year	-	879
Reclassification to assets held for sale	-	(760)
Reclassification to property, plant and equipment	-	(119)
Reclassification from assets held for sale	760	-
Impairment charge	2,603	-
Accumulated impairment at the end of the period	3,363	-
Net book value at the beginning of the year	-	26,399
Net book value at the end of the period	**27,142**	-

(All amounts in thousands, except as otherwise stated)

10. Inventories

	December 31, 2013 (PLN)	December 31, 2012 (PLN)
Materials	1,100	596
Goods for resale	3,876	2,847
Less provision for impairment charge	(2,312)	(1,349)
Inventories, net	**2,664**	**2,094**

During the years ended December 31, 2013 and 2012 the Netia Group recognized PLN 9,383 and PLN 11,600, respectively as the cost of inventories included in "cost of goods sold".

11. Trade and other receivables

	December 31, 2013 (PLN)	December 31, 2012 (PLN)
Trade receivables	240,229	312,808
Less provision for impairment of trade receivables	(62,040)	(76,648)
Trade receivables, net	178,189	236,160
VAT and other government receivables	3,995	2,953
Other receivables	8,893	9,236
Less provision for impairment of other receivables	(77)	(78)
Other receivables, net	8,816	9,158
	191,000	**248,271**
Of which,		
Current	191,000	248,270
Non-current	-	1

The provision for impairment of the Netia Group's receivables recognized during the year ended December 31, 2013 and 2012 amounted to PLN 13,401 and PLN 12,664, respectively and was included in "selling and distribution costs" in the consolidated income statement.

As of December 31, 2013 and December 31, 2012 trade and other receivables of PLN 62,921 and PLN 73,809, respectively, were past due but not fully provided for. The ageing analysis of these trade receivables is as follows:

	Less than 3 months (PLN)	3 – 6 months (PLN)	More than 6 months (PLN)	Total (PLN)
As at December 31, 2013	48,859	3,503	10,559	62,921
As at December 31, 2012	52,810	5,327	15,672	73,809

In addition, as at December 31, 2013 and December 31, 2012 the amounts of PLN 725 and PLN 360, respectively were excluded from other receivables as they were legally reserved for spending on social purposes.

12. Prepaid expenses and accrued income

	December 31, 2013 (PLN)	December 31, 2012 (PLN)
Accrued income relating to promotional offers	21,945	37,697
Transaction costs and commitment fees related to the credit facility (see Note 17)	2,526	-
Rental costs prepaid	1,463	2,364
IT service.	1,428	1,795
Insurance.	646	688
Other prepaid expenses.	2,174	2,198
	30,182	**44,742**
Of which,		
Current	24,638	33,660
Non-current	5,544	11,082

(All amounts in thousands, except as otherwise stated)

13. Cash, short term deposits and restricted cash

	December 31, 2013	December 31, 2012
	(PLN)	(PLN)
Cash and short term deposits	93,356	142,702

The effective interest rate on short-term bank deposits was 2.45% and 4.18%, respectively for the year ended December 31, 2013 and the year ended December 31, 2012.

In addition, as at December 31, 2013 and December 31, 2012 the amounts of PLN 902 and PLN 1,669, respectively were excluded from cash and short term deposits as they were legally reserved for spending on social purposes.

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

As at December 31, 2013, restricted cash in the amount of PLN 13 represented collateral securing payments to vendors.

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

For the purpose of the statement of cash flow cash and cash equivalents as at December 31, 2013 and 2012 comprise the following:

	December 31, 2013	December 31, 2012
	(PLN)	(PLN)
Cash and short term deposits	93,356	142,702
Bank overdrafts (see Note 17)	-	(18,751)
Cash and cash equivalents	**93,356**	**123,951**

14. Other financial instruments

Derivative financial instruments

Derivative financial assets:	December 31, 2013	December 31, 2012
	(PLN)	(PLN)
Interest rate swap contracts	359	-
	359	**-**
Of which:		
Current	33	-
Non-current	326	-

Derivative financial liabilities:	December 31, 2013	December 31, 2012
	(PLN)	(PLN)
Forward contracts	2,295	3,588
Interest rate swap contracts	6,741	9,421
	9,036	**13,009**
Of which:		
Current	6,449	7,268
Non-current	2,587	5,741

Forward contracts

In order to mitigate the currency risk related to the planned payments to be made under equipment and construction contracts which are indexed to foreign currencies the Company entered into several forward transactions to purchase USD and EUR for periods consistent with currency transaction exposures, generally up to 12 months. For these forward contracts hedge accounting was applied. Net fair value losses on forward contracts recognized in the hedging reserve in equity as of December 31, 2013 amounted to PLN 1,213 (PLN 982, net of tax). Net fair value gains on forward contracts recognized in other comprehensive income on these contracts in the year ended December 31, 2013 amounted to PLN 1,422 (PLN 1,152, net of tax). During year ended December 31, 2013 PLN 2,041 of net cash losses on closed forward contracts were capitalized, and the ineffective portion of open forward contracts of PLN 30 was recorded as finance costs.

Furthermore, in order to mitigate the currency risk related to the planned payments to be made under commercial contracts associated with various types of operating expense which are linked to foreign currency, the Company entered into several forward transactions to purchase USD and EUR for periods consistent with currency transaction exposures, generally up to 12 months. For these forward contracts hedge accounting was not applied. During the year ended December 31, 2013, PLN 131 of fair value losses on open forward contracts were recorded as finance costs.

Net fair value losses on forward contracts recognized in the hedging reserve in equity as of December 31, 2012 amounted to PLN 2,634 (PLN 2,133, net of tax). Net fair value losses on forward contracts recognized in other comprehensive income on these contracts in the year ended December 31, 2012 amounted to PLN 4,195 (PLN 3,398, net of tax). During the year ended December 31, 2012, PLN 994 of net cash losses on closed forward contracts were capitalized, PLN 54 of net cash losses increased finance costs due to excess of the amount of closed forward contracts over purchases made and the ineffective portion of open and closed forward contracts of PLN 85 was recorded as finance costs.

Furthermore, in order to mitigate the currency risk related to the planned payments to be made under commercial contracts associated with various types of operating expense which are linked to foreign currency, the Company entered into several forward transactions to purchase USD and EUR for periods consistent with currency transaction exposures, generally up to 12 months. During the year ended December 31, 2012, PLN 1,945 of fair losses on open forward contracts were recorded as finance costs.

The table below presents outstanding forward transactions, related assets and liabilities, other comprehensive (loss)/income and financial (costs)/income as at December 31, 2013 and for the year then ended:

	Hedged nominal amount	Hedged nominal amount	Fair value			
			Asset	Liability	Other comprehensive (loss)/income	Financial (costs)/income
	(EUR)	(USD)	(PLN)	(PLN)	(PLN)	(PLN)
As at December 31, 2013						
Forward transactions related to equipment and construction contracts	3,740	3,740	-	(1,218)	1,422	-
Forward transactions related to commercial contracts	2,750	3,630	-	(1,077)	-	(131)
As at December 31, 2012						
Forward transactions related to equipment and construction contracts	7,590	3,410	-	(2,642)	(4,195)	-
Forward transactions related to commercial contracts	6,050	1,650	-	(946)	-	(1,945)

Interests rate risk hedging instruments

In 2012 the Company entered into interest rate swap ("IRS") contracts hedging interest rate risk associated with interest payments in the amount of fifty per cent of all amounts projected to be outstanding under the Term Loan and on May 29, 2013 the Company entered into further interest rate swap contracts increasing the hedged interest rate risk to seventy five per cent of all amounts projected to be outstanding under the Term Loan (See Note 17 Borrowings). For these IRS contracts hedge accounting was applied. As at December 31, 2013 net fair value losses on IRS contracts recognized in the hedging reserve in equity amounted to PLN 6,382 (PLN 5,169, net of tax). Net fair value gains on IRS contracts recognized in other comprehensive income in the year ended December 31, 2013 amounted to PLN 3,039 (PLN 2,462, net of tax). During the year ended December 31, 2013, PLN 4,366 of net realized cash losses on IRS contracts increased interest costs.

As of December 31, 2012 effective portion of change in net fair value of IRS contracts recognized in the hedging reserve in equity amounted to PLN 9,421 (PLN 7,631, net of tax). During the year ended December 31, 2012, PLN 45 of net realized cash losses on IRS contracts increased interest costs.

15. Shareholders' equity

Share capital

At December 31, 2012, the Company's share capital consisted of 386,279,904 (not in thousands) ordinary shares and 1,000 (not in thousands) series A1 shares with a par value of PLN 1 (not in thousands) per share. Each ordinary share has one vote at the shareholders' meeting. The holder of 1,000 (not in thousands) series A1 shares has the right to nominate one member of the Supervisory Board. The majority of votes of the Supervisory Board elect the Management Board.

On January 23, 2013 the Company completed the third tranche of its share buy-back program (see Note 33), under which the Company repurchased 9,657,023 (not in thousands) shares constituting 2.5% of Company share capital for a total of PLN 47,579 plus transaction costs of PLN 20. From these amounts, 3,422,312 (not in thousands) shares were repurchased in 2013 for a total of PLN 15,881 plus transaction costs of PLN 7.

On May 28, 2013 the Company repurchased a further 16,012,630 (not in thousands) shares constituting 4.15% of Company share capital for

PLN 128,101 plus transaction costs of PLN 209 (see Note 33).

As a result of these and earlier share buy-backs (see Note 33), Netia held 38,370,130 (not in thousands) treasury shares from a total outstanding share capital of 386,280,904 (not in thousands) shares. On June 28, 2013 the Annual General Meeting of the Company resolved to redeem these treasury shares and the redemption was effective from October 24, 2013 when the notice of redemption filed by the Company was registered by the National Court Registry.

The redemption of shares in October 2013 resulted in a decrease of share capital by PLN 38,370,130 (not in thousands) and a decrease in other supplementary capital by PLN 251,012,190 (not in thousands) , from which PLN 38,370,130 (not in thousands) was transferred to the separate reserve capital of the Company established in accordance with Article 457, §2 of the Commercial Companies Code.

The Company's share capital as of the date of the approval of these financial statements amounted to PLN 347,910,774 (not in thousands).

According to the most recent information provided to the Company by its shareholders, as at December 31, 2013 the following shareholders held more than 5% of the votes in the General Shareholders Meeting:

	Number of shares (not in thousands)	**% of share capital**
ING Otwarty Fundusz Emerytalny	59,077,592	16.98
Third Avenue Management LLC	57,878,899	16.64
SISU Capital Limited and related entities	44,336,534	12.74
Aviva OFE	20,243,646	5.82
PZU OFE „Złota Jesień”	19,266,613	5.54
Shares held by public and other shareholders	147,107,490	42.28
	347,910,774	**100.00**

Other supplementary capital

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

Distributable reserves

In accordance with the Polish Code of Commercial Companies of 15 September 2000 (Journal of Laws of 2000, No. 94, item 1037 as amended) only those reserves, which relate to net profits of individual companies shown in their statutory financial statements, are available for distribution to shareholders. As at December 31, 2013, the distributable reserve amounted to PLN 376,937.

Stock options (not in thousands)

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

As at December 31, 2013 and December 31, 2012, the total number of options approved by the Supervisory Board and issued under the New Plan was 10,991,000 and 7,322,000 respectively. Out of these approved options 7,322,068 options were outstanding as at December 31, 2013 and 5,405,404 were outstanding as at December 31, 2012. As at December 31, 2013, the weighted average remaining contractual life of the outstanding options was 6.4 years. The outstanding options are exercisable until May 26, 2020. Upon exercise of the options, Netia will issue to each exercising participant the number of shares representing such participant's financial gain resulting from the exercise of the options, being the difference between the market price of the Company's shares as of the date of exercise of the options and the strike price of the options, limited to half of one series L share for each option exercised. The participant will not be required to pay the strike price.

On June 28, 2013 the Supervisory Board of Netia adopted a resolution on decreasing by PLN 0.16 the strike price of all existing options issued to the Management Board members and the employees of the Company and its subsidiaries in connection with the New Plan. This decrease of the strike price of all the existing options granted to the participants of the New Plan was necessary to neutralize the impact of the acquisition by the Company on May 28, 2013 of 16,012,630 of its shares for the price of PLN 8 per share in the performance of the share buy-back program conducted by the Company (see Note 33). The purchase by the Company of its own shares on the terms described above had a proforma impact on the market value of the Company's shares equivalent to a dividend payment and therefore it resulted in a decrease of the market value of the Company's shares and a corresponding decrease of the value of all the existing options granted to the participants of the New Plan. The plan makes specific provisions for the reduction of strike prices to neutralize the effect of dividend payments on the value of the plan and, furthermore, authorizes the Supervisory Board to make adjustments to the plan to neutralize the impact of unusual or one-off events, such as this repurchase of shares.

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

The Company recognizes the cost of share-based awards to employees (including share options) over the vesting period and the fair value of options is determined using a binomial pricing model and taking into account business performance criteria in the financial year in which the options were granted. The cost of New Plan options recorded in the year ended December 31, 2013 and 2012 amounted to PLN 2,400 thousands and PLN 1,686 thousands, respectively.

In the year ended December 31, 2013 and 2012 the following changes took place in the number of options granted under the New Plan:

(All amounts in thousands, except as otherwise stated)

	Year ended December 31, 2013		Year ended December 31, 2012 (restated*)	
Options	**Average strike price**	**Options**	**Average strike price**	**Options**
At the beginning of the period	5.70	5,405,404	5.08	3,621,000
Granted	4.54	3,669,000	6.00	3,669,000
Forfeited/cancelled/expired	5.73	(1,752,336)	5.10	(1,884,596)
At the end of the period	**5.11**	**7,322,068**	**5.70**	**5,405,404**

* average strike price has been decreased by PLN 0.16

The New Plan participants are entitled to exercise their stock options on the condition that they continue their engagement with the Netia Group until the vesting date of the stock options (subject to change of control events and the termination of their engagement by the Netia Group without material cause) and the fulfilment of the business criteria set by the Supervisory Board for each year of the New Plan. In the event of termination by the Company, unvested options are retained prorata to the period worked during the vesting period. The proportion of the stock options exercised versus the number of stock options granted shall be equal to the lower of: 100% or the actual performance of the objectives set out as part of the performance criteria approved by the Supervisory Board and applicable in the financial year in which the stock options were granted. Each year, within the period following the publication of the financial statements of the Company for the previous financial year and prior to the date of the Annual General Meeting of the Company, the Supervisory Board adopts a conditional resolution in which it determines the performance level of the business criteria for the previous financial year. The resolution of the Supervisory Board enters into force upon the approval of the financial statements of the Company and the Netia Group by the Annual General Meeting of the Company. Such conditional resolution of the Supervisory Board regarding the performance criteria for 2011 was taken on April 25, 2012 and the performance level was determined at 58.9%. The resolution came into force on June 19, 2012 and resulted in the cancellation of 41.1% of options granted in 2011. A conditional resolution of Supervisory Board regarding the performance criteria for the 3,669,000 options granted in 2012 was taken on February 26, 2013 and the performance level was determined at 68.6%. The resolution of the Supervisory Board came into force on June 28, 2013 and resulted in the cancellation of 31.4 % of options granted in 2012.

2003 Plan

Unexercised options outstanding under 2003 Plan expired on December 20, 2012.

In the year ended December 31, 2012 the following changes took place in the number of options granted under the 2003 Plan:

	Year ended December 31, 2012	
Options	**Average strike price**	**Options**
At the beginning of the period	6.22	46,754,751
Exercised	4,98	(23,966,937)
Forfeited / expired	7,52	(22,787,814)
At the end of the period	-	-

The cost of 2003 Plan options recorded in the year ended December 31, 2012 amounted to PLN 88 thousands.

16. Provisions

	December 31, 2013 (PLN)	December 31, 2012 (PLN)
Passive Optical networks ("PON") grants provision	-	16,596
USO provision	7,006	7,156
Jubilee and post-employment benefits	1,810	1,157
Claims	1,809	3,301
Loss on rental contract	1,191	2,084
Restructuring	712	1,482
Other	613	613
	13,141	**32,389**
Of which,		
Current	11,265	14,200
Non-current	1,876	18,189

(All amounts in thousands, except as otherwise stated)

	PON grants	USO provision	Jubilee and post-employment benefits	Claims	Loss on rental contracts	Restructuring	Other	Total
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
As at January 1, 2013	16,596	7,156	1,157	3,301	2,084	1,482	613	32,389
Recognition and changes in estimates (charged to the income statement)	-	(150)	982	(862)	490	2,498	-	2,958
Used during the period	-	-	(478)	(630)	(1,471)	(3,268)	-	(5,847)
Actuarial net gains recognized in OCI	-	-	(105)	-	-	-	-	(105)
Actuarial net losses charged to the income statement	-	-	170	-	-	-	-	170
Interest costs charged to the income statement	-	-	84	-	-	-	-	84
Discount unwinding (charged to the income statement)	-	-	-	-	88	-	-	88
Other movements	(16,596)	-	-	-	-	-	-	(16,596)
As at December 31, 2013	**-**	**7,006**	**1,810**	**1,809**	**1,191**	**712**	**613**	**13,141**

PON grants

Dialog has made significant investments in Passive Optical Networks ("PON") in recent years on the basis that a significant part of the investment would be reimbursed from European Union funds by Polish Agency for Enterprise Development ("PARP"). As at December 31, 2012 most reimbursements were recovered, however several commitments by Dialog towards PARP were still to be achieved. Given market conditions and the project of integrating with Netia, the Management Board assessed at the end of the prior year that some of these requirements may not be achieved and that refunds received by Dialog might have to be repaid in the future. No assets have been recognized in respect to these grants in the acquisition balance sheet of Dialog and the PLN 16,596 received till December 31, 2012 was provided for until such time that its long term retention becomes reasonably certain.

On December 31, 2013, having confirmed that all requirements in the realization phase of the project are fulfilled and having received formal answer from the relevant EU institution clarifying reporting requirements during the project maintenance phase till June 2019, Dialog derecognized provision for the PON projects and started recognizing other income relating to grants received from January 1, 2014.

Loss on rental contracts

Provision for loss on rental contracts comprises:

- provision relating to a specific office space contract, which was recognized in 2011 upon the acquisition of Dialog Group. The loss on this rental contract is calculated as the discounted committed rental costs less discounted rental costs at estimated market level and amounts to PLN 487 as of December 31, 2013. The Netia Group expects that the cash outflows relating to this provision will be incurred through 2017;

- provision relating to the excess of office space held in certain locations in Warsaw and Wrocław following acquisitions and restructuring, some of which have been sub-leased at a loss by the Netia Group. The loss on rental contracts is calculated as discounted committed rental costs less discounted revenues expected to be received from sub-lessees. The provision amounts to PLN 704 as of December 31, 2013. The Netia Group expects that the cash outflows relating to this provision will be incurred through 2017.

Claims

The amounts represent provisions for legal and regulatory claims and for a contractual penalty due to delays in the performance of a contract. In the opinion of the Management the outcome of the outstanding provisions will not give rise to any significant losses beyond the amounts provided. The Netia Group is unable to determine the timing of cash outflows related to legal and regulatory claims with reasonable accuracy.

Restructuring

The balance as at December 31, 2013 comprise the provision created for those committed redundancies where the employment contract has not yet been terminated. The cash outflows relating to this provision are expected to be incurred during 2014.

Jubilee and post-employment benefits

The provision for jubilee bonuses and post-employment benefits payments was calculated by an independent actuary using the projected unit credit method. Provision for post-employment benefits represents mainly the present value of the future obligation of the Company to make severance payments on its employee's retirement, required by the Polish Labour Code and meeting the definition of a defined benefit plan. A valuation was performed using a discount rate of 4.60% and a salary increase rate of 2.0% above inflation of 2.5%. Under the existing legislation, a retirement severance payment in the amount of one-month's average salary will be paid to Netia Group employees upon their retirement.

Universal services obligation

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

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

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

17. Borrowings

	December 31, 2013	December 31, 2012
	(PLN)	(PLN)
Bank loans	384,077	531,898
Bank overdraft	-	18,751
	384,077	**550,649**
Of which:		
Current	126,866	166,197
Non-current	257,211	384,452

Bank loans

On September 29, 2011, Netia and Internetia Sp. z o.o. (the "Borrowers") executed a loan agreement (the "Agreement") with Rabobank Polska S.A. (the "Facility Agent"), BNP Paribas S.A., BRE Bank S.A., Raiffeisen Bank Polska S.A. and Raiffeisen Bank International AG (jointly with the Facility Agent, the "Lenders"), whereunder the Lenders agreed to extend to the Borrowers a term facility maturing in five years with a total of PLN 650,000, designated for the Company to acquire 19,598,000 (not in thousands) shares in Dialog, constituting 100% of its share capital, and a PLN 50,000 revolving facility for general operating purposes. The term loan was drawn on December 16, 2011 and the revolving loan was drawn on December 15, 2011. According to the agreement, the term loan is to be repaid in 10 equal semi-annual instalments of PLN 65,000 each. The maturity date falls on November 30, 2016. The revolving loan was repaid in full on March 15, 2012. In 2012 the Company repaid PLN 130,000 of instalments and further PLN 130,000 was repaid in 2013. On March 7, 2013 the Company again drew down the revolving loan of PLN 50,000, repaying it in full once more on July 8, 2013 and then cancelled the revolving facility on July 9, 2013.

As at December 31, 2013 the value of these outstanding loans at amortised cost was PLN 384,077.

The term loan accrue annual interest at the rate of 3M WIBOR plus a margin established depending on the level of debt relative to the Group's profitability. The terms and conditions of the Agreement comply with market practice and are not different from the terms and conditions generally applied to such types of agreements. The borrowing is measured at amortized cost using an effective interest rate, which as of December 31, 2013 was 5.7%. Total transaction costs included in the calculation of the effective interest rate amounted to PLN 10,611.

To secure the Lender's claims under or related to the Agreement, the Borrowers agreed to establish in favour of the Lenders mortgages, financial and registered pledges and to to grant relevant submissions to execution. The repayment of the loan is secured by the following the mortgage over certain Company's rights of perpetual usufruct at ul. Poleczki 13 in Warsaw, registered pledge over collection of movables and rights of the Company and registered and financial pledges over shares in Internetia sp. z o.o., Netia Brand Management sp. z o.o., Telefonia Dialog sp. z o.o. and Petrotel sp. z o.o. Additionally, Internetia sp. z o.o., Netia Brand Management Sp. z o.o. and Telefonia Dialog sp. z o.o., each of them, established security in the form of registered pledges over collection of movables and rights and granted the submission to execution for the benefit of each of the Lender. The maximum secured amount with respect to the applicable pledges, mortgages and submission to executions does not exceed PLN 1,476,750.

On March 8, 2012, Netia entered into an overdraft credit facility agreement with BRE Bank S.A. of PLN 50,000. The facility may be disbursed for general operating purposes of the Company. The Company is entitled to become indebted under the overdraft credit facility agreement in the period between March 12, 2012 and May 29, 2014. The terms and conditions of the agreement comply with market practice and are not different from the terms and conditions generally applied to such types of agreements. The Company had no outstanding balance under the overdraft credit as at December 31, 2013.

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

(All amounts in thousands, except as otherwise stated)

As of December 31, 2013 and as of the date of these financial statements the Company has not drawn any loan under the Additional Loan Facility. Transactions costs and commitment fees of PLN 2,526 were deferred as of December 31, 2013.

18. Trade and other payables

	December 31, 2013 (PLN)	December 31, 2012 (PLN)
Trade payables	75,335	92,005
Investment payables	49,985	50,627
Accrued expenses (see Note 19)	78,062	93,803
VAT and other taxes	22,815	17,424
Finance lease payments	1,813	3,510
Other payables	6,851	6,998
	234,861	**264,367**
Of which,		
Current	231,718	260,135
Non-current	3,143	4,232

In addition, as at December 31, 2013 and December 31, 2012 the amounts of PLN 1,627 and PLN 2,029, respectively were excluded from other payables as they were legally reserved for social funding purposes.

19. Accrued expenses

	December 31, 2013 (PLN)	December 31, 2012 (PLN)
Construction costs	3,175	1,922
Uninvoiced services	35,769	34,822
Interconnection charges	13,609	22,888
Holiday accrual	6,422	5,753
Employees' bonuses and accrued salaries	12,483	20,929
Rental costs	6,604	7,489
	78,062	**93,803**

20. Deferred income

	December 31, 2013 (PLN)	December 31, 2012 (PLN)
Invoiced income from subscriptions relating to future periods	33,382	33,228
Rental contracts	17,591	20,777
Government grants (see Note 16)	20,045	445
Other	3,196	4,142
	74,214	**58,592**
Of which,		
Current	40,039	37,823
Non-current	34,175	20,769

(All amounts in thousands, except as otherwise stated)

21. Revenue

	Year ended December 31, 2013 (PLN)	Year ended December 31, 2012 (PLN)
Direct voice	809,188	948,455
Monthly fees	*588,397*	*662,808*
Calling charges	*220,223*	*284,904*
Other	*568*	*743*
Indirect voice	19,203	34,976
Data	724,721	765, 658
Interconnection revenue	85,288	109,588
Wholesale services	107,003	136,242
Other telecommunication service revenue	122,189	113,789
Telecommunication revenue	**1,867,592**	**2,108,708**
Radio communication services revenue	2,863	3,540
Other services	5,561	9,108
Revenue	**1,876,016**	**2,121,356**

22. Cost of sales

	Year ended December 31, 2013 (PLN)	Year ended December 31, 2012 (PLN)
Interconnection charges	(201,301)	(306,056)
Network maintenance	(593,399)	(647,586)
Cost of goods sold	(9,383)	(11,600)
Depreciation and amortization	(359,562)	(394,143)
Salaries and benefits	(32,175)	(41,101)
Restructuring	(629)	(5,608)
Taxes, frequency fees and other expenses	(68,893)	(78,122)
	(1,265,342)	**(1,484,216)**

23. Selling and distribution costs

	Year ended December 31, 2013 (PLN)	Year ended December 31, 2012 (PLN)
Advertising and promotion	(39,080)	(36,663)
Third party commissions	(22,854)	(28,503)
Billing, mailing and logistics	(28,237)	(41,431)
Outsourced customer service	(14,375)	(30,034)
Provision for impaired receivables	(13,401)	(12,664)
Depreciation and amortization	(50,519)	(59,981)
Salaries and benefits	(120,468)	(118,592)
Restructuring	(1,456)	(9,619)
Other expenses	(68,136)	(54,582)
	(358,526)	**(392,069)**

24. General and administration costs

	Year ended December 31, 2013 (PLN)	Year ended December 31, 2012 (PLN)
Professional services	(9,499)	(11,088)
Information technology services	(16,383)	(13,410)
Office and car maintenance	(15,475)	(18,125)
Depreciation and amortization	(29,913)	(28,367)
Salaries and benefits	(77,193)	(92,198)
Restructuring	(1,546)	(7,429)
Other expenses	(29,177)	(36,993)
	(179,186)	**(207,610)**

(All amounts in thousands, except as otherwise stated)

25. Salaries and benefits

	Year ended December 31, 2013	Year ended December 31, 2012
	(PLN)	(PLN)
Wages and salaries	(192,959)	(214,852)
Social security costs and other benefits	(17,383)	(22,288)
Defined contribution plan (the State Plan)	(15,285)	(15,036)
Provision for retirement severance payment and jubilee awards	(504)	1,199
Equity-settled share-based compensation	(2,400)	(1,773)
Cash-settled share-based compensation	(1,240)	(411)
Net change in accrual for PIT and social security costs relating to share-based compensation	(65)	1,270
Restructuring	(3,631)	(22,656)
	(233,467)	**(274,547)**

The Netia Group is legally required to make contributions to the Government's retirement benefit scheme in the form of social security payments. The Netia Group is not required to make any contributions in excess of this statutory rate.

26. Other income

	Year ended December 31, 2013	Year ended December 31, 2012
	(PLN)	(PLN)
Reminder fees and penalties	5,402	13,880
Forgiveness of liabilities	701	453
Reversal of impairment charges and provisions	2,465	1,398
Returned VAT	-	1,264
Other operating income	7,160	5,443
	15,728	**22,438**

27. Other expenses

	Year ended December 31, 2013	Year ended December 31, 2012
	(PLN)	(PLN)
Impairment charges for specific individual fixed assets (see Note 7, 9)	(5,184)	(4,611)
Other	(90)	(1,023)
	(5,274)	**(5,634)**

28. Other gains, net

	Year ended December 31, 2013	Year ended December 31, 2012
	(PLN)	(PLN)
Gain on sale of impaired receivables	10,331	3,758
(Loss)/ gain on disposal of fixed assets	(801)	471
Net foreign exchange losses	(187)	(255)
	9,343	**3,974**

29. Finance income and finance costs

Finance income

	Year ended December 31, 2013	Year ended December 31, 2012
	(PLN)	(PLN)
Interest income on cash and cash equivalents	3,874	6,266
Amortization of held to maturity investments	1	1
Other finance income	10	4
	3,885	**6,271**

(All amounts in thousands, except as otherwise stated)

Finance costs

	Year ended December 31, 2013 (PLN)	Year ended December 31, 2012 (PLN)
Interests and fees charged on bank loans	(30,681)	(43,185)
Interests and fees charged on overdraft	(131)	(67)
Amortization of finance lease liability	(172)	(394)
Amortization of provisions	(87)	(108)
Fair value loss on equity securities	-	(4)
Net foreign exchange losses	(868)	(82)
Fair value losses on open forward contracts hedging commercial exposures (see Note 14)	(131)	(1,945)
Excess of the amount of closed forward contracts over purchases made	-	(54)
Ineffective cash flow hedges (see Note 14)	(30)	(85)
Finance cost on jubilee and retirement provision	(84)	-
Other finance costs	(40)	(289)
	(32,224)	**(46,213)**

30. Net foreign exchange gains / (losses)

The exchange differences credited / (charged) to the consolidated income statement are included as follows:

	Year ended December 31, 2013 (PLN)	Year ended December 31, 2012 (PLN)
Other gains / (losses), net	(187)	(255)
Finance income/ (costs)	(868)	(82)
	(1,055)	**(337)**

31. Corporate income tax

	Year ended December 31, 2013 (PLN)	Year ended December 31, 2012 (PLN)
Current income tax charge	(9,730)	(1,149)
Penalty interests returned relating to current income tax for the year 2003	-	1,462
Deferred income tax charge, net	(8,400)	(27,111)
Income tax charge	**(18,130)**	**(26,798)**

Current income tax

The tax on the Netia Group's profit/(loss) before tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the consolidated companies as follows:

	Year ended December 31, 2013 (PLN)	Year ended December 31, 2012 (PLN)
Profit/ (loss) before tax	64,420	(60,906)
Tax calculated at tax rates applicable to profit	(12,240)	11,572
Adjustments in respect of current income tax of previous years	-	1,462
Income and expense not subject to tax / deductible for tax purposes, net	(10,497)	(15,992)
Impairment loss on assets not subject to tax	-	(15,049)
Recognition of previously unrecognized deferred tax asset	7,003	28,912
Derecognition of previously recognized deferred tax asset	-	(29,492)
Deductible temporary differences arising during the year for which no deferred tax asset was recognized	(8,870)	(8,037)
Recognition of previously unrecognised deferred tax assets on trademark	7,366	7,366
Derecognition of previously recognised deferred tax asset on tax losses and expired tax losses	(892)	(7,540)
Income tax charge	**(18,130)**	**(26,798)**

The corporate income tax rate applicable to the Company and its subsidiaries for 2013 and onwards is 19%.

(All amounts in thousands, except as otherwise stated)

Deferred income tax

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

As of December 31, 2013 the Management updated its previous year's assessment regarding the recognition of deferred income tax. The new assessment concluded that the Netia Group expects that future taxable profits will be generated based on the 2014 budget and long term business plan covering the period until 2018. Management's assessment also considered factors such as: the stability and trend of past earnings, the nature of the business and industry, and the economic environment in which the Netia Group is located.

As at December 31, 2013 Netia Group had a net deferred income tax asset of PLN 74,755. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred income tax liabilities of PLN 17,746 presented in the consolidated statement of the financial position as of December 31, 2013 relate to net deferred income tax liabilities recognized in Netia and one of its subsidiaries (after intercompany eliminations).

	December 31, 2013 (PLN)	December 31, 2012 (PLN)
Deferred income tax assets	92,501	101,687
Deferred income tax liabilities	17,746	17,683
Deferred income tax assets, net	**74,755**	**84,004**

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

	December 31, 2013 (PLN)	December 31, 2012 (PLN)
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	77,720	90,370
- Deferred income tax assets to be recovered within 12 months	60,124	66,799
	137,844	157,169
Deferred income tax liabilities:		
- Deferred income tax liabilities to be recovered after more than 12 months	20,068	27,498
- Deferred income tax liabilities to be recovered within 12 months	43,021	45,667
	63,089	73,165
Deferred income tax assets, net	**74,755**	**84,004**

The movement in deferred income tax assets and liabilities during the period, without taking into consideration the offsetting of balances, is as follows:

Current period:

Deferred income tax assets	Tax losses (PLN)	Impairment provisions for receivables (PLN)	Depreciation and impairment (PLN)	Accrued expenses (PLN)	Interests (PLN)	Forward contract (PLN)	Other (PLN)	Total (PLN)
As at January 1, 2013	64,610	8,919	57,394	20,753	2,432	2,472	589	157,169
- Credited / (charged) to the income statement	(13,731)	(1,533)	2,140	(2,846)	(2,432)	(755)	(168)	(19,325)
As at December 31, 2013	**50,879**	**7,386**	**59,534**	**17,907**	**-**	**1,717**	**421**	**137,844**

Deferred income tax liabilities	Accrued income (PLN)	Foreign exchange differences (PLN)	Depreciation and impairment (PLN)	Forward contract (PLN)	Other (PLN)	Interests	Total (PLN)
As at January 1, 2013	8,902	-	57,022	-	7,241	-	73,165
- Charged / (credited) to the income statement	(2,993)	14	(7,212)	(781)	(396)	443	(10,925)
- Credited / (charged) to other comprehensive income	-	-	-	849	-	-	849
As at December 31, 2013	**5,909**	**14**	**49,810**	**68**	**6,845**	**443**	**63,089**

(All amounts in thousands, except as otherwise stated)

The deferred income tax recognized in equity in an amount of PLN 849 relates to movements in the hedging reserve and actuarial gains recognised in other comprehensive income.

Comparative period:

Deferred income tax assets	**Tax losses**	**Impairment provisions for receivables**	**Depreciation and impairment**	**Accrued expenses**	**Interests**	**Forward contract**	**Other**	**Total**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
As at January 1, 2012	44,768	6,351	120,943	17,067	455	16	615	190,215
- Credited / (charged) to the income statement	19,842	2,568	(63,549)	3,686	1,977	2,456	(26)	(33,046)
As at December 31, 2012	**64,610**	**8,919**	**57,394**	**20,753**	**2,432**	**2,472**	**589**	**157,169**

Deferred income tax liabilities	**Accrued income**	**Foreign exchange differences**	**Depreciation and impairment**	**Forward contract**	**Other**	**Total**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
As at January 1, 2012	8,690	180	66,644	517	5,371	81,402
- Charged / (credited) to the income statement	212	(180)	(9,946)	2,109	1,870	(5,935)
- Deferred income tax on acquisition	-	-	324	-	-	324
- Credited / (charged) to other comprehensive income	-	-	-	(2,626)	-	(2,626)
As at December 31, 2012	**8,902**	**-**	**57,022**	**-**	**7,241**	**73,165**

Deferred income tax assets are recognized for deductible temporary differences and tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. As of December 31, 2013, the Netia Group had total deductible temporary differences of PLN 726,942 and unutilised tax loss carry-forwards of PLN 272,158 (total potential deferred income tax asset of PLN 189,829).

The Netia Group did not recognize deferred income tax assets of PLN 831 relating to tax losses of PLN 4,373 of the Company's subsidiaries, due to insufficient likelihood of future taxable profits to realize these tax losses before they expire. These unrecognized tax losses of the Netia Group available for use as at December 31, 2013 will expire in the following years: PLN 2,730 in 2014, PLN 816 in 2015, PLN 237 in 2016, PLN 432 in 2017 and PLN 158 in 2018.

Furthermore, due to the lack of conclusive evidence of future taxable profits, the Netia Group did not recognize deferred income tax assets of PLN 114,243, relating to deductible temporary differences of PLN 601,279 as follows:

	Timing differences	**Potential deferred income tax asset**
	(PLN)	**(PLN)**
Depreciation and impairment	546,384	103,813
Trademark	38,770	7,366
Deferred income	8,130	1,545
Other	7,995	1,519
	601,279	**114,243**

Therefore the total unrecognized deferred income tax asset amounts to PLN 115,074 as of December 31, 2013.

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

32. Earnings per share

Basic

Basic earnings per share have been calculated based on the net profit attributable to the equity holders of the Company for each period divided by the weighted average number of shares in issue (reduced by treasury shares) during the year.

	Year ended December 31, 2013 (PLN)	Year ended December 31, 2012 (PLN)
Profit/ (loss) attributable to the equity holders of the Company	46,290	(87,704)
Weighted average number of ordinary shares in issue, excluding treasury shares (not in thousands)	354,504,029	379,014,108
Basic earnings/ (loss) per share (not in thousands)	0.13	(0.23)

Diluted

Diluted earnings per share for the net profit/ (loss) attributable to the equity holders of the Company are calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Company had one category of potentially dilutive ordinary shares - the employees' share options (which upon their exercise trigger the issue of the series L shares). For the share options a calculation was made to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during 2013) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares outstanding was compared with the number of shares that would have been in issue assuming the exercise of the share options.

	Year ended December 31, 2013 (PLN)	Year ended December 31, 2012 (PLN)
Profit/ (loss) attributable to the equity holders of the Company	46,290	(87,704)
Weighted average number of ordinary shares in issue, excluding treasury shares (not in thousands)	354,504,029	379,014,108
Adjustments for:		
- Share options (not in thousands)	70,423	1,070,069
Weighted average number of ordinary shares for diluted earnings per share (not in thousands)	354,574,452	380,084,177
Diluted earnings/ (loss) per share (not in thousands)	0.13	(0.23)

33. Dividends and repurchase of own shares

Management elected to propose a dividend payment in respect to the financial year ended December 31, 2013 of PLN 0.42 per share amounting to PLN 146,123.

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

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

On March 13, 2013 Netia, in connection with the implementation by the Company of the General Program, announced an offer to repurchase shares with respect to no more than 16,012,630 (not in thousands) own shares in the Company, which represents no more than a 4.15% of the share capital of the Company and entitles the holders thereof to exercise no more than 4.15% of the total number of votes at the general meeting of the Company. The offered purchase price of the shares amounted to PLN 8.00 (not in thousands) per share. The transaction was settled on May 28, 2013 and resulted in the repurchase of 16,012,630 (not in thousands) shares for PLN 128,101 plus transaction costs of PLN 209.

Accordingly, as a result of these share repurchases, the Company spent PLN 143,989 on 19,434,942 (not in thousands) shares plus costs of PLN 209 during 2013 and spent PLN 106,773 on 18,935,188 (not in thousands) shares plus costs of PLN 41 during 2012.

On June 28, 2013 the Annual General Meeting of the Company resolved to redeem the outstanding 38,370,130 treasury shares and the redemption was effective from October 24, 2013 when the notice of redemption filed by the Company was registered by the National Court Registry.

Netia's distributable reserves are disclosed in Note 15.

(All amounts in thousands, except as otherwise stated)

34. Supplemental disclosures to the consolidated cash flow statement

Changes in working capital components:

	Year ended December 31, 2013 (PLN)	Year ended December 31, 2012 (PLN)
Receivables	52,897	7,400
Inventories	(570)	4,120
Prepaid expenses	17,089	(2,933)
Restricted cash	(491)	
Provisions, accruals and other payables	(48,263)	(12,988)
Deferred income	15,622	(7,588)
	36,284	**(11,989)**

Supplemental disclosures to operating activities:

	Year ended December 31, 2013 (PLN)	Year ended December 31, 2012 (PLN)
Income taxes paid	(14,918)	(233)
Interest received	3,874	6,267

Non-cash transactions:

During the year ended December 31, 2013 the Netia Group entered into finance lease agreements for telecommunication equipment. The carrying value of assets and liabilities recognized due to these transactions amounted to PLN 327 (PLN 1,076 in 2012).

35. The Management Board and Supervisory Board

Management Board

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

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

On November 21, 2013 its Supervisory Board appointed Mr. Tomasz Szopa as member of the Management Board, effective February 3, 2014.

Supervisory Board

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

On 13 November 2013 Mr. Benjamin Duster resigned from his position as a Chairman and member of the Company's Supervisory Board. The resignation is effective from the date of the resignation.

Effective from November 21, 2013, Mr. George Karaplis was appointed as a Chairman of the Supervisory Board.

Due to the above change as at December 31, 2013 the Company's Supervisory Board consisted of the following members:

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

(All amounts in thousands, except as otherwise stated)

36. Related party transactions

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

As at December 31, 2013 and December 31, 2012 the total number of options held by members of the Company's Management Board under the New Plan was 3,585,701 and 2,402,351, respectively, none of which had vested as of that date. Strike prices for the options granted to the Management Board range between PLN 4.54 and 6.00 per share (after strike price reductions by PLN 0.16, see Note 15). The market price of the Company's shares at December 31, 2013 was PLN 5.27 per share.

The movements in the number of options held by members of the Company's Management Board in the year ended December 31, 2013 and December 31, 2012 are presented below:

Options	**New Plan Year ended December 31, 2013**	**New Plan Year ended December 31, 2012**
At the beginning of the period	2,402,351	1,725,000
Granted	1,725,000	1,725,000
Forfeited	(541,650)	(472,649)
Resignation from Management Board	-	(575,000)
At the end of the period	**3,585,701**	**2,402,351**

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

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

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

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

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

As at December 31, 2013 and December 31, 2012, the Company's President of the Management Board, Mr. Mirosław Godlewski, together with a company closely related to Mr. Mirosław Godlewski, held 577,385 and 605,000 shares of the Company, respectively.

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

As at December 31, 2013 and December 31, 2012, Mr. Tom Ruhan, a member of the Company's Management Board, and a company closely related to Mr. Tom Ruhan held 529,790 and 555,575 shares of the Company, respectively.

Details of the changes in the number of shares held by members of the Company's Management Board during the year ended December 31, 2013 are presented below:

	December 31, 2012	Reductions in shareholdings	December 31, 2013
Mirosław Godlewski, (including closely related company holdings	605,000	(27,615)	577,385
Jonathan Eastick	450,000	(20,886)	429,114
Tom Ruhan, (including closely related company holdings)	555,575	(25,785)	529,790
Mirosław Suszek	-	-	-
Total	**1,610,575**	**(74,286)**	**1,536,289**

Participation Units in the Value Creation Transactional Bonus Scheme, previously named the Change of Control Transaction Bonus Scheme (not in thousands)

On April 25, 2012, the Supervisory Board approved a new bonus plan known as the Change of Control Transaction Bonus Scheme (CoCTB) for the Company's Management Board Members. The plan was renamed Value Creation Transactional Bonus Scheme ("VCTB") on June 28, 2013. The VCTB is a cash settled share based bonus scheme under which up to 11,400,000 Participation Units (PUs) may be issued to Management Board Members. Each PU has a strike price of 7,00 zloty per share and a term of 36 months commencing on December 31, 2012. The strike price adjusts upward over time by one percent per month from 31 January 2013 and is reduced by any dividends or dividend equivalents paid out by the Company ("the Adjusted Strike Price"). In the event that an investor or consortium of investors holds at least 90 % of Netia's equity on or prior to December 31, 2015 ("Trigger Event"), each PU shall be worth the positive difference between the acquisition price paid in a successful tender offering that secures the 90 % share-holding and the Adjusted Strike Price. For the purpose of calculating the value of the PU, the acquisition price is capped at 10 zloty per share. Should a Trigger Event occur after December 31, 2012 and prior to the expiration of the PUs on December 31, 2015, the Company shall pay the cash equivalent of the value of the PUs to each participating Management Board Member who was fulfilling his duties and has not resigned from his position prior to such Trigger Event. See also Note 39.

As at December 31, 2013, the members of the Management Board held Participation Units in the Value Creation Transactional Bonus Scheme as follows:

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

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

See also Possible liabilities under the Value Creation Transactional Bonus Scheme in Note 39.

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

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

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

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

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

Restricted Stock Units (not in thousands)

As at December 31, 2013 and December 31, 2012, the total number of Restricted Stock Units ("RSU") held by the members of the Company's Supervisory Board was 760,000 and 715,000, respectively. RSUs entitle the holder to receive additional cash remuneration equal to the value of restricted stock units, which corresponds to the market price of the Company's shares. The vesting period for the RSU ranges from 12 to 36 months after the grant date The Company recognizes the cost of cash-settled share-based payment transactions (including RSU) over the vesting period by accruing cost provisions pro-rata to elapsed time and the market price of the Company's shares. The cost of RSUs recorded in the year ended December 31, 2012 amounted to PLN 1,240 thousands (PLN 411 thousands in the year ended December 31, 2012).

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

Changes in the number of RSU held by members of the Company's Supervisory Board in the year ended December 31, 2013 are presented below:

	December 31, 2012	RSUs granted	RSUs exercised	RSUs terminated	December 31, 2013
Stan Abbeloos	80,000	15,000	-	-	95,000
Jacek Czernuszenko	-	65,000	-	-	65,000
Benjamin Duster	80,000	15,000	(65,000)	(30,000)	-
Raimondo Eggink	95,000	15,000	-	-	110,000
George Karaplis	80,000	15,000	(15,000)	-	80,000
Nicolas Maguin	95,000	15,000	-	-	110,000
Ewa Pawluczuk	95,000	15,000	-	-	110,000
Tadeusz Radzimiński	95,000	15,000	-	-	110,000
Jerome de Vitry	95,000	15,000	(30,000)	-	80,000
Total RSU	**715,000**	**185,000**	**(110,000)**	**(30,000)**	**760,000**

Management Board remuneration

Compensation and related costs associated with members of the Company's Management Board during year ended December 31, 2013 and December 31, 2012 amounted to PLN 5,410 and PLN 7,696, respectively. In addition, the gross cost of share-based payments in the amounts of PLN 1,326 and PLN 905 was recognized in the respective periods.

Moreover, upon exercise of the options in 2012, Management Board members received the following number of shares with a par value of PLN 1 (not in thousands) per share for which they were not required to pay (PIT and social security cost were incurred by the Company).

	Year ended December 31, 2013	**Year ended December 31, 2012**
Number of shares (not in thousands)	-	2,995,630
PIT and employee ZUS costs incurred by the Company (PLN)	-	1,605

Amounts paid and payable to former Management Board members in the course of termination of their employment relationship with the Netia Group during the year ended December 31, 2012 totalled PLN 879.

Compensation and related costs associated with members of the Management Boards of the Company's subsidiaries during the years ended December 31, 2013 and December 31, 2012 amounted to PLN 657 and PLN 1,830, respectively. These amounts were paid to certain employees of the Netia Group who were neither past nor present members of the Management Board of Netia S.A.

Amounts paid and payable to former members of Management Boards of the Company's subsidiaries in the course of termination of their employment relationship with the Netia Group during the year ended December 31, 2012 totalled PLN 386. These amounts were paid to certain employees and one non-employee of the Netia Group who are neither past nor present members of the Management Board of Netia S.A.

Additional to the above, termination benefits of PLN 30 and PLN 241 for the former members of the Management Board of the Company's subsidiaries were recognized as a cost in 2013 and 2012 respectively. These amounts were paid to certain employees of the Netia Group who were neither past nor present members of the Management Board of Netia S.A.

Supervisory Board remuneration

Compensation and related costs associated with members of the Company's Supervisory Board during the years ended December 31, 2013 and December 31, 2012 amounted to PLN 936 and PLN 840, respectively.

Incidental expenses of the Supervisory Board Members reimbursed by the Company amounted to PLN 291 and PLN 342 during the years ended December 31, 2013 and 2012, respectively, and mainly related to travel and accommodation.

Compensation and related costs associated with members of the Supervisory Boards of the Company's subsidiaries during the years ended December 31, 2013 and December 31, 2012 amounted to PLN 2 and PLN 76, respectively. This amount was paid to persons who were neither past or present members of Netia's Management Board.

Other transactions with related parties

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

(All amounts in thousands, except as otherwise stated)

37. Information on the registered audit company

The financial statements of Netia and the consolidated financial statements of the Netia Group for 2013 and 2012 were audited by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa on the basis of a contract concluded on December 4, 2009.

The total fees specified in contracts with the registered audit company, payable or paid for the audit and review of the financial statements and for other services are presented below:

Item	Year ended December 31, 2013 (PLN)	Year ended December 31, 2012 (PLN)
Audit of stand-alone and consolidated financial statements	265	288
Review of stand-alone and consolidated financial statements	230	230
Audit of subsidiaries' financial statements	329	304
Other attest services	40	-
Total	**864**	**822**

38. Commitments

Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognized in the consolidated financial statements amounted to PLN 14,634 as at December 31, 2013 and PLN 15,536 as at December 31, 2012 of which, PLN 1,639 and PLN 2,350, respectively, related to the planned acquisition of intangible assets.

Operating lease commitments – where the Netia Group is the lessee

As at December 31, 2013 and December 31, 2012 the future minimum payments payable under non-cancellable operating leases were as follows:

	December 31, 2013 (PLN)	December 31, 2012 (PLN)
Not longer than 1 year	99,772	102,509
Longer than 1 year and not longer than 5 years	139,946	130,621
Longer than 5 years	66,398	59,666
	306,116	**292,796**

Operating lease arrangements mainly relate to the rental of buildings, land, network and vehicles. The periods of administrative building and land rentals do not exceed 30 years, network rentals range up to 20 years and vehicles are leased for 3 years. Rental costs recognized in the income statement for the years ended December 31, 2013 and December 31, 2012 amounted to PLN 523,569 and PLN 578,834 , respectively. These rental costs are partially offset by income from sub-lessees in the amounts of PLN 5,134 and PLN 5,518, respectively.

Operating lease commitments – where the Netia Group is the lessor

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	December 31, 2013 (PLN)	December 31, 2012 (PLN)
Not longer than 1 year	13,914	16,578
Longer than 1 year and not longer than 5 years	37,273	32,595
Longer than 5 years	19,488	7,228
	70,675	**56,401**

The Netia Group has entered into several commercial leases on certain parts of its fixed telecommunications network. The periods of network rentals range up to 20 years. The relevant rents recognized in the income statement for the years ended December 31, 2013 and December 31, 2012 amounted to PLN 32,840 and PLN 43,473, respectively. The operating lease agreements do not relate to specific separate assets.

Finance lease commitments

As at December 31, 2013 and December 31, 2012 future minimum lease payments under finance leases together with the present value of net minimum lease payments were as follows:

(All amounts in thousands, except as otherwise stated)

	December 31, 2013 (PLN)	December 31, 2012 (PLN)
Not longer than 1 year	607	2,037
Longer than 1 year and not longer than 5 years	1,212	1,446
Longer than 5 years	-	-
Present value of minimum lease payments	**1,819**	**3,483**
Plus amount representing finance charges	180	368
Total minimum lease payments	**1,999**	**3,851**

39. Contingencies

Universal services

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

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

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

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

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

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

Orange Polska SA appealed the decisions of the President of UKE to the Voivodship Administrative Court (further “WSA”). WSA dismissed the complaints of Orange Polska SA against the decisions granting the subsidies towards costs of provision of universal service in 2006 – 2010 and Orange Polska SA has appealed the WSA decisions to the Supreme Administrative Court (further “NSA”).

On December 5, 2013 NSA repealed the judgments of the WSA dismissing the appeals about granting Orange Polska SA subsidies for the years 2006 and 2007 and remanded both cases for reconsideration to the WSA.

The Management Board is convinced of the validity of the issued decisions, but cannot assure that the Orange Polska SA appeals will be dismissed and that the awarded subsidies shall not be increased.

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

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

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

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

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

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

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

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

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

Pursuant to the decision of the President of UKE designating Orange Polska SA to provide universal service the above obligation of Orange Polska SA expired as of May 8, 2011. To date no undertaking has been obliged to provide USO from May 9, 2011 onwards and, according to the published position of the President of UKE, will not be. Nevertheless, on October 16, 2012 the President of UKE began consultations on a new model of USO.

On January 28, 2014 the President of UKE commenced consultations of the Report "The status and the assessment of availability, quality of service and affordability of services included in the universal service".

At this stage of the Regulatory work on the model, the Management Board cannot assure that the President of UKE would not aim to change to a new model of USO, and in such a case that it would not be associated with additional costs to be incurred by Netia Group.

Tax contingent liability

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

Overpayment of tax (not in thousands)

On August 17, 2009 Company received a decision of the Director of the Tax Control Office in Warsaw ("UKS Director") according to which Netia's corporate income tax due for the year 2003 was set at PLN 58.7m plus penalty interest.

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

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

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

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

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

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

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

On October 10, 2013, the Voivodship Administrative Court in Warsaw annulled the Decision of the Director of the Tax Chamber in its entirety. In connection with the judgment so rendered, the Tax Chamber Director is required to reconsider the Company's appeal against the Decision of the UKS Director, taking into account the legal assessment and recommendations contained in the judgments of the Voivodship Administrative Court and the Supreme Administrative Court as to how to proceed with the matter.

Having received the ruling of the Voivodship Administrative Court, on 30 December 2013, the Company filed a cassation appeal against the judgment of the Voivodship Administrative Court in Warsaw due to the justification of the judgment of the court not fully reflecting the position presented by the Company during the Supreme Administrative Court proceedings. The Tax Chamber did not lodge an appeal to the Supreme Administrative Court in respect to this judgment.

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

However, it is not clear to the Management Board what steps the tax authorities may decide to take to defend their position and therefore it is not clear how long it may take for proceedings to be finalised.

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

Following a decision of the Supervisory Board on April 25, 2012, the current four members of Netia's Management Board have been awarded Participation Units (PUs) in a new cash paid bonus scheme known as the Value Creation Transactional Bonus Scheme (VCTB) (see also Note 36). As of the date of these financial statements, a total of 9,500,000 from a possible 11,400,000 PUs have been allocated to the Management Board Members.

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

The PUs will expire without value if there is no Trigger Event on or prior to December 31, 2015 or if the Management Board Member to whom they are allocated resigns prior to the Trigger Event or if the Trigger Event occurs at a price below the Adjusted Strike Price, which stood at 7.72 on December 31, 2013. Conversely, had a Trigger Event occurred for an acquisition price of 10 zloty or above occurred on December 31, 2013 and with all four Management Board Members still performing their duties at the Company on the day of the Trigger Event, the maximum possible liability incurred by the Company would have been 21,660,000 PLN. This amount will fall towards zero as December 31, 2015 approaches without a Trigger Event occurring and as the Adjusted Strike Price increases towards 10 zloty per share. In calculating the Adjusted Strike Price as at December 31, 2013, Management has applied the same 16 groszy reduction that the Supervisory Board elected to apply to the Company's outstanding stock options in order to neutralise the impact of the offer to repurchase shares (see Note 33) as its effect was similar to that of a dividend payment.

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

40. Subsequent events

CEO's decision to stand-down

On February 19, 2014, the President of the Company's Management Board, Mirosław Godlewski, in agreement with the Supervisory Board, decided to stand-down from his position leading the Company's Management Board and shall remain in his position while the Supervisory Board identify his replacement but not longer than until August 31, 2014.

Appointment of the Supervisory Board member and grant of RSUs (not in thousands)

On January 13, 2014 the Extraordinary General Meeting of the Company appointed Mr. Bogusław Kułakowski as an independent member of the Supervisory Board. On the day he was appointed to the Supervisory Board, Mr. Kułakowski received 50,000 RSUs which vest on the third anniversary date of his appointment.

Sale of Uni-Net

On February 6, 2014 the Company's subsidiary Internetia Holding Sp. z o.o. sold all shares in Uni-Net Poland Sp. z o.o. constituting 100% of the shares in the share capital of Uni-Net and representing 100% of the votes at the meetings of the shareholders of Uni-Net for PLN 1,476.