

**REPORT OF THE MANAGEMENT BOARD  
ON THE ACTIVITIES OF TELL S.A.  
FOR 2014**

Tell S.A.  
Report of the Management Board on the activities in 2014

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**1 LEGAL STATUS OF TELL S.A.**

**1.1 Information about the 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 Company as at 16 March 2015**

**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. Mr Piotr Karmelita and Mr Robert Walicki resigned from their functions as Members of the Supervisory Board. By virtue of the Resolution of the Extraordinary General Meeting of Shareholders of 10 March 2014, Mr Piotr Cholewa and Mr Tomasz Słowiński were appointed Members of the Supervisory Board.

### **1.3 Chartered auditors**

Grant Thornton Frąckowiak 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.**

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.

On 18 December 2014, the Extraordinary General Meeting of Shareholders adopted a resolution on the increase of the share capital and on amendments to the Articles of Association. The share capital was increased by PLN 355,538.40 by an issue of 1,777,692 new series C bearer shares. the issue price was established at PLN 13 per share.

The share issue was made by means of a private subscription addressed to OEX Spółka Akcyjna with registered office in Warsaw. In 2015, the shares were subscribed in exchange for non-cash contribution (Contribution in Kind) in the form of:

- 163,517,500 ordinary shares in Cursor S.A., constituting 100% of the total number of votes at the general meeting of shareholders,
- 592 equal shares in Divante, which constitute 51.03% of the total number of votes at the general meeting of shareholders of that company.

As at the statement date, the share capital increase had not been registered yet.

## **2 FINANCIAL POSITION OF THE COMPANY**

### **2.1 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 issuer, changes in this respect during the year.**

Tell S.A. is the Authorised Polish-wide Representative of Orange S.A. It operates on the mobile phone service retail market. As at 31/12/2014, the sale was conducted in a Orange brand network of 157 sale outlets (channel dedicated to individual clients) and 34 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.

#### **2.1.1 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, Tell S.A. receives a commission from Orange Polska. The commission is the most important source of margin for Tell S.A.

#### **2.1.2 Wide-band Internet access services**

In its sale network, Tell S.A. offers the services of Orange Polska S.A. For the acquisition of clients and for clients extending their previous contracts with the operator, the Company receives a commission in accordance with the same rules as in case of postpaid activations.

#### **2.1.3 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).

#### **2.1.4 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.

#### **2.1.5 Sale of mobile phone accessories**

The only accessories provider is the Orange network operator.

#### **2.1.6 Sale of postpaid mobile phones**

Mobile phones offered jointly with the postpaid activation are not a source of margin for Tell S.A. (their sale is neutral for Tell S.A.). They are sold at promotional prices, much lower than the market prices. 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 Tell S.A. and sale volumes in the main revenue lines.

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Revenue from the sale of services and goods (in kPLN)	2014	2013	Revision 2014/2013
Revenue from the sale of telecommunication services	56,669	61,904	91.54%
Sets and pre-paid refillments	8,259	11,014	74.99%
Postpaid contract phones	25,320	6,191	408.96%
Other revenue	7,093	6,580	107.80%
<b>Total</b>	<b>97,341</b>	<b>85,690</b>	<b>113.60%</b>
Service sale volume	2014	2013	Revision 2014/2013
Postpaid activations	270,839	271,263	99.84%
Prepaid activations	72,720	80,689	90.12%
<b>Total</b>	<b>343,559</b>	<b>351,952</b>	<b>97.62%</b>

### 2.1.7 Services of Orange Finance

In October 2014, Orange launched the sale of banking products under the brand of Orange Finance – banking products are offered by mBank. This is an offer of a mobile retail bank to mobile device clients that comprises: current accounts, savings accounts, loans, deposits, credit cards and debit cards.

## 2.2 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.

### 2.2.1 Situation on the mobile phone market

The basic market for the business of Tell S.A. is the mobile phone market and on an ever growing basis, the market of wide band Internet access and paid television through fixed phones. In 2014, the Company 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 Company are bonuses related to the after-sale service and maintenance of sale standards.

In case of a 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 Company's revenue potential.

Pursuant to the data published by the Polish Main Office of Statistics, in 2014 there was a growth of SIM card saturation on the mobile phone market to approx. 150%, i.e. by 2.9% more than in 2013.

The share of three leading operators on the market went down in terms of the number of clients to the benefit of P4. There was a decrease from 80% to 78%, when comparing the state as at the end of December 2014 and as at the end of 2013. The estimated market share of Orange Polska at the end of December 2014 was 27.3% in terms of the number of clients, similarly as in 2013 – 27.3% (data from reports of Orange Polska).

In 2014, Orange Polska improved its competitive position as measured by the share on the number transferability market. The number of shares transferred to Orange amounted to 400 thousand, i.e. 26% of the market share. This was a growth from 21% in 2013. The number transferability balance for the last year amounted to -47

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thousand and improved when compared to 2013, when it was -135 thousand. The balance was positive when the post-paid services are taken into account (data from Orange's reports).

The mobile phone operators service distribution market. The three key rules applicable to distributors did not change:

- 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.

In 2014, Orange Polska continued the process of optimisation of the sales network, which consisted mainly in closing down of ineffective stores.

#### **2.2.2 Sale network of Tell S.A.**

As at 31/12/2014, the sale was conducted in a network of 157 sale outlets (channel dedicated to individual clients) and 34 Business Client Consultants (channel dedicated to business clients). The average number of sale outlets in 2014 was 164, which was a fall by 7% when compared to 2013, however the number of Business Client Consultants in 2014 was 33, which was a fall by 21% when compared to the average number in 2013. Considering the scale of the Orange network outlet downsizing, the Company estimates that its share in the operator's sale network at the end of 2014 did not change when compared to 2013. In consequence, the Company maintained its position of the largest Orange service sale agent.

The sale in network outlets is conducted in two types of sale outlets: showrooms and agent's outlets. 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.

#### **2.2.3 Dependence on suppliers**

The Company's main supplier is Orange Polska S.A. with registered office in Warsaw. Approx. 94% of sales of Tell S.A. in 2014 was effected based on the contract with Orange Polska. Tell S.A. and Orange Polska S.A. do not have any capital or personal links.

### **2.3 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 issuer's activities and its profits or losses of the financial year.**

#### **2.3.1 Discussion of the main income statement items**

The revenue from the sale in 2014 amounted to kPLN 97,341 and was higher by 13.6% than in the corresponding period of previous year.

The operating profit for 2014 amounted to kPLN 6,693 and was lower by 21.6% than in the corresponding period of previous year.

EBITDA of 2014 amounted to kPLN 8.155 and was lower by 18.3% than in the previous year.

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The 2014 gross profit was kPLN 6,889 and was lower than in the previous year by 41.3%. The fall in the gross profit was the result of costs incurred by the Company in relation with the process of acquisition of shares in the companies: Cursor and Divante, which was finalised in March 2015, in the amount of kPLN 300 and with the setting up a provision for the impaired investment in Toys4Boys in the amount of kPLN 1,287. On 26 February 2015, Toys4Boys filed for bankruptcy.

The 2014 net profit was kPLN 5,533 and was lower than in the previous year by 43.5%.

Income statement in kPLN

	from 01/01 to 31/12/2014	from 01/01 to 31/12/2013	2014/2013
<b>Sale revenues</b>	<b>97,341</b>	<b>85,690</b>	<b>113.6%</b>
Revenue from the sale of services	60,515	66,666	90.8%
Revenue from the sale of goods and materials	36,826	19,024	193.6%
<b>Sale costs</b>	<b>56,517</b>	<b>42,673</b>	<b>132.4%</b>
Costs of services sold	20,356	24,507	83.1%
Cost of goods and materials sold	36,161	18,166	199.1%
<b>Gross profit on sales</b>	<b>40,824</b>	<b>43,016</b>	<b>94.9%</b>
Sale costs	28,442	26,353	107.9%
Administration costs	5,583	5,883	94.9%
Other operating income	928	135	688.5%
Other operating expense	764	2,034	37.6%
<b>Profit on operating activities</b>	<b>6,693</b>	<b>8,881</b>	<b>78.4%</b>
Financial income	2,469	3,235	76.3%
Financial costs	2,543	381	667.3%
<b>Gross profit</b>	<b>6,889</b>	<b>11,735</b>	<b>58.7%</b>
Income Tax	1,356	1,933	70.1%
<b>Net profit</b>	<b>5,533</b>	<b>9,802</b>	<b>56.5%</b>

EBITDA	8,155	9,978
Amortisation and depreciation	1,192	1,098
EBITDA rate	8.4%	11.6%
Gross profit on sales	41.9%	50.2%
Operating profit	7.2%	10.4%
Gross profit	7.1%	13.7%
Net profit	5.7%	11.4%

### 2.3.2 Discussion of the main items of the balance sheet

In the presented balance sheet, the balance sheet total amounts to kPLN 92,426 and is 1.1% higher than last year's total. The share of fixed assets and current assets in total assets is, respectively, 54.4% and 45.6% (2013: 56.0% and 44.0%). The value of fixed assets was subject to a slight adjustment when compared to last year's. In this group, the highest growth in value was noted in the group of tangible assets - increase by 31.4%, and the highest fall in the group of receivables and long-term loans - by 100%. The share of current assets in total assets rose from 44.0% in 2013 to 45.6% in 2014. In terms of value, the current assets rose by 4.6% from kPLN 40,248 in 2013 to kPLN 42,101 in 2014. In the current assets category, the value of inventories rose considerably from kPLN 7,562 in 2013 to kPLN 10,087 in 2014 – a growth by 33.4%. The reason underlying the growth in the value of inventories is the change of the range of phones sold into the more expensive smartphones, whose price is a few-fold higher than the price of the remaining phones available for sale. The structure of current assets is at the same level year to year.

With regard to the equity and liabilities, the equity constituted 60.4% and the liabilities 39.9% (2013: 60.6% and 39.4%). The value of equity rose by 0.8%, and liabilities by 1.6%. The structure of liabilities is similar as in the



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previous years. The interest liabilities amount to kPLN 4,036 (2013: kPLN 1,653, of which kPLN 713 is the amount of an investment loan repaid on 30 May 2014.) The share of interest liabilities went up by 144.2% when compared to the previous year.

**Balance sheet as at 31/12/2014 in kPLN**

<b>ASSETS</b>	<b>31/12/2014</b>		31/12/2013		<b>2014/2013</b>
	value	structure	value	structure	dynamics
<b>Fixed assets</b>					
Goodwill	21,298	23.0%	21,298	23.3%	100.0%
Intangible fixed assets	343	0.4%	424	0.5%	81.0%
Tangible fixed assets	3,672	4.0%	2,794	3.1%	131.4%
Interests in related parties	24,349	26.3%	25,636	28.0%	95.0%
Receivables and loans	348	0.4%	348	0.4%	100.1%
Long-term prepayments	0	0.0%	129	0.1%	0.0%
Deferred income tax assets	314	0.3%	537	0.6%	58.5%
<b>Fixed assets</b>	<b>50,325</b>	<b>54.4%</b>	<b>51,168</b>	<b>56.0%</b>	<b>98.4%</b>
<b>Current assets</b>					
Inventories	10,087	10.9%	7,562	8.3%	133.4%
Trade receivables and other	25,281	27.4%	25,655	28.1%	98.5%
Loans	6,282	6.8%	6,582	7.2%	95.4%
Short-term prepayments	248	0.3%	222	0.2%	111.7%
Cash and cash equivalents	203	0.2%	226	0.2%	89.8%
<b>Current assets</b>	<b>42,101</b>	<b>45.6%</b>	<b>40,248</b>	<b>44.0%</b>	<b>104.6%</b>
<b>Total assets</b>	<b>92,426</b>	<b>100.0%</b>	<b>91,415</b>	<b>100.0%</b>	<b>101.1%</b>

<b>EQUITY AND LIABILITIES</b>	<b>31/12/2014</b>		31/12/2013		<b>2014/2013</b>
	value	structure	value	structure	dynamics
<b>Shareholder's equity</b>					
Share capital	1,022	1.1%	1,022	1.1%	100.0%
- Share	24,863	26.9%	24,863	27.2%	100.0%
Other reserve capitals	1,459	1.6%	1,459	1.6%	100.0%
Retained profits:					
- retained profit from previous years	22,914	24.8%	18,223	19.9%	125.7%
- net profit for the company's shareholders	5,533	6.0%	9,802	10.7%	56.5%
Equity - share of the shareholders of the	<b>55,792</b>	<b>60.4%</b>	<b>55,369</b>	<b>60.6%</b>	<b>100.8%</b>
Non-controlling shares					
<b>Shareholder's equity</b>	<b>55,792</b>	<b>60.4%</b>	<b>55,369</b>	<b>60.6%</b>	<b>100.8%</b>
<b>Liabilities</b>					
<b>Long-term liabilities</b>					
Loans, credits, other debt instruments			713	0.8%	0.0%
Deferred tax liabilities	4,047	4.4%	4,047	4.4%	100.0%
Employee benefits	50	0.1%	40	0.04%	125.0%
<b>Long-term liabilities</b>	<b>4,097</b>	<b>4.4%</b>	<b>4,800</b>	<b>5.3%</b>	<b>85.4%</b>
<b>Short-term liabilities</b>					
Trade liabilities	25,659	27.8%	25,773	28.2%	99.6%
Current tax	578	0.6%	1,570	1.7%	36.8%
Loans, credits, other debt instruments	4,036	4.4%	1,653	1.8%	244.2%
Employee benefits	2,264	2.4%	2,962	3.2%	76.4%
<b>Short-term liabilities</b>	<b>32,537</b>	<b>35.2%</b>	<b>31,959</b>	<b>35.0%</b>	<b>101.8%</b>
<b>Total provisions</b>	<b>36,634</b>	<b>39.6%</b>	<b>36,045</b>	<b>39.4%</b>	<b>101.6%</b>
<b>Total equity and liabilities</b>	<b>92,426</b>	<b>100.0%</b>	<b>91,415</b>	<b>100.0%</b>	<b>101.1%</b>

### 2.3.3 Discussion of the cash flow statement

Cash flows of the Company – are characterised by a positive flow from operating and investing activities and a negative flow from the financial activities. The analysis of the flows from operating activities indicates that the Company noted a rise in inventories by kPLN 2,525. The interest and dividend income at the level lower than achieved in the previous year. In 2014, the Company received kPLN 1,814 in dividends (in 2013: kPLN 2,509). As part of its investing activities, the Company noted repayment of loans it granted in the amount of kPLN 8.350 and a grant of new loans during the year for the total of kPLN 8,050. Loans are granted to related parties. The Company spent kPLN 5,100 on the dividend payment.

#### Cash flow statement in kPLN

	from 01/01 to 31/12/2014	from 01/01 to 31/12/2013
<b>Flows from operating activities</b>		
<b>Profit (loss) before taxation</b>	<b>6,889</b>	<b>11,735</b>
<b>Adjustments:</b>		
Depreciation of tangible fixed assets	1,032	924
Amortisation of intangible fixed	160	174
Impairment loss on financial assets	1,287	
Profit (loss) on the sale of non-financial fixed assets	-2	36
Interest expense	291	381
Interest and dividend income	-2,469	-3,235
<b>Total adjustments</b>	<b>299</b>	<b>-1,721</b>
Change in inventories	-2,525	-46
Change in receivables	374	1,068
Change in liabilities	-72	-4,000
Change in provisions and prepayments	-638	319
<b>Changes in working capital</b>	<b>-2,861</b>	<b>-2,658</b>
Taxes paid	-2,124	-1,669
<b>Net cash flow from operating activity</b>	<b>2,203</b>	<b>5,686</b>
<b>Flows from investing activities</b>		
Expenses to purchase intangible fixed assets	-79	-75
Expenses to purchase fixed assets	-1,987	-1,448
Inflows from the sale of fixed assets	78	63
Received repayments of loans granted	8,350	12,130
Loans granted	- 8,050	-11,230
Interest income	655	726
Dividend income	1,814	2,509
<b>Net cash flow from investing activity</b>	<b>783</b>	<b>2,674</b>
<b>Flows from financial activities</b>		
Purchase of treasury shares		-7,941
Inflows from loans and credits contracted	2,383	
Repayment of loans and advances		-770
Interest paid	-291	-381
Dividends paid	-5,100	-5,111
<b>Net cash flow from financial activity</b>	<b>-3,009</b>	<b>-14,203</b>
<b>Net change in cash and cash equivalents</b>	<b>-23</b>	<b>-5,842</b>
Cash and cash equivalents at period beginning	226	6,068
<b>Cash and cash equivalents at period end</b>	<b>203</b>	<b>226</b>

## 2.4 Ratio analysis

For the correct interpretation of ratios characterising the efficiency of management of the Company's current assets, it is necessary to explain the way of reflecting in the Company' books the mechanisms by which Operator subsidises the postpaid activation phones.

The Company 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:

- 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.

The consequence of this mechanism, the so-called refunding, is a situation, when the management efficiency ratios may, in the Company's opinion, suggest excessive values. This situation results directly from the fact that balance sheet items (inventories, receivables and liabilities to the main supplier of phones sold in the post-paid service activation) are registered in the original purchase prices (without accounting for subsidies), and the sale and value of goods sold at the phone purchase price, are registered at promotional prices (allowing for the refund). As results from the below-presented turnover ratio formula, in each case they present two values registered in accordance with different principles (e.g. receivables / revenue from sale).

Additionally, the refunding process directly influences the level of mutual receivables and liabilities between the Operator and the Company. If a mathematical operation of compensating mutual settlements were conducted, the level of receivables and liabilities of the Company would be lower than disclosed in the financial statements. The Company makes assurances that the inventory, receivables and liabilities turnovers are in practice much shorter than the ratios below suggest.

Irrespective of the values we receive after the application of these ratio formulas, the fact that they are applied to both the 2014 and 2013 results allows one to analyse changes in particular values.

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No.	Name of ratio	Formula	Measure	2014	2013
<b>1 Efficiency ratio</b>					
1.1	Cost level ratio	$\frac{\text{tax deductible cost}}{\text{sale revenue}}$		0.93	0.87
1.2	Asset turnover ratio	$\frac{\text{sale revenue}}{\text{total assets}}$		1.05	0.94
1.3	Fixed asset turnover ratio	$\frac{\text{sale revenue}}{\text{fixed assets}}$		1.93	1.67
1.4	Current asset turnover ratio	$\frac{\text{sale revenue}}{\text{current assets}}$		3.85	2.13
1.5	Inventory turnover ratio	$\frac{\text{sale revenue}}{\text{inventories}}$		9.65	11.33
1.6	Inventory cycle indicator	$\frac{\text{inventories} \times \text{number of days in the period}}{\text{sale revenue}}$	days	37.82	32.21
1.7	Receivables turnover ratio	$\frac{\text{sale revenue}}{\text{trade receivables}}$		3.85	3.30
1.8	Receivables cycle indicator	$\frac{\text{receivables} \times \text{number of days in the period}}{\text{sale revenue}}$	days	94.79	110.76
<b>2 Effectiveness ratios</b>					
2.1	ROS - gross	$\frac{\text{operating profit} \times 100}{\text{sale revenue}}$	%	7.61%	15.67%
2.2	ROS - net	$\frac{\text{net profit} \times 100}{\text{sale revenue}}$	%	5.68%	11.44%
2.3	Rate of return	$\frac{\text{net profit} \times 100}{\text{total assets at period end}}$	%	5.99%	10.72%
2.4	ROE	$\frac{\text{net profit} \times 100}{\text{equity}}$	%	9.92%	17.70%
<b>3 Financial liquidity ratios</b>					
3.1	Liquidity I	$\frac{\text{total current assets}}{\text{current liabilities}}$		1.32	1.31
3.2	Liquidity II	$\frac{\text{current assets} - \text{inventories}}{\text{current liabilities}}$		1.00	1.07
3.3	Liquidity III	$\frac{\text{cash}}{\text{current liabilities}}$		0.01	0.01
<b>4 Capital structure,ratios</b>					
4.1	Debt ratio	$\frac{\text{total debt}}{\text{total debt}}$		0.66	0.65

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	shareholders' equity		
4.2 Equity to debt ratio	$\frac{\text{shareholders' equity}}{\text{total debt}}$	1.52	1.54
4.3 Asset financing structure ratio	$\frac{\text{shareholders' equity}}{\text{total capital}}$	0.60	0.61
4.4. Asset financing structure ratio	$\frac{\text{bank loans}}{\text{total capital}}$	0.04	0.02
4.5. Asset financing structure ratio	$\frac{\text{liabilities to suppliers}}{\text{total capital}}$	0.26	0.26
<b>5 <u>Share value ratios</u></b>			
5.1. PER	$\frac{\text{market price of shares}^*}{\text{earnings per share}}$	9.16	7.16

\* market price of shares = closing rate as at 30/12/2013 - PLN 13.00 per 1 share.

\* market price of shares = closing rate as at 30/12/2014 - PLN 9.32 per 1 share.

#### **Efficiency ratio**

The inventories and receivables turnover cycles show similar values in subsequent years. The Company enters into transactions only with entities with a good credit standing. All clients wishing to take advantage of the merchant's credit are subject to a verification procedure. The Company monitors its receivables on an on-going basis.

#### **Effectiveness ratio**

The Company's return rates are lower than those of 2013. The Company noted a lower profit therefore the profit-based ratios deteriorated.

#### **Financial liquidity ratio**

The liquidity I indicator was at the level of 1.31, which reflects a very good liquidity position of the Company. The Company is fully solvable and does not have any tax or social security contribution arrears. The Company maintains current liquidity and systematically makes settlements with its clients as part of its restrictive credit policy.

#### **Capital structure ratio**

The ratios presented do not show changes when compared to the previous year.

**2.5 Description of risk and threat factors, with a specification to what extent the issuer is exposed to them.**

In the Company's opinion, the main risk factors are:

- 2.5.1 Risk related to the macroeconomic situation of Poland
- 2.5.2 Dependence on Orange Polska S.A.
- 2.5.3 Change of sale strategy of Orange Polska S.A. (including a sale network downsizing)
- 2.5.4 Increase in the significance of other service sale channels in Orange Polska S.A. (call centre, Internet)
- 2.5.5 Possibility to terminate the Agency Contract
- 2.5.6 Loss of competitive position of Orange Polska S.A.

**2.6 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.

### **3 EXPLANATORY NOTES**

**3.1 Information on contracts significant for the business of the issuer, including contracts between shareholders known to the issuer, insurance contracts and cooperation contracts.**

Significant contracts for Tell S.A. are contracts made with Orange Polska S.A. with registered office in Warsaw.

**3.1.1 Agency Contract of 20 November 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.

**3.2 Information about organisational or capital links of the issuer with other entities and determination of its main domestic and foreign investments (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.**

The 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,
- 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,

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- 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 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. 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. Pl Sp. z o.o. Tell S.A. holds 30% of shares.
- The company filed for bankruptcy on 26 February 2015. In 2014, an impairment charge of kPLN 1,287 was made for the whole investment. The company is not subject to consolidation.

**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.
- The company is not active. The company is not subject to consolidation.

**3.3 Information on material transactions entered into by the issuer or its subsidiary with related parties at terms and conditions other than at arm's length.**

Tell S.A. and its related parties did not enter into any transactions at terms and conditions other than at arm's length.

**3.4 Information about loan and credit contracts signed or terminated in the given financial year, with a specification of at least their values, type and amount of the interest rates, currency and maturity dates.**

	Interest rate	Maturity date	Value in PLN	Liability as at 31/12/2014	
				short-term	long-term
Overdraft facilities Alior Bank S.A	variable	31/05/2015	3,000		
Overdraft facilities DnB Bank Polska S.A.	variable	31/05/2015	5,000	4,036	

The loans have variable interest rates based on the reference rate of 1M WIBOR., which as at 30/12/2014 amounted to 2.08% (30/12/2013: 2.61%).

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No loan agreement has been terminated in the current year. The loan liabilities of the Company are covered by the following collaterals (as at the balance sheet day):

- registered pledge on inventories and inventory repossession contracts up to the amount of kPLN 13,000 (2013: kPLN 23,400 ),
- assignment of rights under insurance policies,
- statement on enforcement,
- power of attorney to dispose of the current and future inflows to the bank account.

As at 31/12/2014, the following assets of the Company (in their carrying amounts) constituted collaterals and guarantees for the repayment of liabilities:

	31/12/2014	31/12/2013
Financial assets (other than receivables) - shares	13,781	13,781
Inventories	7,586	8,825
Total carrying amount of assets constituting a liability collateral	21,367	22,606

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

#### 3.5.1 Loans granted

As at 31/12/2014, the value of loans granted to subsidiary Euro-Phone amounted to kPLN 6.282. The loan matures on 30 June 2015. 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.

#### 3.5.2 Securities granted

Entity	Type of liability	Value as at in kPLN	Beneficiary
		31/12/2014	
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	3,205	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	4,680	PTI Sp. z o.o.
Polkomtel Sp. z o.o.	merchant's loan	1,200	PTI Sp. z o.o.

### 3.6 Description of the use of issue proceeds by the Issuer.

On 18 December 2014, the Extraordinary General Meeting of Shareholders adopted a resolution on the increase of the share capital and on amendments to the Articles of Association. The share capital was increased by PLN 355,538.40 by an issue of 1,777,692 new series C bearer shares. the issue price was established at PLN 13 per share.

The share issue was made by means of a private subscription addressed to OEX Spółka Akcyjna with registered office in Warsaw. The shares were subscribed in exchange for non-cash contribution (Contribution in Kind) in the form of:

- 163,517,500 ordinary shares in Cursor S.A., constituting 100% of the total number of votes at the general meeting of shareholders,



- 592 equal shares in Divante, which constitute 51.03% of the total number of votes at the general meeting of shareholders of that company.

As at the statement date, the share capital increase had not been registered yet.

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

The Company did not publish any financial result forecasts.

**3.8 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 2014, Tell S.A. conducted a rational financial management. The Company timely discharged its liabilities, carried out a restrictive credit policy with regard to its clients and ensured a tight monitoring of receivables. The Company has not been a party to any currency contracts (options, futures, forward), and did not hedge against currency risk in any manner.

**3.9 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 Company's current activities and, possibly, bank loans.

**3.10 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.**

In 2014, Tell incurred costs related to the acquisition of shares in Cursor and in Divante in the amount of kPLN 300 (these costs cannot be assigned directly to the share acquisition price) and suffered a loss in relation with the bankruptcy petition filed by Toys4Boys in the amount of kPLN 1,287 – by setting up a impairment charge.

**3.11 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.**

So far, the Company's strategy assumed the maximization of size and effectiveness of sale of telecommunications services, mainly mobile phones, in order to obtain a relative competitive edge over the remaining entities from this distribution segment.

The most important factors influencing the Company's financial results in 2014 included:

- 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,
  - outflow of clients to the PLAY network

- b) sale policy of Orange and other 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;

On 5 March 2015, in the performance of provisions of the agreement signed in November 2014, Tell S.A. took over 100 % shares in Cursor S.A. and 51.03 % shares in Divante Sp. z o.o. In consequence of these acquisitions, the Tell Group obtained the position of the leading player on the sale outsourcing market. After the transaction, the Group will diversify its activity and will reduce its dependence on the mobile phone operators as well as will open up new growth possibilities.

Cursor specialises in designing and executing complex sale and promotion processes as well as e-commerce logistics. It has an extensive network of a few thousand field employees. It manages one of the largest logistic centres in Poland dedicated to goods warehousing and distribution as part of e-commerce support and marketing materials.

Divante supports companies in terms of Internet and mobile sale channel creation, development and optimisation. The Company works for Internet stores, producers, distributors and commercial networks. It implements e-commerce solutions, integrates systems, designs and executes marketing actions.

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

The Company did not carry out research and development projects in 2014.

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

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

### **3.14 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 between 01 January 2014 and 16 March 2015, there were changes in the composition of the supervisory bodies of Tell S.A. By virtue of the Resolution of 10 March 2014, the Extraordinary General Meeting of Shareholders appointed Mr Piotr Cholewa and Mr Tomasz Słowiński to be members of the Supervisory Board. The newly appointed Supervisory Board Members replaced Mr Piotr Karmelita and Mr Robert Walicki, who had handed in their resignations from the functions of Supervisory Board Members.

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.

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.

**3.15 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 Company did not enter into any compensation contracts with the management personnel in case of their resignation or dismissal.

**3.16 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 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 Company's Management Board members received remuneration based on work contracts in their reporting period. The Company's Supervisory Board members received remuneration for their functions performed in the supervisory body. The remuneration of Management Board and Supervisory Board members for 2014 and comparable data are presented in kPLN in the table below.

	2014	2013
<b>Members of the Management Board</b>		
Rafał Stempniewicz	493	728
Stanisław Górski	321	331
Robert Krasowski	489	509
	1,303	1,568
<b>Members of the Supervisory Board</b>		
Jerzy Motz	24	4
Robert Walicki	6	4
Tomasz Mazurczak	24	4
Piotr Karmelita	7	24
Łukasz Kręski	0	16
Paweł Turno	29	29
Piotr Cholewa	17	0
Tomasz Słowiński	17	0
Mariola Więckowska	0	20
Adam Wojacki	0	19
	125	120
total	1,428	1,688

**3.17 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 31/12/2014.**

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.

**3.18 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 31/12/2014.**

	Number of shares	Number of votes	Par Value of Shares	% of votes
<b>As at 31/12/2014</b>				
Neo Fund 1 Sp. z o.o.*	1,418,840	2,640,544	283,768	40.67%
Waldemar Ziomek	453,648	613,256	90,730	9.45%
MS Investment Sp. z o. o. s.k.	530,032	530,032	106,006	8.16%
AVIVA Investors FIO**	657,672	657,672	131,534	10.13%
AVIVA Investors SFIO				
Quercus Parasolowy SFIO	877,179	877,179	175,436	13.51%
Quercus Absolute Return FIZ				
	3,937,371	5,318,683	787,474	81.92%
<b>As at 31/12/2013</b>				
Neo Fund 1 Sp. z o.o.*	1,157,970	2,315,940	231,594	35.67%
V Group S.A.	529,093	529,093	105,819	8.15%
Waldemar Ziomek	453,648	613,256	90,730	9.45%
AVIVA Investors FIO**	657,672	657,672	131,534	10.13%
AVIVA Investors SFIO				
Quercus Parasolowy SFIO	877,179	877,179	175,436	13.51%
Quercus Absolute Return FIZ				
Total	3,675,562	4,993,140	735,112	76.91%

\* 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.

**3.19 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 Company does not have information about any such contracts.

**3.20 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.

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

There are no employee shareholding plans in the Company.

**3.22 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.**

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

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

Remuneration paid or due to in kPLN

	2014	2013
- for the audit of the separate and consolidated financial statements	35	35
- for other attestation services, including the review of the separate and consolidated financial statements	26	26
- for tax advisory services	86	30
Total	147	91

In 2014, 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 2014 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 2014.

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 2014 and for the mid-year audit amounted to PLN 61.200 net.

Poznań, 16 March 2015

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