

The IPOPEMA Securities Group

# Management Board's Report on the Group's Operations

**in the third quarter of 2010,  
ended September 30th 2010**

Warsaw, November 9th 2010

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# PART I

## 1. Financial Performance

### Revenue

On the back of growth in revenues across all operating segments in Q3 2010, the IPOPEMA Group was able to generate total revenue of PLN 23,450 thousand, up by 26.2% relative to the figure posted in Q3 2009. In the first three quarters of 2010, consolidated revenue amounted to PLN 73,695 thousand, and grew by 69.4% year on year.

The most significant source of the IPOPEMA Group's revenue in Q3 2010 was securities trading, which generated PLN 12,538 thousand, accounting for 53.7% of consolidated revenue from core activities. In comparison with the corresponding period of 2009, revenue from trading in securities increased by 20.9% (from a PLN 10,405 thousand base). This growth is primarily attributable to recognition of revenue from operations on the Budapest Stock Exchange ("the BSE"). In the first three quarters of 2010, revenue from trading in securities amounted to PLN 38,313 thousand, having grown by 42.4% year on year (Q1-Q3 2009: PLN 26,907 thousand).

In Q3 2010, the Company's revenue from investment banking services totalled PLN 3,273 thousand (14.0% of consolidated revenue), down by 9.3% relative to Q3 2009. However, it should be noted that revenue from investment banking activities in the first three quarters of 2010 was 59.2% higher from the figure reported in the corresponding period of 2009 (PLN 13,094 thousand vs PLN 8,225 thousand).

Both in Q3 2010 and in Q1-Q3 2010, revenue generated by the investment funds management segment (represented by IPOPEMA TFI) grew significantly. The segment's revenue advanced by 115.1% compared with the figure recorded in Q3 2009 (PLN 4,626 thousand vs PLN 2,150 thousand), and by 129.7% compared with Q1-Q3 2009 (PLN 11,621 thousand vs PLN 5,059 thousand). The higher amount of revenue follows from a significant growth in the value of assets under management, which as at the end of September 2010 amounted to PLN 3.5bn (PLN 1.9bn as at the end of Q3 2009), and a growth in revenue generated by actively managed funds.

In Q3 2010, revenue from advisory services (represented by IPOPEMA Business Consulting) equalled PLN 2,825 thousand, and was 21.2% higher than in Q3 2009. In Q1-Q3 2010, the segment generated PLN 10,145 thousand in revenue, representing a three-fold increase relative to the first nine months of 2009 (from a PLN 3,079 thousand base). This significant growth in revenues is primarily attributable to the fact that 2009 was the first year of IPOPEMA BC's operations.

### Costs and Expenses

In Q3 2010, the costs of core activities amounted to PLN 16,224 thousand, and were 31.5% higher than in Q3 2009, when they stood at PLN 12,336 thousand. In the first nine months of 2010, total cost of core activities amounted to PLN 51,196 thousand, representing a 44.2% growth relative to Q1-Q3 2009 (from a PLN 35,501 thousand base). The higher amount of costs is attributable chiefly to an increase in salaries and wages connected with, inter alia, growth in the number of employees at the Group companies and higher other operating expenses (including largely variable costs).

In the brokerage and related services segment (within the domain of IPOPEMA Securities), total cost of operations in the first three quarters of 2010 amounted to PLN 33,242 thousand, up by 35.1% from the figure reported in Q1-Q3 2009 (PLN 24,597 thousand). The growth in the cost of operations was driven partly by higher salaries and wages, but also by an increase in transaction costs and other operating expenses (with a dominating share of variable costs).

In Q1-Q3 2010, total cost of operations of IPOPEMA TFI amounted to PLN 8,989 thousand, 43.6% more than in the corresponding period of 2009, primarily due to the costs of creating and operating funds and distribution costs, as well as an increase in salaries and wages.

In the first three quarters of 2010, total cost of operations of IPOPEMA Business Consulting totalled PLN 8,965 thousand, and nearly doubled relative to the figure reported in Q1-Q3 2009, that is PLN 4,646 thousand. The main factor contributing to the higher cost was an increase in salaries and wages resulting from the Company's rapid development and enlarged consultants team, as well as higher other costs of subcontracted services.

In the first nine months of 2010, accounting costs related to valuation of the share option plans operated by the Company amounted to PLN 787 thousand (PLN 2,085 thousand in Q1-Q3 2009).

## Net Profit (Loss)

Both in Q3 and Q1-Q3 2010, consolidated performance improved at all levels. In July-September 2010, profit from core activities stood at PLN 7,226 thousand (PLN 6,247 thousand in Q3 2009), operating profit rose to PLN 7,038 thousand (from PLN 5,507 thousand in Q3 2009), while net profit amounted to PLN 5,626 thousand (PLN 4,109 thousand in Q3 2009). In the first three quarters of 2010, profit from core activities was PLN 22,499 thousand (PLN 8,009 thousand in Q1-Q3 2009), operating profit stood at PLN 21,062 thousand (PLN 6,574 thousand), while net profit amounted to PLN 15,738 thousand (PLN 4,845 thousand). The significant improvement in profit at all levels is primarily attributable to the fact that all the Group companies posted profits (while in Q1-Q3 2009 IPOPEMA TFI and IPOPEMA Business Consulting reported losses). Additionally, IPOPEMA Securities' profit nearly doubled relative to the figure from the corresponding period of the previous year.

Given that IPOPEMA Securities holds a 50.02% share in IPOPEMA Business Consulting, total revenue attributable to the parent undertaking in Q3 2010 was PLN 5,572 thousand, and in Q1-Q3 2010 it amounted to PLN 16,175 thousand (in the same periods, total revenue attributable to minority interests was PLN 143 thousand and PLN 468 thousand, respectively).

IPOPEMA Securities' net profit reported in the separate financial statements was PLN 13,187 thousand in Q1-Q3 2010 and PLN 7,875 thousand in the corresponding period of 2009. The profit disclosed in the consolidated financial statements in the respective periods (profit/(loss) on brokerage and related services) was lower by PLN 408 thousand and PLN 495 thousand, respectively, resulting primarily from the valuation of the employee share option plan, which in Q3 2010 was PLN 316 thousand and in Q3 2009 PLN 381 thousand.

The net profit posted by the investment fund management segment after the first three quarters of 2010 amounted to PLN 2,023 thousand, while the same segment reported a net loss of PLN 1,281 thousand in the corresponding period of the previous year. However, if it had not been for the adverse effect of accounting costs related to the valuation of the share option plan, the net profit generated by the investment fund management segment in Q1-Q3 2010 would have increased to PLN 2,494 thousand and to PLN 423 thousand in Q1-Q3 2009.

The segment of consulting services posted a net profit of PLN 936 thousand for Q1-Q3 2010, compared with a net loss of PLN 1,254 thousand incurred in the corresponding period of 2009. The loss was chiefly attributable to the fact that 2009 was the first year of IPOPEMA BC's operations and the company did not start generating significant revenue until the second half of the year.

## 2. Material Events and Factors with a Bearing on the Financial Performance

### Situation on the Equity Market of the WSE and the BSE

In Q3 2010, the WIG index of the Warsaw Stock Exchange ("the WSE") continued its upward trend started in March 2009. As regards trading on the WSE, Q3 2010 has been the weakest quarter of 2010 so far (the monthly average of trading values amounted to PLN 30.2bn, whereas in Q1 and Q2 it equalled PLN 30.7bn and PLN 36.0bn, respectively), which followed primarily from a considerable decrease in trading values in holiday months. In the first three quarters of 2010, the trading volume on the WSE grew by 21.0% relative to the corresponding period of 2009, and the Company slightly increased its share in stock trading (from 8.17% to 8.39%).

A similar situation holds for the Budapest Stock Exchange; following a better H1, Q3 2010 saw a considerable fall in trading values (the average monthly stock trading values amounted to EUR 2.7bn, compared with EUR 4.0bn in H1). The adverse effect of lower trading values was to some extent offset by the Company's improved share in stock trading on the BSE. In Q3 2010, the Company's average monthly share was 7.81% relative to 6.83% in Q2 2010.

Accordingly, in Q1-Q3 2010 the Company's revenue from securities trading rose year on year by 42.4%, and amounted to PLN 38,313 thousand (PLN 26,907 thousand in the corresponding period of 2009).

### Investment Banking Services

In the first three quarters of 2010, IPOPEMA Securities recorded a significantly improved performance in the area of investment banking activities. Revenue from investment banking services rose by 59.2%, to PLN 13,094 thousand (from PLN 8,225 thousand in Q1-Q3 2009), which resulted from a higher number of transactions handled and completed.

## IPOPEMA TFI's Business

The key factors that contributed to the considerably higher revenue from fund management were a higher value of assets held by the managed funds and an increase in the number of funds under management. It should be highlighted that the value of assets managed by Alior SFIO also increased substantially (PLN 109.4m as at the end of September 2010 against PLN 13.7m recorded a year earlier). Moreover, in Q3 2010 IPOPEMA TFI launched a new fund targeting a broad range of retail investors (IPOPEMA m-Indeks FIO), whose units are currently being distributed in cooperation with the BRE Bank Group.

In Q1-Q3 2010, an over two-fold growth in revenue, coupled with a limited growth in the cost of operations, made it possible to achieve net profit of PLN 2,494 thousand in the investment fund management segment. Reduced by the accounting costs of PLN 471 thousand related to the incentive scheme, the profit went down to PLN 2,023 thousand (in the corresponding period of 2009, IPOPEMA TFI generated net profit of PLN 423 thousand which, however, after charging the costs of the incentive scheme, changed into a net loss of PLN 1,281 thousand).

## IPOPEMA Business Consulting's Business

In the first nine months of 2010, IPOPEMA Business Consulting recorded much better performance than in the corresponding period of 2009, with revenue growing three-fold, to PLN 10,145 thousand. However, it should be noted that 2009 was the first year of operations for IPOPEMA BC, and that the revenue generated in Q3 2009, amounting to PLN 2,330 thousand, was three times higher than the aggregate revenue in Q1 and Q2 2009 (PLN 749 thousand). The team of consultants had to be significantly expanded to handle the growing number of contracts (from 21 persons as at the end of September 2009 to 35 persons as at the end of September 2010), which involved an increase in salaries and wages and the cost of subcontracted services, resulting in a nearly two-fold increase in total cost of operations. Nevertheless, in Q1-Q3 2010 the consulting services segment posted net profit of PLN 936 thousand, compared with a net loss of PLN 1,254 thousand in the corresponding period of 2009.

## Recognition of Incentive Scheme Costs

As the IPOPEMA Securities Group adopted a reporting system compliant with the International Financial Reporting Standards (the "IFRS"), it had to recognise the effect of valuation of the stock option plans implemented by the IPOPEMA Securities Group in the consolidated financial statements. In Q1-Q3 2010, the related costs totalled PLN 787 thousand (PLN 316 thousand at IPOPEMA Securities and PLN 471 thousand at IPOPEMA TFI), while in Q1-Q3 2009 they amounted to PLN 2,085 thousand (PLN 381 thousand at IPOPEMA Securities and PLN 704 thousand at IPOPEMA TFI).

# 3. Factors with a Potential Bearing on the Q4 2010 Results

## Market Situation on the WSE and BSE

The continued uptrend on the WSE and BSE will benefit the main business areas and financial performance of the IPOPEMA Securities Group. The improved conditions on the secondary market since the beginning of 2009, as well as large privatisation transactions and better prospects for public offerings should be reflected in the IPOPEMA Securities' revenue in the following months of the year (in Q4 2010, the Company provided its services in relation to the privatisation of the Warsaw Stock Exchange). However, it is difficult to assess whether the current improvement in the market conditions will continue.

## IPOPEMA Securities' Position on the Secondary Market

Reinforcement of IPOPEMA Securities' position on the WSE's and BSE's secondary markets, coupled with the continued recovery on both stock exchanges, should have a favourable effect on the Company's revenue. On the other hand, increasing competition from foreign brokers on the WSE might result in a lower number of handled transactions and reduce the value of the Company's turnover. Similarly, IPOPEMA Securities' position on the BSE will depend on how fast new customers will be acquired and cooperation with the existing ones will be expanded with respect to handling transactions on the BSE, as well as on the competitiveness of local brokers.

## Further Growth of IPOPEMA Securities' Involvement in Investment Banking Projects and Execution of Transactions Which Are Currently at the Preparation Stage

The improving market conditions on the WSE have spurred a rebound of interest in raising capital on the public market, also among unlisted companies. This creates better opportunities for a sustainable return to the execution of public offerings: both the Company's existing projects and new transactions which may be secured by the Company in the future. IPOPEMA Securities will also strive to manage secondary public offerings as well as raising of financing through debt instruments. At the same time, the Company will seek to handle M&A transactions and financial advisory projects.

## Further Growth of IPOPEMA TFI

Further recovery on the Warsaw Stock Exchange should continue to drive up the value of assets under management (the funds' assets frequently include shares listed on the WSE), as well as into greater interest from external clients in the funds offered by IPOPEMA TFI. Concurrently, the company may expect further growth in retail investors' interest in funds, in particular IPOPEMA TFI's products distributed through bank distribution networks, namely Alior SFIO (distributed by Alior Bank), IPOPEMA m-Indeks FIO, which since the beginning of September 2010 has been available exclusively to clients of mBank and MultiBank (for six months), and IPOPEMA Rynku Mieszkaniowego FIZAN (a fund distributed only by the BRE Bank Group), whose certificates have been available for subscription since November 4th 2010.

## Growth of IPOPEMA Business Consulting

The currently observed improvement of the economic climate is expected to translate into more favourable conditions on the consultancy services market. In Q4 2010, the factors of key relevance to IPOPEMA Business Consulting's activities will be the closing of part of the company's existing contracts and further performance of the remainder of the contracts, as well as growth of the company's order book, with only a slight increase in expenses.

## IPOPEMA's Brokerage Business in Hungary

Since the launch of brokerage activities on the Budapest Stock Exchange (BSE), the Company has been consistently strengthening its position on the stock exchange and its share in stock trading – from 5.91% in March (6th position) to 7.53% in September (4th position). The effect of the operations in Hungary on IPOPEMA's performance in the whole of 2010 will depend, most of all, on the situation on the Hungarian stock market, the rate at which new clients are acquired, and the broadening of cooperation with the existing clients of IPOPEMA Securities in the area of transactions execution on the BSE.

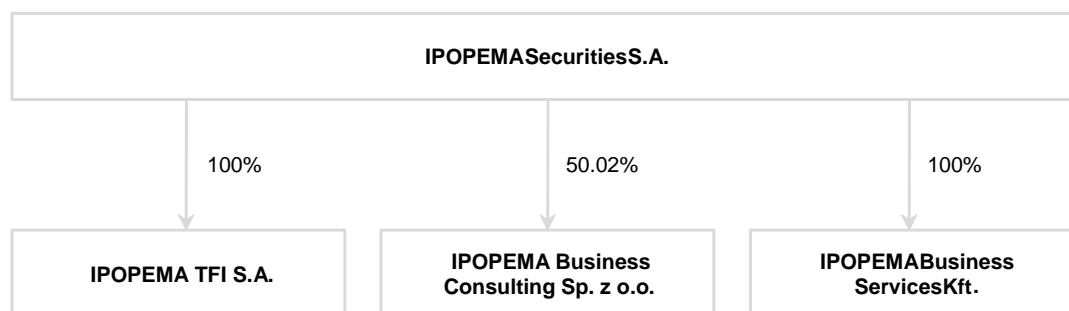
# 4. Performance against Forecasts

The Company did not publish forecasts of financial results.

## PART II

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

The IPOPEMA Group consists of IPOPEMA Securities S.A., which is the parent undertaking, and subsidiary undertakings: IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A., IPOPEMA Business Consulting Sp. z o.o. and IPOPEMA Business Services Kft.



### 2. Changes in the Organisational Structure of the IPOPEMA Securities Group

In Q1-Q3 2010, no changes in the organisational structure of the IPOPEMA Securities Group occurred.

### 3. Shareholder Structure of IPOPEMA Securities S.A.

As at September 30th 2010, the shareholder structure of the Company (shareholders holding 5% or more of the shares in IPOPEMA Securities S.A.) was as follows:

Shareholder	Number of shares and votes at GM	% of total vote at GM
Fundusz IPOPEMA 10 FIZAN <sup>1</sup>	2,851,420	9.86%
Fundusz IPOPEMA PRE-IPO FIZAN <sup>2</sup>	2,851,120	9.86%
KL Lewandowska S.K.A. <sup>3</sup>	2,749,500	9.50%
JLK Lewandowski S.K.A. <sup>4</sup>	2,729,000	9.43%
JLS Lewandowski S.K.A. <sup>4</sup>	2,729,000	9.43%
TFI Allianz Polska S.A. <sup>5</sup>	1,708,844	5.91%
Customers of Pioneer Pekao Investment Management S.A. <sup>6</sup>	1,599,634	5.53%
Otwarty Fundusz Emerytalny PZU Złota Jesień	1,451,346	5.02%
<b>Total shareholders holding more than 5% of the share capital</b>	<b>18,669,864</b>	<b>64.54%</b>

<sup>1</sup> The only investor in the Fund is Mr Stanisław Waczkowski, Vice-President of the Company's Management Board.

<sup>2</sup> The main investor in the Fund is Mr Jacek Lewandowski, President of the Company's Management Board, and Ms Katarzyna Lewandowska.

<sup>3</sup> A subsidiary undertaking of Katarzyna Lewandowska; Katarzyna Lewandowska also holds 498 shares, representing less than 0.01% of all Company shares.



<sup>4</sup> A subsidiary undertaking of Jacek Lewandowski, President of the Company's Management Board; Jacek Lewandowski also holds 860 shares, representing less than 0.01% of all Company shares.

<sup>5</sup> Shares held by the funds Allianz Platinum FIZ and Allianz FIO.

<sup>6</sup> All the shares are held by Pioneer Fundusz Inwestycyjny Otwarty.

## 4. Changes in the Number of Shares Held by Members of the Management and Supervisory Staff

As at the September 30th 2010, members of the management and supervisory staff held, directly or indirectly through their subsidiary or related undertakings (including dedicated funds), the following shareholdings in IPOPEMA Securities S.A.

Person	No. of shares and votes	% of share capital and total vote
Jacek Lewandowski – President of the Management Board <sup>1</sup>	8,321,427	28.77%
Stanisław Waczkowski – Vice-President of the Management Board	3,142,855	10.86%
Mariusz Piskorski – Vice-President of the Management Board	1,285,713	4.44%
Mirosław Borys – Vice-President of the Management Board	928,571	3.21%
Bogdan Kryca – Member of the Supervisory Board	642,854	2.22%
<b>Total</b>	<b>13,964,280</b>	<b>48.27%</b>

<sup>1</sup> As presented in the table in Section 3, shares in IPOPEMA Securities S.A. are also held (directly and through subsidiary undertaking) by Katarzyna Lewandowska, Jacek Lewandowski's wife.

As at June 30th 2010, members of the management and supervisory staff held, directly or indirectly, the following shareholdings in the Company:

Person	No. of shares and votes	% of share capital and total vote
Jacek Lewandowski – President of the Management Board	8,321,427	28.77%
Stanisław Waczkowski – Vice-President of the Management Board	3,142,855	10.86%
Mariusz Piskorski – Vice-President of the Management Board	1,060,000	3.66%
Mirosław Borys – Vice-President of the Management Board	928,571	3.21%
Bogdan Kryca – Member of the Supervisory Board	285,714	0.99%
<b>Total</b>	<b>13,964,280</b>	<b>48.27%</b>

<sup>1</sup> As presented in item 3 under the table above, shares in IPOPEMA Securities S.A. are also held (directly and through subsidiary undertaking) by Katarzyna Lewandowska, Jacek Lewandowski's wife.

## 5. Issue, Redemption and Repayment of Equity and Non-Equity Securities

In Q1-Q3 2010 (and in the comparative period), no equity or non-equity securities of IPOPEMA Securities S.A. were issued, redeemed or repaid.

## 6. Sureties Granted

In Q1-Q3 2010 (and in the comparative period), no IPOPEMA Group undertaking granted sureties for loans or issued guarantees.



## 7. Selected Corporate Events and Material Information

### Launch of Brokerage Activities on the Hungarian Market

In March 2010, the Company actively commenced brokerage activities on the Budapest Stock Exchange (BSE) as a remote member. The brokerage operations are conducted in cooperation with local partners acting as "investment firm agents". In order to provide operational support for the agents, in December 2009 IPOPEMA Securities established IPOPEMA Business Services Kft. The core business of the subsidiary is the provision of office and business support services. Currently, the services are provided exclusively to IPOPEMA's agents.

### Ranking of Brokerage Houses

In this year's ranking published by the *Forbes* magazine (No. 11/2010) and prepared on the basis of institutional clients' ratings, IPOPEMA Securities came second in the combined classification and was the highest-ranked brokerage house in terms of research reports and analytical products, individualised approach to clients and the quality of services on the secondary market. Furthermore, IPOPEMA topped the ranking in the category of separate evaluation of broker teams, and two brokers of IPOPEMA Securities, including the undisputed leader of the listing, were placed among the best five traders in the individual ranking.

## 8. Court Proceedings

On January 13th 2009, the Company filed with the Regional Court a suit for payment of past due receivables in the amount of PLN 891 thousand. Impairment losses were recognised for the full amount of the disputed claim in 2008. The Company was not a party to any other court proceedings.

## 9. Related Party Transactions

In Q1-Q3 2010, the Company did not enter into any material related party transactions.

## 10. Material Events Subsequent to the Balance-Sheet Date

In the period between September 30th 2010 and the date of release of the financial statements, no material events with a material bearing on the Company's operations occurred.

Warsaw, November 9th 2010

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

Jacek Lewandowski  
President of the  
Management Board

Mariusz Piskorski  
Vice-President of the  
Management Board

Stanisław Waczkowski  
Vice-President of the  
Management Board

Mirosław Borys  
Vice-President of the  
Management Board