

**REPORT OF THE MANAGEMENT BOARD  
ON THE ACTIVITIES OF  
TELL S.A.  
IN 2013**

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## 1 LEGAL STATUS OF THE PARENT COMPANY TELL S.A.

### 1.1 Basic information about the Parent Company

Name:	<b>Tell</b>
Legal form:	<b>Spółka Akcyjna (<i>Polish joint-stock company</i>)</b>
Seat:	<b>61-362 Poznań, ul. Forteczna 19a</b>
Country of incorporation:	<b>Poland</b>
Basic objects of business:	<ul style="list-style-type: none"><li>- other telecommunications activities,</li><li>- retail sale of telecommunications equipment in specialised stores,</li><li>- retail sale of computers, peripheral equipment and software in specialised stores,</li><li>- wholesale of electronic and telecommunications equipment and parts,</li><li>- wholesale of computers, peripheral equipment and software,</li><li>- other retail sale not in stores, stalls or markets,</li><li>- computer facilities management activities,</li><li>- other business and management consultancy activities.</li></ul>

Registration authority:

District Court Poznań- Nowe Miasto i Wilda, 8th Commercial Division of the National Court Register

Statistical number (REGON): 630822208

### 1.2 Composition of the governing bodies of the Parent Company as at 17 March 2014

#### **Management Board:**

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

#### **Changes in the Management Board of the Company:**

In the financial year, the composition of the Management Board did not change.

#### **Supervisory Board:**

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

### Changes in the Supervisory Board:

In the financial year, the composition of the Supervisory Board changed. The following persons resigned from their functions as members of the Supervisory Board: Mariola Więckowska, Łukasz Kręski, Piotr Karmelita and Robert Walicki. By virtue of resolution of the Extraordinary General Meeting of Shareholders of 27 September 2013, Mr Tomasz Mazurczak and Mr Jerzy Motz and by virtue of resolution of 10 March 2014 Mr Piotr Cholewa and Mr Tomasz Słowiński were appointed Members of the Supervisory Board .

#### 1.3 Chartered auditors

Grant Thornton Frackowiak Sp. z o.o., Sp.k.  
ul. Abpa A. Baraniaka 88E  
61-131 Poznań

#### 1.4 Quotations at the regulated market

##### 1. General:

<b>Stock Exchange:</b>	<b>The Warsaw Stock Exchange</b> ul. Książęca 4 00-498 Warszawa
<b>Symbol at the WSE:</b>	TEL
<b>Sector at the WSE:</b>	retail sale

<b>2. Depository-settlement system:</b>	<b>The National Depository for Securities (KDPW)</b> ul. Książęca 4 00-498 Warszawa
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<b>3. Contact with investors:</b>	Tell S.A. ul. Forteczna 19a 61-362 Poznań
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#### 1.5 Share capital of the Parent Company as at 31 December 2013

As at the balance sheet date, the value of share capital of Tell S.A. amounts to PLN 1.022.169,40. The capital is divided into 5.110.847 shares of the nominal value of PLN 0.20 each, including:

- 1.381.312 series A registered preferential shares (one share entitles to two votes)
- 3.729.535 ordinary bearer shares.

## 2 Related parties

### 2.1 Information on organisational or capital links of the issuer with other entities. Description of the Group organisation, description of changes and their underlying reasons.

Tell S.A. Group comprises Tell S.A. and its related companies.

#### **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,

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- The Company's share capital is PLN 2,550,000. 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 objects of business: (Polish Classification of Economic Activities of 2007) 4618Z Agents specialised in the sale of other particular products,
- Company's legal basis: The Company was established on 12 July 2007 (Notarised deed No. A 5675/2007. The registration authority is the District Court for Krakow - Śródmieście in Krakow, 11th Commercial Division of the National Court Register, KRS 0000286046. Incorporation date: 13 August 2007,
- The Company's share capital is PLN 1.900.000. In PTI Sp. z o.o., Tell S.A, holds 100% shares.

**Toys4Boys PI. 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. 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,
- The share capital of the Company is PLN 142,900. In Toys4Boys. PI Sp. z o.o. Tell S.A. holds 30% of shares.

**Connex Sp. z o.o.**

- Seat of the Company: ul. Forteczna 19A, 61-362 Poznań,
- Basic object of business: Other wholesale – Polish Classification of Economic Activities of 2007: 5190Z
- Company's legal basis: The Company was established on 06 July 2000 (Notarised deed No. A 4298/2000. Registration authority: District Court for Poznań – Nowe Miasto i Wilda in Poznań, 8th Commercial Division of the National Court Register, KRS 0000024020,
- The Company's share capital is PLN 200000. In Connex Sp. z o.o., Tell S.A, holds 100% of shares.

### 3 FINANCIAL POSITION OF THE GROUP

#### **3.1 Information about basic products, goods or services, with a breakdown into volumes and value as well as the shares of particular products, goods and services (if they are material) or their groups in total sale of the Group, changes in this respect during the year.**

The companies Tell S.A, Euro-Phone Sp. z o.o. and PTI Sp. z o.o. operate on the market of mobile telephony services distribution. In 2013, the Group operated on the basis of agency contracts with 3 biggest mobile phone operators. Business models of all above-mentioned Group companies are very similar.

The company Toys4BoysPI Sp. z o.o., in turn, is a leader on the market of gifts and gadgets. It runs 16 stores located in shopping malls and one Internet store. Connex Sp. z o.o. does not carry on any business activities.

#### **3.1.1 Postpaid activations**

There are two basic types of services on the mobile phone market: postpaid and prepaid. The activation of the postpaid type (the service is paid in arrears) is characterised by a long-term contract signed by the client with the operator (usually for 2 years) and a necessity to pay a monthly subscription fee. As part of postpaid services, the ever growing share is taken by data transmission services, allowing a mobile Internet access based on a separate SIM card. For the client acquisition in the postpaid system and for the extension of the client's past contract, the

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Group companies receive a commission from mobile phone operators. The commission is the most important source of margin for Group companies.

### 3.1.2 Wide-band Internet access services

For the acquisition of clients and for clients extending their previous contracts with the operator, the Group companies receive a commission in accordance with the same rules as in case of postpaid activations.

### 3.1.3 Prepaid activations

The prepaid activation (service paid up front) does not require the client to conclude a contract with the operator and pay a monthly subscription fee. The remuneration for including a client in Orange's network is a trade margin realised on the sale of the so-called starting sets (SIM card plus a phone number).

### 3.1.4 Prepaid account refilling

Another source of revenue for Tell S.A. are the calling cards (electronic refilling), which allow the client to top up his prepaid account with a definite amount to be then used to make calls, send text messages and use other services. The remuneration for the sale to the client of such time is based on a trade margin.

### 3.1.5 Sale of mobile phone accessories

The sale of mobile phone accessories is a source of revenues of subsidiaries that is independent from the mobile phone operators. The parent company - Tell - sells accessories distributed by Orange Polska.

### 3.1.6 Sale of postpaid mobile phones

Mobile phones offered jointly with the postpaid activation are not a source of margin for the Group companies (their sale is margin neutral). They are sold to clients at promotional prices, much lower than the market prices, and the difference between the market price and the price for the client is covered by the operators (each operator does it differently). This phenomenon is a form of subsidising the mobile phones by operators in order to lower the network entry barrier for the client. The subvention is a form of the operator's investment in the client and is repaid to the operator by the client on the basis of invoices for services over the subscription period.

The tables below present the sale as broken down into ranges offered by Group companies and sale volumes in the main revenue lines.

Revenue from the sale of products and goods (in kPLN)	2013	2012	Change 2013/2012
Revenue from the sale of telecommunication services	103,494	113,469	91.21%
Sets and pre-paid refillments	19,908	22,812	87.27%
Postpaid contract phones	130,726	146,261	89.38%
Other revenue	9,737	10,623	91.66%
Total	263,865	293,165	90.01%

Service sale volume	2013	2012	Change 2013/2012
Postpaid activations	592,320	565,464	104.75%
Prepaid activations	150,497	146,300	102.87%
Total	742,817	711,764	104.36%

**3.2 Information on markets, with a breakdown into domestic and foreign markets, information about sources of materials for production, goods and services, with an indication of dependence on one or more supplier or client, and in case the share of one supplier or client reaches at least 10 % of total sale revenue - name of supplier or client, his share in sale or supply as well as formal links with the issuer.**

**3.2.1 Situation on the mobile phone market**

The basis for the business of the Tell S.A. Group companies is the market of mobile telephony and, to an ever growing extent, the market of wide band Internet access and paid television. In 2013, the Companies' revenues based, similarly as in previous years, on the transaction model. i.e. the remuneration received from the Operator for the new client acquisition or for the extension of the old client's contract for telecommunications services. A supplementary source of income of the companies are bonuses related to the after-sale service and maintenance of sale standards.

When it comes to new client acquisition, particular attention must be paid to the fact that these are not only clients who have not had a mobile phone so far but also those migrating from the pre-paid to the post-paid segment as well as clients migrating between mobile phone operators in the post-paid service segment. Therefore, what must be taken into consideration is the fact that the most frequently published data concerning the SIM card market saturation reflect only partially the revenue potential.

The number of active SIM cards grew by 4.1% from the beginning of 2013. This means, that the market penetration ratio for mobile telephony (among individuals) amounted to 147%, as compared to 141% as at the end of 2012 and 123.7% as at the end of 2011.

As regards the market of mobile phone operators' service distribution, the three key rules of distributors were not changed:

- a) exclusivity regarding the offer of one single operator in one single store;
- b) exclusive competence of operators as regards the number and location of shops offering their services;
- c) standardisation of the offer, visualisation and sale standards within the entire sale network (there are slight variances in this regard).

In view of these circumstances, the competition between various distributors of services of the same operator is limited and concerns such areas as acquisition of new shop locations (this factor lost its significance in view of the market maturity), quality of sale force and operating efficiency of logistic and settlement processes. The competition between distributors of services of particular operators is, in turn, a reflection of the strategy and marketing policy of the operators themselves.

**3.2.2 Group's sale network.**

**TELL S.A.**

Tell S.A. is an authorised Poland-wide representative of Orange Polska S.A.(formerly PTK Centertel Sp. z o.o). It operates on the mobile phone service retail market. As at 31/12/2013, the sale was conducted in a Orange brand network of 173 sale outlets (channel dedicated to individual clients) and 38 Business Client Consultants (channel dedicated to business clients). On the basis of an Agency Agreement with Orange Polska S.A., Tell S.A. offers to the clients - on the exclusivity basis, the services of the Orange operator.

Considering the scale of the Orange network downsizing, the Company estimates that its share in the operator's sale network at the end of 2013 did not change when compared to 2012. Consequently, the Company maintained its position of Orange's biggest agent.

**EURO-PHONE Sp. z o.o.**

As at 31/12/2013, the sale was conducted in a network of 91 sale outlets (channel dedicated to individual clients) and 38 Business Client Consultants (channel dedicated to business clients). The average number of sale outlets in 2013 was 92, which was a fall by 6.90% when compared to 2012, however the number of Business Client Consultants in 2013 was 55, which was a fall by 29% when compared to 2012.

**PTI Sp z o.o.**

As at 31/12/2013, the sale was conducted in a network of 83 sale outlets (channel dedicated to individual clients) and 18 Plus Business Advisers (channel dedicated to business clients).

The sale is conducted in two types of sale outlets: showrooms and agent's outlets. During the financial year, the Company closed one store. Showrooms are sale outlets where the Company employs its own employees and has its own electronic cash register. Agent's outlets are sale outlets managed by sub-agents, i.e. independent economic operators conducting their own business. The scope of business of the Company covers the whole territory of Poland.

**3.2.3 Dependence on suppliers**

The Group's largest contractor continues to be Orange Polska S.A. (formerly PTK Centertel Sp. z o.o.) with registered office in Warsaw. Assuming the revenue from the sale of telecommunications services as the basis, this operator's share in Group's revenue amounted to 60% in 2013. In 2012, the share was at the level of 53%. The share of two remaining operators, i.e. Polkomtel Sp. z o.o. and T Mobile S.A. in the revenue from the sale of telecommunications services is also significant and exceeds 10% for each of them.

**3.3 Discussion of basic economic and financial data disclosed in the financial statements, in particular a description of non-typical factors and events that may have a significant influence on the Group's activities and its profits or losses of the financial year.**

**3.3.1 Discussion of the main income statement items**

The revenue from the sale in 2013 amounted to kPLN 236,865 and was lower by 10.0% than in the corresponding period of previous year.

The operating profit for 2013 amounted to kPLN 11,515 and was lower by 8.2% than in the corresponding period of previous year.

EBITDA of 2013 amounted to kPLN 13,258 and was lower by 7.3% than in the previous year.

The 2013 net profit was kPLN 8,571 and was lower than in the previous year by 8.0%.

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**Consolidated income statement in kPLN**

	from 01/01 to 31/12/2013	from 01/01 to 31/12/2012	2013/2012
<b>Sale revenues</b>	<b>263,865</b>	<b>293,165</b>	<b>90.0%</b>
Revenue from the sale of services	155,666	171,230	90.9%
Revenue from the sale of goods and materials	108,199	121,935	88.7%
<b>Sale costs</b>	<b>202,581</b>	<b>229,582</b>	<b>88.2%</b>
Costs of services sold	<b>96,019</b>	110,641	86.8%
Cost of goods and materials sold	<b>106,562</b>	118,941	89.6%
<b>Gross profit (loss) on sales</b>	<b>61,284</b>	<b>63,582</b>	<b>96.4%</b>
Sale costs	39,151	40,177	97.4%
Administration costs	8,713	9,345	93.2%
Other operating income	641	510	125.7%
Other operating expense	2,546	2,029	125.5%
<b>Operating profit (loss)</b>	<b>11,515</b>	<b>12,541</b>	<b>91.8%</b>
Financial income	147	490	30.1%
Financial costs	761	909	83.7%
<b>Profit (loss) before taxation</b>	<b>10,901</b>	<b>12,122</b>	<b>92.0%</b>
Income Tax	<b>2,330</b>	<b>2,806</b>	<b>83.0%</b>
<b>Net profit</b>	<b>8,571</b>	<b>9,316</b>	<b>92.0%</b>

EBITDA	13,258	14,295
Amortisation and depreciation	1,744	1,754
EBITDA rate	5.0%	4.9%
Gross profit on sales	23.2%	21.7%
Profit on sales	5.1%	4.8%
Operating profit	4.4%	4.3%
Gross profit	4.1%	4.1%
Net profit	3.2%	3.2%

### 3.3.2 Discussion of the main items of the consolidated balance sheet

In the presented consolidated balance sheet, the balance sheet total amounts to kPLN 122,823, which constitutes approx. 91% of the last year's value.

The fixed assets constitute 54.0% of total assets. The share of fixed assets in total assets grew when compared to the previous year by 4.9%. The structure of this group is stable.

The current assets constitute 46.0% of total assets. Their share went down by 4.9% when compared to the previous year. The value of current assets decreased from kPLN 68,757 in 2012 to kPLN 56,536 in 2013, in terms of percentage, it fell by 17.8%. A significant item is the heading "Short-term receivables", which constitute 35.9% of the balance sheet total, and "Inventories" which constitute 9.3% of the balance sheet total. The value of inventories grew by 6.8% when compared to the previous year, and the value of receivables fell by 7.8%.

Equity constitutes 45.4% of total liabilities and equity. In terms of value, the equity decreased from kPLN 60,206 in 2012 to kPLN 55,725 in 2013. The underlying reason were the payment of the dividends to the shareholders and the purchase of treasury shares.

Liabilities constitute 54.6% of total liabilities and equity. whereby long-term liabilities amount to 6.1% and short-term ones to 48.5%. The value of total liabilities fell by 10.2% from kPLN 74,744 in 2012 to kPLN 67,098 in 2013.

The Group's credit liabilities amount to kPLN 7,130, of which kPLN 2,313 is the outstanding amount of the investment loans granted to Tell- kPLN 713 and to Euro-Phone - kPLN 1,600. The amount of kPLN 4,817 is the overdraft facility: Tell – kPLN 940, Euro-Phone - kPLN 909 and PTI - kPLN 2,967.

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**Consolidated balance sheet in kPLN**

ASSETS	31/12/2013		31/12/2012		2013/2012
	value	structure	value	structure	dynamics
<b>Fixed assets</b>					
Goodwill	57,581	46.9%	57,581	42.7%	100.0%
Intangible fixed assets	779	0.6%	957	0.7%	81.4%
Tangible fixed assets	4,400	3.6%	4,133	3.1%	106.5%
Interests in related parties	1,287	1.0%	1,287	1.0%	100.0%
Receivables and loans	979	0.8%	1001	0.7%	97.8%
Long-term prepayments	129	0.1%	235	0.2%	54.9%
Deferred income tax assets	1133	0.9%	999	0.7%	113.4%
<b>Fixed assets</b>	<b>66,288</b>	<b>54.0%</b>	<b>66,193</b>	<b>49.1%</b>	<b>100.1%</b>
<b>Current assets</b>					
Inventories	11,477	9.3%	10,744	8.0%	106.8%
Trade receivables and other	44,054	35.9%	47,757	35.4%	92.2%
Current tax assets	121	0.1%	258	0.2%	46.9%
Loans	6	0.00%	268	0.20%	2.2%
Short-term prepayments	285	0.2%	377	0.3%	75.6%
Cash and cash equivalents	593	0.5%	9,352	6.9%	6.3%
<b>Current assets</b>	<b>56,536</b>	<b>46.0%</b>	<b>68,757</b>	<b>50.9%</b>	<b>82.2%</b>
<b>Total assets</b>	<b>122,823</b>	<b>100.0%</b>	<b>134,950</b>	<b>100.0%</b>	<b>91.0%</b>

EQUITY AND LIABILITIES	31/12/2013		31/12/2012		2013/2012
	value	structure	value	structure	dynamics
<b>Shareholder's equity</b>					
<i>Equity - share of the shareholders of the</i>					
Share capital	1,022	0.8%	1,136	0.8%	90.0%
- Share	24,863	20.2%	24,863	18.4%	100.0%
Other reserve capitals	1,459	1.2%	9,286	6.9%	15.7%
Retained profits:					
- retained profit	19,810	16.1%	15,605	11.6%	126.9%
- net profit for the company's shareholders	8,571	7.0%	9,316	6.9%	92.0%
Equity - share of the shareholders of the	55,725	45.4%	60,206	44.6%	92.6%
Non-controlling shares					
<b>Shareholder's equity</b>	<b>55,725</b>	<b>45.4%</b>	<b>60,206</b>	<b>44.6%</b>	<b>92.6%</b>
<b>Liabilities</b>					
<b>Long-term liabilities</b>					
Loans, credits, other debt instruments	460	0.4%	2,339	1.7%	19.7%
Deferred tax liabilities	7,017	5.7%	6,720	5.0%	104.4%
Employee benefit liabilities	68	0.1%	74	0.05%	91.9%
<b>Long-term liabilities</b>	<b>7,545</b>	<b>6.1%</b>	<b>9,133</b>	<b>6.8%</b>	<b>82.6%</b>
<b>Short-term liabilities</b>					
Trade liabilities and other	47,081	38.3%	56,500	41.9%	83.3%
Current tax liabilities	1,570	1.3%	1,232	0.9%	127.4%
Loans, credits, other debt instruments	6,670	5.4%	3,373	2.5%	197.7%
Employee benefit liabilities	4,231	3.4%	4,410	3.3%	95.9%
Other short-term provisions			96	0.1%	0.0%
<b>Short-term liabilities</b>	<b>59,553</b>	<b>48.5%</b>	<b>65,611</b>	<b>48.6%</b>	<b>90.8%</b>
<b>Total provisions</b>	<b>67,098</b>	<b>54.6%</b>	<b>74,744</b>	<b>55.4%</b>	<b>89.8%</b>
<b>Total equity and liabilities</b>	<b>122,823</b>	<b>100.0%</b>	<b>134,950</b>	<b>100.0%</b>	<b>91.0%</b>

### 3.3.3 Discussion of the cash flow statement

Cash flows of the Group – are characterised by a positive flow from operating activities and a negative flow from the investing activities and financial activities.

The analysis of the flows from operating activities indicates that the Group noted a rise in inventories of goods by kPLN 733, in receivables by kPLN 3,726 and in liabilities by as much as kPLN 9,637.

In the flows from the investing activities, a significant item is the expenditure to purchase fixed assets in the amount of kPLN 2,096.

In the flows from financing activities, the significant item is the expenditure on the purchase of treasury shares in the amount of kPLN 7,941 and the dividend payment of kPLN 5,111.

#### Consolidated cash flow statement in kPLN

	Notes	from 01/01 to 31/12/2013	from 01/01 to 31/12/2012
<b>Cash flow from operating activity</b>			
<b>Profit (loss) before taxation</b>		<b>10,901</b>	<b>12,122</b>
<b>Adjustments:</b>	22		
Depreciation of tangible fixed assets		1,744	1,754
Profit (loss) on the sale of non-financial fixed assets		137	219
Interest expense		622	676
Interest and dividend income		-36	-309
Total adjustments		2,467	2,340
Change in inventories		-733	1,999
Change in receivables	22	3,726	5,230
Change in liabilities	22	-9,637	-12,845
Change in provisions and prepayments		135	657
Changes in working capital		-6,508	- 4,959
Taxes paid		-1,692	- 1,167
<b>Net cash flow from operating activity</b>		<b>5,168</b>	<b>8,336</b>
<b>Cash flow from investment activity</b>			
Expenses to purchase fixed assets		-2,096	-1,716
Inflows from the sale of fixed assets		126	197
Received repayments of loans granted		277	534
Loans granted		-15	-781
Interest income		36	311
<b>Net cash flow from investing activity</b>		<b>-1,671</b>	<b>-1,455</b>
<b>Cash flow from financial activity</b>			
Purchase of treasury shares		-7,941	-8,842
Inflows from loans and credits contracted		3,877	3,939
Repayment of loans and advances		-2,433	-3,937
Interest paid		-648	-663
Dividends paid		-5,111	
<b>Net cash flow from financial activity</b>		<b>-12,255</b>	<b>- 9,504</b>
<b>Net change in cash and cash equivalents</b>		<b>-8,758</b>	<b>-2,623</b>
Cash and cash equivalents at period beginning		9,352	11,975
<b>Cash and cash equivalents at period end</b>		<b>593</b>	<b>9,352</b>

### 3.4 Ratio analysis

For the correct interpretation of ratios characterising the efficiency of management of the Group's current assets and the profitability ratios based on revenues, it is necessary to explain the way of reflecting in the Group companies' books the mechanisms by which mobile phone operators subsidise the postpaid activation phones. The changes are not so much a result of real changes in relations in economic values significant for the Group results, but from of a different way of settling the postpaid phone subsidies than in case of remaining operators. Irrespective, however, of a different way of mobile phone sale settlement by particular operators, the result on such operations is neutral for Group companies' results.

ORANGE network operator – Orange Polska S.A.

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 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.

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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 2013 and 2012, respectively, kPLN 193,727 and kPLN 215,966. The costs of sale in 2013 and 2012 would be, respectively, kPLN 132,443 and kPLN 152,414.

In the table below, we draw attention to the inventory and receivable turnover ratios, where there were changes resulting from the above-described settlement mechanisms.

No.	Name of ratio	Formula	Measure	2013	2012
<b>1</b>	<b><u>Efficiency ratio</u></b>				
1.1	Cost level ratio	$\frac{\text{tax deductible cost}}{\text{sale revenue}}$		1.54	0.95
1.2	Asset turnover ratio	$\frac{\text{sale revenue}}{\text{total assets}}$		2.15	2.17
1.3	Fixed asset turnover ratio	$\frac{\text{sale revenue}}{\text{fixed assets}}$		3.98	4.43
1.4	Current asset turnover ratio	$\frac{\text{sale revenue}}{\text{current assets}}$		4.67	4.26
1.5	Inventory turnover ratio	$\frac{\text{sale revenue}}{\text{inventories}}$		22.99	27.29
1.6	Inventory cycle indicator	$\frac{\text{inventories} \times \text{number of days in the period}}{\text{sale revenue}}$	days	15.88	13.38
1.7	Receivables turnover ratio	$\frac{\text{sale revenue}}{\text{trade receivables}}$		5.97	5.98
1.8	Receivables cycle indicator	$\frac{\text{receivables} \times \text{number of days in the period}}{\text{sale revenue}}$	days	61.11	61.03

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<b>2 Effectiveness ratios</b>			
2.1	ROS	$\frac{\text{operating profit} \times 100}{\text{sale revenue}}$	% 2.69% 4.34%
2.2	NPM	$\frac{\text{net profit} \times 100}{\text{sale revenue}}$	% 3.25% 3.18%
2.3	Rate of return	$\frac{\text{net profit} \times 100}{\text{total assets at period end}}$	% 6.98% 6.90%
2.4	ROE	$\frac{\text{net profit} \times 100}{\text{equity}}$	% 15.38% 14.57%
<b>3 Financial liquidity ratios</b>			
3.1	Liquidity I	$\frac{\text{total current assets}}{\text{current liabilities}}$	0.95 1.05
3.2	Liquidity II	$\frac{\text{current assets} - \text{inventories} - \text{prepayments} \& \text{accruals}}{\text{current liabilities}}$	0.76 0.88
3.3	Liquidity III	$\frac{\text{cash}}{\text{current liabilities}}$	0.01 0.14
<b>4 Capital structure ratios</b>			
4.1	Debt ratio	$\frac{\text{total debt}}{\text{equity}}$	1.20 1.24
4.2	Equity to debt ratio	$\frac{\text{equity}}{\text{total debt}}$	0.83 0.81
4.3	Asset financing structure ratio	$\frac{\text{equity}}{\text{total capital}}$	0.45 0.45
4.4	Asset financing structure ratio	$\frac{\text{bank loans}}{\text{total capital}}$	0.06 0.04
4.5	Asset financing structure ratio	$\frac{\text{liabilities to suppliers}}{\text{total capital}}$	0.37 0.40

**3.5 Factors and non-typical events influencing the result of the financial year, specifying the degree of influence of such factors or non-typical events on the result achieved by the Tell S.A. Group.**

During the financial year there were no non-typical events that might have any influence on the results achieved by the Group.

**3.6 Description of risk and threat factors, with a specification to what extent the Tell Group is exposed to them.**

Main risk factors are:

- Risk related to the macroeconomic situation of Poland
- Sale network downsizing

Dependence on mobile phone operators of particular Group companies  
Change of the sale strategy by mobile phone operators (including a sale network downsizing)  
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

### **3.7 Indication of court, arbitration or public administration proceedings.**

Both the Company and the 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.

## **4 EXPLANATORY NOTES**

### **4.1 Information on contracts significant for the business of the Tell Group companies, including contracts between shareholders known to the issuer, insurance contracts and cooperation contracts**

#### **4.1.1 Agency Contract of 20/11/2012**

The key contract for Tell S.A. is the Agency Contract with Orange of 20 November 2012 (superseding previous contracts and effective as of 1 October 2012) on the basis of which Tell S.A. provides mobile phone system agency services for Orange Polska S.A.

#### **4.1.2 Agency Contract of 01 April 2001**

The key contract for Euro-Phone Sp. z o.o. is the Agency Contract of 01/04/2001 on the basis of which Euro-Phone Sp. z o.o. provides mobile phone system agency services for T-Mobile Polska S.A. Additionally, the Company and T-Mobile Polska S.A. concluded the Distribution Contract of 01/07/2001.

#### **4.1.3 Network Partner Cooperation Contract (Partnership Contract) of 30/06/2010.**

In 2013, the key contract for PTI Sp. z o.o. is the Agency Contract of 30/06/2010 (superseding previous contracts) on the basis of which PTI Sp. z o.o. provides mobile phone system agency services for Polkomtel Sp. z o.o. In addition to the above-mentioned contract, the Company and Polkomtel also concluded the Goods Distribution Contract concerning pre-paid products.

#### **4.1.4 Cooperation Agreement with the Authorised G300 Network Representative of 02/04/2013.**

On the basis of this agreement, PTI sp. z o.o. provides mobile phone agency services on the business market. The agreement was concluded with Liberty Polska S.A. – Partner of Polkomtel Sp. z o.o. – after the termination by Polkomtel of the earlier agreement concluded with Polkomtel. The agreement termination by Polkomtel was caused by the consolidation of Polkomtel Agents at the business service market and a change of Polkomtel's sale network structure.

### **4.2 Information about main domestic and foreign investment directions (securities, financial instruments, intangible assets and real estates), including equity investments made outside the group of related entities as well as description of their financing.**

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The Company and its subsidiaries have not been parties to any currency contracts (options, futures, forward), and did not hedge against currency risk in any manner.

#### 4.3 Information on loans and credit contracts, loan maturities, sureties and guaranties granted.

	Interest rate	Maturity date	Value in PLN	Liability as at 31/12/2013	
				short-term	long-term
Credit facilities in the credit account with DnB Bank Polska S.A.	variable	31/05/2015	3,417	1,140	460
Overdraft facilities with DnB Bank Polska S.A.	variable	31/05/2014	6,000	1,850	
Credit facilities in the credit account with Alior Bank S.A.	variable	30/05/2014	8,000	713	
Overdraft facilities with Alior Bank S.A.	variable	31/05/2014	7,000	2,967	

The loan liabilities of the Group are covered by the following collaterals (as at the balance sheet day):

- pledge on shares in subsidiaries up to the amount of kPLN 43.025 (2012: kPLN 43,025 ),
- registered pledge on inventories and inventory repossession contracts up to the amount of kPLN 37,400 (2012: kPLN 37,400 ),
- registered pledge on movable property up to the amount of kPLN 10,000 (2012: kPLN 10,000 ),
- assignment of rights under insurance policies,.
- statement on enforcement,
- sureties
- power of attorney to dispose of the current and future inflows to the bank account.

As at 31/12/2013, the following assets of the Group (in their carrying amounts) constituted collaterals and guarantees for the repayment of liabilities:

	31/12/2013	31/12/2012
Intangible fixed assets		
Tangible fixed assets, including leased assets		
Financial assets (other than receivables)	13,781	13,781
Inventories	11,607	12,941
Movable property	18,413	18,413
Trade receivables and other		
Cash		
<b>Total carrying amount of assets constituting a liability collateral</b>	<b>43,801</b>	<b>45,135</b>

#### 4.4 Information on loans granted, including maturity dates, as well as sureties and guarantees, in particular loans, guarantees and sureties granted to related parties.

##### 4.4.1 Loans granted

As at 31/12/2013, the value of loans granted to the Group companies by Tell S.A. amounted to kPLN 6.582. The total amount concerns Euro-Phone Sp z o.o. The loans mature in 2014. 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 3.50%.

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.

#### 4.4.2 Securities granted

Entity	Type of liability	Value as at in kPLN	Beneficiary
		31/12/2013	
T-Mobile Polska S.A.	merchant's loan	6,300	Euro-Phone Sp. z o.o.
DnD Bank Polska S.A.	guarantee line facility	4,200	Euro-Phone Sp. z o.o.
DnD Bank Polska S.A.	loan	5,125	Euro-Phone Sp. z o.o.
Alior Bank S.A.	loan	10,000	PTI Sp. z o.o.
Alior Bank S.A.	guarantee line facility	3,280	PTI Sp. z o.o.
Polkomtel Sp. z o.o.	merchant's loan	1,200	PTI Sp. z o.o.
Alior Bank S.A.	loan	4,000	Tell S.A.

#### 4.5 Description of mail capital investment or deposits made within the Tell Group during the financial year

The surplus of cash of the Tell Group was invested in 2013 exclusively in safe financial instruments, i.e. short-term bank deposits.

#### 4.6 Description of the use of issue proceeds by the Issuer

In 2013, the Group companies did not issue any shares.

#### 4.7 Explanation of differences between the financial results disclosed in the annual statement and result forecasts published earlier for the given year.

No forecasts were published.

#### 4.8 Assessment of financial resources management and its grounds, in particular the ability to discharge liabilities incurred, determination of possible threats and measures undertaken or to planned by the issuer to counteract such threats.

In 2013, the Tell Group conducted a rational financial management. Particular Group companies timely discharged their liabilities. The Group conducted a restrictive credit policy towards its clients and monitored the receivables very closely.

The Company and its subsidiaries have not been parties to any currency contracts (options, futures, forward), and did not hedge against currency risk in any manner.

#### 4.9 Description of the possibilities of investment plans, including equity investments, when compared to the funds held, taking into account possible changes in the financing structure.

The investment intentions will be pursued with the utilisation of funds from the current activities and, possibly, bank loans. When such instruments prove insufficient, a new share issue will be considered.

#### 4.10 Characteristics of external and internal factors significant for the development of the issuer's business and description of the issuer's activity development perspective at least until the end of the financial year following the financial year for which the financial statements were made, including elements of the issuer's market strategy.

The Group's strategy assumes the maximisation of the size and effectiveness of the sale network by investment in opening new sale outlets and the take-over of existing outlets from other entities. The objective of the above strategy is to achieve competitive advantage for the Group with regard to other entities operating on the mobile

phone distribution market by maximisation of EBITDA and diversification of activities among all important mobile phone operators in Poland. The Group assumes a diversification of revenue owing to investments in other economic entities operating on the market using a similar business model.

The most important factors influencing the Group's financial results in 2014 include:

- a) situation on the mobile phone market, including:
  - the growth of the market saturation,
  - growth in the number of contracts prolonged with clients acquired in previous years,
  - level of client migration between operators,
  - rise in the sale of services of fixed and mobile access to the Internet and data transmission services,
  - average revenue from a client,
  - an outflow of clients to the PLAY network (at present, the Group does not cooperate with this operator and, consequently, cannot achieve any revenue from the acquisition of clients by this operator),
- b) sale policy of mobile phone operators, in particular with regard to the tendency to decrease the sale network;
- c) entrance on the market of possible new operators, including MVNO and cable televisions;

#### **4.11 Most important achievements in research and development.**

The Group did not carry out research and development projects in 2013.

#### **4.12 Changes in basic business management principles concerning the issuer and the group.**

The issuer did not change the company's and the group's business management principles.

#### **4.13 Changes in the composition of bodies managing or supervising the issuer during the last financial year, principles governing the appointment and recalling of the management bodies as well as their competencies, in particular the right to take a decision on the issue or redemption of shares.**

In the period from 1 January 2013 to 17 March 2014, the following Supervisory Board Members resigned from their offices: Mariola Więckowska, Łukasz Kręski, Piotr Karmelita and Robert Walicki. By virtue of resolution of the Extraordinary General Meeting of Shareholders of 27 September 2013, Mr Tomasz Mazurczak and Mr Jerzy Motz and by virtue of resolution of 10 March 2014 Mr Piotr Cholewa and Mr Tomasz Słowiński were appointed Members of the Supervisory Board .

Members of the Management Board are appointed by the Supervisory Board for a joint 5-year term of office. Also the recalling of the Members of the Management Board is the competence of the Supervisory Board. The principles of operation of the Management Board are governed by the Code of Commercial Companies, the Articles of Association and the Management Board By-Laws. The Management Board manages the Company and represents it externally. The scope of competence of the Management Board includes all issues related to the management of the Company not reserved by the law or the Articles of Association to the exclusive competence of the Meeting of Shareholders or the Supervisory Board. The power to make declarations on behalf of the Company rests with the President of the Management Board acting autonomously, two Members of the Management Board acting jointly or one Member of the Management Board acting jointly with a commercial proxy.

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The Management Board has the right to take decisions as to the acquisition of treasury shares in the scope as authorised by the provisions of the Code of Commercial Companies (e.g. on the basis of art.362 §1 item 1) of the Code of Commercial Companies).

§6 of the Articles of Association contains an authority for the Management Board to increase the issuer's share capital by an issue of new shares towards the target capital, however due to the three-year deadline by which this authority was granted, it expired pursuant to clause 2 of §6 of the Articles of Association.

**4.14 Contracts made between the issuer and the managing persons providing for compensation in case of resignation or dismissal from the position without a goof reason or when the recalling or dismissal takes place due to the combination of the issuer by merger.**

The Group did not enter into any compensation contracts with the management personnel in case of their resignation or dismissal.

**4.15 The value of remuneration, bonuses or benefits, including incentive or bonus schemes based on the issuer's capital aid or due to the members of the management board or supervisory board as well as information on remuneration for functions in the governing bodies of subsidiaries.**

During the reporting period the Parent Company did not pay any remuneration, bonuses or benefits under any incentive or bonus schemes. There were no due or potential remunerations, bonuses or benefits on this account. The Company did not grant any remuneration or benefits for functions performed in the governing bodies of subsidiaries either. The Parent Company's Management Board members received remuneration based on work contracts in their reporting period. The Parent Company's Supervisory Board members received remuneration for their functions performed in the supervisory body. The remuneration of management board and supervisory board members of the Parent Company is presented in kPLN in the table below.

	2013	2012
<b>Members of the Management Board</b>		
Rafał Stempniewicz	728	661
Stanisław Górski	331	319
Robert Krasowski	509	447
	1,568	1,428
<b>Members of the Supervisory Board</b>		
Jerzy Motz	4	
Robert Walicki	4	
Tomasz Mazurczak	4	
Piotr Karmelita	24	18
Łukasz Kręski	16	18
Paweł Turno	29	22
Mariola Więckowska	20	18
Adam Wojacki	19	18
	120	94
total	1,688	1,522

**4.16 Number and nominal value of shares in the issuer and shares in issuer's related parties that are held by the persons in management and supervisory bodies (separately for each such person) as at 31/12/2012.**

Shares in Tell S.A. held by persons in the Management Board:

Rafał Maciej Stempniewicz – President of the Management Board – 94,590 shares of the nominal value of PLN 18,918.00,

Robert Tomasz Krasowski – Member of the Management Board – 4,924 shares of the nominal value of PLN 984.80,

Stanisław Jerzy Górski – Member of the Management Board – 2,319 shares of the nominal value of PLN 463.80.

Shares in Tell S.A. held by persons in the Supervisory Board:

Paweł Stanisław Turno – Chairman of the Supervisory Board – 30,000 shares of the nominal value of PLN 6,000.00.

The persons in the management and supervisory bodies of the Company do not have any shares in subsidiaries.

**4.17 Shareholders holding, directly or indirectly through subsidiary entities, at least 5% of total votes at the general meeting of shareholders of the issuer, 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 as at 31/12/2013.**

Shareholder	Number of registered shares	Number of bearer shares	Total shares	Number of votes per registered shares	Number of votes per bearer shares	Total votes	% of share capital	% of votes
Neo Fund 1 Sp. z o.o.*	1,157,970		1,157,970	2,315,940		2,315,940	22.66%	35.67%
V Group S.A.		529,093	529,093		529,093	529,093	10.35%	8.15%
AVIVA Investors FIO** AVIVA Investors SFIO		657,672	657,672		657,672	657,672	12.87%	10.13%
Quercus Parasolowy SFIO Quercus Absolute Return FIZ		877,179	877,179		877,179	877,179	17.16%	13.51%
Waldemar Ziomek	159,608	294,040	453,648	319,216	294,040	613,256	8.88%	9.45%
Other	63,734	1,371,551	1,435,285	127,468	1,371,551	1,499,019	28.08%	23.09%
	<b>1,381,312</b>	<b>3,729,535</b>	<b>5,110,847</b>	<b>2,762,624</b>	<b>3,729,535</b>	<b>6,492,159</b>	<b>100.00%</b>	<b>100.00%</b>

\*Shares acquired directly by Neo Investment spółka akcyjna in consequence of the performance of the agreement on the purchase of 100% of shares in Family Fund 3 Sp. z o.o. (currently Neo Fund 1 sp. z o.o.)

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

**4.18 Information about contracts known to the issuer (including also contracts concluded after the balance sheet date) in result of which they may be in the future any changes in the proportion of shares held by present shareholders.**

The Group companies do not have information about any such contracts.

**4.19 Holders of any securities that give special control rights with regard to the issuer, description of such rights.**

The Company did not issue any securities granting any special control rights.

**4.20 Information about the employee shareholding plan control system.**

There are no employee shareholding plans in Group companies.

**4.21 Indication of any restrictions concerning the transfer of title to securities of the issuer and restrictions concerning the exercise of the right of vote appertaining to the issuer's shares.**

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The shares of the Parent Company are not burdened with any statutory restrictions concerning the transfer of shares nor the exercise of the right of vote.

**4.22 Information on the Issuer's agreement with an entity authorised to audit financial statements.**

Remuneration paid or due to in kPLN

	2013	2012
- for the audit of the separate and consolidated financial statements	65	73
- for other attestation services, including the review of the separate and consolidated financial statements	45	51
- for tax advisory services	30	78
- for other services		
<b>Total</b>	<b>140</b>	<b>202</b>

In 2013, the Management Board of Tell S.A. signed an agreement with Grant Thornton Frąckowiak Sp. z o.o. s.k. with registered office in Poznań, entered into the list of the Polish Board of Chartered Auditors under number 3654, concerning the audit of the separate and consolidated statements of Tell S.A. prepared in accordance with IFRS standards as at 31 December 2013 and the audit of the mid-year separate and consolidated financial statement of Tell S.A. prepared in accordance with IFRS standards for the period from 1 January to 30 June 2013.

The total value of consideration under the agreement with the auditor due or paid for the audit of the separate and consolidated financial statements for 2013 and for the mid-year audit amounted to PLN 110,000.00 net.

Poznań, 17 March 2014

Rafał Stempniewicz

Stanisław Górski

Robert Krasowski

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President of the Management Board

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Member of the Management Board

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Member of the Management Board