

The  
IPOPEMA Securities Group

# Directors' Report

**accompanying the separate financial  
statements of  
IPOPEMA Securities S.A.  
and the consolidated financial  
statements of  
the IPOPEMA Securities Group  
for the nine months ended  
September 30th 2014**

Warsaw, November 6th 2014

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## Part I

# 1. Financial performance

Consolidated financial highlights	Q1–Q3 2014	Q1–Q3 2013
Total revenue, including	77,956	74,507
<i>Brokerage and related services</i>	36,218	40,448
<i>Investment fund management</i>	31,506	25,318
<i>Consultancy services</i>	10,232	8,741
Total cost of core activities	66,418	64,306
Profit on core activities	11,538	10,201
Net profit for period	6,287	6,085

\* Unaudited.

## Revenue

Despite a more challenging market environment in the first three quarters of 2014 compared with the corresponding period of 2013, in January–September 2014 the Group generated revenue of PLN 77,956 thousand, up by 4.6% on PLN 74,507 thousand recorded in Q1–Q3 2013.

Revenue from trading in securities was affected the most by the harder market conditions: the segment's revenue decreased by 16.8% year on year, from PLN 33,395 thousand in Q1–Q3 2013 to PLN 27,773 thousand in Q1–Q3 2014. The decrease was driven by lower trading volumes on the WSE and BSE (down 4.7% and 9.2%, respectively) and the Company's lower share in trading on the WSE (7.10% in January–September 2014, down from 9.28% in the corresponding period of 2013).

On the other hand, the Company's revenue from investment banking services grew markedly, by 26.9%, in the first three quarters of 2014, to PLN 8,418 thousand (Q1–Q3 2013: PLN 6,634 thousand).

A similar growth was reported in January–September 2014 in the investment fund and portfolio management business, whose revenue rose by 24.4%, to PLN 31,506 thousand (compared with PLN 25,318 thousand a year earlier). That increase was attributable mainly to higher assets under management – at the end of September 2014, IPOPEMA TFI managed assets with the total value of PLN 26.4bn (held in 96 funds and sub-funds), while the total asset value a year earlier was PLN 12.5bn (93 funds). To note, as at the end of September 2014 the asset value of IPOPEMA TFI's actively managed funds stood at PLN 1bn, compared with PLN 0.6bn at the end of September 2013.

Also IPOPEMA Business Consulting (consultancy services) reported a strong improvement in its revenue, which was up by 17.1%, to PLN 10,232 thousand.

On a separate basis, IPOPEMA Securities (brokerage and related services) generated PLN 36,218 thousand in revenue in Q1–Q3 2014, compared with PLN 40,448 thousand a year earlier.

## Costs and expenses

Despite lower operating expenses in the brokerage services segment, the growth in this cost category reported by the other segments translated into a slight increase in the Group's consolidated operating expenses in Q1–Q3 2014 (to PLN 66,418 thousand, up by 3.3% from PLN 64,306 thousand a year earlier).

In the first nine months of 2014, total operating expenses in the brokerage services segment was PLN 31,481 thousand, having decreased by 6.0% on Q1–Q3 2013 (PLN 33,489 thousand), mainly on account of lower transaction costs.

In the investment fund and portfolio management business, operating expenses increased by 8.4% in Q1–Q3 2014, to PLN 25,513 thousand, primarily owing to higher cost of distribution of actively-managed funds.

Operating expenses recorded in January–September 2014 by IPOPEMA Business Consulting was PLN 9,424 thousand, compared with PLN 7,283 thousand a year earlier.

Costs relating to the valuation of the Company's share option plans, as disclosed in the consolidated financial statements, were PLN 96 thousand in Q1–Q3 2014 (against PLN 203 thousand a year earlier).

## Net profit (loss)

Despite the higher operating expenses, the increase in revenue had a positive effect on the overall financial performance. In the first three quarters of 2014, consolidated profit from core activities was PLN 11,538 thousand (compared with PLN 10,201 thousand a year earlier), while operating profit and net profit were PLN 10,313 thousand and PLN 6,287 thousand respectively (January–September 2013: PLN 7,822 thousand and PLN 6,085 thousand).

As IPOPEMA Securities' equity interest in IPOPEMA Business Consulting is 50.02%, profit attributable to owners of the parent was PLN 5,927 thousand, and profit attributable to non-controlling interests was PLN 360 thousand.

IPOPEMA Securities' net profit for Q1–Q3 2014 disclosed in the separate financial statements stood at PLN 4,014 thousand (compared with PLN 4,875 thousand a year earlier), and was higher by PLN 3,159 thousand than the net profit from brokerage and related services disclosed in the consolidated financial statements for the same period. The difference is chiefly attributable to dividends received from IPOPEMA Asset Management and IPOPEMA Business Consulting (PLN 2,000 thousand and PLN 1,000 thousand, respectively), which were eliminated from the consolidated financial statements.

In January–September 2014, the investment fund and portfolio management segment (the combined activities of IPOPEMA TFI and IPOPEMA Asset Management) posted net profit of PLN 4,712 thousand, more than three times higher than the PLN 1,298 thousand figure recorded a year earlier.

Despite higher revenue, net profit earned by the consultancy services segment was down from PLN 1,470 thousand in the first three quarters of 2013 to PLN 720 thousand in Q1–Q3 2014, owing to a concurrent increase in operating expenses.

## 2. Material events and factors with a bearing on the financial performance

### Situation on the equity markets of the Warsaw, Budapest and Prague Stock Exchanges

With substantial index movements, investor activity on all Company markets in Q1–Q3 2014 was lower year on year: the trading volumes on the WSE, BSE and PSE markets went down by 4.7%, 9.2% and 13.4%, respectively. Over the same period, the Company's market share declined to 7.10% on the WSE and 3.51% on the BSE (from 9.28% and 6.40%, respectively, in the corresponding period of 2013). As a result, the Company's revenue from trading in securities in January–September 2014 was down by 16.8% year on year (PLN 27,773 thousand vs. PLN 33,395 thousand).

### Investment banking services

Despite limited activity on the part of both issuers and investors, IPOPEMA Securities' performance in the area of equity offerings improved in the first nine months of 2014 relative to the same period of 2013. IPOPEMA Securities acted as a global coordinator for the sale of Globe Trade Centre S.A. shares, and carried out share offerings of Comperia, Braster, J.W. Construction and Orphee, as well as a public offering of convertible bonds of MCI Management. The Company also acted as an advisor to Towarzystwo Finansowe Silesia and PP Porty Lotnicze. All in all, total revenue from investment banking services was up 26.9%, to PLN 8,418 thousand.

### Activities of IPOPEMA TFI and IPOPEMA Asset Management

The key driver of improved revenue from fund and portfolio management was an increase in the value of assets in the funds managed by IPOPEMA TFI. As at the end of September 2013, assets under management of IPOPEMA TFI totalled PLN 12.5bn, whereas as at the end of September 2014 their value rose to PLN 26.4bn. This asset value growth made IPOPEMA TFI the largest investment fund company in terms of assets under management in August and September 2014. At the same time, a 24.4% revenue increase in January–September 2014 translated into a more than threefold net profit growth (PLN 4,712 thousand against PLN 1,298 thousand in Q1–Q3 2013), in spite of a 8.4% rise in the operating expenses.

## IPOPEMA Business Consulting

Despite a 17.1% year-on-year growth in revenue for the first nine months of 2014, IPOPEMA Business Consulting posted a lower net profit (PLN 720 thousand vs. PLN 1,470 thousand a year earlier) due to a 29.4% rise in the operating expenses (driven by the headcount increase related to ongoing projects and projects planned for 2015).

## 3. Factors with a potential bearing on the Q4 2014 results

### Market situation on the Warsaw, Budapest and Prague stock exchanges and IPOPEMA Securities' position on the secondary market

The first three quarters of 2014 saw strong sentiment volatility on all of the Company's markets – following large-scale index movements in Budapest (BUX index) and somewhat smaller changes in Warsaw (WIG index) and Prague (PX index), the market indices are now roughly where they were at the beginning of the year. In addition, investor activity slowed down on all of the markets – the total value of trades executed on the WSE, BSE and PSE was down by 4.7%, 9.2% and 13.4%, respectively, relative to January – September 2013. However, it is difficult to predict the developments on the Company's markets in subsequent months of 2014.

### IPOPEMA Securities' involvement in investment banking projects and execution of transactions in the order book

While the value of IPOs in the first nine months of 2014 was twice higher than in the corresponding period of the previous year, the tense political situation in Ukraine and the uncertainty surrounding the ultimate economic effect of the changes in the open-end pension funds market in Poland made investors cautious, and in particular reluctant to participate in placements of significant blocks of shares or secondary offerings. And although the situation concerning the open-ended pension funds became clear already at the end of August, the market has continued to be overshadowed by scepticism, both among issuers, and among investors. Despite this unfavourable backdrop, the Company has been working on new equity transactions and has continued its efforts to win new clients, including from sectors which are more resilient to the volatility of the stock-exchange market.

### Further expansion of IPOPEMA TFI and IPOPEMA Asset Management

Changes of the situation on capital markets are reflected in the volume of inflows of assets to investment funds. Any strong market downturn causes a decline in the value of assets under management, but also undermines investors' confidence in this type of products, which translates not only into a very limited inflow of new funds but also into unit redemptions. Nevertheless, despite the changing sentiment seen on the WSE in 2014, investment funds have continued to record inflows of new assets. September 2014 was the 24th consecutive month of retail investment funds reporting net subscriptions (although there was a marked tendency to transfer assets from equity funds to lower-risk investment products). While it is difficult to predict how investor sentiment will develop in the subsequent months of 2014, the prevailing interest rates, recently cut to their record lows, may continue to encourage transfers of savings from bank deposits to investment funds, which in turn may have a positive effect on the performance of the fund and portfolio management segment. However, a large proportion of IPOPEMA TFI's revenue (from management of closed-end funds) does not depend on the value of the funds' assets and, consequently, on market conditions.

### Expansion of IPOPEMA Business Consulting's business

In the subsequent months of 2014, the key drivers of IPOPEMA Business Consulting's operations will include continued execution of its existing contracts and new additions to the order book, coupled with tight cost control.

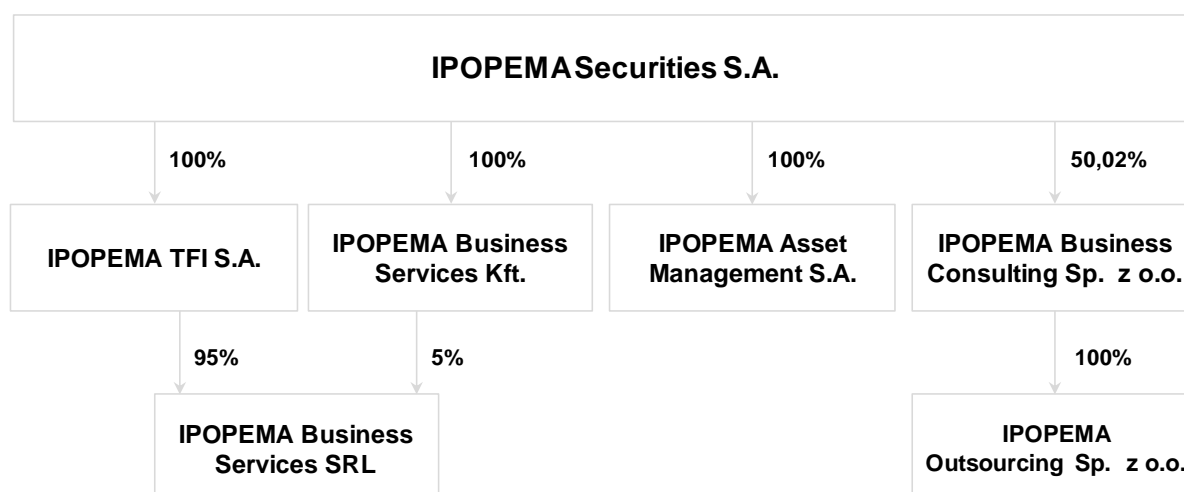
## 4. Performance vs. forecasts

The Company did not publish any performance forecasts.

## Part II

### 1. Organisational structure of the IPOPEMA Securities Group

The Group of IPOPEMA Securities S.A. consists of IPOPEMA Securities S.A., which is the parent of the Group, and the following subsidiaries: IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A., IPOPEMA Business Consulting Sp. z o.o., IPOPEMA Asset Management S.A., IPOPEMA Business Services Kft (Hungary), IPOPEMA Business Services SRL (Romania), and IPOPEMA Outsourcing Sp. z o.o. (a subsidiary of IPOPEMA Business Consulting). IPOPEMA Securities, IPOPEMA TFI, IPOPEMA Asset Management and IPOPEMA Business Consulting are consolidated, while IPOPEMA Business Services Kft, IPOPEMA Business Services SRL and IPOPEMA Outsourcing are excluded from consolidation based on the immateriality of their financial data.



### 2. Changes in the structure of the IPOPEMA Securities Group

On September 24th 2014, IPOPEMA Business Services SRL of Bucharest, a new company under Romanian law, was registered. The company's shareholders include IPOPEMA Securities and IPOPEMA Business Services Kft., which respectively subscribed for 95% and 5% of the shares. The company's core business consists in the provision of office and business support services, e.g. for IPOPEMA Securities agents involved in IPOPEMA Securities' activities on the Romanian market.

### 3. Shareholding structure of IPOPEMA Securities S.A.

As at September 30th 2014, the following shareholders held more than 5% of shares in IPOPEMA Securities S.A.:

Shareholder	Number of shares and voting rights at GM	% of total voting rights at GM
IPOPEMA PRE-IPO FIZAN <sup>1</sup>	2,990,789	9.99%
JLC Lewandowski S.K.A. <sup>2</sup>	2,990,789	9.99%
OFE PZU Złota Jesień*	2,950,000	9.85%
IPOPEMA 10 FIZAN <sup>3</sup>	2,851,420	9.52%
Katarzyna Lewandowska	2,136,749	7.14%
Quercus Parasolowy SFIO*	1,754,164	5.86%
<b>Total shareholders holding over 5% of the share capital</b>	<b>15,673,911</b>	<b>52.35%</b>

\* Based on notifications received by the Company from the shareholders.

<sup>1</sup> The main investors in the fund are Jacek Lewandowski, President of the Company's Management Board, and Katarzyna Lewandowska.

<sup>2</sup> Subsidiary of Jacek Lewandowski, President of the Company's Management Board.

<sup>3</sup> The only investor in the fund is Stanisław Waczkowski, Vice-President of the Company's Management Board.

As at the date of this report, there were no changes in the group of shareholders directly or indirectly holding 5% or more of the Company shares and of total voting rights at the Company's General Meeting.

## 4. Changes in the number of shares held by members of management and supervisory personnel

As at September 30th 2014 (as well as at June 30th 2014 and as at the date of this Report), members of the management and supervisory staff held, directly or indirectly through their subsidiaries or related parties (including dedicated funds), the following shareholdings in IPOPEMA Securities S.A.:

Person	No. of shares and votes	% of ownership interest and total vote
Jacek Lewandowski – President of the Management Board <sup>1</sup>	6,320,868	21.11%
Stanisław Waczkowski – Vice-President of the Management Board	3,142,855	10.50%
Mariusz Piskorski – Vice-President of the Management Board	915,000	3.06%
Mirosław Borys – Vice-President of the Management Board	696,428	2.33%
<b>Total</b>	<b>11,568,005</b>	<b>38.64%</b>

<sup>1</sup> As disclosed in the table in Section 3, shares in IPOPEMA Securities S.A. are also held by Katarzyna Lewandowska, Jacek Lewandowski's wife.

## 5. Issue, redemption and repayment of equity and non-equity securities

This year, IPOPEMA Securities has issued registered bonds in connection with the Variable Component Remuneration Policy implemented at the Company pursuant to the Minister of Finance's Regulation on the rules for establishment of a variable component remuneration policy for persons holding management positions at brokerage houses, dated December 2nd 2011. Similar bond issues were also carried out in Q1–Q3 2013. For more information on the bond issues, see Note 10 to the financial statements of IPOPEMA Securities and Note 14 to the consolidated financial statements of the IPOPEMA Securities Group.

Moreover, during the first nine months of 2013, the Company issued 185,714 shares as part of the third (and last) tranche of Share Option Plan II (the issue price was PLN 5 per share).

Other than described above, no equity or non-equity securities of IPOPEMA Securities were issued, redeemed or repurchased in Q1–Q3 2014.



## 6. Loans, guarantees, sureties

In Q1–Q3 2014 (and in the comparative period), the Company did not receive and did not provide any sureties or loans (other than loans to its employees and associates). The guarantees provided to the Company, disclosed in Note 11 to the interim condensed financial statements of IPOPEMA Securities, were renewed.

## 7. Selected corporate events and material information

### Change in the composition of the Supervisory Board

On February 10th 2014, the General Meeting appointed Michał Dobak to the Company's Supervisory Board (to replace Małgorzata Adamkiewicz, who resigned from the Supervisory Board with effect from August 31st 2013).

### Change in the composition of the Management Boards of IPOPEMA TFI and IPOPEMA Asset Management

On November 1st 2014, Mr Jarosław Jamka was co-opted to the Management Boards of IPOPEMA TFI and IPOPEMA Asset Management. Mr Jamka was appointed as Vice-President at both companies. In addition to this function, Mr Jamka also holds the position of CIO (Chief Investment Officer) and will supervise the operation of the Asset Management Department at IPOPEMA Asset Management.

### Registration as regulated entity in Romania and membership in the Bucharest Stock Exchange

In connection with the planned launch of operations in Romania, in February 2014 IPOPEMA Securities was registered as an entity regulated by the Romanian Financial Supervision Authority. In June 2014, the Company became a member of the Bucharest Stock Exchange and in September – of the Romanian National Depository for Securities.

### Awards and distinctions

In April 2014, IPOPEMA Securities received 'The Best Equity House in Poland' title, awarded by EMEA Finance in its Europe Banking Awards 2013, in recognition of IPOPEMA's involvement in the most important transactions of 2013. In Q1 2014, the Company received another international award. For its role in the privatisation of Energa, IPOPEMA Securities was awarded the 'Best Privatisation IPO' title by EMEA Finance. In June, IPOPEMA Securities was named 'Best Financial Group Poland 2014' and 'Best Equity House 2014 Poland' by the Global Financial Market Review, a financial news website.

Once again in recent years, IPOPEMA Securities topped the ranking published by the *Parkiet* daily newspaper. Its Research Department team was classified second. In the same ranking, Piotr Zielonka, Head of the Research Department, was named Poland's best analyst for the third time in a row. In addition to his victory in the overall ranking, Piotr Zielonka came first in the Construction & Development, Trade and Distribution and Energy categories. Mr Zielonka also ranked second in the Market Strategy category. In March 2014, Mr Zielonka was again awarded the 'Stock Exchange Analyst of the Year' title, this time in the *Parkiet* daily newspaper's 'Bulls and Bears' ranking. Also in March, for the third time in a row, Mr Piotr Zielonka topped Forbes' best analyst ranking, prepared based on assessments made by institutional investors. In the same ranking, IPOPEMA Securities' Research Department was named the second most professional research team on the market, and the Department's recommendations were recognised as the most effective. Again in March 2014, the Research Department of IPOPEMA Securities also came in second in the WarsawScan annual survey of investor relations, performed by NBS among 63 managers and analysts.

In March also, IPOPEMA TFI was named among the five institutions nominated for 'The TFI of the Year' award in a ranking compiled by the *Parkiet* daily newspaper.

In September, the Forbes magazine published the institutional investors' ranking of the best brokerage houses, in which IPOPEMA Securities came first, having received the highest scores in the following categories:

'professionalism', 'confidence in the brokerage house', 'quality of service on the secondary market of the WSE' and 'quality of service on international markets'. The Company was also highly successful in the individual ranking, in which its sales traders ranked first (Arkadiusz Łabuńko) and second (Marcin Stosio).

### **Dividends distributed by IPOPEMA Asset Management and IPOPEMA Business Consulting**

In Q1-Q3 2014, IPOPEMA Asset Management and IPOPEMA Business Consulting resolved to pay dividend of PLN 2,000 thousand and 1,000 thousand, respectively, to IPOPEMA Securities. The dividend amounts represent the Company's finance income and are disclosed in its separate financial statements, but are eliminated in the Group's consolidated financial statements.

## **8. Litigation and court proceedings**

In March 2014, administrative proceedings against IPOPEMA TFI were initiated before the Polish Financial Supervision Authority concerning compliance with the provisions its Articles of Association by one of the funds. As at the date of this Report, the proceedings are pending.

In May 2014, the President of the Office of Competition and Consumer Protection issued a final decision imposing a fine of PLN 17.7 thousand (EUR 4 thousand) on IPOPEMA Asset Management S.A. The fine was related to procedural irregularities which took place prior to the acquisition of Credit Suisse Asset Management (Polska) S.A. ('CSAM') by IPOPEMA Securities S.A. (CSAM was then a part of the Credit Suisse Group). The fine was paid by IPOPEMA Asset Management in full.

## **9. Related-party transactions**

In Q1-Q3 2014, the Company did not execute any material related party transactions. For details of related party-transactions, see Note 24 to the interim condensed consolidated financial statements.

## **10. Material events subsequent to the reporting date**

Between September 30th 2014 and the date of release of the financial statements, there were no material events with a bearing on the Company's operations.

Warsaw, November 6th 2014

### **Management Board of IPOPEMA Securities S.A.:**

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Jacek Lewandowski  
President of the  
Management Board

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Mariusz Piskorski  
Vice-President of the  
Management Board

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Stanisław Waczkowski  
Vice-President of the  
Management Board

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Mirosław Borys  
Vice-President of the  
Management Board