

**INTERIM REPORT OF THE MANAGEMENT BOARD ON  
THE ACTIVITIES OF  
TELL S.A. AND THE TELL S.A. GROUP**

Poznań, 03 August 2011

**Tell S.A. Group**  
Interim report of the Management Board on the activities

---

**1. Basic information about the Parent Company**

Name:	<b>Tell</b>
Legal form:	<b>Spółka Akcyjna (Polish joint-stock company)</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>- Telecommunications</li><li>- Wholesale of telecommunications equipment on a fee or contract basis</li><li>- Wholesale of office machinery and equipment</li><li>- Retail sale of telecommunications equipment</li><li>- Information technology</li><li>- Advertising</li></ul>
Registration authority:	
	District Court Poznań- Nowe Miasto i Wilda, 8th Commercial Division of the National Court Register
Statistical number (REGON):	630822208

**2. Composition of the Management Board of Tell S.A. as at 30 June 2011**

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

**3. Composition of the Supervisory Board of Tell S.A. as at 30 June 2011**

Paweł Turno	- Chairman of the Supervisory Board
Piotr Karmelita	- Member of the Supervisory Board
Mariola Więckowska	- Member of the Supervisory Board
Tomasz Buczak	- Member of the Supervisory Board
Marek Piątkowski	- Member of the Supervisory Board

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

The interim financial statements have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting* as endorsed by the European Union ("EU").

The interim financial statements should be read together with the annual financial statements for the financial year ended on 31 December 2010.

**Tell S.A. Group**  
Interim report of the Management Board on the activities

---

When preparing these interim financial statements, the same accounting principles have been applied as when preparing the financial statements for 2010.

The financial statements have been prepared with the application of the same accounting policies for the current and the comparable periods.

**5. Description of the Group's organisation, indication of consolidated companies;**

The Tell S.A. Group is composed of Tell S.A. and its subsidiaries.

Euro-Phone Sp. z o.o.

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

PTI Sp. z o.o.

Seat of the Company: ul. Glogera 5, 31-222 Kraków,

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

Toys4Boys Pl. Sp. z o.o.

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

- Basic objects of business: retail sale via mail order houses or via Internet (Polish Classification of Economic Activities of 2007 – 4791Z),
- Company's legal basis: The Company was established on 16 February 2007 (Notarised deed No. A 5029/2007). Registration authority: District Court for Gdańsk - Północ in Gdańsk, 7th Commercial Division of the National Court Register, KRS 0000276286. Incorporation date: 12 March 2007.

In Toys4Boys.Pl Sp. z o.o. Tell S.A. holds 30% of shares.

The financial statements of Toys4BoysPl. Sp. z o.o. is not material in terms of the consolidated financial statements of the Tell S.A. Group. By decision of the Management Board, it was decided that as of 30 June 2011 Toys4BoysPl Sp. z o.o. would not be consolidated.

Tell S.A. has shares in Connex Sp. z o.o., a company that is not consolidated. As at the date of these statements Connex Sp. z o.o. does not pursue any economic activity.

Euro-Phone Sp. z o.o. and PTI Sp. z o.o. are subject to consolidation.

**6. Indication of effects of changes in the structure of the economic entity, including in the result of a business combination, take-over or sale of entities of the issuer's group, long-term investments, share, restructuring or discontinuation of business;**

On 15 March 2011, Tell S.A. acquired 30% of shares in the increased share capital of Toys4Boys.Pl Sp. z o.o. with registered office in Gdańsk for PLN 1,287,000. The investment contract also provides for the acquisition from the

**Tell S.A. Group**  
Interim report of the Management Board on the activities

---

previous shareholders of further shares for the total of PLN 900,000. Such shareholding, including the previously acquired shares, would give 51% of the share capital and 51% of votes at the general meeting of shareholders.

The Company is the leader on the market of gifts and gadgets. It runs 13 stores located in shopping malls and an Internet shop. The transaction is an element of the strategy of diversification of the issuer's revenue.

#### **7. Most important achievements of the Group in the first half of 2011;**

##### **Size of the Sale Network.**

The average number of Orange stores where the services of PTK Centertel Sp. z o.o. are sold amounted to 229 stores in the first half of 2011 (as at 30/06/2011 - 223 stores), when compared to the first half of 2010 - 236 stores (as at 30/06/2010 - 231 stores).

The number of stores run by the subsidiaries where the services of other operators are sold amounted to, as at the end of 30/06/2011 – 202 stores - compared to 200 as at the end of 30/06/2010. They included 96 (respectively, 89 as at the end of the first half of 2010) stores offering the services of Polkomtel S.A. (operators of PLUS) and 106 (respectively, 111 as at the end of the first half of 2010) stores offering the services of Polska Telefonía Cyfrowa Sp. z o.o. (operator of T-Mobile).

##### **Separate results of Tell S.A. on current operations.**

Tell S.A.'s revenue from the sale in the first half of 2011 amounted to kPLN 54,455 and was lower by 4.1% than the revenue in the corresponding period of the previous year.

The operating profit (EBIT) of the first half of 2011 amounted to kPLN 2,621 and was higher by 49.1% than in the corresponding period of the previous year.

In the first half of 2011, EBITDA amounted to kPLN 3,478 and was higher by 31% than in the corresponding period of the previous year.

The net profit of the first half of 2011 was kPLN 5,326 and was higher than in the corresponding period of previous year by 188.7%. The results of the first half of 2011 were largely impacted by the increase in the financial income from dividends from subsidiaries and a decrease in financial costs when compared to the first quarter of 2010.

##### **Consolidated results of the Tell S.A. Group on current operations.**

The Tell S.A. Group's revenue from the sale in the first half of 2011 amounted to kPLN 144.310 and was higher by 9.1% than the revenue in the corresponding period of the previous year.

The operating profit (EBIT) of the first half of 2011 amounted to kPLN 6.203 and was higher by 50.1% than in the corresponding period of the previous year.

In the first half of 2011, EBITDA amounted to kPLN 7.396 and was higher by 37.1% than in the corresponding period of the previous year.

The net profit of the first half of 2011 was kPLN 4.686 and was higher than in the corresponding period of previous year by 216.7%.

The sale structure of the Tell S.A. Group by value and by quantity:

Revenue from the sale of products and goods (in kPLN)	2011 1st half	2010 1st half	Change 1st half of 2011 /1st half of 2010
Revenue from the sale of telecommunication services	65,039	59,081	110.08%
Sets and pre-paid refillments	14,385	14,617	98.41%
Postpaid contract phones	59,242	53,034	111.71%

**Tell S.A. Group**  
Interim report of the Management Board on the activities

Other revenue	5,644	5,575	101.24%
Total	144,310	132,307	109.07%

Service sale volume	2011 1st half	2010 1st half	Change 1st half of 2011 /1st half of 2010
Postpaid activations	330,694	335,743	98.50%
Prepaid activations	82,505	88,186	93.56%
Total	413,199	423,929	97.47%

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

By virtue of resolution No. 16/2011 of 28 April 2011, the General Meeting of Shareholders of Tell S.A. resolved to distribute the net profit disclosed in the 2010 financial statements in an amount of PLN 5,650,775.48 as follows:

- payment of the dividend in an amount of PLN 0.80 per one share in the Company,
- supplementary capital in an amount remaining after the payment of the dividend.

The dividend day was determined to be 18 May 2011, and the dividend payment date - 01 June 2011.

The number of shares entitling to the dividend is 6,309,623, and the dividend amounts to PLN 5,047,698.40.

**9. Opinion of the Management Board as to the possibility of achieving the published result forecasts concerning the current year in the light of the results presented the quarterly statements when compared to the result forecasts;**

The Management Board of Tell S.A. did not publish any forecasts of the 2011 results.

**10. Shareholders holding, directly or indirectly through subsidiary entities, at least 5% of total votes at the general meeting of shareholders of the issuer as at the date of the publication of this interim report, indication of the number of shares held, their percentage of share capital, number of votes resulting and percentage of total votes at the general meeting of shareholders and indication of major changes in the issuer's shareholding structure since the publication of the previous quarterly report.**

In the period between the publication of the report for the first quarter of 2011 and the publication of this report for the first half of 2011 there were no changes in the shareholding structure and not changes in voting rights.

Shareholders holding at least 5% of votes at the General Meeting of Shareholders as at the publication of the report for the first quarter of 2011.

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
BBI Capital NFI S.A.	1,429,750		1,429,750	2,859,500		2,859,500	22.66%	34.22%
Havo Sp. z o.o.		675,000	675,000		675,000	675,000	10.70%	8.08%
Rafał Stempniewicz	175,000	122,280	297,280	350,000	122,280	472,280	4.71%	5.65%
AVIVA Investors FIO* AVIVA Investors SFIO		657,672	657,672		657,672	657,672	10.42%	7.87%
Quercus Parasolowy SFIO, Quercus Absolute Return FIZ		888,235	888,235		888,235	888,235	14.08%	10.63%
	1,604,750	2,343,187	3,947,937	3,209,500	2,343,187	5,552,687	62.57%	66.45%

**Tell S.A. Group**  
Interim report of the Management Board on the activities

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

Shareholders holding at least 5% of votes at the General Meeting of Shareholders as at the publication of the report for the first half of 2011.

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
BBI Capital NFI S.A.	1,429,750		1,429,750	2,859,500		2,859,500	22.66%	34.22%
Havo Sp. z o.o.		675,000	675,000		675,000	675,000	10.70%	8.08%
Rafał Stempniewicz	175,000	122,280	297,280	350,000	122,280	472,280	4.71%	5.65%
AVIVA Investors FIO* AVIVA Investors SFIO		657,672	657,672		657,672	657,672	10.42%	7.87%
Quercus Parasolowy SFIO, Quercus Absolute Return FIZ		888,235	888,235		888,235	888,235	14.08%	10.63%
	1,604,750	2,343,187	3,947,937	3,209,500	2,343,187	5,552,687	62.57%	66.45%

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

**11. List of issuer's shares or share options held by the persons managing and supervising the issuer as at the date of the publication of this quarterly report, including an indication of changes in the shareholding structure when compared to the previous quarterly report, separately for each person;**

In the period between the publication of the report for the first quarter of 2011 and the publication of this report for the first half of 2011 there were no changes in the shareholding structure and not changes in voting rights.

List of shares held by persons managing or supervising the issuer as at the date of the publication of the report for the first quarter of 2011.

Shareholder	Total shares	Total votes	% of share capital	% of votes
Members of the Supervisory Board				
Paweł Turno	170,625	341,250	2.70%	4.08%
Members of the Management Board				
Rafał Stempniewicz	297,280	472,280	4.71%	5.65%
Stanisław Górski	7,548	7,548	0.12%	0.09%
Robert Krasowski	29,981	29,981	0.47%	0.36%
	505,434	851,059	8.00%	10.18%

List of shares held by persons managing or supervising the issuer as at the date of the publication of the report for the first half of 2011.

Shareholder	Total shares	Total votes	% of share capital	% of votes
Members of the Supervisory Board				
Paweł Turno	170,625	341,250	2.70%	4.08%
Members of the Management Board				

**Tell S.A. Group**  
Interim report of the Management Board on the activities

Rafał Stempniewicz	297,280	472,280	4.71%	5.65%
Stanisław Górski	7,548	7,548	0.12%	0.09%
Robert Krasowski	29,981	29,981	0.47%	0.36%
	505,434	851,059	8.00%	10.18%

**12. Indication of court, arbitration or public administration proceedings and appropriate information thereupon;**

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

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

**13. Information on the conclusion by the issuer or its subsidiary of one or more transactions with related parties, if such transactions (separately or jointly) are material and were concluded upon terms and conditions other than at arm's length, excepting transactions entered into by the issuer who is a fund with its subsidiary, including an indication of such values, whereby the information about particular transactions may be grouped by type, with an exception of the case when the information about particular transactions is necessary to understand their impact on the economic and financial position of the issuer and its financial result;**

Transactions entered into between the Group companies are all made at arm's length.

As at the balance sheet, the total of loans granted by Tell S.A. to its subsidiaries amounted to kPLN 11,556, whereby kPLN 4,299 was granted to PTI Sp. z o.o. and kPLN 7,257 to Euro-Phone Sp. z o.o.. The transactions related to loans and interest with related parties are excluded from the consolidated financial statements.

These transactions are made at arm's length. The loans are granted at variable interest rates calculated as the sum of the following components: interest rate determined as above plus a margin of 3.5% to 7%. 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.

**14. Information about the grant by the issuer or its subsidiary of a loan collateral or a guarantee - jointly for one entity or a subsidiary of such entity, if the total value of the existing collaterals or guarantees amounts to at least 10 % of the equity of the issuer;**

Entity/Bank	Type of liability	Value as at in kPLN	Security
		30/06/2011	
PTC Sp. z o.o.	merchant's loan	6,300	guarantee for Euro-Phone Sp. z o.o.
Bank DnD Nord Polska S.A.	guarantee line facility	1,600	guarantee for Euro-Phone Sp. z o.o.
Bank DnD Nord Polska S.A.	loan	7,500	guarantee for Euro-Phone Sp. z o.o.
Alior Bank S.A.	liability due to a limit for guarantee-type products	1,500	guarantee for PTI Sp. z o.o.
Alior Bank S.A.	loan	3,000	guarantee for PTI Sp. z o.o.

**15. Other information that, in the issuer's opinion, is important for the assessment of its HR, economic or financial position, financial results and changes thereto as well as any other information which may be important for the assessment of possibility of meeting by the issuer of its obligations;**

The report contains basic information that is important for the assessment of the situation of the Tell S.A. Group, whereby in order to complete the picture, below is presented a system of remuneration for the sale of activations as well as a system of accounting of revenue and costs related to the sale of post-paid mobile phones.

**Change in the commission system of Tell S.A.**

On 1 February 2011, in relation with the conclusion of a new agency contract between Tell S.A. and PTK Centertel Sp. z o.o. replacing the previous contracts, the commission system of Tell S.A. was changed. In consequence, the previous system of deferred commissions payable in instalments (monthly commission and 6th month commission) was replaced by a system where the dominating component of commission is the monthly commission supplemented by the so-called quarterly bonus. The important difference between the present and the previous system lies in the fact that at present all commission components other than the monthly commission result from the achievement of the targets specified for the given period and are not the payment of the amounts earned in the previous periods.

In the previous commission system, the Company received the first commission instalment in the month when an activation was sold (the so-called monthly commission) and the second one in the sixth month after the sale of the given activation (the so-called 6th month commission). The last payment of the 6th month commission took place in June 2011.

**Method of settling the postpaid phone subsidies in contracts with particular operators**

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

**ORANGE network operator - PTK Centertel Sp. z o.o.**

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

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

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

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

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

**T-Mobile network operator - Polska Telefonia Cyfrowa Sp. z o.o.**

The sale system similar to the one described above is also in place with regard to the T-Mobile network operator. In relation with the above, the revenue and costs related to the sale of mobile phones are registered in promotional prices.

**PLUS network operator – Polkomtel S.A.**

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

**Tell S.A. Group**  
Interim report of the Management Board on the activities

---

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.

**16. Indication of factors that in the issuer's opinion will influence the results to be achieved within the perspective of at least the next quarter.**

The basic factors that will influence the results to be achieved by the Tell S.A. Group in the nearest future are the demand for mobile phone services, in particular considering its seasonality, and the related performance of the sale plan imposed on the Group companies by mobile phone operators.

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

Main risk factors are:

Risk related to the macroeconomic situation of Poland

Dependence on mobile phone operators of particular Group companies

Change of sale strategy by mobile phone operators

Growth in importance of other service sale channels among mobile phone operators (call centres, Internet)

Possibilities to terminate agency contracts by operators

Loss of competitive position for operators in the context of results of particular Group companies

Rafał Stempniewicz

Stanisław Górski

Robert Krasowski

-----

-----

-----

President of the Management Board

Member of the Management Board

Member of the Management Board