

The  
IPOPEMA Securities Group

# Directors' Report on the Group's Operations

**in the three months  
ended March 31st 2014**

Warsaw, May 14th 2014

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# PART I

## 1. Net profit (loss)

### Revenue

On the back of an increase in revenue from the investment fund and portfolio management business and advisory services in Q1 2014, the Group's consolidated revenue improved by 12.9% on Q1 2013 (from PLN 26,945 thousand to PLN 30,410 thousand).

Revenue from securities trading was the most significant source of the Group's revenues in Q1 2014 (37.2% of the consolidated revenue from core activities). The revenue practically did not change and stood at PLN 11,314 thousand, compared with PLN 11,405 thousand in Q1 2013. This was attributable to the Company's lower share in trading on the Warsaw Stock Exchange, which stood at 6.70% in Q1 2014 (Q1 2013: 10.33%) while the market's aggregate trading value grew by 7.6%.

Similarly, revenue from investment banking services remained nearly flat at PLN 5,316 thousand (Q1 2013: PLN 5,261 thousand).

As a consequence, total revenue of the brokerage and related services segment (IPOPEMA Securities) amounted to PLN 16,638 thousand in Q1 2014, remaining practically unchanged year on year (Q1 2013: PLN 16,755 thousand).

The investment fund and portfolio management business (IPOPEMA TFI and IPOPEMA Asset Management) recorded a 30% growth in revenue relative to Q1 2013, driven by an increase in the number of funds and a higher value of assets under management (as at the end of March 2014, IPOPEMA TFI had 93 funds and subfunds under management, with an aggregate asset value of PLN 18,2bn, compared with 88 funds and an aggregate asset value of PLN 8,6bn a year earlier). It is also important to note that at the end of March 2014 the asset value of IPOPEMA TFI's actively managed funds stood at PLN 0.8bn compared with PLN 0.4bn at the end of March 2013.

The largest increase in revenue was recorded by IPOPEMA Business Consulting (consultancy services business). In the first three months of 2014, the company's revenue from consultancy services reached PLN 3,527 thousand (11.6% of IPOPEMA Securities Group's total revenue) and was by 52.6% higher than in Q1 2013, when it stood at PLN 2,311 thousand.

### Costs and expenses

In Q1 2014, the IPOPEMA Group's cost of operations amounted to PLN 24,701 thousand, 10.6% higher year on year (PLN 22,326 thousand in Q1 2013).

In Q1 2014, in the brokerage and related services segment, cost of operations remained almost unchanged year on year, totalling PLN 12,611 thousand (Q1 2013: PLN 12,512 thousand).

In the portfolio and investment fund management segment, the cost of operations rose by 16.8% year on year, to PLN 8,767 thousand. The increase is attributable chiefly to higher distribution costs, pushed up by a higher value of assets under management.

Cost of operations recorded in Q1 2014 by IPOPEMA Business Consulting stood at PLN 3,323 thousand, up by 43.9% from PLN 2,310 thousand in Q1 2013.

Costs relating to the valuation of IPOPEMA Securities' share option plans (disclosed only in the consolidated financial statements) totalled PLN 24 thousand in Q1 2014 (Q1 2013: PLN 104 thousand), with the entire amount allocated to the brokerage activities segment.

### Net profit (loss)

Consolidated profit on core activities (PLN 5,709 thousand) and consolidated pre-tax profit (PLN 4,812 thousand) in Q1 2014 were by 23.6% and 24.1%, respectively, higher year on year (Q1 2013: PLN 4,619 thousand and PLN 3,879 thousand). The net profit reached PLN 3,780 thousand in Q1 2014, up 17.7% year on year.

As IPOPEMA Securities' equity interest in IPOPEMA Business Consulting is 50.02%, profit attributable to owners of the parent was PLN 3,672 thousand, and profit attributable to non-controlling interests was PLN 108 thousand.

In the brokerage services segment, Q1 2014 revenue and costs were close to the levels reported in the corresponding period last year, yielding a comparable net profit – PLN 2,330 thousand (Q1 2013: PLN 2,504 thousand). IPOPEMA Securities' quarterly net profit, as disclosed in the separate financial statements, stood at PLN 2,375 thousand (Q1 2013: PLN 2,608 thousand) and was lower by PLN 45 thousand than the segment's net profit (due to the cost of incentive schemes and consolidation eliminations).

At PLN 1,234 thousand, net profit of the fund and portfolio management segment for the first three months of 2014 was substantially higher than in the corresponding period of 2013 (PLN 501 thousand).

The consultancy services segment posted net profit of PLN 216 thousand in Q1 2014, close to the level recorded in Q1 2013 (PLN 207 thousand).

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

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

With substantial index movements, the total value of trades executed on the WSE in Q1 2014 was 7.6% higher year on year. In the same period, the Company's market share declined to 6.70% (from 10.33% a year earlier). On the Budapest Stock Exchange, the total value of trades in the reporting period was up by 4.3% year on year, with IPOPEMA Securities's market share at 4.02% (Q1 2013: 6.98%). As a result of these developments the Company's revenue from trading in securities remained virtually the same as in the corresponding period last year (PLN 11,314 thousand vs PLN 11,405 thousand).

### Investment banking services

In Q1 2014, IPOPEMA Securities' performance on the equity market was strong, similar to the same period of 2013. IPOPEMA Securities acted as global coordinator in the sale of Globe Trade Centre S.A. shares and carried out public offerings of Comperia S.A. shares and MCI Management S.A. convertible bonds. These transactions strongly contributed to revenue from investment banking services, which in Q1 2014 amounted to PLN 5,316 thousand (Q1 2013: PLN 5,261 thousand).

### IPOPEMA TFI's and IPOPEMA Asset Management's activities

Revenue from fund and portfolio management rose on the back of an increase in the number of funds managed by IPOPEMA TFI and in the value of those funds' assets. At the end of Q1 2013, IPOPEMA TFI had 88 funds under management, with an aggregate asset value of PLN 8.6bn. As at the end of March 2014, the number of funds rose to 93 (including subfunds), and the aggregate value of their assets grew to PLN 18.2bn. Despite higher costs of operations (up by 16.8%), the strong revenue increase in Q1 2014 (up by 30%) resulted in a more than two-fold increase in net profit (PLN 1,234 thousand vs PLN 501 thousand in Q1 2013).

### IPOPEMA Business Consulting

In Q1 2014, IPOPEMA Business Consulting also recorded significantly higher revenue – up by 52.6% to PLN 3,527 thousand (from PLN 2,311 thousand in Q1 2013). However, given the increase in costs of operations to PLN 3,323 thousand (Q1 2013: PLN 2,310 thousand), the net profit remained relatively unchanged at PLN 216 thousand (PLN 207 thousand in Q1 2013).

### 3. Factors with potential bearing on the Q2 2014 results

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

Q1 2014 saw strong sentiment volatility on all Company markets – following large-scale (WIG index in Warsaw and BUX in Budapest) and smaller-scale (the PX index in Prague) movements, indices have returned to the levels observed at the beginning of the year. While despite the economic volatility the value of trades on the WSE and BSE was higher year on year (by 7.6% and 4.3%, respectively), the PSE saw a 9.1% decrease in the value of trades. Furthermore, in terms of investor activity, April was the worst month from the beginning of the year: compared with the Q1 average, trading values were lower by 28.3% on the WSE, 25.6% on the BSE and 8.6% on the PSE. It is therefore 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 in terms of the number and value of stock exchange debuts the initial months of 2014 matched the successful debuts of the early 2013, the tense political situation in Ukraine and the uncertainty regarding the ultimate economic effect of changes affecting the open-end pension funds make investors reluctant to place significant shareholdings and carry out secondary offerings. Despite this unfavourable backdrop, the Company is working on new equity transactions and continues to make attempts at winning new clients, including from sectors more resilient to the volatile sentiment on the stock-exchange market.

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

Changes of the capital market situation are reflected in the inflow of assets to investment funds. A strong market downturn not only causes a decline in the value of assets under management, but also undermines investors' confidence in this type of products, which translates into a very limited inflow of new funds and unit redemptions. Nevertheless, despite the volatile market conditions and significant uncertainty caused by the tense political situation in Ukraine at the beginning of the year, investment funds continue to record an inflow of assets. March 2014 was the 18th consecutive month of net inflows of assets to investment funds (however, a significant outflow of assets from equity funds in favour of lower-risk funds also took place). While it is difficult to predict how investor sentiment will be shaping in subsequent months of 2014, the prevailing interest rates, still at their record low, may continue to encourage transfers of savings from bank deposits to investment funds, which may have a positive impact on the performance in 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 following months of 2014, the key drivers of IPOPEMA Business Consulting's operations will include performance of its existing contracts and new additions to the order book, with a concurrent tight cost control.

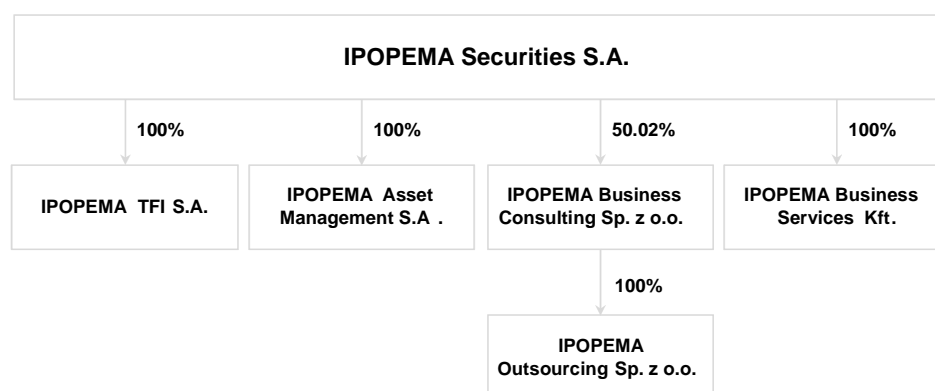
### 4. Performance vs forecasts

The Company did not publish any performance forecasts.

## Part II

# 1. Structure of the IPOPEMA Securities Group

The Group of IPOPEMA Securities S.A. consists of IPOPEMA Securities S.A., which is the parent, and subsidiaries: IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A., IPOPEMA Business Consulting Sp. z o.o., IPOPEMA Asset Management S.A., IPOPEMA Business Services Kft, and IPOPEMA Outsourcing Sp. z o.o. (a wholly-owned subsidiary of IPOPEMA Business Consulting). IPOPEMA Securities, IPOPEMA TFI, IPOPEMA AM, and IPOPEMA BC are consolidated, while IPOPEMA Business Services and IPOPEMA Outsourcing are excluded from consolidation given the immateriality of their financial information.



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

In Q1 2014, there were no changes in the structure of the IPOPEMA Securities Group.

## 3. Shareholders of IPOPEMA Securities S.A.

As at March 31st 2014, the following shareholders held more than 5% of shares in IPOPEMA Securities S.A.:

Shareholder	Number of shares and votes at GM	% of total vote 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.

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

As at March 31st 2014, members of the management and supervisory staff held, directly or indirectly through their subsidiaries or related entities (including dedicated funds), the following shareholdings in IPOPEMA Securities S.A. The shareholdings of members of the management and supervisory staff do not differ from those disclosed in the Annual Report for 2013.

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%
Miroslaw Borys – Vice-President of the Management Board	696,428	2.33%
<b>Total</b>	<b>11,075,151</b>	<b>36.99%</b>

<sup>1</sup> As stated 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

No non-equity or equity securities of IPOPEMA Securities S.A. were issued, redeemed or repurchased in Q1 2014.

## 6. Loans, guarantees, sureties

In Q1 2014 (and in the comparative period) the Company did not receive and did not provide any sureties or loans. The guarantees provided to the Company, described in detail in Note 23 to the financial statements of IPOPEMA Securities, were renewed.

## 7. Selected corporate events

### Changes in the composition of the Supervisory Board

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

### Registration as an entity subject to regulation in Romania

In connection with the planned launch of operations in Romania, in February 2014 IPOPEMA Securities was registered as an entity subject to regulation by the Romanian Financial Supervision Authority.

### 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 its participation in the most important transactions of 2013.

This is another international award received in Q1 2014. For its participation in the privatisation of Energa, IPOPEMA Securities was also awarded the 'Best privatisation IPO' title by EMEA Finance.

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 and Trade and Distribution categories. In the Energy category, he shared the victory with Tomasz Ściesiek, his colleague from the Research Department. Piotr Zielonka also ranked second in the Market Strategy category.

Also in January 2014, Arkadiusz Bogusz, Head of the Debt Instruments Office at IPOPEMA TFI and IPOPEMA Asset Management, was named 'Master of Bonds' by the Puls Biznesu daily newspaper. Arkadiusz Bogusz ranked first in the Treasury Securities Funds category: the return on the IPOPEMA bond fund under his management reached 5.5% in 2013 (4 pp more than the competing funds).

In March, 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, 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.

In March, the Research Department of IPOPEMA Securities came in second in the WarsawScan annual survey of investor relations, performed by NBS on a group of 63 managers and analysts.

Also in March, 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.

## 8. Court proceedings

In Q1 2014, the Company was not party to any court proceedings.

## 9. Related party transactions

In Q1 2014, the Company did not execute any material related party transactions.

## 10. Material events subsequent to the balance-sheet date

Subsequent to March 31st 2014, there were no material events with a bearing on the Company's operations.

Warsaw, May 14th 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