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# Netia reports 2012 half results

WARSAW, Poland – August 23, 2012 – Netia SA (“Netia” or the “Company”) (WSE: NET), Poland's largest alternative provider of fixed-line telecommunications services, today announced its unaudited consolidated financial results for the six months ended June 30, 2012.

## 1 Key highlights

### 1.1 FINANCIAL (actual results as reported)

- **Revenue** was PLN 1,080.7m in H1 2012, up by 35% versus H1 2011. Dialog Group and Crowley contributed PLN 247.5m and PLN 45.7m, respectively, following their acquisition by Netia in mid-December 2011. In Q2 2012 revenue decreased sequentially by 1% to PLN 536.5m as compared to PLN 544.3m in Q1 2012 and increased by 35% versus the prior year quarter. A 9% YoY increase in the SOHO/SME segment of Old Netia in Q2 2011 was offset by weaker revenues in the Home and Carrier segments while the Corporate segment remained stable.
- **Adjusted EBITDA** was PLN 289.2m for H1 2012, up by 49% over H1 2011. In Q2 2012 Adjusted EBITDA was 156.2m, up by 17% over Q1 2012 and by 68% over the prior year quarter, with the sequential increase mainly due to the execution of integration synergies from Dialog Group and Crowley acquisitions and on-going cost optimisation. Adjusted EBITDA margin was 26.8% in H1 2012 and 29.1% in Q2 2012 versus 24.4% in both H1 2011 and Q1 2012. Due to the quickly progressing integration of Netia, Dialog Group and Crowley into the New Netia Group, which includes transferring revenues and costs between the three entities, the presentation of Dialog Group's and Crowley's contribution to the income statement on an Adjusted EBITDA level and below becomes gradually of less informative value and therefore New Netia is focusing on the whole group's results.
- **EBITDA** was PLN 259.0m for H1 2012 and PLN 134.9m for Q2 2012, up by 36% versus H1 2011 and by 9% versus Q1 2012. The unusual items for H1 2012 include restructuring costs of PLN 17.5m representing provisions for 519 redundancies to be implemented during the course of 2012, versus restructuring costs of PLN 0.2m for H1 2011. Other unusual items were Dialog Group and Crowley integration costs of PLN 12.0m recorded in H1 2012, costs of M&A projects of PLN 0.7m in H1 2012 and PLN 1.7m in H1 2011, and universal service obligation provision of PLN 2.4m recorded in H1 2011. EBITDA margin was 24.0% in H1 2012 and 25.1% in Q2 2012 as compared to 23.8% for H1 2011 and 22.8% for Q1 2012.
- **EBIT** was PLN 16.9m (PLN 47.1m profit when excluding all one-offs) in H1 2012 as compared to PLN 38.9m (PLN 43.2m profit when excluding one-offs) in H1 2011. EBIT for Q2 2012 was PLN 12.8m (PLN 34.1m profit when excluding one-offs) compared to PLN 4.1m (PLN 13.0m profit when excluding one-offs) in Q1 2012.
- **Net profit** was PLN 11.2m for H1 2012 versus net loss of PLN 10.1m for H1 2011. Net profit for Q2 2012 was PLN 21.0m versus a net loss of PLN 9.8m for Q1 2012. Reported net profit for H1 and Q2 2012 included a non-cash gain of PLN 21m recorded due to the recognition of a deferred tax asset resulting from the intragroup sale of network assets from Dialog to Netia SA while in H1 2011 reported net loss included the expensing of PLN 58.3m relating to the Company's corporate income tax (“CIT”) for the year 2003.
- **Netia was operating free cash flow positive in H1 and Q2 2012.** Operating free cash flow, measured as Adjusted EBITDA less capital investment excluding Ethernet acquisitions, was PLN 160.4m for H1 2012 and PLN 87.3m for Q2 2012 versus PLN 96.8m in H1 2011 and PLN 73.1m for Q1 2012.
- **Netia's cash resources** at June 30, 2012 totalled PLN 125.9m, down by PLN 33.5m from March 31, 2012, and **debt**, related to the Dialog Group acquisition, totalled PLN 579.8m, down by PLN 64.3m from March 31, 2012. Accordingly, **net debt** was PLN 453.9m versus PLN 484.6m in March 2012 and **financial leverage** was 0.76x Adjusted EBITDA guidance for 2012 full year. The cash position is after an outflow of PLN 24.8m to acquire 4.3m Netia shares as part of the ongoing share buy-back program.

- *Netia announced its updated distribution policy* on June 19, 2012, informing that the Company considers establishing a long-term dividend policy from 2013 onwards. In execution of the previously adopted distribution policy, the Company is in the process of executing the second and third tranches of its share buy-back program for a total of up to 6% of share capital or up to PLN 125.0m. These two tranches follow the first share buy-back tranche executed in 2011 for 2.5% of Netia's share capital (for details please see section 3 *Other Highlights*).
- *Updated guidance for 2012*. Due to slow market growth and generally difficult trading conditions on the residential market, and in particular in the high volume, low ARPU segments of the market, Netia is today reducing its 2012 guidance for revenues to PLN 2,125m and the number of services (RGUs) to 2,750,000. Strong profitability trends allow Management to confirm its Adjusted EBITDA guidance at PLN 600m whilst capital investment is now expected at PLN 270m plus up to a further PLN 30m for integration related projects. Accordingly, guidance for Adjusted Operating Free Cash Flow (Adjusted OpFCF) is increased to PLN 330m from PLN 300m previously. Whilst performance is planned to improve in the coming quarters, the disappointing results from H1 2012 leave our original subscriber objectives out of reach.

## 1.2 OPERATIONAL (actual results for H1 and Q2 2012 vs. pro forma results for H1 and Q2 2011)

In order to ensure comparability of operating results in this section, the actual key performance indicators for H1 and Q2 2012 are compared to the pro forma results for H1 and Q2 2011 for New Netia group including the results of Telefonía Dialog SA, Petrotel Sp. z o.o. and Avista Media Sp. z o.o. (the 'Dialog Group') and Crowley Data Poland Sp. z o.o. ('Crowley', currently CDP Netia Sp. z o.o.), which were acquired by Netia on December 16, 2011 and December 14, 2011, respectively.

- *Number of services (RGUs)* was 2,785,339 at June 30, 2012 as compared to 2,752,346 at June 30, 2011 and 2,793,068 at March 31, 2012, with the year-on-year increase driven by broadband, TV and mobile services while voice services were falling. Netia is today revising its guidance from a total of 2,900,000 services by the end of 2012 to 2,750,000.
- *Netia's TV services* reached 71,274 at June 30, 2012, growing by 46% from 48,775 at June 30, 2011 and by 15% from 61,804 at March 31, 2012. Netia continues to accelerate the sales rates for TV services throughout 2012, along with the expansion of its NGA network and its overall IPTV and 3play coverage.
- *Netia's broadband services* base was 903,947 at June 30, 2012, growing by 3% from 877,044 at June 30, 2011 and declining by 1% from 912,408 at March 31, 2012. Netia estimates that the total fixed broadband market share for New Netia was 14.1% versus 14.2% at June 30, 2011. New Netia recorded a net decrease of 8,461 broadband customers during Q2 2012, (a net organic decrease of 9,821 excluding Ethernet acquisitions) versus 838 net additions in Q1 2012 (a net organic decrease of 2,723 excluding Ethernet acquisitions). Slow market growth and tougher price competition, particularly for lower-end offers, is reflected in weaker customer uptake figures. Netia plans that certain pricing initiatives, together with greater sales effectiveness following the integration of the New Netia sales organisation and increased sales and marketing activity will result in improved net additions performance in H2 2012.
- *Netia's fixed voice services* (own network, WLR and LLU). Netia estimates that the total fixed voice market share of New Netia was approximately 20% in both Q2 2012 and Q2 2011. Due to the competitive market conditions and Netia's focus on higher-value customers, Netia is concentrating on defending voice revenues as opposed to subscriber numbers. Netia's voice subscriber base was 1,714,136 at June 30, 2012 as compared to 1,766,998 at June 30, 2011 and 1,727,829 at March 31, 2012. In total, Netia recorded a net decrease of 13,693 voice subscribers during Q2 2012 versus 16,894 in Q1 2012, with the sequential improvement resulting from a one-time upward adjustment in the number of traditional direct voice lines by 12,965 due to product definition changes affecting certain Corporate Segment products. The Company expects the number of fixed voice services to continue to decline, mainly in connection with clients churning from traditional direct voice and WLR services. Of the total voice customers served at June 30, 2012, 45% received service over Netia's own access infrastructure.
- *Netia's mobile services* at June 30, 2012 reached 33,415 for mobile broadband and 62,562 for mobile voice, increasing, respectively, from 16,627 and 42,902 services at June 30, 2011 and from 30,446 and 60,581 services at March 31, 2012. Netia intends to utilise the existing MVNO agreements with P4 and Polkomtel to package fixed line and mobile services into attractively priced convergent bundles, increasing cross-sell potential and customer loyalty whenever possible.
- *NGA network expansion.* During Q2 2012 New Netia continued to expand its NGA standard network, which allows for providing, among others, high speed broadband and 3play services including IPTV and adaptive IP protocol TV services. As of June 30, 2012, New Netia covered in total 835,000 households with its NGA networks, including approximately 560,000 homes passed with VDSL copper networks, approximately 129,000 homes passed with passive optical networks (PON) and approximately 146,000 homes passed with the fast Ethernet networks and fiber to the building (FTTB). Management is presently focusing on optimizing sales, provisioning and maintenance processes around TV services before accelerating NGA roll-out investments.

**Mirosław Godlewski, Netia's President and CEO, commented:** *New Netia is today reporting very strong financial results for Q2 2012 with Adjusted EBITDA at a record PLN 156.2 m, up sequentially on Q1 2012 by 17%, and a Q2 2012 net profit of PLN 21.0m.*

*Our group-wide project to integrate Dialog and Crowley into the Netia Group, which we call "CDN", continued to gain momentum throughout Q2 and was a major contributor to the sequential improvement in our results. As of today the project is on track to deliver PLN 130m in annual synergies in cash flow terms by 2014. Most importantly, we are focused on building a single culture within the recently formed combined New Netia organisation and I am encouraged by the excellent progress being made on many operational fronts.*

*Whilst Q2 saw strong profitability and strong results from the SOHO/SME and Corporate segments, the Management was disappointed by the continuing weak additions in the Residential Segment. A combination of a tough market and aggressive price competition at the low end, coupled with a deliberate short-term reduction in advertising visibility and the disruption caused by the restructuring of sales channels produced net subscriber losses in both broadband and voice. Whilst we believe the second half of the year will see improvement, we remain committed to our strategy of focusing on higher value customer segments and to growing behind the cross-sell of TV and mobile services in the Home Segment. As a result we are cutting back our RGU guidance from 2.9m to 2.75m RGUs for a roughly flat full year performance and reducing our revenue guidance from PLN 2,185m to PLN 2,125m.*

*Despite this resetting of our short-term operational goals, Netia is in robust financial health, with net debt of just 0.76x Adjusted EBITDA and in the middle of a PLN 125m share buy-back program with Adjusted EBITDA and Adjusted Operating Free Cash Flow guidance at PLN 600m and PLN 330m, respectively, for 2012. Investing in customer relationships, services and infrastructure that bring long-term value to our shareholders remains our key concern as evidenced by our patient approach to the TV and NGA roll-outs as the long-term competitive response on the Residential Market. Like-wise we are being cautious in our approach to acquisition opportunities, conservatively assessing synergies and risks to ensure any acquisition is highly likely to add significant shareholder value."*

**Jon Eastick, Netia's CFO, commented:** *"Q2 2012 encouragingly saw New Netia expand its Adjusted EBITDA margin to 29% from the 24% delivered in Q1 2012 with total Adjusted EBITDA for H1 2012 standing at PLN 289.2m, 8% ahead of the Proforma New Netia result for the comparable period of 2011. This strong performance, together with Proforma capital investment being down 7% at the half way stage, gives Management the confidence to confirm Adjusted EBITDA guidance at PLN 600m for 2012 and to increase Adjusted Operating Free Cash Flow guidance by 10% from PLN 300m to PLN 330m.*

*This 2012 guidance reflects respective improvements of 49% for Adjusted EBITDA and of 66% for Adjusted Operating Free Cash Flow over Old Netia's 2011 result and underlines the synergistic power of the Dialog and Crowley acquisitions. The CDN integration project is proceeding smoothly with 54 out of over 100 projects completed and PLN 60m of annualised synergies delivered as of June 30, 2012. Through June 30, 2012 approximately PLN 24m of savings were reflected in the New Netia Adjusted EBITDA and we remain confident of delivering PLN 130m per year in annual synergies by 2014.*

*As is the case in most acquisitions, organisation is a major source of synergy for the CDN Project. Today our active headcount stands at 2,396, down by 14% from the pro forma position a year earlier. The first of two waves of planned redundancies to deliver 519 forced reductions during 2012 has been implemented and is partially reflected in the current headcount but material salary savings will be most visible in the Q3 and Q4 2012 results. In contrast, almost the entire cost of these redundancies was included in the PLN 17.5m provision that we recorded in H1 2012.*

*As part of the CDN project, last week Netia and Ericsson announced an extension of their network outsourcing to cover the Dialog and Crowley networks and this is expected to reduce headcount by another 190 staff whilst allowing Ericsson to deliver efficiency savings when combining the new resources with their existing team of expert field engineers.*

*Whilst conditions in the Residential Segment remain difficult, revenues, margins and cash-flows in the three Corporate Segments are encouraging and demonstrate the strategic benefit of targeting all market segments to maximise the utilisation of New Netia's extensive backbone and local access network infrastructure."*

## 2 Operational review

In order to ensure comparability of operating results in this section, the data for comparative quarters of 2011 is presented in two formats: as 'Old Netia' (ie., excluding results of the Telefonía Dialog SA group and Crowley Data Poland Sp. z o.o. (currently CDP Netia Sp. z o.o.) , which were acquired by Netia in mid- December 2011), and as 'New Netia' (ie., the pro forma results which include the Dialog Group's and Crowley's figures for respective periods). Only New Netia data will be provided for 2012 onwards as integration of operations will quickly make allocating customers between Old and New activities uninformative.

### 2.1 BROADBAND, TV & MOBILE SERVICES

**IPTV and content services.** On November 8, 2011 Netia introduced a new TV offering 'Telewizja Osobista' (Personal Television). The offering includes a new proprietary set-top box – the 'Netia Player', which provides access to digital TV, both paid IPTV and free DTT (digital terrestrial TV), quick and easy access to popular internet services or own multimedia over a TV screen, and video-on-demand content libraries such as Ipla, Kinoplex and HBO GO. The rich HBO GO content, with Netia being its launch partner in Poland, constitutes one of the key elements of this new product and is provided in a bundle with Netia's Internet access services or together with IPTV. Netia intends to constantly expand its TV offering with new content and functionalities. The product was further enhanced with new PVR functionality, and then by the introduction of a new content library 'tvn player' from April 2012. In June 2012 Netia added access to the TVP Sport service with video-on-demand content from the EURO 2012 UEFA European Football Championships and in July 2012 it introduced a new application TVN Meteo. In Q2 2012 Netia extended its channels offering by adding Polsat News, Polsat Film, TTV and high definition channels such as TVP 1 HD, TVP 2 HD and Polsat Sport HD.

On June 26, 2012 Netia launched commercial tests of a new TV package (the 'Practical Package'), bringing a brand new quality to both the access technology and the TV channels mix. The service is provided based on the adaptive IP protocol, which allows Netia to offer TV services to customers outside Netia's IPTV network. The IPTV technology currently used by Netia requires a fixed bandwidth transmission to deliver digital TV signal. Thanks to Microsoft Smooth Streaming technology, the new IP based TV combines high quality of TV signal with lower bandwidth requirements. It may supplement a portfolio of DTT channels (thanks to the Netia Player's DTT tuner functionality) and additionally offers the video content libraries of such free-of-charge widgets installed on Netia Player as IPLA, TVN Player and Kinoplex. The package includes 18 thematic TV channels, including 4 news channels, 4 sport channels and 2 children's channels.

The number of active TV services in New Netia grew to 71,274 as at June 30, 2012 up by 46% from 48,775 as at June 30, 2011 and by 15% from 61,804 at March 31, 2012.

Number of TV services (k)	Old Netia				New Netia					
	Q1 11	Q2 11	Q3 11	Q4 11	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
<b>Total</b>	<b>6.4</b>	<b>6.7</b>	<b>2.4</b>	<b>6.3</b>	<b>45.8</b>	<b>48.8</b>	<b>46.4</b>	<b>50.7</b>	<b>61.8</b>	<b>71.3</b>

Note: Netia disposed of Bydgoszcz based CATV operator in Q3 2011.

**TV ARPU** for New Netia was PLN 42 in Q2 2012 as compared to PLN 36 in Q2 2011 and PLN 44 in Q1 2012.

**Broadband** services in Netia totalled 903,947 at June 30, 2012, up by 26% from 719,595 at June 30, 2011. The broadband base fell by 1% versus Q1 2012 and, on a pro forma basis, increased by 3% versus Q2 2011.

Netia provides its broadband services using the following technologies:

Number of broadband ports (k)	Old Netia				New Netia					
	Q1 11	Q2 11	Q3 11	Q4 11	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
xDSL, FastEthernet and PON over own network	223.9	230.0	235.1	246.5	369.0	376.1	382.8	396.9	397.7	393.7
WiMAX Internet	18.5	18.0	17.5	16.8	20.5	20.0	19.7	19.1	18.4	18.0
LLU	146.1	159.3	175.4	184.2	146.1	159.3	175.4	184.2	184.1	182.3
Bitstream access	315.5	312.2	303.6	302.6	325.0	321.5	312.6	311.4	312.1	309.9
Other	0.1	0.1	-	-	0.1	0.1	-	-	-	-
<b>Total</b>	<b>704.1</b>	<b>719.6</b>	<b>731.7</b>	<b>750.1</b>	<b>860.7</b>	<b>877.0</b>	<b>890.5</b>	<b>911.6</b>	<b>912.4</b>	<b>903.9</b>

*Broadband net decrease* in New Netia totalled 8,461 during Q2 2012 as compared to 827 net additions in Q1 2012. Additions from Ethernet network acquisitions of 1,360 subscribers for Q2 2012 compare to 3,561 subscribers for Q1 2012. Lower sequential net additions reflect the impact of a significantly slower fixed broadband market growth and increased price competition on broadband products from both the incumbent and cable TV operators. This has virtually eliminated Netia's retail price advantage versus TP on 1play BSA services and reduced gross additions run rates and increased churn rates across the broadband portfolio. Sequential decline in net additions resulted mainly from reduced gross additions run rates. In Q1 2012 Netia undertook a comprehensive review of its anti-churn program aimed at increasing retention and increasing loyalty of the customer base in general and the first improvements in retention performance were already visible in Q2 2012. Increased advertising spending and better operational traction in the newly integrated sales forces during H2 2012 is expected to improve gross additions performance going forward.

*Broadband ARPU* for New Netia was PLN 57 in Q2 2012 as compared to PLN 56 in Q2 2011 and PLN 57 in Q1 2012. Broadband ARPU for Old Netia was PLN 54 in Q2 2012 as compared to PLN 52 in Q2 2011 and PLN 54 in Q1 2012. Netia's conservative pricing policy and focus on higher value customer segments has resulted in a solid ARPU performance over the past year.

*Broadband SAC* for Old Netia was PLN 194 in Q2 2012 as compared to PLN 236 in Q2 2011 and PLN 191 in Q1 2012. The year-on-year decrease in Broadband SAC was associated with the introduction of Netia Spot routers and Netia Player set-top boxes, which are being "leased" to customers, using the same business model as satellite TV, and capitalized. New Netia SAC statistics are expected to be available later in 2012 once definitions have been fully aligned between Old Netia and the Dialog Group.

*Local loop unbundling (LLU)*. New Netia served 182,353 customers over LLU as at June 30, 2012 as compared to 159,260 at June 30, 2011 and 184,064 at March 31, 2012. During H1 2012 New Netia did not migrate BSA/WLR served clients onto LLU, postponing the next wave of migrations for H2 2012. Slow progress on organic net additions reflects the same competitive pressures that are impacting the overall broadband subscriber base. All LLU customers originate from Old Netia as Dialog Group had not invested in LLU nodes.

At this stage, Netia has effectively concluded its LLU roll-out program with 712 unbundled nodes at August 22, 2012 and intends to focus now on increasing the penetration of active customers per LLU node by both organic growth and migrations of the remaining BSA/WLR served clients within the reach of LLU onto higher margin LLU services.

*Acquisitions of local Ethernet network operators*. As of June 30, 2012, Netia's Ethernet networks provided broadband access to a total of 133,619 mostly residential customers as compared to 136,803 customers at March 31, 2012 and 119,251 customers at June 30, 2011, with approximately 621,000 homes passed. During Q2 2012 Netia acquired one further Ethernet network with 1,360 active customers and 4,180 homes passed. Netia remains fully committed to consolidation of the fragmented Polish Ethernet ISP market and is making good progress on its pipeline of acquisitions for 2012.

*NGA network development*. As at June 30, 2012, New Netia covered in total 835,000 households with its NGA networks, including 129,000 PON HPs, 560,000 VDSL HPs and 146,000 Ethernet FTTB HPs. Moreover, New Netia today covers a further 476,000 IPTV ready HPs within its network coverage based on ADSL2+ technology. Combined with NGA ready HPs, all of which can deliver IPTV services, New Netia today has 1,311,000 IPTV ready HPs in its proprietary network coverage.

New Netia has advanced plans to expand its NGA coverage by another 250,000 or more HPs to reach almost 1,100,000 NGA ready HPs by 2012 year end. When implemented, New Netia should cover in total approximately 1,500,000 IPTV ready HPs (NGA and ADSL2+) which can be reached with 3play service bundles (IPTV + fixed broadband + fixed voice). In addition, Netia currently conducts tests of IPTV over its LLU network and may decide to extend further the network coverage of its TV services if these tests prove successful. Initial estimates indicate up to 650,000 HPs could be served with IPTV on ADSL2+ technology over LLU. However, Management is presently focusing on optimizing sales, provisioning and maintenance processes around TV services before accelerating NGA roll-out investments.

*Mobile services*. Netia continues to develop its base of *mobile broadband* services, which have economics similar to BSA services. New Netia's mobile broadband customer base totalled 33,415 at June 30, 2012 as compared to 16,627 at June 30, 2011 and 30,446 at March 31, 2012. *Mobile broadband ARPU* for New Netia was PLN 28 in Q2 2012 as compared to PLN 29 in Q2 2011 and PLN 28 in Q1 2012. *Mobile voice services* totalled 62,562 at June 30, 2012 as compared to 42,902 at June 30, 2011 and 60,581 at March 31, 2012. New Netia's *Mobile voice ARPU* was PLN 26 in Q2 2012 as compared to PLN 32 in Q2 2011 and PLN 24 in Q1 2012. Growth in mobile voice reflects Dialog's successful strategy of cross-selling mobile voice to its WLR and copper voice customers in a converged bundled offer.



Mobile services are provided via MVNO agreements with the Polkomtel and P4 mobile operators.

Number of mobile services (k)	Old Netia				New Netia					
	Q1 11	Q2 11	Q3 11	Q4 11	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
Mobile data	9.0	16.3	24.2	28.1	9.3	16.6	24.7	30.3	30.4	33.4
Mobile voice	4.1	4.8	5.6	5.4	34.1	42.9	49.6	52.0	60.6	62.6
<b>Total</b>	<b>13.1</b>	<b>21.1</b>	<b>29.8</b>	<b>33.5</b>	<b>43.4</b>	<b>59.5</b>	<b>74.3</b>	<b>82.3</b>	<b>91.0</b>	<b>96.0</b>

## 2.2 VOICE

### 2.2.1 Own network, WLR & LLU

*Voice lines* (own network, WLR and LLU) in New Netia totalled 1,714,136 at June 30, 2012 as compared to 1,766,998 at June 30, 2011 and 1,727,829 at March 31, 2012. In Q2 2012 Netia recorded a net decrease of 13,693 voice lines versus 16,894 voice lines in Q1 2012, with the sequential improvement resulting from a one-time upward adjustment in the number of traditional direct voice lines by 12,965 due to product definition changes affecting services offered by the Corporate Segment. The Company expects the number of fixed voice lines to continue to decline, mainly due to clients churning from traditional direct voice and WLR services.

Aggressive price competition from other providers on the market, often targeting low ARPU customers with low monthly fees, together with substitution from mobile and migrations to voice bundled with cable TV, is putting pressure on the subscriber base whilst Netia is targeting higher ARPU customers and upselling unlimited fixed-line national call bundles in order to attract higher value customers.

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

Due to the competitive market conditions and Netia's focus on higher end customers, Netia has switched focus to defending voice revenues as opposed to subscriber numbers.

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

Number of fixed voice lines (k)	Old Netia				New Netia					
	Q1 11	Q2 11	Q3 11	Q4 11	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
Traditional direct voice	327.0	322.6	321.1	318.7	620.0	610.4	605.2	596.3	584.9	587.3
ISDN	144.6	145.7	148.3	149.1	220.5	220.7	223.4	223.1	221.6	233.3
Incl. Legacy wireless	38.5	40.5	42.0	41.8	38.5	40.5	42.0	41.8	42.1	44.0
Voice over IP (excl. LLU)	31.3	32.1	33.9	37.0	36.8	37.9	39.9	42.3	45.1	49.7
WiMAX voice	19.2	18.5	17.5	16.5	20.3	19.6	18.7	17.6	16.7	15.8
<b>Own network subscriber voice lines</b>	<b>377.5</b>	<b>373.2</b>	<b>372.5</b>	<b>372.2</b>	<b>677.2</b>	<b>667.9</b>	<b>663.8</b>	<b>656.2</b>	<b>646.7</b>	<b>652.8</b>
WLR	739.5	722.3	699.3	680.0	1,005.9	992.4	974.2	962.3	954.9	936.2
LLU voice over IP	95.1	106.7	118.8	125.2	95.1	106.7	118.8	126.2	126.2	125.1
<b>Total</b>	<b>1,212.1</b>	<b>1,202.2</b>	<b>1,190.6</b>	<b>1,177.4</b>	<b>1,778.2</b>	<b>1,767.0</b>	<b>1,756.8</b>	<b>1,744.7</b>	<b>1,727.8</b>	<b>1,714.1</b>

*Voice ARPU per WLR line* was PLN 45 in Q2 2012 in New Netia as compared to PLN 47 in Q2 2011 and PLN 45 in Q1 2012. Voice ARPU per WLR line in Old Netia amounted to PLN 48 in Q2 2012 versus PLN 49 in Q2 2011 and PLN 48 in Q1 2012.

*Voice ARPU per Netia network subscriber line* amounted to PLN 49 in Q2 2012 for New Netia as compared to PLN 51 in Q2 2011 and PLN 49 in Q1 2012. For Old Netia, ARPU amounted to PLN 52 in Q2 2012 as compared to PLN 54 in Q2 2011 and PLN 52 in Q1 2012.

*Blended voice ARPU* in New Netia was PLN 47 in Q2 2012 as compared to PLN 49 in Q2 2011 and PLN 47 in Q1 2012.

### 2.2.2 *Indirect voice*

*CPS lines* (carrier pre selection) in New Netia totalled 67,480 at June 30, 2012 as compared to 79,835 at June 30, 2011 and 70,029 at March 31, 2012. Netia is focused on the conversion of CPS customers to WLR and is not actively acquiring new CPS customers. CPS clients are not counted in the total New Netia voice subscriber base of 1,714,136 clients as at June 30, 2012.

*Indirect voice ARPU per CPS line* in New Netia was PLN 44 in Q2 2012 as compared to PLN 49 in Q2 2011 and PLN 48 in Q1 2012. Tariff reductions, reduced call volumes and conversion of higher ARPU customers to Netia's WLR or LLU offers are responsible for the progressive ARPU decline.

## 2.3 OTHER

*Headcount* for New Netia was 2,693 at June 30, 2012, compared to 2,907 at June 30, 2011 and 2,811 at March 31, 2012. Active headcount for New Netia was 2,539 at June 30, 2012 versus 2,802 at June 30, 2011 and 2,719 at March 31, 2012. The sequential decrease in active headcount was driven mainly by group redundancies, in implementation from Q2 2012. Total headcount will fall in line with active headcount as notice periods with respect to cancelled job positions are completed. The year-on-year decrease in active headcount included additional H1 2012 separations with senior managers ahead of the planned restructuring required to integrate Netia, Dialog Group and Crowley into one organisation and voluntary employee leavers.

The movement in headcount can be analyzed as follows:

	Active	Total
<b>Headcount at June 30, 2011 (pro forma for New Netia)</b>	<b>2,802</b>	<b>2,907</b>
<i>Incl. Old Netia</i>	1,397	1,454
<i>Incl. Dialog Group</i>	1,243	1,287
<i>Incl. Crowley</i>	162	166
Employees acquired in Ethernet acquisitions	58	60
Net headcount reductions since June 30, 2011	(321)	(274)
<b>Headcount at June 30, 2012 (as reported for New Netia)</b>	<b>2,539</b>	<b>2,693</b>

In connection with the Dialog Group and Crowley integration, in April 2012 Netia management announced layoffs across the New Netia group totalling 519 employees and an intent to propose changes to the employment contracts of a further 129 employees.

The headcount reduction process commenced in June 2012 in accordance with regulations for group restructuring and is expected to cover terminations of approximately 121, 360 and 38 contracts in Old Netia, Dialog Group and Crowley, respectively. As of June 30, 2012, termination notices had been delivered to 366 employees and Netia's active headcount has fallen to approximately 2,396 at the beginning of August 2012. The salary savings in respect to the reduced job positions will be visible from Q3 2012.

All dismissed employees were offered 12-months medical care, additional financial compensation and an access to an outplacement program. Approximately 80% of laid-off employees signed up to take part in the outplacement program out of which 67% already started the seminars and workshops. Until July 31, 2012, 12 workshops, 6 seminars and 252 individual consultations were executed.

A second wave of redundancies, completing the 519 redundancy program, is planned for Q4 2012 when completion of further vital integration projects will leave certain job positions redundant. The vast majority of costs associated with this second wave of reductions have already been provided for in the Q2 2012 headcount restructuring provision of PLN 17.5m. As part of the extension of network maintenance outsourcing to cover the Dialog and Crowley networks, announced on August 14, 2012, a further 190 job positions will transfer to Ericsson during Q3 2012. Taking into consideration ongoing recruitment, particularly in the area of customer care, Management expects Netia's active employment to be between 2,100 and 2,150 employees by December 2012.



## Capital investment additions

Capital investment additions (PLN'M)	H1 2011 New Netia Pro forma	H1 2012 New Netia As reported	Change %	Q1 2012 New Netia As reported	Q2 2012 New Netia As reported	Change %
Existing network and IT	37.9	47.2	25%	20.0	27.2	36%
Broadband networks	59.6	33.2	-44%	16.0	17.2	8%
CPE broadband (mainly capitalised Netia Spot routers)	0.0	12.7	nm	5.8	6.9	19%
IPTV (incl. dedicated CPE – Netia Player)	0.0	9.9	nm	5.9	4.0	-32%
<b>Total (as reported/pro forma for Old Netia)</b>	<b>97.5</b>	<b>103.0</b>	<b>6%</b>	<b>47.7</b>	<b>55.3</b>	<b>16%</b>
Dialog group and Crowley	39.0	25.8	-34%	12.2	13.6	11%
<b>Total (pro forma / as reported for New Netia)</b>	<b>136.5</b>	<b>128.8</b>	<b>-6%</b>	<b>59.9</b>	<b>68.9</b>	<b>15%</b>

Higher capital investment in existing network and IT reflect extension of transmission network capacity to activate new corporate and carrier customers. Lower capital expenditures related to broadband networks reflect the completion of the LLU roll-out with respect to newly unbundled nodes. As Netia Spot routers and Netia Player set-top boxes are being “leased” to customers under the same business model as satellite TV providers utilise, the customer premises equipment is being capitalised.

Management is today reducing capital investment guidance from PLN 300m (excluding up to PLN 30m of integration project capex) to PLN 270m (excluding up to PLN 30m of integration project capex).

Less volume driven capital investments, particularly CPE (customer premises equipment) and STB (set-top boxes) with decelerated NGA roll-out and general investment optimisation initiatives have combined to allow the reduction in full-year 2012 guidance. The new guidance represents 13% of updated guided 2012 revenue.

### 3 Other Highlights

*Integration of Netia, Dialog Group and Crowley into New Netia Group.* In December 2011 Netia acquired 100% stakes in Telefonía Dialog SA ("Dialog", currently Telefonía Dialog Sp. z o.o.) and Crowley Data Poland Sp. z o.o. ("Crowley", currently CDP Netia Sp. z o.o.). Both acquisitions, which transform Netia into a sizable European altnet with approximately 2.8m unique services, are in line with its Strategy 2020 announced in early 2011 and are expected to further strengthen the Company's market position in all four customer segments, leveraging Dialog's and Crowley's network assets, customer base and operating resources. In particular, the acquisitions are expected to facilitate the development of new generation broadband and TV services delivered through the NGA roll-out and deliver extensive operational synergies.

Management's original objective was to deliver its initial estimate of more than 115.0m PLN in annual synergies by 2014. This estimate was further refined during the detailed integration planning process completed in May 2012 and has resulted in the synergy targets expected by 2014 being increased to PLN 130.0m. The Company now targets over PLN 120.0m of synergies to be delivered on the EBITDA level (versus the original estimate of PLN 106m) while approximately PLN 10.0m of additional synergies are to be delivered from capital investments efficiencies whilst changes to Dialog Group's investment strategy are expected to yield further reductions in capex run-rates.

Completed synergy projects have already delivered as at June 30, 2012 synergies in the amount of PLN 23.6m at the Adjusted EBITDA level and PLN 6.0m from capital investments. From a total of over 100 projects, 54 Adjusted EBITDA level synergy initiatives are already completed and are expected to deliver over PLN 60m in annualized synergies during 2013. In addition, 11 Capex synergy initiatives have been completed. Total reorganization costs recorded during H1, 2012 amounted to PLN 29.5m (out of which PLN 17.5m related to the employment restructuring program and PLN 12.0m related to integration costs). In the H2 2012, apart from regular integration office costs, Netia expects additional costs associated with the outsourcing contract with Ericsson, the outplacement program and non-cash provisions for impairment of IT and network systems in the acquired companies. Initial estimates of total 2012 reorganization costs of PLN 50m look secure at this stage.

The target management structure of New Netia was completed in April 2012 with the finalisation of the appointments of 'N-3' managers following the earlier appointment of more senior positions. In April 2012 Netia management announced layoffs across the New Netia group totalling 519 employees and an intent to propose changes to the employment contracts of a further 129 employees. Until end of June 2012, 366 employees were given contracts terminations. A second wave of group lay-offs is planned for Q4 2012. The vast majority of restructuring costs for the 519 redundancies was already provided at June 30, 2012. Please see also section 2.3 for details on headcount.

On August 14, 2012, Netia together with its subsidiaries signed a four-year managed services contract with Ericsson replacing the existing managed services contract signed on August 12, 2010. The contract covers the maintenance and management of the Netia Group's networks, as well as supporting the provision of services to Netia Group's residential and business customers. Whilst similar in scope to the previous agreement, the new agreement covers managed services for the Dialog and Crowley networks and, in addition, modifies certain pricing and operational parameters (KPIs) concerning the provision of services by Ericsson to the Netia Group. The Agreement provides that 190 of the Netia Group's employees (additional to the 519 planned redundancies) will be transferred to Ericsson on the basis of art. 23<sup>1</sup> of the Labour Code. The cooperation with Ericsson will influence the reduction of maintenance and employment costs, bring more effective and integrated fault handling and uniform management of Netia Group's networks and its service delivery.

As a first step towards integration the Netia and Dialog residential offering, July 2012 saw the introduction of aligned pricing across all the main product offers.

This comprehensive integration project which is expected to create a larger, more efficient and more competitive New Netia is progressing smoothly. The integration initiatives are split across eighteen functional workstreams, and coordinated by an integration office. Senior management is confident that its upwardly revised synergy targets will be achieved with the final projects, mainly related to IT platform migrations, being concluded in H2 2013.

As part of the ongoing integration process, Netia's AGM held on June 19, 2012 adopted a resolution concerning the merger between the parent company Netia SA and its subsidiary Crowley. The merger shall be carried out through the transfer of Crowley's assets to Netia without any increase in Netia's share capital and without any share exchanges. Moreover, on July 31, 2012 Dialog completed a legal merger with its subsidiary Avista Media Sp. z o.o., which was handling Dialog's customer care operations. Due to the strong brand awareness in the localized target market in the area of the city of Płock, Netia decided to keep Petrotel Sp. z o.o., the second subsidiary of Dialog, as a separate organization and legal entity.

**Financing.** On June 30, 2012, Netia had PLN 125.9m in cash and PLN 579.8m in debt as compared to PLN 159.5m and PLN 644.1m, respectively, on March 31, 2012. The debt outstanding at the end of Q2 2012 was related to a five-year senior debt facility of PLN 650.0m drawn to acquire Dialog Group. Accordingly, Netia Group's net debt at June 30, 2012 was PLN 453.9m versus PLN 484.5m at March 31, 2012 and net debt to Adjusted EBITDA guidance for 2012 amounted to 0.76x. Financial covenants agreed as part of the loan facility with the consortium of banks signed in September 2011 are such that further funds may be raised to finance further acquisitions.

**Share buy-backs for 2012.** Management intends to keep sufficient financial flexibility to be able to raise funding to participate in further market consolidation during 2012. An amount of up to PLN 125.0m has been set aside to be utilised in share buy-backs of up to 6% of the Company's share capital within the scope of the existing shareholders' authorisations. This includes tranches to acquire and redeem up to 3.5% and up to 2.5% of share capital, respectively, for up to PLN 75.0m and PLN 50.0m, respectively. As of August 22, 2012, the Company had repurchased under these buy-backs 8,879,913 shares representing 2.30% of Netia's share capital and 2.30% of votes at the general meeting of shareholders for a total cost of PLN 51.8m. In 2011, Netia executed a share buy-back tranche for 2.5% of the Company's share capital and redeemed these shares during H1 2012.

**Disputed corporate income tax (CIT) for 2003.** Management expects the Supreme Administrative Court to hear the final appeal in 2013. Following the receipt of PLN 7.8m of refunds and interest from the tax authorities, Netia continues to claim PLN 51.9m plus interest from the tax authorities in relation to the disputed 2003 CIT case.

**Exercise of options under Netia's stock option plan.** Given that the Company's employee stock option plan adopted in 2002, as amended in 2003 (the "Plan 2003"), expires at the end of 2012, Netia management participants have been exercising options over recent months and can be expected to continue to do so over the coming two quarters. In this regard, Netia has so far issued 4.4m shares during 2012 in consideration of 23.0m exercised options. At the share price of PLN 5.96 on August 21, 2012, 1.3m unexercised in-the-money options remain outstanding whilst a further 12.2m are exercisable above PLN 7.00 and 9.8m are exercisable above PLN 8.25. The highest possible number of shares that may still be issued under the Plan 2003 is 6.7m.

A further 5.6m options (net of cancellations) are outstanding under the new Plan 2011, approved by the supervisory board on February 28, 2011. Strike prices vary between PLN 5.23 and PLN 6.16 with earliest vesting dates in 2014. In line with the rules of Plan 2011, the supervisory board decided that 41.1% of the 3.6m options granted in 2011 be cancelled on the basis of performance versus agreed business objectives for 2011. As set out in Plan 2011, such cancellation came into effect with the approval of the 2011 financial statements by the Annual Shareholders Meeting held on June 19, 2012.

During Q2 2012, the Supervisory Board created a new cash-paid share-based compensation plan for the Management Board that will be effective between 1 January 2013 and 31 December 2015. The new plan is called the Change of Control Transaction Bonus and is payable only in certain specific circumstances should there be a change of control in the Company. This new plan is described in full in the financial statements for H1 2012.

**Netia's annual shareholders' meeting** held on June 19, 2012 approved, among others, the financial statements for 2011 and reinvestments of 2011 profits, which may be used for the financing of the share buy-backs or future dividend payments, the merger of Netia SA with its subsidiary CDP Netia sp. z o.o. (formerly Crowley Data Poland sp.z o.o.) and amendments to the rules of remunerating the supervisory board members with regard to remuneration from the restricted stock units.

**Netia issued non-transferable bonds to its wholly-owned subsidiary Telefonía Dialog Sp. z o.o. ("Dialog") in an intra-group transaction** on June 1, 2012 for a total nominal value of PLN 300.0m and with maturity date falling on May 31, 2017 (the "Bonds"). Proceeds from the Bonds issue were used to pay for telecommunications networks elements acquired from Dialog and to fund the on-going operations of the Company. The telecommunications network elements were acquired from Dialog on May 31, 2012 as part of the on-going integration of Dialog into the Netia Group. These network elements will be managed jointly with Netia's existing network to reduce operating costs in the future. Dialog will continue to utilise the telecommunications network elements to service its clients via a long-term agreement put in place between Netia and Dialog.

**Netia's shares continued to be a composite of the RESPECT Index of the Warsaw Stock Exchange (the "WSE"),** following its semiannual review in July 2012. The RESPECT Index portfolio covers Polish companies listed on the WSE Main Market which follow the highest corporate governance, reporting and investor relations standards, and which also include environmental, social and governance factors. The participating companies are screened by the WSE and the Association of Listed Companies (SEG) in a three-stage process of review of all these factors and additionally audited by the project partner since the first edition: Deloitte. Currently, the RESPECT Index comprises 20 companies.

## 4 Updated guidance for FY2012 and Strategic Financial Goals

Due to slow market growth and generally difficult trading conditions on the residential market, and in particular in the high volume low ARPU segments of the market, Netia is revising its 2012 guidance as published previously on March 15, 2012 (see Netia's current report no. 13/2012 dated March 15, 2012).

Full guidance for 2012 is set out below:

<i>FY2012 Guidance</i>	<i>Previous</i>	<i>Updated</i>
Number of services (RGUs) ('000)	2,900	2,750
Revenues (PLN m)	2,185	2,125
Adjusted EBITDA (PLN m)	600	600
Adjusted EBITDA margin (%)	27.5%	28.2%
Adjusted EBIT (PLN m)	125	125
Capital investments (excl. M&A and integration capex) (PLN m) <sup>1</sup>	300	270
Capital investments (excl. M&A and integration capex) to sales (%)	14%	13%
Adjusted operating free cash flow (Adj. OpFCF) <sup>1</sup> (PLN m)	300	330

<sup>1</sup> Adjusted EBITDA less Capital Investments

The above guidance excludes the impact of one-off integration costs and one-off integration capex, estimated at up to PLN 50.0m and up to PLN 30.0m, respectively.

Due to slow market growth and generally difficult trading conditions on the residential market, and in particular in the high volume, low ARPU segments of the market, Netia is today reducing its guidance for revenues to PLN 2,125m and the number of services (RGUs) to 2,750,000. Strong profitability trends allow Management to confirm its Adjusted EBITDA guidance at PLN 600m whilst capital investment is now expected at PLN 270m plus up to a further PLN 30m for integration related projects. The reduction in full-year 2012 capital investment guidance follows less volume driven capital investments, particularly CPE (customer premises equipment) and STB (set-top boxes), combined with decelerated NGA roll-out and general investment optimisation initiatives and represents 13% of updated guided 2012 revenue. Accordingly, Adjusted Operating Free Cash Flow (Adjusted OpFCF) is increased to PLN 330m from PLN 300m previously. Whilst customer additions performance is expected to improve in the coming quarters, the disappointing results from H1 2012 leave the original subscriber objectives out of reach.

New Netia now focuses on the total number of services (RGUs) target based on its subscriber base, reflecting a multiplay approach and stressing the importance of ARPU increase per active subscriber.

The long-term strategic financial goals published on March 15, 2012 (see Netia's current report no. 13/2012 dated March 15, 2012) remain as follows:

<i>Long-term strategic financial goals (until 2020)</i>
Continue growth in the number of services (RGUs)
Services (RGUs) per subscriber to reach 2.0x
Continuously increasing value share
Adjusted EBITDA margins in 27% - 29% range throughout
Capex to sales ratio to stay below 15% during network upgrade (2011-2013) and falling to 10%-12% thereafter
OpFCF margin to sales continuously above 12%

## Consolidated Financial Information (actual/pro forma results)<sup>1</sup>

Please also refer to our financial statements for the six-month period ended June 30, 2012.

### H1 2012 vs. H1 2011

#### Actual results as reported

**Revenue** rose by 35% YoY to PLN 1,080.7m for H1 2012 from PLN 797.5m for H1 2011, supported by the acquisition of Dialog Group and Crowley in December 2011, which contributed PLN 247.5m and PLN 45.7m, respectively, in H1 2012. Old Netia posted a 1% decline in revenues to PLN 787.6m versus H1 2011 with a strong 9% increase in SOHO/SME being offset by weakness in the Home segment and also in the Carriers segment where certain agreements have expired or are being run down.

**Telecommunications revenue** increased by 35% YoY to PLN 1,076.2m in H1 2012 from PLN 795.2m in H1 2011 following the addition of Dialog Group's and Crowley's customer bases from December 2011. The strongest progress has been seen on other telecommunications revenue which is up by 160% at PLN 55.9m as it includes TV and mobile services. The expansion of the Netia Group has led to only marginal changes in the composition of revenue with direct voice revenue as a share of total telecommunications revenue declining from 46% to 45% relative to H1 2011 and data revenue declining from 37% to 36% over the same period.

**Cost of sales** increased by 40% YoY to PLN 757.8m from PLN 542.6m for H1 2011 and represented 70% of total revenue as compared to 68% in H1 2011. The absolute increase in costs reflects mainly the Dialog Group and Crowley acquisitions.

**Depreciation and amortization** related to cost of sales increased by 56% to PLN 196.6m as compared to PLN 126.1m for H1 2011 upon commencing the amortization of Dialog Group's and Crowley's fixed assets and the additional impact from D&A charges on the impairment reversal at Old Netia in Q4 2011.

**Network operations and maintenance cost** increased by 25% to PLN 327.4m from PLN 262.4m for the prior year period. This cost category increased less than revenues as Dialog Group is less reliant on fees paid to TP to reach its mostly on-network customer base.

**Interconnection charges** increased by 37% to PLN 160.1m in H1 2012 as compared to PLN 116.5m for H1 2011, reflecting mainly transit activity at the two acquired businesses.

**Taxes, frequency fees and other expenses** increased by 113% to PLN 41.5m in H1 2012 as compared to PLN 19.5m for H1 2011, due to the addition of Dialog Group's and Crowley's networks.

**Restructuring expenses** related to cost of sales were PLN 3.3m in H1 2012 and were related to the termination of employment contracts under the process of group redundancies, which was announced in April 2011 and started in June 2011 in connection with the integration of Netia, Dialog Group and Crowley into the New Netia Group.

**Costs of goods sold** decreased by 30% YoY to PLN 4.9m as compared to PLN 7.0m recorded in H1 2011, following lower sales volumes and the introduction of the proprietary Netia Spot routers from June 2011 in Old Netia, which are being capitalized as they are leased rather than sold to customers.

**Gross profit** for H1 2012 was PLN 322.9m as compared to PLN 254.9m for H1 2011. Gross profit margin was 29.9% for H1 2012 and 32.0% for H1 2011. Additional depreciation charges arising from the major acquisitions and impairment reversal, together with falling revenue from high margin voice services are responsible for the declining gross margin.

**Selling and distribution costs** increased by 41% YoY to PLN 208.2m from PLN 147.4m for H1 2011 and represented 19% of total revenue as compared to 18% in the prior year period. The inclusion of fixed expenditures related to the Dialog Group and Crowley customer operations were the main drivers of this increase.

**Salaries and benefits** related to selling and distribution cost increased by 50% to PLN 65.7m from PLN 43.9m in H1 2011.

**Depreciation and amortization** related to selling and distribution cost increased by 106% to PLN 30.5m from PLN 14.8m in H1 2011 mostly due to the amortization of the customer bases of newly acquired companies.

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<sup>1</sup> In order to provide the most comprehensive information possible, the actual data for H1 2012 which is fully consolidating Dialog Group and Crowley, is compared to both the actual results for H1 2011 (without Dialog and Crowley) as well as to the pro forma results for the for H1 2011, which include the results of Dialog and Crowley for a comparative period.

Restructuring expenses related to selling and distribution cost increased to PLN 8.8m from PLN 0.2m in H1 2011 and were related to the termination of employment contracts under the process of group redundancies started in June 2011 in connection with the New Netia Group organization.

Billing, mailing and logistics costs increased by 42% YoY to PLN 22.6m from PLN 15.9m, following the Dialog Group and Crowley acquisitions.

Advertising and promotion cost decreased by 31% to PLN 16.6m from PLN 24.0m despite the acquisitions as quick win synergies have been implemented and Old Netia held back on advertising to conserve resources for later quarters when demand is generally stronger.

General and administration costs increased by 48% YoY to PLN 111.4m from PLN 75.5m for H1 2011 and represented 10% of total revenue versus 9% for H1 2011. The cost increase was driven by the addition of the Dialog Group's and Crowley's expenses. In addition, general and administration costs in H1 2012 included PLN 11.9m of New Netia integration costs and an additional PLN 5.4m of restructuring costs related to group redundancies under implementation in connection with the New Netia organization.

Adjusted EBITDA was PLN 289.2m, up 49% from PLN 194.3m for H1 2011. Adjusted EBITDA margin was 26.8% in H1 2012 as compared to 24.4% in the prior year quarter. Higher Adjusted EBITDA reflects the addition of Dialog Group and Crowley together with quick-win synergies and savings on acquisition costs, partially offset by falling margins from contracting voice services.

Including New Netia integration costs of PLN 12.0m in H1 2012, restructuring costs of PLN 17.5m in H1 2012 and PLN 0.2m in H1 2011, which in the current year period related to majority of costs associated with the total of 519 group redundancies planned for 2012 FY, the costs of M&A projects of PLN 0.7m in H1 2012 and PLN 1.7m in H1 2011 and universal service obligation provision of PLN 2.4m recorded in H1 2011, EBITDA was PLN 259.0m for H1 2012 as compared to PLN 190.0m for the prior year period. EBITDA margin was 24.0% in H1 2012 as compared to 23.8% for H1 2011.

Depreciation and amortization was PLN 242.1m, an increase of 60% YoY as compared to PLN 151.1m in H1 2011, with increases resulting from the acquired fixed assets and acquisition intangibles of the Dialog Group and Crowley and the reversal of impairment recorded in Old Netia in Q4 2011.

Operating profit (EBIT) was PLN 16.9m as compared to an operating profit of PLN 38.9m for H1 2011. Excluding unusual costs described above of 30.2m in H1 2012 and PLN 4.3m in H1 2011, Adjusted EBIT was PLN 47.1m for H1 2012 versus PLN 43.2m for H1 2011.

Net financial cost was PLN 23.0m as compared to net financial income of PLN 6.9m for H1 2011. The change was driven by PLN 25.7m of interest on bank loans to finance the Dialog Group's acquisition in December 2011 as part of the swing from a net cash to a net debt position following the two acquisitions.

Income tax benefit of PLN 17.3m was recorded in H1 2012 as compared to income tax charge of PLN 56.0m for H1 2011. Income tax benefit in H1 2012 included a non-cash gain of PLN 21m recorded due to the recognition of deferred tax assets arising on the intragroup sale of the network assets by Dialog to Netia. Income tax charge in H1 2011 included PLN 58.3m expensed in relation to the 2003 CIT tax dispute.

Net profit was PLN 11.2m for H1 2012 versus net loss of PLN 10.1m for H1 2011.

Cash outlays on purchase of fixed assets and computer software increased by 20% to PLN 141.9 m for H1 2012 from PLN 118.6m for the corresponding period of 2011, PLN 5.3m was spent on acquisitions of Ethernet operators and networks and PLN 2.8m was paid towards the final price adjustment in the Crowley acquisition, which was in line with initial estimates with a final, smaller payment still under negotiation.

Cash and cash equivalents at June 30, 2012 totalled PLN 125.9m versus PLN 430.1m (PLN 219.4m in cash and cash equivalents plus PLN 210.7m in treasury bills) at June 30, 2011.

Debt at June 30, 2012 was PLN 579.8m as compared to PLN 0.1m debt in the prior year period.

#### Pro forma results for New Netia

Revenue decreased by 1% YoY from PLN 1,094.3m in H1 2011 to PLN 1,080.7m for H1 2012, mainly as a result of lower voice services revenue.

Telecommunications revenue decreased by 1% YoY from PLN 1,092.1m in H1 2011 to PLN 1,076.2m in H1 2012. Revenue from direct voice services decreased by 6% or PLN 32.9m and indirect voice services revenue decreased by 26% or PLN 6.8m as a result of decreasing customer numbers. Data services revenue grew by 1% or PLN 4.2m, wholesale services by 18% or PLN 10.5m and other telecommunications revenue increased by 21% or PLN 9.6m driven by mobile and TV services growth.



*Cost of operations and other costs excluding one-off items* decreased by 1% YoY to PLN 821.7m from PLN 830.3m for H1 2011 and represented 76% of total revenue in both periods. Following the progress made already in integrating Netia, Dialog Group and Crowley into one organization and implementing 'quick-win' synergies, New Netia noted a decrease in fixed costs resulting from the integration of senior management levels. Significant savings in the areas of marketing (a decrease by 50% or PLN 18.7m) and sales and distribution (down by 14% or PLN 4.5m) resulted mainly from integration of the advertising and promotion budgets and restructuring of the sales organization. In addition, savings were recorded, among others, in sales commissions (down by 10% or PLN 3.2m) on lower gross additions, cost of equipment and postal services, which followed the capitalization of Netia's proprietary Netia Spot routers (down by 20% or PLN 2.7m), corporate support functions (down by 14% or PLN 2.7m), outsourced customer care (down by 17% or PLN 2.4m), service agreements and network leases (down by 4% or PLN 5.5m) and printing house (invoicing) (down by 11% or PLN 1.4m). Moreover, cost of the doubtful debt provision was reduced by 42% or PLN 2.3m due to both aligning the bad debt provisioning policy across the New Netia Group, and thanks to the successful bad debt sales. The above savings were partially netted off with increased service costs resulting from changes in the client mix and service mix.

*One-off cost items* included New Netia integration costs of PLN 12.0m in H1 2012, restructuring costs of PLN 17.5m in H1 2012 and PLN 0.3m in H1 2011, which in the current year period related to majority of costs associated with the total of 519 group redundancies planned for 2012 FY, the costs of M&A projects of PLN 0.7m in H1 2012 and PLN 1.7m in H1 2011, and universal service provision of PLN 2.4m in H1 2011.

*Adjusted EBITDA* was PLN 289.2m, up by 8% from PLN 268.4m for H1 2011. Adjusted EBITDA margin was 26.8% in H1 2012 as compared to 24.5% in the prior year period, with Adjusted EBITDA margin increase reflecting mainly the net synergies delivered on the New Netia Group integration project together with lower SAC and lower advertising expenses in Old Netia. *EBITDA* was PLN 259.0m for H1 2012 as compared to PLN 264.0m for the prior year period. EBITDA margin was 24.0% in H1 2012 as compared to 24.1% for H1 2011.

*Depreciation and amortization* was PLN 242.1m, an increase of 21% from PLN 200.1m in H1 2011, with the increases resulting from the acquisition intangibles of the Dialog Group and Crowley recognized as part of the acquisitions and the reversal of impairment recorded in Old Netia in Q4 2011.

*Operating profit (EBIT)* was PLN 16.9m as compared to PLN 63.9m for H1 2011. Unusual costs described above of PLN 30.2m in H1 2012 and PLN 4.3m in H1 2011 and extra depreciation and amortization on acquisition intangibles and the impairment reversal in Old Netia drove the decline in EBIT margin.

*Net profit* was PLN 11.2m for H1 2012 versus net profit of PLN 9.8m for H1 2011.

## Q2 2012 vs. Q1 2011

### Actual results as reported by New Netia

*Sequential revenue* decreased by 1% to PLN 536.5m in Q2 2012 from PLN 544.3m in Q1 2012, as a result of lower sales volumes and lower voice revenue.

*Telecommunications revenue* decreased by 1% to PLN 534.2m in Q2 2012 versus PLN 542.1m in Q1 2012. Direct voice revenue fell by 2% QoQ to PLN 241.6m from PLN 246.3m in Q1 2012 as a result of the fall in the subscriber base. Data revenue rose 1% to PLN 194.2m in Q2 2012 from PLN 192.6m in Q1 2012 as firm ARPU offset the fall in the subscriber base. Carrier segment revenue decreased sequentially by 4% or PLN 2.5m on conservative management of counter-party risk and other telecommunications revenue was down by 4% or PLN 1.1m due to lower revenue from intelligent network services.

*Cost of sales* amounted to PLN 377.8m in Q2 2012 versus PLN 380.0m in Q1 2012, representing 70% of total revenue in both quarters, despite a PLN 3.0m sequential increase in restructuring cost related to the cost of sales due to the group headcount reductions planned for FY 2012. Network maintenance cost was lower sequentially by 2% or PLN 3.4m mainly due to less access fees payable to TP on lower sales volumes. Interconnection charges decreased by 3% or PLN 2.6m on lower voice termination traffic volumes.

*Gross profit* was PLN 158.6m in Q2 2012 as compared to PLN 164.3m in Q1 2012, with gross profit margin at 29.6% versus 30.2% in Q1 2012.

*Selling and distribution costs* decreased by 9% QoQ to PLN 99.1m in Q2 2012 as compared to PLN 109.1m in Q1 2012 representing 18% of total revenue as compared to 20% in the previous quarter. The PLN 6.7m increase in restructuring cost related to selling and distribution, recorded in connection with the group redundancies in FY 2012, was more than offset by decreases in other cost categories. Advertising and promotion spending was lower by 46% or PLN 5.0m as a result of less intensive advertising campaigns. Impairment of receivables was lower by 77% or PLN 3.5m on successful debt sales and lower bad debt provisioning. Sequentially lower sales volumes resulted in a decrease of third party commissions by 36% or PLN 3.5m. Salaries and benefits related to

selling and distribution were down by 7% QoQ or PLN 2.4m due to limited separations with senior managers and voluntary employee leavers ahead of the planned restructuring to integrate New Netia.

*General and administrative expenses* decreased by 4% to PLN 54.5m in Q2 2012 from PLN 56.9m in Q1 2012, and represented 10% of total revenue in both quarters. The increase in restructuring cost related to general administration by PLN 2.6m was more than offset by PLN 3.5m lower cost of salaries and benefits related to general administration associated with limited separations with senior managers and voluntary employee leavers ahead of the planned restructuring to integrate New Netia, lower cost accrued for settling in-the-money stock options and lower mark-to-market value of restricted stock units.

*Adjusted EBITDA* was PLN 156.2m versus PLN 133.0m for Q1 2012 and Adjusted EBITDA margin was 29.1% in Q2 2012 versus was 24.4% in Q1 2012.

*EBITDA* was PLN 134.9m as compared to PLN 124.1m in Q1 2012. EBITDA for Q2 2012 included New Netia integration costs of PLN 5.9m, restructuring costs of PLN 14.9m and the costs of M&A projects of PLN 0.4m. EBITDA for Q1 2012 included New Netia integration costs of PLN 6.0m, restructuring costs of PLN 2.6m and the costs of M&A projects of PLN 0.2m.

*Operating profit (EBIT)* was PLN 12.8m as compared to operating profit of PLN 4.1m in Q1 2012. Excluding unusual items, EBIT for Q2 2012 would have been PLN 34.1m as compared to PLN 13.0m for Q1 2012, with lower selling, general and administration cost driving the improvement.

*Net financial cost* was PLN 9.7m as compared to net financial cost of PLN 13.3m in Q1 2012, with lower financial costs reflecting mainly foreign exchange gains on forward contracts.

*Income tax benefit* of PLN 18.0m was recorded in Q2 2012 versus income tax charge of PLN 0.6m in Q1 2012, following the recognition of a deferred tax asset resulting from the intragroup sale of the network assets by Dialog to Netia.

*Net profit* for Q2 2012 was PLN 21.0m versus net loss of PLN 9.8m for Q1 2012.

*Key Figures as reported  
(incl. Dialog Group and Crowley impact from Q4 2011)*

PLN'000	H1 2011	H1 2012 <sup>2</sup>	Q2 2011	Q3 2011	Q4 2011 <sup>1</sup>	Q1 2012 <sup>2</sup>	Q2 2012 <sup>2</sup>
Revenues .....	797,469	1,080,751	396,280	394,616	426,718	544,279	536,472
y-o-y % change .....	2.2%	35.5%	0.7%	0.0%	8.3%	35.7%	35.4%
Adjusted EBITDA .....	194,336	289,191	92,832	105,457	108,417	133,008	156,183
Margin % .....	24.4%	26.8%	23.4%	26.7%	25.4%	24.4%	29.1%
y-o-y change % .....	4.4%	48.8%	(2.7%)	23.3%	23.6%	31.0%	68.2%
EBITDA .....	190,054	259,019	88,679	103,379	318,021	124,142	134,877
Margin % .....	23.8%	24.0%	22.4%	26.2%	74.5%	22.8%	25.1%
Adjusted EBIT .....	43,225	47,071	17,046	29,640	26,217	12,989	34,082
Margin % .....	5.4%	4.4%	4.3%	7.5%	6.1%	2.4%	6.4%
EBIT .....	38,943	16,899	12,893	27,562	236,193	4,123	12,776
Margin % .....	4.9%	1.6%	3.3%	7.0%	55.4%	0.8%	2.4%
Adjusted Profit of the Netia Group (consolidated) ..	51,659	35,614	16,275	26,339	64,391	(2,665)	38,278
Margin % .....	6.5%	3.3%	4.1%	6.7%	15.1%	(0.5%)	7.1%
Profit/(Loss) of the Netia Group (consolidated) .....	(10,134)	11,172	12,911	24,656	234,264	(9,846)	21,018
Margin % .....	(1.3%)	1.0%	3.3%	6.2%	54.9%	(1.8%)	3.9%
Profit/(Loss) of Netia SA (stand alone) <sup>3</sup> .....	(10,424)	(29,158)	11,134	26,615	208,813	(20,443)	(8,715)
Cash and cash equivalents .....	219,388	125,959	219,388	217,399	156,509	159,503	125,959
Treasury bills (at amortized cost) .....	210,680	-	210,680	216,259	-	-	-
Debt .....	107	579,830	107	100	695,177	644,157	579,830
Capex related payments .....	118,599	141,873	49,672	78,954	65,107	75,361	66,512
Investments in tangible and intangible fixed assets .....	97,509	128,821	56,589	66,916	79,294	59,897	68,924
EUR'000 <sup>4</sup>	H1 2011	H1 2012 <sup>2</sup>	Q2 2011	Q3 2011	Q4 2011 <sup>1</sup>	Q1 2012 <sup>2</sup>	Q2 2012 <sup>2</sup>
Revenues .....	187,142	253,620	92,995	92,605	100,138	127,726	125,894
y-o-y % change .....	2.2%	35.5%	0.7%	0.0%	8.3%	35.7%	35.4%
Adjusted EBITDA .....	45,605	67,865	21,785	24,748	25,442	31,213	36,651
Margin % .....	24.4%	26.8%	23.4%	26.7%	25.4%	24.4%	29.1%
y-o-y change % .....	4.4%	48.8%	(2.7%)	23.3%	23.6%	31.0%	68.2%
EBITDA .....	44,600	60,784	20,810	24,260	74,630	29,132	31,652
Margin % .....	23.8%	24.0%	22.4%	26.2%	74.5%	22.8%	25.1%
Adjusted EBIT .....	10,144	11,046	4,000	6,956	6,152	3,048	7,999
Margin % .....	5.4%	4.4%	4.3%	7.5%	6.1%	2.4%	6.4%
EBIT .....	9,139	3,966	3,026	6,468	55,427	968	2,998
Margin % .....	4.9%	1.6%	3.3%	7.0%	55.4%	0.8%	2.4%
Adjusted Profit of the Netia Group (consolidated) ..	12,123	8,357	3,819	6,181	15,111	(625)	8,983
Margin % .....	6.5%	3.3%	4.1%	6.7%	15.1%	(0.5%)	7.1%
Profit/(Loss) of the Netia Group (consolidated) .....	(2,378)	2,622	3,030	5,786	54,975	(2,311)	4,932
Margin % .....	(1.3%)	1.0%	3.3%	6.2%	54.9%	(1.8%)	3.9%
Profit/(Loss) of Netia SA (stand alone) <sup>3</sup> .....	(2,446)	(6,843)	2,613	6,246	49,002	(4,797)	(2,045)
Cash and cash equivalents .....	51,484	29,559	51,484	51,017	36,728	37,431	29,559
Treasury bills (at amortized cost) .....	49,440	-	49,440	50,750	-	-	-
Debt .....	25	136,069	25	23	163,137	151,164	136,069
Capex related payments .....	27,832	33,293	11,657	18,528	15,279	17,685	15,608
Investments in tangible and intangible fixed assets .....	22,882	30,224	13,280	15,703	18,608	14,056	16,174

<sup>1</sup> Includes 2 weeks of consolidating results of Telefonia Dialog SA group ('Dialog Group') and Crowley Data Poland Sp. z o.o. ('Crowley', currently 'CDP Netia Sp. z o.o.') which were acquired on December 16 and 14, 2011, respectively.

<sup>2</sup> Includes the full quarter of consolidating results of Dialog Group and Crowley.

<sup>3</sup> The profit of Netia SA (stand alone) is used for purpose of calculation of the amounts available for potential cash distribution to shareholders through dividends or share buy-backs.

<sup>4</sup> The EUR amounts shown in this table and in the entire document have been translated using an exchange rate of PLN 4.2613 = EUR 1.00, the average rate announced by the National Bank of Poland on June 29, 2012. These figures are included for the convenience of the reader only.

Adjusted EBITDA, Adjusted EBIT and Adjusted Profit for 2011 exclude the following items as appropriate: a non-cash gain on reversal of earlier impairment charges of PLN 220.7m, expenses related to the CIT 2003 tax dispute of PLN 58.3m, expenses related to M&A activities of PLN 10.4m, PLN 5.1m of expenses provisioned for universal service obligation payments, PLN 1.1m of New Netia integration costs, restructuring costs of PLN 0.8m and an income of PLN 16m from an upward adjustment in deferred tax assets following the lengthening of the estimated useful lives of certain network assets. Items excluded for H1 2012 are the following: New Netia integration costs of PLN 12.0m, restructuring expenses related mainly to group staff redundancies to integrate New Netia Group in FY 2012 of PLN 17.5m and expenses related to M&A activities of PLN 0.7m and impact from these one-offs on the income tax charge of PLN 5.7m.

*Key Figures pro forma / as reported*  
*(incl. Dialog Group and Crowley impact from Q1 2011)*

PLN'000	H1 2011	H1 2012	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012
Revenues .....	1,094,351	1,080,751	542,432	542,182	548,416	544,279	536,472
<i>q-o-q % change</i> .....	<i>nm</i>	<i>(1.2%)</i>	<i>(1.7%)</i>	<i>(0.0%)</i>	<i>1.1%</i>	<i>(0.8%)</i>	<i>(1.4%)</i>
Adjusted EBITDA .....	268,391	289,191	129,542	139,403	138,276	133,008	156,183
<i>Margin %</i> .....	<i>24.5%</i>	<i>26.8%</i>	<i>23.9%</i>	<i>25.7%</i>	<i>25.2%</i>	<i>24.4%</i>	<i>29.1%</i>
<i>q-o-q change %</i> .....	<i>nm</i>	<i>7.7%</i>	<i>(6.7%)</i>	<i>7.6%</i>	<i>(0.8%)</i>	<i>(3.8%)</i>	<i>17.4%</i>
EBITDA .....	264,033	259,019	125,380	137,300	345,779	124,142	134,877
<i>Margin %</i> .....	<i>24.1%</i>	<i>24.0%</i>	<i>23.1%</i>	<i>25.3%</i>	<i>63.1%</i>	<i>22.8%</i>	<i>25.1%</i>
Adjusted EBIT .....	68,250	47,071	29,319	38,611	35,457	12,989	34,082
<i>Margin %</i> .....	<i>6.2%</i>	<i>4.4%</i>	<i>5.4%</i>	<i>7.1%</i>	<i>6.5%</i>	<i>2.4%</i>	<i>6.4%</i>
EBIT .....	63,892	16,899	25,156	36,508	242,961	4,123	12,776
<i>Margin %</i> .....	<i>5.8%</i>	<i>1.6%</i>	<i>4.6%</i>	<i>6.7%</i>	<i>44.3%</i>	<i>0.8%</i>	<i>2.4%</i>
Adjusted Profit of the Netia Group (consolidated) .....	71,687	35,614	26,472	29,315	71,629	(2,665)	38,278
<i>Margin %</i> .....	<i>6.6%</i>	<i>3.3%</i>	<i>4.9%</i>	<i>5.4%</i>	<i>13.1%</i>	<i>(0.5%)</i>	<i>7.1%</i>
Profit/(Loss) of the Netia Group (consolidated) .....	9,831	11,172	23,100	27,612	239,707	(9,846)	21,018
<i>Margin %</i> .....	<i>0.9%</i>	<i>1.0%</i>	<i>4.3%</i>	<i>5.1%</i>	<i>43.7%</i>	<i>(1.8%)</i>	<i>3.9%</i>
EUR'000 <sup>1</sup>	H1 2011	H1 2012	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012
Revenues .....	256,812	253,620	127,293	127,234	128,697	127,726	125,894
<i>q-o-q % change</i> .....	<i>nm</i>	<i>(1.2%)</i>	<i>(1.7%)</i>	<i>(0.0%)</i>	<i>1.1%</i>	<i>(0.8%)</i>	<i>(1.4%)</i>
Adjusted EBITDA .....	62,983	67,865	30,400	32,714	32,449	31,213	36,651
<i>Margin %</i> .....	<i>24.5%</i>	<i>26.8%</i>	<i>23.9%</i>	<i>25.7%</i>	<i>25.2%</i>	<i>24.4%</i>	<i>29.1%</i>
<i>q-o-q change %</i> .....	<i>nm</i>	<i>7.7%</i>	<i>(6.7%)</i>	<i>7.6%</i>	<i>(0.8%)</i>	<i>(3.8%)</i>	<i>17.4%</i>
EBITDA .....	61,961	60,784	29,423	32,220	81,144	29,132	31,652
<i>Margin %</i> .....	<i>24.1%</i>	<i>24.0%</i>	<i>23.1%</i>	<i>25.3%</i>	<i>63.1%</i>	<i>22.8%</i>	<i>25.1%</i>
Adjusted EBIT .....	16,016	11,046	6,880	9,061	8,321	3,048	7,998
<i>Margin %</i> .....	<i>6.2%</i>	<i>4.4%</i>	<i>5.4%</i>	<i>7.1%</i>	<i>6.5%</i>	<i>2.4%</i>	<i>6.4%</i>
EBIT .....	14,993	3,966	5,903	8,567	57,016	968	2,998
<i>Margin %</i> .....	<i>5.8%</i>	<i>1.6%</i>	<i>4.6%</i>	<i>6.7%</i>	<i>44.3%</i>	<i>0.8%</i>	<i>2.4%</i>
Adjusted Profit of the Netia Group (consolidated) .....	16,823	8,357	6,212	6,879	16,809	(625)	8,983
<i>Margin %</i> .....	<i>6.6%</i>	<i>3.3%</i>	<i>4.9%</i>	<i>5.4%</i>	<i>13.1%</i>	<i>(0.5%)</i>	<i>7.1%</i>
Profit/(Loss) of the Netia Group (consolidated) .....	2,307	2,622	5,421	6,480	56,252	(2,311)	4,932
<i>Margin %</i> .....	<i>0.9%</i>	<i>1.0%</i>	<i>4.3%</i>	<i>5.1%</i>	<i>43.7%</i>	<i>(1.8%)</i>	<i>3.9%</i>

<sup>1</sup> The EUR amounts shown in this table and in the entire document have been translated using an exchange rate of PLN 4.2613 = EUR 1.00, the average rate announced by the National Bank of Poland on June 29, 2012. These figures are included for the convenience of the reader only.

Pro forma Adjusted EBITDA, Adjusted EBIT and Adjusted Profit for 2011 exclude the following items as appropriate: a non-cash gain on reversal of earlier impairment charges of PLN 220.7m, expenses related to the CIT 2003 tax dispute of PLN 58.3m, expenses related to M&A activities of PLN 10.4m, PLN 7.1m of expenses provisioned for universal service obligation payments, PLN 1.1m of New Netia integration costs, restructuring costs of PLN 0.9m and an income of PLN 16m from an upward adjustment in deferred tax assets following the lengthening of the estimated useful lives of certain network assets. Items excluded for H1 2012 are the following: New Netia integration costs of PLN 12.0m, restructuring expenses related mainly to group staff redundancies to integrate New Netia Group in FY 2012 of PLN 17.5m and expenses related to M&A activities of PLN 0.7m and impact from these one-offs on the income tax charge of PLN 5.7m.

Depreciation and amortisation from Q1 to Q4 2011 pro forma has been calculated by the addition of individual results for Old Netia, Dialog Group and Crowley. The acquisitions of Dialog Group and Crowley in Q4 2011 created new asset values and new intangible assets that materially increased depreciation and amortisation charges versus the stand-alone values of earlier quarters. No attempt has been made to restate depreciation and amortisation for Q1-Q4 2011 as if the acquisitions have taken place on January 1, 2011.

Key Operational Indicators pro forma / as reported<sup>1</sup>

	Q1 2011 Pro forma	Q2 2011 Pro forma	Q3 2011 Pro forma	Q4 2011 As reported	Q1 2012 As reported	Q2 2012 As reported
<b>Total services (RGUs)</b>	<b>2,728,080</b>	<b>2,752,346</b>	<b>2,768,066</b>	<b>2,789,274</b>	<b>2,793,068</b>	<b>2,785,339</b>
<i>Broadband data services</i>						
Own infrastructure-based services .....	389,589	396,289	402,467	415,983	416,241	411,716
Own fixed-line networks .....	368,996	376,100	382,754	396,853	397,680	393,753
WiMAX .....	20,477	20,081	19,694	19,130	18,561	17,963
Others .....	116	108	19	-	-	-
Bitstream access.....	325,038	321,495	312,614	311,358	312,103	309,878
LLU .....	146,070	159,260	175,435	184,229	184,064	182,353
<b>Total broadband data services</b>						
(end of period) .....	<b>860,697</b>	<b>877,044</b>	<b>890,516</b>	<b>911,570</b>	<b>912,408</b>	<b>903,947</b>
<i>Voice services (excl. CPS)</i>						
Traditional direct voice <sup>2</sup> .....	620,012	610,441	605,165	596,330	584,928	587,311
incl. ISDN equivalent of lines .....	220,460	220,674	223,402	223,148	222,604	233,280
incl. legacy wireless .....	38,504	40,474	41,987	41,799	42,158	43,984
Voice over IP (excl. LLU).....	36,838	37,889	39,910	42,279	45,100	49,694
WiMAX voice .....	20,314	19,571	18,692	17,603	16,644	15,819
Netia network subscriber voice services .....	677,164	667,901	663,767	656,212	646,672	652,824
WLR .....	1,005,911	992,399	974,252	962,322	954,917	936,167
LLU voice over IP .....	95,112	106,698	118,808	126,189	126,240	125,145
<b>Total voice services (end of period) .....</b>	<b>1,778,187</b>	<b>1,766,998</b>	<b>1,756,827</b>	<b>1,744,723</b>	<b>1,727,829</b>	<b>1,714,136</b>
<i>TV services (end of period) .....</i>	<b>45,838</b>	<b>48,775</b>	<b>46,445</b>	<b>50,712</b>	<b>61,804</b>	<b>71,274</b>
<i>Mobile Data services (end of period) .....</i>	<b>9,277</b>	<b>16,627</b>	<b>24,664</b>	<b>30,267</b>	<b>30,446</b>	<b>33,415</b>
<i>Mobile Voice services (end of period) .....</i>	<b>34,081</b>	<b>42,902</b>	<b>49,614</b>	<b>52,002</b>	<b>60,581</b>	<b>62,562</b>
<b>Total services (RGUs) by segment (end of period) ..</b>	<b>2,728,080</b>	<b>2,752,346</b>	<b>2,768,066</b>	<b>2,789,274</b>	<b>2,793,068</b>	<b>2,785,339</b>
Dialog Group .....	765,366	773,612	783,190	792,043	802,805	795,121
Crowley .....	27,089	29,205	30,355	29,932	30,287	30,563
Corporate segment.....	172,928	176,066	180,765	185,670	188,965	205,826
Carrier segment .....	4,437	4,467	4,451	4,732	4,847	4,836
Residential segment .....	1,481,067	1,478,343	1,466,962	1,468,217	1,452,938	1,432,958
Share of lines with multiplay services .....	29%	30%	30%	31%	32%	33%
SOHO/SME segment .....	277,193	290,653	302,343	308,680	313,226	316,035
Share of lines with multiplay services .....	42%	45%	45%	47%	48%	48%
<i>Other</i>						
Total net additions in Broadband data services ...	nm	16,347	13,472	21,054	838	(8,461)
Monthly Broadband ARPU (PLN) .....	55	56	55	56	57	57
Total net additions in Voice services.....	nm	(11,189)	(10,171)	(12,104)	(16,894)	(13,693)
Monthly Voice ARPU in own network (PLN) .....	51	51	50	50	49	49
Monthly Voice ARPU for WLR (PLN) .....	47	47	46	46	45	45
Monthly Voice ARPU blended (PLN) .....	49	49	48	48	47	47
Monthly TV ARPU blended (PLN) .....	35	36	39	42	44	42
Monthly Mobile Data ARPU blended (PLN) .....	27	29	28	28	28	28
Monthly Mobile Voice ARPU blended (PLN) .....	34	32	26	25	24	26
CPS lines (cumulative) .....	84,298	79,835	77,051	73,696	70,029	67,480
Monthly Voice ARPU for CPS .....	54	49	50	49	48	44
Headcount.....	2,932	2,907	2,906	2,899	2,811	2,693
Active headcount.....	2,839	2,802	2,795	2,786	2,719	2,539

<sup>1</sup> In order to ensure comparability of operating results in this section, the actual key performance indicators for Q4 2011 – Q2 2012 are compared to the pro forma results for Q1 – Q3 2011 including the results of the Dialog Group and Crowley, which were acquired by Netia on December 16, 2011 and December 14, 2011, respectively.

<sup>2</sup> The sequential improvement in the number of traditional direct voice services between Q1 and Q2 2012 results from a one-time upward adjustment in the number of traditional direct voice lines by 12,965 due to product definition changes to services sold by the Corporate Segment.

*Income Statement as reported*  
*(incl. Dialog Group and Crowley impact from Q4 2011)*  
*(PLN in thousands unless otherwise stated)*

Time periods:	H1 2011 <sup>1</sup> unaudited	H1 2012 <sup>2</sup> unaudited	Q1 2012 <sup>2</sup> unaudited	Q2 2012 <sup>2</sup> unaudited
Direct Voice .....	368,450	487,917	246,343	241,574
Incl. monthly fees .....	255,716	339,032	169,158	169,874
Incl. calling charges .....	112,358	148,692	77,064	71,628
Indirect Voice .....	11,618	19,440	10,276	9,164
Data <sup>1</sup> .....	296,452	386,793	192,597	194,196
Interconnection revenues .....	39,322	58,065	29,566	28,499
Wholesale services .....	57,915	68,076	34,781	33,295
Other telecommunications revenues <sup>1</sup> .....	21,474	55,945	28,507	27,438
<b>Total telecommunications revenue</b> .....	<b>795,231</b>	<b>1,076,236</b>	<b>542,070</b>	<b>534,166</b>
Radio communications and other revenue .....	2,238	4,515	2,209	2,306
<b>Total revenue</b> .....	<b>797,469</b>	<b>1,080,751</b>	<b>544,279</b>	<b>536,472</b>
<b>Cost of sales</b> .....	<b>(542,558)</b>	<b>(757,843)</b>	<b>(380,003)</b>	<b>(377,840)</b>
Interconnection charges .....	(116,482)	(160,145)	(81,395)	(78,750)
Network operations and maintenance .....	(262,428)	(327,376)	(165,381)	(161,995)
Costs of goods sold .....	(7,004)	(4,881)	(2,537)	(2,344)
Depreciation and amortization .....	(126,069)	(196,561)	(97,972)	(98,589)
Salaries and benefits .....	(11,101)	(24,099)	(12,148)	(11,951)
Restructuring .....	-	(3,263)	(121)	(3,142)
Taxes, frequency fees and other expenses .....	(19,474)	(41,518)	(20,449)	(21,069)
<b>Gross profit</b> .....	<b>254,911</b>	<b>322,908</b>	<b>164,276</b>	<b>158,632</b>
<b>Margin (%)</b> .....	<b>32.0%</b>	<b>29.9%</b>	<b>30.2%</b>	<b>29.6%</b>
<b>Selling and distribution costs</b> .....	<b>(147,407)</b>	<b>(208,224)</b>	<b>(109,070)</b>	<b>(99,154)</b>
Advertising and promotion .....	(24,052)	(16,588)	(10,786)	(5,802)
Third party commissions .....	(14,893)	(16,133)	(9,812)	(6,321)
Billing, mailing and logistics .....	(15,932)	(22,582)	(12,312)	(10,270)
Outsourced customer service .....	(15,692)	(15,617)	(8,139)	(7,478)
Impairment of receivables .....	(2,731)	(5,629)	(4,565)	(1,064)
Depreciation and amortization .....	(14,794)	(30,548)	(15,332)	(15,216)
Salaries and benefits .....	(43,921)	(65,746)	(34,058)	(31,688)
Restructuring .....	(177)	(8,797)	(1,058)	(7,739)
Other costs .....	(15,215)	(26,584)	(13,008)	(13,576)
<b>General and administration costs</b> .....	<b>(75,464)</b>	<b>(111,402)</b>	<b>(56,868)</b>	<b>(54,534)</b>
Professional services .....	(4,392)	(5,704)	(2,821)	(2,883)
Electronic data processing .....	(4,863)	(6,267)	(3,061)	(3,206)
Office and car maintenance .....	(5,912)	(8,956)	(4,836)	(4,120)
Depreciation and amortization .....	(10,248)	(15,011)	(6,715)	(8,296)
Salaries and benefits .....	(35,899)	(52,543)	(28,020)	(24,523)
Restructuring .....	(58)	(5,451)	(1,420)	(4,031)
Other costs .....	(14,092)	(17,470)	(9,995)	(7,475)
Other income .....	7,416	12,738	6,294	6,444
Other expense .....	(996)	(1,910)	(955)	(955)
Other gains/ (losses), net .....	483	2,789	446	2,343
<b>EBIT</b> .....	<b>38,943</b>	<b>16,899</b>	<b>4,123</b>	<b>12,776</b>
<b>Margin (%)</b> .....	<b>4.9%</b>	<b>1.6%</b>	<b>0.8%</b>	<b>2.4%</b>
Finance income .....	7,528	4,094	1,822	2,272
Finance cost .....	(623)	(27,149)	(15,157)	(11,992)
<b>Profit before tax</b> .....	<b>45,848</b>	<b>(6,156)</b>	<b>(9,212)</b>	<b>3,056</b>
Tax benefit / (charge) .....	(55,982)	17,328	(634)	17,962
<b>Profit / (Loss)</b> .....	<b>(10,134)</b>	<b>11,172</b>	<b>(9,846)</b>	<b>21,018</b>

<sup>1</sup> Without the results of Dialog Group and Crowley, which were acquired on December 16 and 14, 2011, respectively.

<sup>2</sup> Including the consolidation of Dialog Group and Crowley results for the full period.



**Income Statement pro forma**  
*(incl. Dialog Group and Crowley impact from Q1 2011)*  
(PLN in thousands unless otherwise stated)

Time periods:	H1 2011 <i>unaudited</i>	H1 2012 <i>unaudited</i>	Q1 2012 <i>unaudited</i>	Q2 2012 <i>unaudited</i>
Direct Voice .....	520,842	487,917	246,343	241,574
Indirect Voice .....	26,257	19,440	10,276	9,164
Data .....	382,535	386,793	192,597	194,196
Interconnection revenues .....	58,591	58,065	29,566	28,499
Wholesale services .....	57,558	68,076	34,781	33,295
Other telecommunications revenues .....	46,331	55,945	28,507	27,438
<b>Total telecommunications revenue</b> .....	<b>1,092,113</b>	<b>1,076,236</b>	<b>542,070</b>	<b>534,166</b>
Radio communications and other revenue .....	2,238	4,515	2,209	2,306
<b>Total revenue</b> .....	<b>1,094,351</b>	<b>1,080,751</b>	<b>544,279</b>	<b>536,472</b>
<b>Cost of operations and other costs<sup>1</sup></b> .....	<b>(830,319)</b>	<b>(821,732)</b>	<b>(420,137)</b>	<b>(401,595)</b>
Depreciation & amortisation .....	(200,141)	(242,120)	(120,019)	(122,101)
<b>EBIT</b> .....	<b>63,892</b>	<b>16,899</b>	<b>4,123</b>	<b>12,776</b>
<b>Margin (%)</b> .....	<b>5.8%</b>	<b>1.6%</b>	<b>0.8%</b>	<b>2.4%</b>
Finance income / (cost) .....	6,684	(23,055)	(13,335)	(9,720)
<b>Profit / (Loss) before tax</b> .....	<b>70,575</b>	<b>(6,156)</b>	<b>(9,212)</b>	<b>3,056</b>
Tax benefit / (charge) .....	(60,744)	17,328	(634)	17,962
<b>Profit / (Loss)</b> .....	<b>9,831</b>	<b>11,172</b>	<b>(9,846)</b>	<b>21,018</b>

<sup>1</sup> Detailed prior year costs allocated in accordance with the Netia Group's standards are still being prepared for Dialog Group and Crowley so the full details cannot be provided at this time.

**EBITDA Reconciliation to Profit as reported**  
*(incl. Dialog Group and Crowley impact from Q4 2011)*  
(PLN in thousands unless otherwise stated)

Time periods:	H1 2011 <sup>1</sup> <i>unaudited</i>	H1 2012 <sup>2</sup> <i>unaudited</i>	Q1 2012 <sup>2</sup> <i>unaudited</i>	Q2 2012 <sup>2</sup> <i>unaudited</i>
<b>Operating Profit</b> .....	<b>38,943</b>	<b>16,899</b>	<b>4,123</b>	<b>12,776</b>
<i>Add back:</i>				
Depreciation and amortization .....	151,111	242,120	120,019	122,101
<b>EBITDA</b> .....	<b>190,054</b>	<b>259,019</b>	<b>124,142</b>	<b>134,877</b>
<i>Add back:</i>				
Restructuring costs .....	235	17,510	2,599	14,911
M&A related costs .....	1,667	694	237	457
New Netia integration costs .....	-	11,968	6,030	5,938
Provision for universal service obligation payments .....	2,380	-	-	-
<b>Adjusted EBITDA</b> .....	<b>194,336</b>	<b>289,191</b>	<b>133,008</b>	<b>156,183</b>
<b>Margin (%)</b> .....	<b>24.4%</b>	<b>26.8%</b>	<b>24.4%</b>	<b>29.1%</b>

**EBITDA Reconciliation to Profit pro forma**  
*(incl. Dialog Group and Crowley impact from Q1 2011)*  
(PLN in thousands unless otherwise stated)

Time periods:	H1 2011 <i>unaudited</i>	H1 2012 <i>unaudited</i>	Q1 2012 <i>unaudited</i>	Q2 2012 <i>unaudited</i>
<b>Operating Profit</b> .....	<b>63,892</b>	<b>16,899</b>	<b>4,123</b>	<b>12,776</b>
<i>Add back:</i>				
Depreciation and amortization .....	200,141	242,120	120,019	122,101
<b>EBITDA</b> .....	<b>264,033</b>	<b>259,019</b>	<b>124,142</b>	<b>134,877</b>
<i>Add back:</i>				
Restructuring costs .....	311	17,510	2,599	14,911
M&A related costs .....	1,667	694	237	457
New Netia integration costs .....	-	11,968	6,030	5,938
Provision for universal service obligation payments .....	2,380	-	-	-
<b>Adjusted EBITDA</b> .....	<b>268,391</b>	<b>289,191</b>	<b>133,008</b>	<b>156,183</b>
<b>Margin (%)</b> .....	<b>24.5%</b>	<b>26.8%</b>	<b>24.4%</b>	<b>29.1%</b>

<sup>1</sup> Without the results of Dialog Group and Crowley, which were acquired on December 16 and 14, 2011, respectively.

<sup>2</sup> Including the consolidation of Dialog Group and Crowley results for the full period.

**Note to Other Income as reported**  
*(incl. Dialog Group and Crowley impact from Q4 2011)*  
*(PLN in thousands unless otherwise stated)*

Time periods:	H1 2011 <sup>1</sup> unaudited	H1 2012 <sup>2</sup> unaudited	Q1 2012 <sup>2</sup> unaudited	Q2 2012 <sup>2</sup> unaudited
Reminder fees and penalties .....	1,740	8,583	3,469	5,114
Forgiveness of liabilities .....	-	244	157	87
Results of settlements .....	2,700	-	-	-
Returned VAT on acquisitions .....	1,015	-	-	-
Other operating income .....	1,961	3,581	2,631	950
Reversal of an impairment charge for non-current assets .....	-	330	37	293
<b>Total .....</b>	<b>7,416</b>	<b>12,738</b>	<b>6,294</b>	<b>6,444</b>

**Note to Other Expense as reported**  
*(incl. Dialog Group and Crowley impact from Q4 2011)*  
*(PLN in thousands unless otherwise stated)*

Time periods:	H1 2011 <sup>1</sup> unaudited	H1 2012 <sup>2</sup> unaudited	Q1 2012 <sup>2</sup> unaudited	Q2 2012 <sup>2</sup> unaudited
Impairment charges for specific individual assets .....	(958)	(1,539)	(480)	(1,059)
Other expenses .....	(38)	(371)	(475)	104
<b>Total .....</b>	<b>(996)</b>	<b>(1,910)</b>	<b>(955)</b>	<b>(955)</b>

**Note to Other Gains / (losses), net as reported**  
*(incl. Dialog Group and Crowley impact from Q4 2011)*  
*(PLN in thousands unless otherwise stated)*

Time periods:	H1 2011 <sup>1</sup> unaudited	H1 2012 <sup>2</sup> unaudited	Q1 2012 <sup>2</sup> unaudited	Q2 2012 <sup>2</sup> unaudited
Gain / (loss) on sale of impaired receivables .....	241	2,898	44	2,854
Gain / (loss) on disposal of fixed assets .....	721	(293)	(45)	(248)
Net foreign exchange gains / (losses) .....	(479)	184	447	(263)
<b>Total .....</b>	<b>483</b>	<b>2,789</b>	<b>446</b>	<b>2,343</b>

**Total comprehensive income as reported**  
*(incl. Dialog Group and Crowley impact from Q4 2011)*  
*(PLN in thousands unless otherwise stated)*

Time periods:	H1 2011 <sup>1</sup> unaudited	H1 2012 <sup>2</sup> unaudited	Q1 2012 <sup>2</sup> unaudited	Q2 2012 <sup>2</sup> unaudited
<b>Profit / (Loss) .....</b>	<b>(10,134)</b>	<b>11,172</b>	<b>(9,846)</b>	<b>21,018</b>
Cash flow hedges .....	(254)	(4,309)	(5,131)	822
Income tax relating to components of other comprehensive income .....	23	843	972	(129)
<b>Other comprehensive Income / (Loss) .....</b>	<b>(231)</b>	<b>(3,466)</b>	<b>(4,159)</b>	<b>693</b>
<b>Total comprehensive Income / (Loss) .....</b>	<b>(10,365)</b>	<b>7,706</b>	<b>(14,005)</b>	<b>21,711</b>
Attributable to equity holders of the Company .....	(10,365)	7,706	(14,005)	21,711

<sup>1</sup> Without the results of Dialog Group and Crowley, which were acquired on December 16 and 14, 2011, respectively.

<sup>2</sup> Including the consolidation of Dialog Group and Crowley results for the full period.

*Statement of financial position as reported*  
*(incl. Dialog Group and Crowley impact from Q4 2011)*  
*(PLN in thousands unless otherwise stated)*

Time periods:	Dec. 31 2011 <sup>1</sup> audited	March 31 2012 <sup>2</sup> unaudited	June 30 2012 <sup>2</sup> unaudited
Property, plant and equipment, net .....	2,184,047	2,148,741	2,115,176
Intangible assets .....	765,229	746,254	723,640
Investment property .....	26,399	-	-
Deferred income tax assets .....	109,022	108,549	126,307
Available for sale financial assets .....	115	115	115
Long-term receivables .....	218	218	218
Prepaid expenses and accrued income .....	11,832	12,575	13,857
<b>Total non-current assets .....</b>	<b>3,096,862</b>	<b>3,016,452</b>	<b>2,979,313</b>
Inventories .....	5,314	5,142	3,955
Trade and other receivables .....	255,212	239,061	270,368
Current income tax receivables .....	262	262	39
Prepaid expenses and accrued income .....	30,091	33,610	37,943
Derivative financial instruments .....	2,723	510	1,019
Financial assets at fair value through profit and loss .....	16	16	15
Restricted cash .....	2,263	2,278	2,278
Cash and cash equivalents .....	156,509	159,503	125,959
	<b>452,390</b>	<b>440,382</b>	<b>441,576</b>
Assets held for sale .....	-	26,736	26,770
<b>Total current assets .....</b>	<b>452,390</b>	<b>467,118</b>	<b>468,346</b>
<b>TOTAL ASSETS .....</b>	<b>3,549,252</b>	<b>3,483,570</b>	<b>3,447,659</b>
Share capital .....	391,602	381,863	386,170
Treasury shares .....	(49,582)	-	(24,847)
Supplementary capital .....	1,867,421	1,818,325	2,058,494
Retained earnings .....	251,012	241,166	36,444
Other components of equity .....	39,915	45,385	27,619
<b>Equity attributable to equity owners .....</b>	<b>2,500,368</b>	<b>2,486,739</b>	<b>2,483,880</b>
Non-controlling interests .....	5	5	-
<b>TOTAL EQUITY .....</b>	<b>2,500,373</b>	<b>2,486,744</b>	<b>2,483,880</b>
Bank loans .....	514,584	514,374	451,096
Provisions .....	3,086	3,009	9,428
Deferred income .....	22,123	22,475	20,986
Other long-term liabilities .....	9,392	8,966	5,006
<b>Total non-current liabilities .....</b>	<b>549,185</b>	<b>548,824</b>	<b>486,516</b>
Trade and other payables .....	262,251	256,809	275,009
Derivative financial instruments .....	84	4,297	3,806
Borrowings .....	180,593	129,783	128,734
Other financial liabilities .....	71	64	-
Current income tax liabilities .....	1	1	1
Provisions .....	12,660	13,165	26,562
Deferred income .....	44,034	43,883	43,151
<b>Total current liabilities .....</b>	<b>499,694</b>	<b>448,002</b>	<b>477,263</b>
<b>Total liabilities .....</b>	<b>1,048,879</b>	<b>996,826</b>	<b>963,779</b>
<b>TOTAL EQUITY AND LIABILITIES .....</b>	<b>3,549,252</b>	<b>3,483,570</b>	<b>3,447,659</b>

<sup>1</sup> Includes 2 weeks of consolidating results of Dialog Group and Crowley, which were acquired on December 16 and 14, 2011, respectively.

<sup>2</sup> Includes the full quarter of consolidating results of Dialog Group and Crowley.

**Cash Flow Statement as reported**  
*(incl. Dialog Group and Crowley impact from Q4 2011)*  
*(PLN in thousands unless otherwise stated)*

Time periods:	H1 2011 <sup>1</sup> unaudited	H1 2012 <sup>2</sup> unaudited	Q1 2012 <sup>2</sup> unaudited	Q2 2012 <sup>2</sup> unaudited
<b>Profit / (Loss)</b> .....	<b>(10,134)</b>	<b>11,172</b>	<b>(9,846)</b>	<b>21,018</b>
Depreciation and amortization .....	151,111	242,120	120,019	122,101
Reversal of impairment charges for specific assets .....	(1,007)	(330)	(37)	(293)
Impairment charges for specific individual assets .....	958	1,539	480	1,059
Deferred income tax charge / (benefit) .....	(2,602)	(16,766)	1,586	(18,352)
Interest expense and fees charged on bank loans.....	-	25,626	13,299	12,327
Other interest charged .....	(3,273)	219	54	165
Share-based compensation .....	1,955	1,635	1,248	387
Fair value (gains)/losses on financial assets/liabilities .....	-	1	-	1
Fair value (gains)/losses on derivative financial instruments .....	(105)	1,125	1,473	(348)
Foreign exchange (gains)/losses .....	153	(60)	227	(287)
(Gain)/Loss on disposal of fixed assets .....	(661)	322	45	277
Changes in working capital .....	63,610	15,788	23,303	(7,515)
<b>Net cash provided by operating activities</b> .....	<b>200,005</b>	<b>282,391</b>	<b>151,851</b>	<b>130,540</b>
Purchase of fixed assets and computer software .....	(118,599)	(141,873)	(75,361)	(66,512)
Proceeds from sale of non-core assets .....	4,872	231	63	168
Purchase of Ethernet operators, net of received cash .....	(2,197)	(5,285)	(3,685)	(1,600)
Purchase of Dialog group and Crowley, net of received cash .....	-	(2,775)	(2,775)	-
Net (purchase)/receipt of treasury bonds / notes .....	(35,594)	-	-	-
Purchase of non-controlling interest .....	-	(15)	-	(15)
Sale of investments .....	-	28	28	-
<b>Net cash used in investing activities</b> .....	<b>(151,518)</b>	<b>(149,689)</b>	<b>(81,730)</b>	<b>(67,959)</b>
Government grants received .....	-	6,595	-	6,595
Repurchase of own shares .....	-	(24,847)	-	(24,847)
Finance lease payments .....	(2,515)	(3,244)	(2,335)	(909)
Loan repayments .....	(31)	(116,981)	(51,583)	(65,398)
Interest repayments .....	-	(24,835)	(12,982)	(11,853)
<b>Net cash used in financing activities</b> .....	<b>(2,546)</b>	<b>(163,312)</b>	<b>(66,900)</b>	<b>(96,412)</b>
<b>Net change in cash and cash equivalents</b> .....	<b>45,941</b>	<b>(30,610)</b>	<b>3,221</b>	<b>(33,831)</b>
<b>Effect of exchange rate change on cash and cash equivalents</b> .....	<b>(153)</b>	<b>60</b>	<b>(227)</b>	<b>287</b>
Cash and cash equivalents at the beginning of the period .....	173,600	156,509	156,509	159,503
<b>Cash and cash equivalents at the end of the period</b> .....	<b>219,388</b>	<b>125,959</b>	<b>159,503</b>	<b>125,959</b>

<sup>1</sup> Includes 2 weeks of consolidating results of Dialog Group and Crowley, which were acquired on December 16 and 14, 2011, respectively.

<sup>2</sup> Includes the first full quarter of consolidating results of Dialog Group and Crowley.

### Definitions

<b>Active headcount</b>	<ul style="list-style-type: none"> <li>full-time employment equivalent with regard to employees who are not during maternity leaves, non-paid leaves nor long-term sick leaves (above 33 days during calendar year), who are not at military service or who were relieved from the obligation to perform work</li> </ul>
<b>Backbone</b>	<ul style="list-style-type: none"> <li>a telecommunications network designed to carry the telecommunications traffic between the main junctions of the network;</li> </ul>
<b>Bitstream access</b>	<ul style="list-style-type: none"> <li>a type of regulatory broadband access enabling provision of broadband service by an altnet to customers connected by a copper line owned by TPSA. The altnet connects to the TPSA data network and may only offer services identical to those of TPSA, paying TPSA on a retail minus basis for use of the TPSA network.</li> </ul>
<b>Broadband SAC</b>	<ul style="list-style-type: none"> <li>a cost per unit related to the acquisition of new customers through broadband access (i.e., Bitstream, LLU, WiMAX, xDSL), including a one-time payment to TP (the incumbent), sales commissions, postal services and the cost of modems sold;</li> </ul>
<b>Broadband ARPU</b>	<ul style="list-style-type: none"> <li>average monthly revenue per broadband port during the period; Broadband ARPU is obtained by dividing the amount of monthly revenues from data services related to provisioning fixed Internet access by the average number of broadband ports, in each case for the referenced three-month period; Where significant promotional discounts are given at the beginning of contracts, revenues are averaged over the life of the contract.</li> </ul>
<b>Broadband port</b>	<ul style="list-style-type: none"> <li>a broadband port which is active at the end of a given period;</li> </ul>
<b>Cash</b>	<ul style="list-style-type: none"> <li>cash and cash equivalents at the end of period;</li> </ul>
<b>Cost of network operations and maintenance</b>	<ul style="list-style-type: none"> <li>cost of rentals of lines and telecommunications equipment, as well as maintenance, services and related expenses necessary to operate our network;</li> </ul>
<b>Data revenues</b>	<ul style="list-style-type: none"> <li>revenues from provisioning Frame Relay (including IP VPN-virtual private network services), lease of lines (including leased lines for carriers), Internet fixed-access services (provided, among others, through bitstream and WiMAX types of access) and IP Transit;</li> </ul>
<b>Direct voice revenues</b>	<ul style="list-style-type: none"> <li>telecommunications revenues from voice services offered by Netia to its subscribers (through various types of access, including, among others, WiMAX). Direct voice services include the following traffic fractions: local calls, domestic long-distance (DLD) calls, international long distance (ILD) calls, fixed-to-mobile calls and other services (incl. Internet dial-in, emergency calls and 0-80x/0-70x - type calls originated by Netia's subscribers);</li> </ul>
<b>DSLAM</b>	<ul style="list-style-type: none"> <li>technical infrastructure that splits data from voice traffic over a copper line and is deployed in the local network of a telecommunications operator to provide ADSL services to customers connected to a given local network node.</li> </ul>
<b>EBITDA / Adjusted EBITDA</b>	<ul style="list-style-type: none"> <li>to supplement the reporting of our consolidated financial information under IFRS, we will continue to present certain financial measures, including EBITDA. We define EBITDA as profit/(loss) as measured by IFRS, adjusted for depreciation and amortization, financial income and expense, income taxes and results of investments in associates. EBITDA has been further adjusted for a non-cash gain on reversal of earlier impairment charges, provision for universal service obligation payment, one-off restructuring expenses related to the cost reduction program, M&amp;A expenses, New Netia integration expenses, a gain on disposal of the transmission equipment to P4 and a positive accounting impact from the settlement agreement with TP and is therefore defined as Adjusted EBITDA. We believe EBITDA and related measures of cash flow from operating activities serve as useful supplementary financial indicators in measuring the operating performance of telecommunication companies. EBITDA is not an IFRS measure and should not be considered as an alternative to IFRS measures of profit/(loss) or as an indicator of operating performance or as a measure of cash flows from operations under IFRS or as an indicator of liquidity. The presentation of EBITDA, however, enables investors to focus on period-over-period operating performance, without the impact of non-operational or non-recurring items. It is also among the primary indicators we use in planning and operating the business. You should note that EBITDA is not a uniform or standardized measure and the calculation of EBITDA, accordingly, may vary significantly from company to company, and by itself provides no grounds for comparison with other companies;</li> </ul>
<b>Headcount</b>	<ul style="list-style-type: none"> <li>full time employment equivalents;</li> </ul>
<b>Indirect voice revenues</b>	<ul style="list-style-type: none"> <li>telecommunications revenues from the services offered through Netia's prefix (1055) or Tele2 Polska's prefix (1061) to customers being subscribers of other operators. Indirect access services include the following traffic fractions: domestic long-distance (DLD) calls, international long distance (ILD) calls and fixed-to-mobile calls;</li> </ul>



<b>Interconnection charges</b>	<ul style="list-style-type: none"> <li>• payments made by Netia to other operators for origination, termination or transfer of traffic using other operators' networks;</li> </ul>
<b>Interconnection revenues</b>	<ul style="list-style-type: none"> <li>• payments made by other operators to Netia for origination, termination or transfer of traffic using Netia's network, netted against the cost of traffic termination;</li> </ul>
<b>Local Loop Unbundling (LLU)</b>	<ul style="list-style-type: none"> <li>• a type of regulatory broadband access enabling provision of broadband service by an altnet to customers connected by a copper line owned by TPSA. The altnet installs DSLAM equipment at a TPSA local network node and connects it to its own backbone network. The altnet may offer broadband and voice service to any customer connected by TPSA copper line to the given node. The altnet can offer an unrestricted range of services and pays TPSA space rental and monthly fees per customer line used.</li> </ul>
<b>Professional services</b>	<ul style="list-style-type: none"> <li>• costs of legal, financial and other services (excluding insurance and taxes and fees, which are presented separately) provided to Netia by third parties;</li> </ul>
<b>Other telecommunications services revenues</b>	<ul style="list-style-type: none"> <li>• revenues from TV, mobile voice and mobile data services, revenues from provisioning Internet dial-in services for Netia's indirect customers (based on a call-back principle and an access number (0-20)); revenues from provisioning free-phone, split-charge and premium rate services (i.e., 0-800, 0-801 and 0-70x type services), netted against the cost of revenue sharing; as well as other non-core revenues;</li> </ul>
<b>Radiocommunications revenue</b>	<ul style="list-style-type: none"> <li>• revenues from radio-trunking services provided by Netia's subsidiary, UNI-Net Poland Sp. z o.o.;</li> </ul>
<b>Subscriber line</b>	<ul style="list-style-type: none"> <li>• a connected line which became activated and generated revenue at the end of the period;</li> </ul>
<b>Voice ARPU</b>	<ul style="list-style-type: none"> <li>• average monthly revenue per direct voice line during the period; ARPU is obtained by dividing the amount of monthly revenues from direct voice services (excluding installation fees) by the average number of subscriber lines, in each case for the referenced three-month period;</li> </ul>
<b>Wholesale Line Rental (WLR)</b>	<ul style="list-style-type: none"> <li>• a type of regulatory voice access enabling provision of voice service by an altnet to customers connected by a copper line owned by TPSA. The altnet connects to the TPSA voice network and charges the customer for both line rental and calls made. TPSA receives a payment for line rental plus call origination fees and keeps all interconnection revenues from incoming calls.</li> </ul>
<b>Wholesale services</b>	<ul style="list-style-type: none"> <li>• revenues from providing commercial network services such as voice termination, incoming Voice over Internet Protocol (VoIP), telehousing and collocation as well as backbone-based services.</li> </ul>

## Conference call on the H1 2012 results

Netia management will hold a conference call to review the results on August 23, 2012 at 09:00 AM (UK) / 10:00 AM (Continent) / 04:00 AM (Eastern).

*Dial in numbers:*

(PL) +48 22 397 9053

(UK) +44 20 3003 2666

(US) +1 212 999 6659

*Replay number:*

(UK) +44 20 8196 1480

Passcode: 9834078#

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

For further information, please contact Anna Kuchnio at +48 22 352 2061, email: [anna\\_kuchnio@netia.pl](mailto:anna_kuchnio@netia.pl).

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