

**HALF-YEARLY REPORT OF THE MANAGEMENT BOARD ON THE
ACTIVITIES OF
TELL S.A. AND THE TELL S.A. GROUP**

Poznań, 25 August 2014

Tell S.A. Group
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1. Basic information about the Parent Company;

Name:	Tell
Legal form:	Spółka Akcyjna (Polish joint-stock company)
Seat:	61-362 Poznań, ul. Forteczna 19a
Country of incorporation:	Poland
Basic objects of business:	<ul style="list-style-type: none">- Telecommunications- Wholesale of telecommunications equipment on a fee or contract basis- Wholesale of office machinery and equipment- Retail sale of telecommunications equipment- Information technology- Advertising
Registration authority:	
	District Court Poznań- Nowe Miasto i Wilda, 8th Commercial Division of the National Court Register
Statistical number (REGON):	630822208

2. Composition of the Management Board of Tell S.A. as at 30 June 2014;

Rafał Stempniewicz	- President of the Management Board
Stanisław Górski	- Member of the Management Board
Robert Krasowski	- Member of the Management Board

3. Composition of the Supervisory Board of Tell S.A. as at 30 June 2014;

Jerzy Motz	- Chairman of the Supervisory Board
Tomasz Słowiński	- Secretary of the Supervisory Board
Paweł Turno	- Member of the Supervisory Board
Tomasz Mazurczak	- Member of the Supervisory Board
Piotr Cholewa	- Member of the Supervisory Board

4. Discussion of the accounting policies, including the methods of measurement of assets, equity and liabilities (depreciation & amortisation), measurement of the financial result;

The mid-year separate financial statements of Tell S.A and the consolidated quarterly financial statements of the Tell S.A. Group were prepared in accordance with the International Financial Reporting Standards ("IFRS") and IFRS approved by the European Union ("EU"). As at the date of the approval of this statement, considering the existing process of implementation of IFRS standards in the EU and the Group's operations, there are no differences

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between the IFRS standards that have come into effect and the standards approved by the EU as regards the accounting principles applied by the Group.

IFRS comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements were prepared in accordance with the historical cost method.

The financial statements should be read together with the financial statements for the financial year ended on 31 December 2013.

These financial statements are prepared in Polish zlotys ("PLN"), and all values are given in thousands PLN, unless otherwise indicated.

The financial statements were prepared with the application of the same accounting policies for the current period and the comparable period.

5. Description of the organisation of the Group and indication of consolidated entities;

The Tell S.A. Group comprises Tell S.A. and its subsidiaries. The following companies are subject to consolidation: Euro-Phone Sp. z o.o. and PTI Sp. z o.o.

Euro-Phone Sp. z o.o.

- Seat of the Company: ul. Puławska 40a, 05-500 Piaseczno,
- Basic object of business: Agents specialised in the sale of other particular products (Polish Classification of Economic Activities of 2007 - 4618Z),
- Company's legal basis: The Company was established on 19 March 1998 (Notarised deed No. A 2699/98). The registration authority is the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register, KRS 0000010796. Incorporation date: 25 May 2001.
In Euro-Phone Sp. z o.o., Tell S.A. holds 100% of shares.

PTI Sp. z o.o.

Seat of the Company: ul. Forteczna 19A, 61-362 Poznań,

- Basic object of business: Agents specialised in the sale of other particular products (Polish Classification of Economic Activities of 2007 - 4618Z),
- Company's legal basis: The Company was established on 12 July 2007 (Notarised deed No. A 5675/2007). Registration authority: District Court for Kraków Śródmieście in Krakow, XI Commercial Division of the National Court Register, KRS 0000286046. Incorporation date – 13 August 2007.
In PTI Sp. z o.o., Tell S.A. holds 100% of shares.

Toys4Boys Pl. Sp. z o.o.

Seat of the Company: ul. Nowy Świat 11B, 80-299 Gdańsk,

- Basic object of business: Retail sale via mail order houses or via Internet (Polish Classification of Economic Activities of 2007 – 4791Z),
- Company's legal basis: The Company was established on 16 February 2007 (Notarised deed No. A 5029/2007). Registration authority: District Court for Gdańsk-Północ in Gdansk, 7th Commercial Division of the National Court Register, KRS 0000276286. Incorporation date: 12 March 2007,
In Toys4Boys.PL Sp. z o.o., Tell S.A. holds 30% of shares.

The financial statements of Toys4BoysPl. Sp. z o.o. is immaterial from the perspective of the consolidated financial statements of the Tell S.A. Group. By decision of the Management of the Company, Toys4BoysPl Sp. z o.o. is not subject to consolidation as at 30 June 2014.

Tell S.A. holds shares in Connex Sp. z o.o., which is not consolidated. As at the date of these financial statements, Connex Sp. z o.o. does not conduct any business.

6. Indication of consequences of changes in the structure of the entity, including the resulting mergers, take-overs or sales of the issuer's Group companies, long-term investments, divisions, restructuring or business discontinuations;

No changes in the company's structure.

7. Key achievements of the Group in the first half of 2014;

Size of the Sale Network.

The average number of Orange outlets where the sale of Orange Polska S.A. services is conducted amounted to 171 in the first half of 2014 (as at 30/06/2014 - 165 outlets), when compared to the average number of the first half of 2013 being 179 outlets (as at 30/06/2013 - 177 outlets).

The number of outlets run by subsidiaries where the services of other operators are sold amounted to, as at the end of 30/06/2014, 169 outlets, when compared to 172 outlets as at the end of 30/06/2013. Among the above-mentioned outlets, there were 83 outlets (82 respectively as at the end of the first half of 2013) offering the services of Polkomtel Sp. z o.o. (PLUS operator) and 83 outlets (respectively, 90 as at the end of the first half of 2013) offering the services of T-Mobile Polska S.A. (T-Mobile operator).

Separate results of TELL S.A. on current operations.

In the first half of 2014, the revenue from the sale in TELL S.A. amounted to kPLN 45.425 and was higher by 9.8% than in the corresponding period of previous year. The higher revenues result from the growth in the sale of the margin-free goods.

The operating profit for the first half of 2014 amounted to kPLN 2.776 and was lower by 29.4% than in the corresponding period of previous year.

EBITDA of the first half of 2014 amounted to kPLN 3.353 and was lower by 24.9% than in the corresponding period of the previous year.

The net profit of the first half of 2014 was kPLN 3.355 and was lower than in the corresponding period of the previous year by 24.9%.

Consolidated results of TELL S.A. Group on current operations.

In the first half of 2014, the revenue from the sale in the Group amounted to kPLN 121.060 and was lower by 9.6% than in the corresponding period of previous year.

The operating profit for the first half of 2014 amounted to kPLN 4.577 and was lower by 3.7% than in the corresponding period of previous year.

EBITDA of the first half of 2014 amounted to kPLN 5.470 and was lower by 2.6% than in the corresponding period of the previous year.

The net profit of the first half of 2014 was kPLN 3.097 and was lower than in the corresponding period of the previous year by 11.4%.

The value and volume structure of sales of the Tell S.A. Group:

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Revenue from the sale of products and goods (in kPLN)	2014 First half	2013 First half	Change First half 2014/ First half 2013
Revenue from the sale of telecommunication services	47,612	51,080	93.21%
Sets and pre-paid refillments	8,240	9,770	84.34%
Postpaid contract phones	60,319	68,011	88.69%
Other revenue	4,888	5,013	97.51%
Total	121,060	133,874	90.43%

Service sale volume	2014 First half	2013 First half	Change First half 2014/ First half 2013
Postpaid activations	270,058	293,750	91.93%
Prepaid activations	55,370	64,601	85.71%
Total	325,428	358,351	90.81%

8. Information on the dividends paid, in total and as divided per share, with a breakdown into ordinary and preferential shares;

No decision concerning the distribution of profit for 2013 was made by the date of this statement. The General Meeting of Shareholders held on 03 June 2014 adopted Resolution No. 14/2014 concerning the distribution of profit – stating that the resolution concerning the distribution of profit for 2013 would be taken not later than 31 October 2014.

9. Statement of the management board concerning the possibility of achieving the earlier published forecasts of results for the given year in the light of results presented in the mid-year statements (as compared to the forecasts);

The Management Board of Tell S.A. did not publish any forecasts of results for 2014.

10. Indication of shareholders holding, directly or indirectly through subsidiary entities, at least 5% of total votes at the general meeting of shareholders of the issuer as at the date of publication of the mid-year statements, indication of the number of shares held, their percentage of share capital, number of votes resulting and percentage of total votes at the general meeting of shareholders and indication of changes in the structure of significant blocks of shares in the issuer in the period from the publication of the previous quarterly statements;

The last published quarterly report is the report for the first quarter of 2014. In the period between the publication of the last quarterly report to the publication of the report for the first half of 2014, there were changes in the shareholding structure.

As at 30/06/2014, the share capital of the Company amounted to kPLN 1.022 (2013: kPLN 1,022) and was divided into 5,110,847 shares (2013: 5,110,847) of the nominal value of PLN 0.20 each. All shares have been fully paid up. All shares equally participate in the dividend distribution. The shares are divided into ordinary bearer shares, which entitle to one vote at the General Meeting of Shareholders, and preferential shares, where 1 preferential share entitle to two votes.

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Shareholders holding at least 5% of votes at the General Meeting of Shareholders as at the date of the publication of the statements for the first half of 2014.

	Total shares	Total votes	Percentage of share capital	% of votes
Neo Fund 1 Sp. z o. o.*	1,279,860*	2,501,564	25.04%	38.537%
Waldemar Ziomek	453,648	613,256	8.88%	9.45%
AVIVA Investors FIO** AVIVA Investors SFIO	657,672	657,672	12.87%	10.13%
Quercus Parasolowy SFIO, Quercus Absolute Return FIZ	877,179	877,179	17.16%	13.51%
total	3,268,359	4,649,671	63.95%	71.62%

* Shares acquired indirectly by Neo Investment spółka akcyjna.

** number of shares held by Funds represented at the Ordinary General Meeting of Shareholders on 28/04/2011.

Shareholders holding at least 5% of votes at the General Meeting of Shareholders as at the date of the publication of the statements for the first quarter of 2014.

	Total shares	Total votes	Percentage of share capital	% of votes
Neo Fund 1 Sp. z o. o.*	1,279,860*	2,501,564	25.04%	38.537%
V Group S.A.	529,093	529,093	10.35%	8.15%
Waldemar Ziomek	453,648	613,256	8.88%	9.45%
AVIVA Investors FIO** AVIVA Investors SFIO	657,672	657,672	12.87%	10.13%
Quercus Parasolowy SFIO, Quercus Absolute Return FIZ	877,179	877,179	17.16%	13.51%
total	3,797,452	5,178,764	74.30%	79.77%

* Shares acquired indirectly by Neo Investment spółka akcyjna.

** number of shares held by Funds represented at the Ordinary General Meeting of Shareholders on 28/04/2011.

The above statements were made in the basis of information given to the Company by the shareholders, in particular in the form of notifications about considerable blocks of shares, taking into account changes in the amount and structure of the Company's share capital, including changes related to the share issue, division, conversion or redemption.

11. List of issuer's shares and entitlements thereto held by persons managing or supervising the issuer upon the date of the publication of the mid-year statements, indication of changes thereto in the period from the publication of the previous quarterly report, separately for each such person;

The last published quarterly report is the report for the first quarter of 2014. In the period between the publication of the last quarterly report to the publication of the report for the first half of 2014, there were changes in the shareholding structure.

List of shares held by persons managing or supervising the issuer as at the date of publication of this report for the first half of 2014.

	Total shares	Total votes	Percentage of share capital	% of votes
Members of the Supervisory Board				
Paweł Turno	30,000	30,000	0.59%	0.46%
Management Board				
Rafał Stempniewicz	94,590	94,590	1.85%	1.46%
Stanisław Górski	2,319	2,319	0.05%	0.04%
Robert Krasowski	4,924	4,924	0.10%	0.08%
total	131,833	131,833	2.58%	2.03%

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List of shares held by persons managing or supervising the issuer as at the date of publication of this report for the first quarter of 2014.

	Total shares	Total votes	Percentage of share capital	% of votes
Members of the Supervisory Board				
Paweł Turno	30,000	30,000	0.59%	0.46%
Management Board				
Rafał Stempniewicz	94,590	94,590	1.85%	1.46%
Stanisław Górski	2,319	2,319	0.05%	0.04%
Robert Krasowski	4,924	4,924	0.10%	0.08%
total	131,833	131,833	2.58%	2.03%

12. Indication of court, arbitration or public administration proceedings, including information on the scope thereof;

Both Tell S.A. and its subsidiaries are parties to legal proceedings in courts of law, however none of such proceedings concerns liabilities or receivables whose value constitutes at least 10 % of the equity of the issuer. Similarly, the total value of, respectively, liabilities and receivables litigated in court does not constitute at least 10 % of the equity of the issuer.

There are no proceedings with the participation of the Company or its subsidiaries before any arbitration court.

13. Information on the conclusion by the issuer or its subsidiary of one or more transactions with related parties when such transactions individually or taken together are material and were not entered at arm's length, excluding transactions entered into by an issuer being a fund with a related party, including indication of the value(s) of such transactions, whereby, the information on particular transactions may be grouped by type, excluding the case when information on such particular transactions is necessary for the understanding of their impact on the economic or financial position of the issuer or its financial result;

All transactions between the Group companies are at arm's length transactions.

As at the balance sheet date, the total of loans granted by Tell S.A. to subsidiaries amounted to kPLN 6.982, the amount of interest received is kPLN 306. Loan and interest transactions with related parties are deconsolidated in the mid-year consolidated financial statements.

The loans are granted at variable interest rates calculated as the sum of the following components: interest rate determined as above plus a margin of 3.5%. The interest rate changes with each first day of a calendar month of the contract validity pro rata to the reference rate calculated and rounded up/down to the second digit on the basis of the arithmetical average of 1M WIBOR for deposits over the last 10 working days of the previous calendar month.

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14. Information on the grant by the issuer or its subsidiary of a loan collateral or guarantee to one entity or subsidiary of such entity (jointly) if the total value of the existing collaterals or guarantees is equivalent to at least 10 % of the issuer's equity;

Beneficiary	Type of liability	Value as at in kPLN	Guarantor	Obligor
		30/06/2014		
T-Mobile Polska S.A.	merchant's loan	6.300	Tell S.A.	guarantee for Euro-Phone Sp. z o.o.
DnD Bank Polska S.A.	guarantee line facility	4.200	Tell S.A.	guarantee for Euro-Phone Sp. z o.o.
DnD Bank Polska S.A.	loan	3.205	Tell S.A.	guarantee for Euro-Phone Sp. z o.o.
Alior Bank S.A.	loan	10.000	Tell S.A.	guarantee for PTI Sp. z o.o.
Alior Bank S.A.	guarantee line facility	2.600	Tell S.A.	guarantee for PTI Sp. z o.o.
Alior Bank S.A.	guarantee line facility	680	Tell S.A.	guarantee for PTI Sp. z o.o.
Polkomtel Sp. z o.o.	Merchant's loan	1.200	Tell S.A.	guarantee for PTI Sp. z o.o.
DnD Bank Polska S.A.	loan	2.700	PTI Sp. o.o.	guarantee for Tell Sp. z o.o.

15. Other information, which in the issuer's opinion is important for the assessment of its personnel, economic, financial position and the financial result, as well as changes thereto; information that is important for the assessment of the issuer's obligation discharge possibilities;

The statements contain basic information that is important for the assessment of the Tell S.A. Group's situation, whereby, in order to complete the picture, the system of registering revenue and costs related to the postpaid mobile phone services are presented below.

Methods of settling subsidies to postpaid phones in contracts with particular operators

In order to ensure the correct interpretation of the separate and consolidated financial results of the Tell S.A. Group companies, it is necessary to explain different ways of recognition in the books of the Group companies of subsidiaries for the sale of mobile phones by particular operators and the impact of such operations on revenue and costs items. Irrespective of a different way of mobile phone sale settlement by particular operators, the result on such operations is neutral.

ORANGE network operator – Orange Polska S.A. (formerly PTK Centertel Sp. z o.o.).

Tell S.A. acquires phones from the Operator at market prices. After the purchase, the Company incurs a liability in an amount equal to the market price of the phone. At the same time, the Company recognised in its assets an inventory stock valued at the phones' market prices. The Company sells such phones in two variants:

- a sale of the phone directly to the client in a sale outlet

In this case, the sale is made at the promotional price (allowing for a subsidy at the level agreed with the Operator). Thus, the Company makes a temporary loss on this particular transaction. However, immediately after the promotional sale, in accordance with the procedures agreed with the Operator in the contract, the Operator issues corrective invoices decreasing the original phone purchase price for the Company to the promotional price (allowing for the subsidy level). Thus, in effect, the transaction has a neutral effect on the Company's financial result,

- sale of the phone to a sub-agent, who then sells it to a client in a sale outlet

In this case, the sale is made at the original Operator's purchase price and then the process is analogous as above, whereby it is the Company that issues a corrective invoice to the sub-agent, adjusting the original selling price.

T-Mobile network operator – T-Mobile Polska S.A.

Until the end of June 2011, the revenue and costs related to the sale of mobile phones were registered in promotional prices.

Between 1 July 2011 and March 2013, the Company had in place a system identical to the system of settlements between Tell S.A. and Orange network operator.

This system was changed in March 2013. Currently, the Company receives phones from the Operator as held in trust and has 45 days to sell them. If not sold within such period of 45 days, the phones are automatically bought and an invoice is made to the name of Euro-Phone Sp. z o.o. If, consequently, the phone (purchased by the Company after the expiry of the 45 day period) is sold to the client in a selling outlet, the difference between the purchase price and the promotional price is reimbursed on the basis of a correction invoice, i.e. in accordance with the same procedure as before the system change. Transactions with sub-agents are a replication of the operations between the Company and the operator, with a difference that the Company is a party to them and not the Operator.

PLUS network operator - Polkomtel Sp. z o.o.

PTI Sp. z o.o. acquires phones from the Operator at market prices. After the purchase, the Company incurs a liability in an amount equal to the market price of the phone. At the same time, the Company recognised in its assets an inventory stock valued at the phones' market prices. The Company sells such phones in two variants:

- a sale of the phone directly to the client in a sale outlet

In this case, the sale is made at the promotional price (allowing for a subsidy at the level agreed with the Operator). Thus, the Company makes a loss on this particular transaction. However, immediately after the promotional sale, as agreed with the Operator in the contract, the Operator grants the company a commission in an amount equal to the value of loss incurred at the given transaction. In effect, the transaction has a neutral effect on the Company's financial result, however, it shows a much higher revenue and costs from a similar transaction than other Group companies.

- sale of the phone to a sub-agent, who then sells it to a client in a sale outlet

In this case the sale is made at the original price of purchase from the Operator, but then the process is similar as the one described above, whereby it is the company that sets off the sub-agent's loss on the mobile phone sale transaction to a client by paying an appropriate commission (received earlier from the Operator).

In consequence of such recognition, the phone sale results in relatively high revenue from the sale and high costs of sale when compared to other Group companies.

If all Group companies settled the value of subsidised phones in the same way as Tell S.A, the Group's revenue would amount to in 2014 and 2013, respectively, kPLN 91.653 and kPLN 95.963. The costs of sale in 2014 and 2013 would be, respectively, kPLN 62.350 and kPLN 66.917.

16. Indication of factors which, in the issuer's opinion, will have an influence on its results within the perspective of at least next quarter.

The basic factors which will influence the results to be achieved by the TELL S.A. Group in the nearest future include the demand for mobile phone services, in particular its seasonality as well as the related level of sale plan performance imposed on the Group Companies by mobile phone operators.

17. Description of the basic threats and risks related to the remaining months of the financial year.

Main risk factors are:

- Risk related to the macroeconomic situation of Poland
- Dependence on mobile phone operators of particular Group companies
- Change of sale strategy by mobile phone operators
- Growth in importance of other service sale channels among mobile phone operators (call centres, Internet)
- Possibilities to terminate agency contracts by operators
- Loss of competitive position for operators in the context of results of particular Group companies

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President of the Management Board
Member of the Management Board

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