

# Management Board's Report

on the operations  
of the IPOPEMA  
Group in 2009

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# 1. General Information

The IPOPEMA Securities Group is a fast-growing financial institution specialising in brokerage services and company research, as well as investment banking services (through IPOPEMA Securities S.A.), creation and management of closed-end investment funds (through IPOPEMA TFI S.A.), and business and IT consultancy services (through IPOPEMA Business Consulting Sp. z o.o.).

The history of IPOPEMA's operations dates back to May 2003, when Dom Inwestycyjny IPOPEMA S.A. was created to provide advisory on the preparation and execution of capital market transactions. In pursuance of the strategy of providing comprehensive investment banking services, in June 2005 DI IPOPEMA established a subsidiary, Dom Maklerski IPOPEMA S.A., which concentrated on the services relating to the execution of public offerings. In the second half of 2006, DI IPOPEMA's operations were transferred to DM IPOPEMA, whose name was changed to IPOPEMA Securities S.A. Since October 2006, the range of services offered by the Company was broadened to include brokerage services on the secondary market of the Warsaw Stock Exchange and on foreign markets. The IPOPEMA Group was extended by adding IPOPEMA TFI in 2007, and IPOPEMA Business Consulting in 2008.

As part of its brokerage business IPOPEMA Securities provides comprehensive services for institutional clients in the area of intermediation in securities trading on the secondary market. The Company's partners are both high-profile international financial institutions and the majority of leading Polish institutional investors, including open-end pension funds, investment fund companies, asset managers and insurers. The brokerage operations of IPOPEMA Securities are supported by a research team, which prepares analyst reports, recommendations, and comments on the issuers listed on the WSE (the largest ones but also the medium-sized and smaller companies).

The Company's investment banking offering includes comprehensive assistance in the preparation and execution of transactions on the capital market, involving the use of equity instruments (shares), debt instruments (corporate bonds), and hybrid solutions (convertible bonds). In particular, the Company focuses on public offerings of securities (especially shares) – in which it acts as the coordinator, offeror and financial adviser, M&A deals and management buy-outs, as well as advisory on the raising of financing on the private market, including from private equity funds and through pre-IPO placements.

IPOPEMA Towarzystwo Funduszy Inwestycyjnych focuses its business activity on the creation and management of closed-end investment funds. These are dedicated funds addressed to groups of well-off individual and corporate clients.

IPOPEMA Business Consulting focuses on the provision of advisory services relating to strategy and operating activities of enterprises, as well as on IT consultancy services.

## 2. Financial Highlights and Overview of the Financial Standing of the IPOPEMA Securities Group

(PLN '000)	2008	2009
Revenue	53,639	70,503
Costs of core activities	35,152	53,148
Profit (loss) on core activities	18,487	17,355
Operating profit (loss)	14,391	15,144
Pre-tax profit (loss)	15,834	15,172
Net profit	12,512	11,608

### Revenue

In 2009, the most significant source of the IPOPEMA Group's revenue was securities trading. This revenue reached PLN 41,862 thousand and accounted for 59.4% of consolidated revenue from core activities. Compared with 2008, revenue from securities trading fell by 11% (from PLN 47,013 thousand), which was a direct consequence of the Company's reduced market share in stock trading on the WSE (8.8% in 2009 compared with 9.3% in 2008). Due to IPOPEMA Securities' involvement in a greater number of transactions, revenue from investment banking services reached PLN 13,006 thousand (18.4% of consolidated revenue), which meant an over six-fold increase from 2008 (PLN 2,146 thousand).

When compared with 2008, IPOPEMA TFI's revenue from management of investment funds rose sharply and recorded a two-fold increase to PLN 8,832 thousand, compared with PLN 4,420 thousand in 2008. The increase follows chiefly from the larger number of managed funds and the related value of their assets – as at the end of 2009 IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. ("IPOPEMA TFI") managed 43 closed-end investment funds with the aggregate asset value of PLN 1,920m, while a year earlier it managed 32 funds with the aggregate asset value of PLN 978m.

In 2009, IPOPEMA Business Consulting Sp. z o.o. ("IPOPEMA BC") recorded revenue from consultancy services in the amount of PLN 6,351 thousand (9.0% of the IPOPEMA Group's total revenue), which is particularly noteworthy given the fact that 2009 was the first year of IPOPEMA BC's operating activity.

Considerably higher revenue from investment banking services and investment fund management as well as revenue from consultancy services drove up the IPOPEMA Group's 2009 consolidated revenue by 31.4%, to PLN 70,503 thousand (from PLN 53,639 thousand in 2008), despite lower revenue from securities trading.

### Cost of Operating Activities

In 2009, the total costs of operating activities amounted to PLN 53,148 thousand and were higher by 51.2% than in 2008, when they stood at PLN 35,152 thousand. This strong increase in the costs of the Group's operating activities was driven by several factors. One of the most important factors was the first-time recognition of operating costs of IPOPEMA BC, which was related to the launch of operations by IPOPEMA BC at the beginning of 2009. The operating costs of IPOPEMA BC amounted to PLN 6,726 thousand, of which approximately 70% represented the cost of salaries and wages. In 2008, due to the fact that IPOPEMA BC did not actually conduct any operations, its operating costs were significantly lower and stood at PLN 49 thousand (for the period August – December).

In 2009, IPOPEMA Securities' total operating costs amounted to PLN 37,774 thousand, up by 21.3% (PLN 31,139 thousand) on the 2008 figure. The main drivers of the growing operating costs were the higher cost of salaries and wages (due to both higher headcount and higher bonus payments for 2009, resulting mainly from hiring new employees for the research team, which is discussed in Section 5.5) and higher transaction costs.

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A material issue affecting the consolidated result was also the valuation of options granted by the Company in performance of the share-based incentive scheme. The Group was obliged to recognise the related costs in connection with its transition to reporting in accordance with the International Financial Reporting Standards ("IFRS"). Under the IFRS, the cost of the incentive scheme recognised in 2009 totalled PLN 2,182 thousand, of which PLN 1,717 thousand was attributed to IPOPEMA TFI, and the balance – to IPOPEMA Securities.

Apart from the expenses connected with the valuation of the option scheme, the increase in the operating costs of IPOPEMA TFI was due mainly to higher salaries and wages (average headcount grew from 12 employees in 2008 to 16 employees in 2009) and higher costs of creation and management of funds.

### Net Profit (Loss)

Despite substantially higher revenue, the IPOPEMA Group's consolidated profit on core activities, amounting to PLN 17,355 thousand, was lower by PLN 1,132 thousand relative to 2008 (a 6.1% decline) due to a rise in operating expenses. However, the operating profit rose by 5.2% compared with 2008, to PLN 15,144 thousand, which was largely caused by better results on transactions involving financial instruments held for trading. At the same time, due to a decline in finance income related to lower cash levels, accompanied by a practically unchanged level of finance expenses, the pre-tax profit realised in 2009 was PLN 662,000 (4.2%) down on the pre-tax profit posted in 2008. Accordingly, the net profit of PLN 11,608 thousand realised in 2009 fell by PLN 904 thousand (7.2%) relative to 2008. However, it should be noted that this figure takes into account accounting costs related to the valuation of the stock option schemes (Section 5.5), which, if excluded, would yield PLN 13,790 thousand in consolidated net profit.

Given the fact that IPOPEMA Securities' shareholding in IPOPEMA BC is 50.02%, the profit attributable to owners of the parent amounts to PLN 11,756 thousand, while minority interests incur a loss of PLN 148 thousand.

In 2009, IPOPEMA Securities' net profit totalled PLN 12,690 thousand and was 1.5% higher than the figure for 2008 (PLN 12,499 thousand). The net profit posted in the consolidated financial statements for the financial year (being the profit of the segment of brokerage and related services) was lower by PLN 581 thousand and amounted to PLN 12,109 thousand, which was mostly due to the valuation of employee stock options, in the total amount of PLN 465 thousand.

The net loss posted by the investment fund management segment (IPOPEMA TFI's business) amounted to PLN 209 thousand. The segment's result was particularly strongly and adversely affected by accounting costs related to the valuation of the stock-option scheme. Otherwise, the segment would have posted a net profit of PLN 1,508 thousand.

The segment of consulting services represented by IPOPEMA Business Consulting posted a net loss of PLN 292 thousand (the first year of the company's operations).

### Analysis of the Balance Sheet of the IPOPEMA Securities Group

The key items of the Company's consolidated balance sheet comprise current receivables and current liabilities, which as at December 31st 2009 accounted for 85.2% and 85.6% of the balance-sheet total, respectively. Current receivables and liabilities are recognised predominantly in connection with the executed buy and sell transactions in securities, not yet settled at the Polish NDS. In the case of buy trades executed on the WSE on behalf of clients whose accounts are maintained by custodian banks, the Company recognises liabilities towards the parties to market transactions (brokerage offices and brokerage houses, known as the anonymous party to a transaction) and receivables from the clients on behalf of whom such buy transactions have been executed. In the event of sell trades executed on the WSE on behalf of clients whose accounts are maintained by custodian banks, the Company recognises receivables from the parties to market transactions and liabilities towards the clients on behalf of whom such sell trades have been executed.

Cash as at December 31st 2009 stood at PLN 47,216 thousand, which accounted for 12.2% of total assets. PLN 44,624 thousand of this figure comprised IPOPEMA Securities' cash, including the company's own funds of PLN 33,193 thousand (the balance comprised clients' cash).

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As at the end of 2009, equity accounted for 12.2% of the balance-sheet total (PLN 47,164 thousand). Interest-bearing debt under a short-term revolving bank loan obtained by IPOPEMA Securities to finance contributions to the Guarantee Fund for settlement of stock-exchange transactions and to settle transactions was PLN 13,547 thousand (3.5% of the balance-sheet total). A rise in provisions, to PLN 7,016 thousand as at the end of 2009 from PLN 2,926 thousand as at the end of 2008, was driven mainly by a substantially higher total amount of bonuses allocated for payment for 2009.

### Assessment of Financial Resources Management

IPOPEMA Securities S.A. meets its liabilities as they fall due. Given the fact that a high level of current liabilities related to transactions in securities is counterbalanced by a high level of receivables from these transactions, and the amount of cash held being approximately 3.5-times higher than interest-bearing debt, currently there is no risk to liquidity in the Management Board's opinion.

### Explanation of Differences between Financial Performance and Published Financial Performance Forecasts

The Company did not publish any performance forecasts. In Current Report No. 3/2010 of February 25th 2010, the Company published the non-consolidated revenue and net profit of IPOPEMA Securities for Q4 2010 and cumulatively for the four quarters of 2009. The figures posted in the audited non-consolidated financial statements of the Company did not change and are consistent with the data presented in Current Report No. 3/2010.

### Material Off-Balance Sheet Items

As at December 31st 2009, off-balance sheet items posted by the Company included futures for the total amount of PLN 4,945 thousand, which were acquired for the Company's own account in connection with acting as a futures market maker. However, it should be noted that open positions on equity-based futures are usually hedged with an offsetting position in equities (arbitrage transactions).

### Capital Expenditure

The total capital expenditure incurred by the IPOPEMA Group in 2009 amounted to PLN 1,081 thousand and mostly concerned IT hardware and software. As at the date of these financial statements, the Group does not plan any major capital expenditure which would require funding from sources other than the Group's own resources.

## 3. Factors with Bearing on Financial Performance

### Situation on the Equity Market of the WSE

Among the consequences of the downturn on the WSE observed from the middle of 2007 to the end of 2008 were decreasing trading values on the stock market throughout 2008. From the beginning of 2009, a distinct upward trend was seen in monthly on-session trading values (from PLN 18.6bn in January to PLN 28.3bn in December), which resulted in an average monthly stock trading value in 2009 of PLN 27.9bn (relative to PLN 26.8bn in 2008). In 2009, the total value of trading on the equity market amounted to PLN 351.9bn, up by 6% from PLN 331.3bn recorded in 2008. In 2009, there was also a drop in the activity of domestic and international institutional investors (IPOPEMA Securities provides stock trading intermediation services only to institutional clients), whose share in total trading on the WSE declined to 73%, from 82% in 2008. It brought about a fall in the Company's share in stock trading on the WSE to 8.8% in 2009, from 9.3% in 2008, which caused revenue from trading in securities to decrease from PLN 47,013 thousand in 2008 to PLN 41,862 thousand in 2009.

### Higher Number of Transactions Handled

In 2009, in the investment banking area IPOPEMA Securities was involved in the execution of transactions and advisory projects of various types, including two equity offerings, several M&A transactions and an issue of convertible bonds. It should be noted that the difficult financial standing of companies, in particular those engaged in option transactions, created demand for financial restructuring services offered by IPOPEMA – in 2009 the Company was involved in three such projects. IPOPEMA Securities' intensified activity in the area of investment banking services enabled the Company to considerably increase the revenue generated in this operating segment, which rose to PLN 13,006 thousand in 2009 (or 18.4% of the Group's total revenue), from PLN 2,146 thousand in 2008 (or 4.0% of the Group's total revenue).

### Increase in the Number and Asset Values of Funds Managed by IPOPEMA TFI

IPOPEMA TFI's revenue was strongly impacted by an increase in the number and asset values of funds under management. In 2009, IPOPEMA TFI created 11 new funds, while the aggregate value of assets under management rose from PLN 978m as at the end of 2008 to PLN 1.9bn as at the end of 2009 (in 2008, the number of funds grew by 29, while the aggregate value of the assets reached PLN 370m at the end of 2007). The further growth of IPOPEMA TFI's business in 2009 allowed the Company to generate a net profit of PLN 1,508 thousand in the investment fund management segment. However, after taking into account the incentive scheme costs charged to IPOPEMA TFI, the segment's profit turned into a loss of PLN 209 thousand.

### Launch of Operations by IPOPEMA Business Consulting

IPOPEMA Business Consulting Sp. z o.o. launched operating activities in January 2009. From the beginning, it focused on winning clients and contracts, as well as on start-up activities. The efforts resulted in signing contracts, which generated revenue of PLN 6,351 thousand. Admittedly, 2009 was closed with a net loss of PLN 292 thousand for the advisory services segment, but given IPOPEMA BC's short period of operating activities, such a small loss should be considered a positive indicator.

## Recognition of Incentive Scheme Costs

Following transition to a financial reporting system compliant with the International Financial Reporting Standards, the effect of valuation of the stock option schemes implemented by the Company had to be recognised in the consolidated financial statements. The total cost of those schemes amounted to PLN 2,182 thousand, of which PLN 1,717 thousand was attributed to IPOPEMA TFI (investment fund management segment), and PLN 465 thousand to IPOPEMA Securities (brokerage and related services segment).

# 4. Factors with Potential Bearing on the 2010 Results

## Market Situation

The maintenance of the uptrend on the WSE will have a favourable effect on the IPOPEMA Securities Group's main business areas and financial performance. The recovery observed on the secondary market in 2009, as well as the announcements of planned IPOs encourage an optimistic outlook on 2010. However, it is currently difficult to predict whether the current uptrend on the stock exchange will continue.

## IPOPEMA Securities' Position on the Secondary Market

Consolidation of IPOPEMA Securities' position on the WSE's secondary market combined with the continued recovery on the stock exchange should have a favourable effect on the Company's revenue. On the other hand, certain foreign brokers which used to operate on the WSE through domestic brokerage houses, including IPOPEMA Securities, are now choosing to operate on the WSE directly, as 'remote WSE members', which might result in a lower number of transactions and reduce the value of trading.

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

Improved 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 will also strive to manage secondary public offerings as well as raising of financing through convertible bond issues. At the same time, the Company will seek to handle M&A transactions and financial advisory projects.

## Further Growth of IPOPEMA TFI

The recovery on the Warsaw Stock Exchange should also translate into an increase in 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. Considering the above, IPOPEMA TFI submitted to the Polish Financial Supervision Authority requests for authorisation to create further closed-end funds, which would then be gradually launched in H1 2010.



Moreover, assuming that the improved market climate continues, the investment fund market may be expected to soon return to a path of sustained growth in terms of the value of assets in the retail segment. For IPOPEMA TFI it should mean a relatively high growth of the value of assets of ALIOR SFIO, which is managed by IPOPEMA TFI.

### Growth of IPOPEMA Business Consulting

The situation on the market for consultancy services is anticipated to improve in the near future, and it is expected that the company will continue to expand and explore the market, which may potentially lead to a significant growth of business. At present, IPOPEMA Business Consulting is performing the contracts secured so far, which will be reflected in the 2010 revenue.

### IPOPEMA's Brokerage Business in Hungary

In March 2010, the Company launched its brokerage operations on the Budapest Stock Exchange (BSE) of which it is a remote member. The Company's daily market shares became significant already in the first days of its operations, reaching as much as 10%–20%. However, given the project's early stage of development, it is difficult to determine the impact of that business segment on IPOPEMA's financial performance in 2010. It 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 transaction execution on the BSE.

## 5. The IPOPEMA Securities Group's Business

### 5.1 Main Markets, Clients and Suppliers of the IPOPEMA Securities Group

#### Main Markets of the IPOPEMA Group

In the area of intermediation in securities trading, the main market of IPOPEMA Securities is the Warsaw Stock Exchange. Since March 2010, the Company has also developed its brokerage business in the Hungarian market. However, as at the present day, due to the short life of the Hungarian operations, the revenue did not reach levels which would be material to the overall financial performance of IPOPEMA Securities.

In the investment banking area, the Company offers services to both domestic and foreign clients, handling equity transactions and providing advisory services mainly in the domestic market.

IPOPEMA TFI operates on the investment fund market, managing both closed-end investment funds as well as open-end investment funds, which are addressed to a wide group of retail clients. In the area of open-end investment funds the Company undertakes efforts to strengthen its market position.

IPOPEMA Business Consulting operates on the business and IT consultancy market, focusing on advisory services relating to strategy, operational management and IT management.

#### Key Clients

The clients of the Company's brokerage business are both high-profile international financial institutions and leading local intermediaries. IPOPEMA Securities' clients include most of the leading Polish institutional investors, including open-end pension funds, investment fund companies, asset managers and insurers. The group of foreign clients comprise both high-profile international

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financial institutions and leading intermediaries (including branches of major investment banks and local intermediaries) representing foreign institutional investors.

The investment banking services of IPOPEMA Securities are used by a wide variety of clients. The clients include companies already listed on the WSE, for whom IPOPEMA Securities prepares secondary offerings or provides advice on M&A transactions. The Company prepares and executes initial public offerings for private companies, advises such companies on M&A deals and capital raising, and provides financial advisory services. In addition, the Company arranges exits from investments for significant shareholders of public companies (both private individuals and legal persons), effected through the sale of shares on the WSE or private placements.

IPOPEMA TFI's offering is targeted primarily at wealthy individual clients (having assets to the order of tens or hundreds of million zloty). They include in particular the major shareholders of companies listed on the WSE or large private enterprises. At the same time, the Company is expanding its business in the area of open-ended investment funds addressed to a wide group of individual investors, through such initiatives as cooperation with Alior Bank.

IPOPEMA Business Consulting concentrates on services to corporate clients from the following sectors: industrial, energy, consumer goods, trade and distribution, IT and telecommunications.

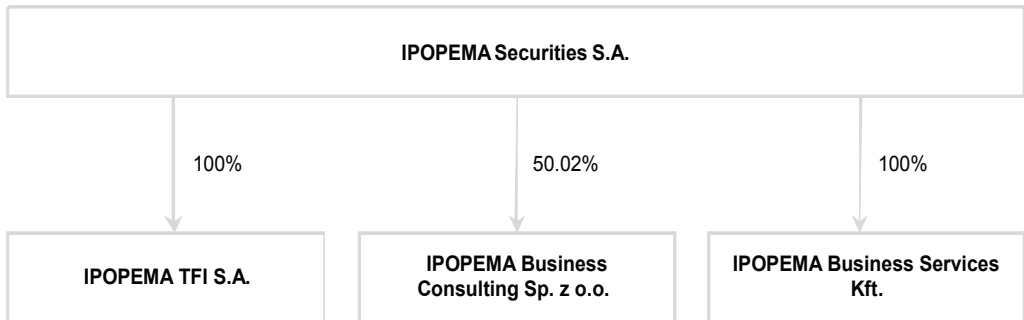
In 2009, no single client accounted for more than 10% of the Group's sales revenue.

### Main Suppliers

The main supplier of IPOPEMA Securities is Mennica Polska S.A., from which the Company leases office space. However, in 2009 no single supplier accounted for more than 10% of consolidated operating expenses of the IPOPEMA Group. The largest item of operating expenses are transaction costs (payable to the WSE and the Polish NDS), which in 2009 accounted for 18.5% of the total costs.

## 5.2 Organisational Structure of the IPOPEMA Securities Group

The Group of IPOPEMA Securities S.A. 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.



### Changes in the Capital Structure of the IPOPEMA Group

Pursuant to the investment agreement, July 2009 saw the adoption of a resolution to issue new shares in IPOPEMA Business Consulting Sp. z o.o., following which the equity interest of IPOPEMA Securities S.A. in IPOPEMA Business Consulting Sp. z o.o. was reduced to 50.02%. For further details on changes in the capital see Section 5.5.

In connection with IPOPEMA's plan to commence brokerage activities at the Budapest Stock Exchange, IPOPEMA Business Services Kft., a commercial company under Hungarian law, with registered offices in Budapest, was established on December 10th 2009. The core business of the subsidiary is the provision of office and business support services, e.g. for IPOPEMA Securities agents, who are involved in brokerage activities conducted at the Budapest Stock Exchange (BSE). The share capital of IPOPEMA Business Services totals HUF 500,000 and has been financed through internally-generated funds. IPOPEMA Securities is the sole shareholder of the company.

## Consolidated undertakings of the IPOPEMA Securities Group

The undertakings indicated in the 2009 consolidated financial statements of the IPOPEMA Group as consolidated with the full method were IPOPEMA TFI S.A. and IPOPEMA Business Consulting Sp. z o.o. IPOPEMA Business Services Kft. was excluded from consolidation since it conducted no operating activities in 2009 and its performance was immaterial.

## Changes in Significant Management Policies

In 2009, the Company did not introduce any changes in management policies.

### 5.3 Development Prospects and Strategy of the IPOPEMA Securities Group

In accordance with its development strategy, over the next two or three years IPOPEMA Securities should become a leading brokerage office in Poland in selected segments of brokerage business and investment banking services. The IPOPEMA Group's operations will focus primarily on services to institutional clients – both investors and companies – and high-net worth individuals who look for active advice on asset management or are significant shareholders of business organisations (including public companies). The comprehensive range of services and substantial synergies within the Group will allow the Company and its subsidiaries to build and reinforce relationships with clients by offering a variety of products for each stage of business development.

In the area of brokerage services, apart from activities commenced on the Hungarian market, the Company is taking steps to launch its operations on the Czech market. An important factor in establishing the Company's position as a "regional hub" will be further extension of the research coverage to include the largest companies listed on the stock exchanges in Prague and Budapest. Within investment banking business, the Company intends to become one of the most active brokerage offices in the area of services related to capital market transactions, with a diversified revenue structure. A strategic goal of IPOPEMA TFI is to continue gaining a strong position on the market of investment funds offering units of closed-end funds as well as developing active management funds and investment funds for individual clients. IPOPEMA Business Consulting intends to further secure its position on the consultancy services market by establishing working relationships with new clients (domestic and from Central and Eastern Europe) and entering into cooperation with global players on the consultancy and IT markets for the purpose of implementing joint projects.

### 5.4 Related Party Transactions

In 2009, the Company and its subsidiaries did not enter into any material transactions with related parties on non-arm's length terms.

### 5.5 Important Corporate Events in 2009 and in 2010 by the Date of the Financial Statements

#### Introduction of the Company Shares to Trading on the WSE

May 26th 2009 saw IPOPEMA Securities' debut as a public company on the main market of the Warsaw Stock Exchange (WSE). The debut was preceded by an offering for sale of a part of the shares held mainly by Manchester Securities Corp. (and to a small extent by certain employees of the Company), while the Company did not raise any proceeds as a result of share capital increase. In the Company's opinion, the status of a public company certainly increases operational transparency and has a marketing effect. In the future, these factors should help it to win clients, especially for IPOs. Additionally, the status of a listed company will also enable the implementation of an incentive scheme based on the Company shares, designed to encourage the scheme participants to spend their professional careers with the IPOPEMA Group and enhance the possibility of acquiring new, qualified specialists, if needed.

## Establishment of the Market Making and Proprietary Trading Department

February 2009 saw the establishment of the Market Making and Proprietary Trading Department at the Company, a consequence of the Company's decision to commence investment activities in the area of proprietary trading on the WSE. These activities focus on the most liquid instruments and consist in arbitrage transactions in shares and futures. Moreover, the creation of the Department enables IPOPEMA Securities to expand its offering for companies launching their IPOs in cooperation with IPOPEMA Securities by market making for their shares after the first listing at the WSE with a view to ensuring liquid trading.

## Strengthening of the Research Unit

In early 2009, the Research Unit received a strong boost following the acquisition of a few recognised and experienced analysts, including Arkadiusz Chojnacki at the helm. Mr Chojnacki enjoys the reputation of one of the leading specialists in the Polish capital market. At IPOPEMA, he is head of the listed companies research unit. The employment of Mr Chojnacki is very important for strengthening the Company's position as one of the leading brokerage offices in Poland, and the Management Board believe that it may make the Company more effective in securing engagements to introduce new companies to trading on the Stock Exchange.

## Incentive Scheme

On March 23rd 2009, by virtue of a resolution, the Parent Company's Management Board adopted the Rules of the Incentive Scheme (as amended), which resulted from the adoption by the Extraordinary General Shareholders Meeting of a resolution concerning implementation of the Incentive Scheme for the key employees of the Company and its subsidiary, IPOPEMA TFI, as well as other persons of key importance for the execution of the IPOPEMA Group's strategy, dated December 5th 2007 (amended by a resolution of March 20th 2009). Pursuant to the approved terms of the Incentive Scheme and the aforementioned resolutions (as well as the resolutions, adopted on the same date, on the issue of subscription warrants and Series C Shares, amended by the resolutions of the Extraordinary General Shareholders Meeting of March 20th 2009), the Company is authorised to offer, free of charge, to the Incentive Scheme participants up to 4,857,140 subscription warrants giving their holders the right to acquire 4,857,140 Series C Shares.

Series C Shares may be acquired by holders of subscription warrants by November 30th 2017.

To date, the incentive scheme has covered a few persons from the IPOPEMA Group, with whom the Company entered into agreements under which it agreed – subject to meeting the terms and conditions specified therein – to enable the persons to acquire the Company shares issued within the limits of conditional share capital. The persons include members of the Management Board of IPOPEMA TFI, who will be entitled (subject to meeting specified criteria) to acquire a total of 1,166,667 Series C Shares (4.08% of the current total vote at the Company's GM) at the issue price of PLN 0.47 per share ("Share Option Plan I"). To date the persons acquired in total 357,143 shares. Since not all required criteria were met, the number of shares to be acquired fell by 324,347 shares. Within this pool, based on IPOPEMA TFI's performance in 2009, the persons will be entitled to acquire a total of 413,748 shares, while 71,429 shares will be accounted for based on the Company's performance in 2010. Taking into account the reduction in the number of shares, as at the date of these financial statements Share Option Plan I covers a total of 842,320 shares (including the shares acquired), instead of 1,166,667 shares as was originally assumed.

In addition, the Incentive Scheme also covers other persons who, subject to fulfilling specific conditions, will be entitled to acquire a total of 714,285 Series C shares, representing 2.47% of the total vote and shares in the current share capital of the Company. The issue price at which the shares will be available for acquisition will be equal to the issue price of the Company shares sold in the private placement preceding the introduction of the shares to trading on the WSE, i.e. PLN 5 ("Share Option Plan II"). The final tranche within this pool will be implemented in January 2014. Since not all required criteria were met, the number of shares to be acquired fell to 571,428 (no shares have been acquired yet under Share Option Plan II).

The list of persons eligible to acquire the remainder of the Series C shares, that is 2,976,188 shares ("Share Option Plan III") has not yet been determined, neither have any decisions been made as to whether any such shares will be offered.

## Changes in IPOPEMA Business Consulting

On July 6th 2009, a resolution was adopted to approve an issue of new shares in IPOPEMA Business Consulting Sp. z o.o., which were offered to the Company's partners in the project, Eliza Łoś-Strychowska and Tomasz Rowecki ("the Partners"). The resolution was adopted in performance of the Company's obligations under the investment agreement concluded between the Company and the Partners on August 26th 2008 (as amended), which defined the rules of cooperation between the parties in connection with a plan to set up IPOPEMA Business Consulting Sp. z o.o. Pursuant to the agreement, IPOPEMA Securities agreed to establish a limited liability company under the name of IPOPEMA Business Consulting and pay PLN 50,000 to cover the company's share capital and acquire 100% of the shares with the par value of PLN 50 per share. The shares in the company were to be paid up with a cash contribution of PLN 3,000,000, of which PLN 2,950,000 was to be transferred to the statutory reserve funds. The Company performed these obligations on the date of the agreement.

IPOPEMA Securities also agreed to adopt, at the Partners' request, a resolution on increasing the company's share capital to PLN 100,050 by way of the issue of new shares. Each of the Partners agreed to acquire 500 shares with a par value of PLN 50 per share, representing 24.99% of the total vote at the company's general shareholders meeting, and IPOPEMA Securities will acquire one share with a par value of PLN 50. Following the share capital increase, the Company's shareholding in IPOPEMA BC was reduced from the existing 100% to 50.02%. In accordance with the information provided above, the resolution was adopted on July 6th 2009, and the changes in the share capital were entered in the National Court Register on August 10th 2009. On the same day, in accordance with the provisions of the investment agreement, Eliza Łoś-Strychowska and Tomasz Rowecki were appointed to the Management Board of IPOPEMA BC as Presidents, replacing the previous Management Board President, Ewa Malesza.

As a result of the performance of the investment agreement, the effect of dilution of the shares in IPOPEMA BC, amounting to PLN 1,474 thousand, was disclosed under equity in the consolidated financial statements.

## Commencement of Asset Management Activities

In connection with the implementation of a strategy providing for the broadening of the scope of the Company's business and services, IPOPEMA Securities decided to commence asset management activities, which formally took place on October 21st 2009 (date of relevant notification to the Polish Financial Supervision Authority, referring also to investment consultancy services). Currently, the services will be provided by IPOPEMA Securities; however, it is planned that in the future they will be offered by IPOPEMA TFI (it is intended to take place in 2010). Given the initial stage of development of this business segment, it is not expected to generate revenue that would have any significant influence on the financial result of the IPOPEMA Securities Group.

## 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, December 2009 saw the establishment of 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 Securities agents.

### 5.6 Awards and Distinctions

In the ranking published by the Forbes magazine, prepared on the basis of the institutional clients' ratings (No.10/2009), IPOPEMA Securities came third in the combined classification. It needs to be emphasised that IPOPEMA was the highest-ranking brokerage house in terms of flexibility in customer service, and that its Research and Recommendations department also scored high (second position). Furthermore, IPOPEMA topped the ranking in the category of individual broker teams, and three brokers of IPOPEMA Securities were placed among the best five traders in the individual ranking.

IPOPEMA's Research Office also ranked high, at the third place, in the Seventh Stock Market Analysts' Ranking organised by Parkiet.

The distinction important to IPOPEMA Securities, debuting on the stock exchange this year, was the fourth score in the ranking "Listed Company of the Year" prepared by Puls Biznesu, as well as the second score in the category "Management Board Competence".

## 6. Share Capital and Shareholder Structure of IPOPEMA Securities S.A.

### 6.1 Change in Share Capital of IPOPEMA Securities S.A.

In connection with the Incentive Plan described in Section 5.5, on September 1st 2009, within the framework of a conditional share capital increase performed on the basis of Resolution No. 3 of the Company's Extraordinary General Shareholders Meeting of December 5th 2007 357,143 Series C ordinary registered shares were subscribed for. The subscribed shares had been a part of a pool of 1,166,667 shares separated under the Incentive Scheme as Share Option Plan I for members of the Management Board of the subsidiary IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. The shares were registered in the Polish National Depository for Securities, and as a result, in accordance with the Company's Articles of Association, were converted into bearer shares and admitted to stock-exchange trading. The abovementioned 357,143 Series C shares conferred the right to dividend for 2008.

Consequently, the Company's share capital was increased to PLN 2,892,855.30 (in comparison with PLN 2,857,141 before September 1st 2009) and is currently divided into 7,000,000 Series A ordinary bearer shares, 21,571,410 Series B ordinary bearer shares and 357,143 Series C ordinary bearer shares.

### 6.2 Change in Share Capital of Other Companies of the IPOPEMA Securities Group

In July 2009, the share capital of IPOPEMA Business Consulting Sp. z o.o. was increased from PLN 50,000 to PLN 100,050 through the issue of shares to IPOPEMA Securities and the Company's partners in the project: Eliza Łoś-Strychowska and Tomasz Rowecki ("the Partners"). The transaction was executed under an investment agreement concluded between the Company and the Partners in August 2008. For detailed information on the share capital increase, see Section 5.5.

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

As at December 31st 2009, the shareholder structure of the Company (shareholders holding more than 5% of shares in IPOPEMA Securities S.A.) was as follows:

Shareholder	No. of shares and votes at GM	% of total vote at GM
Manchester Securities Corp.	3,714,280	12.84%
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%
<b>Total shareholders holding more than 5% of Company shares</b>	<b>17,624,320</b>	<b>60.92%</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 investors in the Fund are Mr Jacek Lewandowski, President of the Company's Management Board (main investor), and Ms Katarzyna Lewandowska.

<sup>3</sup> A subsidiary undertaking of Ms Katarzyna Lewandowska. NB: Katarzyna Lewandowska holds 498 Company shares representing less than 0.01% of the Company's share capital.

<sup>4</sup> A subsidiary undertaking of Mr Jacek Lewandowski, President of the Company's Management Board. NB: Jacek Lewandowski holds 860 Company shares representing less than 0.01% of the Company's share capital.

Other than the arrangements under the Incentive Scheme described in Section 5.5, the Company did not enter into any agreements which in the future may result in issues of shares leading to changes in the proportion of shares held by the Company's existing shareholders.

## 7. Management and Supervisory Staff

### Remuneration of Members of the Management and Supervisory Staff

The table below presents the remuneration of members of the Management Board for 2009 (both remuneration paid and allocated for payment in 2010) from IPOPEMA Securities:

First name and surname	Remuneration for 2009 (PLN)
Jacek Lewandowski	1,160,000
Mirosław Borys	860,000
Mariusz Piskorski	885,000
Stanisław Waczkowski	3,783,000

Members of the Management Board of IPOPEMA Securities did not receive any remuneration from its subsidiary undertakings. However, they received (directly or through controlled undertakings) dividend for 2008 on general terms and on equal rights with other shareholders of the Company.

The table below presents the 2009 remuneration of the Supervisory Board members received from IPOPEMA Securities in connection with their duties:

First name and surname	Remuneration for 2009 (PLN)
Jacek Jonak	5,000
Janusz Diemko	5,000
Bogdan Kryca	5,000
Roman Miler	3,000
Wiktor Sliwinski	5,000

In 2009, the abovementioned members of the Supervisory Board did not receive any remuneration from subordinated undertakings of IPOPEMA Securities S.A. However, Bogdan Kryca received –through a controlled undertaking – dividend for 2008 on general terms and on equal rights with other shareholders of the Company.

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

As at December 31st 2009, no changes occurred in the shareholding (direct or through controlled undertakings) of members of the management and supervisory staff of IPOPEMA Securities compared with December 31st 2008. However, their percentage share in the share capital was reduced due to dilution of the Company's share capital following from the issue of shares as part of the implementation of the Incentive Scheme in 2009 (for more information, see Section 6.1). The table below presents the number of shares and percentage of the Company's share capital held:

	No. of shares and votes	% of share capital and total vote as at Dec 31 2009	% of share capital and total vote as at Dec 31 2008
Jacek Lewandowski, President of the Management Board <sup>1</sup>	8,321,427	28.765%	29.125%
Stanisław Waczkowski, Vice-President of the Management Board	3,142,855	10.864%	11.000%
Mariusz Piskorski, Vice-President of the Management Board	1,285,713	4.444%	4.500%
Mirosław Borys, Vice-President of the Management Board	928,571	3.210%	3.250%
Bogdan Kryca, Member of the Supervisory Board	285,714	0.988%	1.000%
<b>Total</b>	<b>13,964,280</b>	<b>48.272%</b>	<b>48.875%</b>

<sup>1</sup> As presented in the table in Section 6.3, shares in IPOPEMA Securities S.A. are also held by KL Lewandowska S.k.a., a subsidiary undertaking of Katarzyna Lewandowska, Jacek Lewandowski's wife.

The dilution referred to above resulted in particular from the issue of 357,143 Series C shares acquired by three members of the Management Board of IPOPEMA TFI. The shares were issued within the limit of conditional share capital in connection with the Incentive Scheme adopted at the Company (for detailed information, see Section 5.5).

There also occurred a change in the direct shareholding of Mr Jacek Lewandowski. As at December 31st 2008, out of the total shareholding specified above Mr Lewandowski held directly 5,458,860 shares, representing 19.11% of the total number of shares and votes, while as at December 31st 2009 Mr Lewandowski held directly only 860 shares, representing less than 0.01% of the total number of shares and votes, with the remaining shares acquired by Mr Lewandowski's subsidiary undertakings.

The members of the Company's management and supervisory staff did not hold (directly or indirectly) any shares in subsidiary undertakings of IPOPEMA Securities other than the Company shares specified above.

## Agreements Concluded with Members of the Management and Supervisory Staff

In 2009, the Company did not conclude any agreements concerning compensation in the event of termination of employment with any members of the management and supervisory staff.

# 8. Court Proceedings

The Company was not a party to any court proceedings; however, on January 13th 2009 IPOPEMA Securities S.A. filed with the Regional Court a suit for payment of past due receivables in the amount of PLN 891 thousand. The amount of the disputed claim was fully covered with an impairment charge already in 2008.



## 9. Credit Facility Agreements, Sureties, Guarantees and Other Agreements

### Conclusion of Credit Facility Agreements

On July 22nd 2009, the Company and Alior Bank S.A. concluded two credit facility agreements to finance the payment of liabilities to the Polish NDS:

1. Agreement providing for a revolving credit facility (credit line) of up to PLN 10m, available until July 21st 2010. The purpose of the facility is to finance the payment of the Company's liabilities to the National Depository for Securities in respect of the settlement of transactions concluded by the Company on the regulated market as part of its brokerage business. The agreement replaced the previous agreement providing for a working capital credit facility of up to PLN 20m concluded for the same purpose between the Company and Kredyt Bank S.A. for a period until July 23rd 2009.
2. Agreement providing for a revolving credit facility (credit line) of up to PLN 30m, available until July 21st 2010. The purpose of the facility is to finance the payment of the Company's liabilities resulting from its membership in the Stock-Exchange Transactions Settlement Guarantee Fund operated by the Polish NDS. The agreement replaced the previous agreement providing for a working capital credit facility of up to PLN 50m concluded for the same purpose between the Company and Kredyt Bank S.A. for a period until July 22nd 2009.

The above agreements also provided for a one-off partial drawdown under the credit lines to re-finance the Company's debt to Kredyt Bank S.A. resulting from the Company's liabilities towards the Polish NDS, which had been previously financed with the credit facility granted by that bank. Since July 22nd 2009, all the Company's liabilities towards the Polish NDS have been settled by Alior Bank S.A., and the previous agreements concluded with Kredyt Bank have been settled and expired.

### Agreements Concluded in the Ordinary Course of Business

In 2009, IPOPEMA Securities S.A. concluded several agreements on the provision of brokerage services and investment banking services as well as first agreements on the provision of asset management services (to be performed by the newly formed Asset Management Department). IPOPEMA TFI concluded several agreements on the establishment of closed-end investment funds while IPOPEMA Business Consulting entered into more than a dozen agreements on advisory services with its clients.

### Loans Advanced and Sureties Granted

In 2009, the Company did not advance or contract any loans and did not grant or receive any sureties or guarantees, with the exception of a loan advanced to its employee for an amount which is immaterial from the perspective of the Company's financial statements.

### Shareholder Agreements

The Management Board of IPOPEMA Securities S.A. is not aware of any agreements between the Company's shareholders.

## 10. Risk Factors

Below are presented the most significant, in the Management Board's opinion, risk factors specific to the business of the IPOPEMA Group or its member companies, which – if realised – may have an adverse effect on the business, financial standing, results or development prospects of the Company and the IPOPEMA Group.

## Risk Relating to the Situation on Capital Markets

The Company's financial results are primarily dependent on capital market conditions, especially the situation in Poland. In particular, the economic slowdown is causing a slump on global stock exchanges, including the Warsaw Stock Exchange, the market on which the Company operates. The downturn in the capital markets also affects the Company's revenue as a result of lower trading value on the stock exchange and difficulties in the execution of public offerings. Despite the recent clear improvement in the situation on the stock exchange, it is difficult to be certain whether it is a result of a sustained reversal of negative trends or a short-term recovery following the earlier declines. Continued negative investor sentiment in a long term may have an adverse effect on the Company's financial performance.

With respect to IPOPEMA TFI, less favourable conditions on the capital markets affect interest in investing in listed securities (mainly equities) and thereby reduce revenues on active management services. To date, this factor has had a limited impact on the results achieved by IPOPEMA TFI as its activities consisted mainly in creating closed-end private equity funds. However, since the company is expanding its active management services, continued downturn may lead to lower revenues and earnings of IPOPEMA TFI.

## Risk Relating to Competition in the Services Markets on which IPOPEMA Operates

In recent years, many new companies have entered the market on which IPOPEMA Securities S.A. operates. In addition to brokerage houses already present on the market for several years, which have successfully established a strong foothold on the capital markets in Poland, some newly established brokerage houses have appeared and provide brokerage and advisory services on a limited scale. They are created by individuals with relevant professional experience who can guarantee a standard of service similar to that offered by Poland's leading brokers. Furthermore, the recent significant growth of the Polish capital markets has translated into an increased interest in brokerage and advisory services, including services of intermediation in trading in securities provided by remote members of the WSE, from foreign financial institutions (including foreign brokers who previously operated on the Warsaw Stock Exchange through domestic brokerage houses, such as IPOPEMA Securities). The growing competition may result in the Company losing part of its market share and in increased downward pressures on prices of the offered services, which may ultimately have an adverse effect on the Company's financial standing.

By analogy, IPOPEMA TFI and IPOPEMA Business Consulting compete against companies with established market positions and new market entrants. In the two years of its operations, IPOPEMA TFI has become one of the most active participants of the Polish market in establishing closed-end investment funds; in addition to establishing new closed-end investment funds, the company's development plans include expansion into the segment of actively managed funds. As far as IPOPEMA Business Consulting is concerned, it launched its activities only at the beginning of 2009. There can be no assurance that measures taken by competitors will not stand in the way of the development plans of both IPOPEMA TFI and IPOPEMA Business Consulting; if so, this may have an adverse effect on the future results of the IPOPEMA Group as a whole.

## Risk Relating to Dependence on the Management Personnel, Necessity to Retain Key Employees, Acquisition of Highly Qualified Specialists and Level of Remuneration

The business of the IPOPEMA Group and its development prospects depend to a large extent on the knowledge, experience and qualifications of the management personnel. Their work for the IPOPEMA Group has been instrumental to its successes to date. Hence, if any of the members of IPOPEMA Group's management personnel leaves the Group, this may have an adverse effect on the business and financial standing of the Company and its subsidiaries, as well as on their financial performance and development prospects.

Furthermore, in order to deliver an adequate quality of service, the Company must retain highly qualified staff. The nature of the Company's business requires part of the Company's employees to have relevant experience and to comply with formal requirements for the provision of brokerage or investment advisory services. Besides, to ensure continued development of the Company, it is necessary to hire new employees with relevant competencies and experience.

Given the growing market competition and a limited supply of persons having qualifications which will guarantee a specific level of service quality, with a view to ensuring stability of the key staff, the Company's Management Board seeks to develop appropriate incentive mechanisms to motivate employees to build their future with the Group. One of the measures in this area is the Incentive Scheme currently underway and the applied remuneration system for employees. However, fulfilment of these plans requires increased expenditure on employee remuneration, which, due to a considerable share of salaries and wages in the operating cost structure, may have an adverse effect on the financial results of the IPOPEMA Group in the future.

### Risk Relating to Settlement of Stock Exchange Transactions

The Company is a clearing member of the Polish NDS, which means that on the settlement date it is required to pay for executed buy transactions or deliver securities in order to settle executed sell transactions. The Company executes transactions for clients (holding accounts at custodian banks), who should furnish cash on account of executed buy transactions or deliver securities under buy transactions on the settlement date. However, there is a risk that a client may fail to provide cash or securities on time. In such a case, until the client has settled relevant liabilities, the Company must settle transactions using its own resources (buy transactions) or deliver securities acquired on the market (sale transactions). Additionally, there is also a risk that in the event of failure by the client to pay for a buy transaction, the Company may have to acquire securities which can be sold on less favourable terms or which cannot be sold at all. In the case of sale transactions, there is a risk that the Company may be required to acquire securities on the market at a price higher than the price at which the client was supposed to deliver such securities or that it will be impossible to acquire such securities. In such a case, the Company's right to assert claims from the client on account of the failure to perform under the agreement (order) concerning a transaction on securities may not be prejudiced.

### Risk Relating to the Nature of Investment Banking Services

Services provided by the Company in the area of investment banking, in particular advisory services to companies applying for introduction of their shares to trading on the WSE and M&A transactions, are characterised by relatively long execution periods (typically not less than several months). Given the volatile nature of capital markets and changes in decisions by the Company's clients as to their investment plans, there is a risk that part of the projects commenced by the Company for such clients may be postponed or they may decide to terminate work on introducing their shares to trading (in particular when faced with adverse market conditions). Given that a substantial part of the Company's consideration in projects of this type is represented by success fees, such decisions may have an adverse effect on the Company's financial performance.

### Risk Relating to the Level of Equity and the Company's Financial Needs

As at December 31st 2009 the Company's equity was PLN 47,164 thousand, net of minority interests (PLN 44,365 as at December 31st 2008). Despite a considerable increase in equity, the Company uses debt financing. Under the effective laws and regulations, the Company's total debt may not be higher than four times the Regulatory Capital Level. In connection with its activity on the secondary market, the Company is obliged to secure sufficient contributions to the Stock-Exchange Transactions Settlement Guarantee Fund, managed by the Polish NDS, upon the closing of each trading day. Currently, each day the Company makes a contribution to the Fund using a credit facility. There is a risk that the level of equity (and, thereby, the Regulatory Capital Level) and the available debt financing will limit the turnover potentially achievable by the Company. To date, the Company has not encountered any problems in making sufficient contributions to the Guarantee Fund, while the present level of the available credit facility ensures safe continuation of business at the current level or even a substantial increase of the business.

It should be also noted that if the Company's clients fail to settle transactions concluded at their order in a timely manner, the Company may be required to execute such transactions using its own funds if the available credit facility is not sufficient to cover the liabilities.

Given the scope and scale of conducted business and the generated results, the current level of the Company's equity is sufficient. However, it is possible that business projects currently underway or planned in future may require a higher level of equity. It is particularly difficult now to

estimate precisely the amount of cash needed for the purposes of brokerage operations launched in March 2010 in Hungary. The cash is used to finance mandatory margins and charges related to the execution and settlement of transactions on the Budapest Stock Exchange, and its amount depends on the volume of executed trades.

Please note that in the case of any events with an adverse effect on the Company's financial performance and the resulting losses, the level of equity may be reduced, which may also limit the Company's ability to use debt financing and force the Company to scale down its business. If the equity base needs to be increased, the Company may have to increase the share capital through an issue of new shares.

### Risk Relating to the Business of IPOPEMA TFI

Given the rising competition on the market of investment funds and the relationship between individual funds' performance and the economic situation, including in particular the situation on the capital markets, and the correctness of investment decisions made by managers of IPOPEMA TFI funds, there is a risk that the funds may not yield the expected rate of return (or, in an extreme case, they may incur losses) or that clients will lose confidence in fund managers, which may eventually lead to some clients closing their relationship with the funds managed by IPOPEMA TFI. Due to these factors and the fact that in the case of selected funds IPOPEMA TFI's consideration depends on the funds' results and performance against the agreed benchmarks, the risk that the fund managers will not meet the targets and that the clients will discontinue their relationship with IPOPEMA TFI, IPOPEMA TFI may not generate revenue as planned.

Furthermore, while thus far the number of funds managed by IPOPEMA TFI has been growing dynamically, there can be no assurance that IPOPEMA TFI will be able to maintain its existing client base and acquire new clients in future, which may have an adverse effect on revenue growth. Furthermore, in May 2008, IPOPEMA TFI and Alior Bank executed an agreement on creating and managing an open-end umbrella investment fund (launched in March 2009). However, there can be no assurance that – if the bank fails to acquire clients for the fund or if IPOPEMA TFI does not achieve adequate returns – the revenues derived from the cooperation will be satisfactory.

Growth of IPOPEMA TFI's business also depends on obtaining relevant administrative permits (including in particular authorisations to create new funds) and on the direction of possible changes in the law regulating the business activities of investment funds and taxation rules applicable to investment funds and their participants.

### Risk Relating to the Business of IPOPEMA Business Consulting

IPOPEMA Business Consulting Sp. z o.o. was established in August 2008, with the share capital of PLN 3,000 thousand. IPOPEMA BC launched activities in January 2009 and has managed to execute a number of agreements with clients. However, it has not yet reached a break-even point. There can be no assurance that the company will acquire new clients or that starting cooperation with them will not be postponed (which can extend the period when IPOPEMA BC will continue to generate negative financial results). Consequently, there can be no assurance that due to longer than expected time for reaching a break-even point by IPOPEMA BC, the company will need a contribution of additional capital.

### Risk Relating to the Activities of the Market Making and Proprietary Trading Department

The nature of operations carried out by the Market Making and Proprietary Trading Department, that is execution of short-term proprietary trades on the stock exchange market, results in exposure to investment risk. In particular, it cannot be ruled out that the team working at the Department may take wrong decisions or pursue wrong investment strategies. As a consequence, the result of the Department's operations may not be satisfactory or may even result in losses.

## Risk Relating to the Activities of the Portfolio Management Department

The activities conducted by the Portfolio Management Department involve investment risk. It cannot be ruled out that the team working at the Department may take wrong decisions or pursue wrong investment strategies. As a consequence, the result of the Department's operations may not be satisfactory, which in turn may lead to client churn and problems with securing new accounts.

## Risk Relating to Brokerage Operations in Hungary

In March 2010, IPOPEMA Securities launched brokerage activities on the Budapest Stock Exchange. The company has a limited operating history on the Hungarian market, hence it is difficult to assess the impact of the Hungarian operations on the Company's performance in the future. It is possible that the break-even point will be achieved later than expected and that the results will prove unsatisfactory.

## Risk Relating to the Function of the Payment Bank

It is a necessary condition for the beginning and maintenance of operations on the WSE by the Company (as well as other brokerage houses which are direct members of the WSE) that it has a valid agreement on Payment Bank services with a bank which is a member of the Polish NDS. The Company's Payment Bank is Alior Bank S.A. If an agreement on Payment Bank services was terminated, the Company would need to enter into a new agreement with another bank, which would take time and require agreeing on new terms of cooperation. Any difficulties in prompt commencement of cooperation with another bank could even pose a risk that the Company might have to temporarily suspend its brokerage activity or market making and proprietary trading activities on the WSE, as the case may be, until a new agreement is signed.

A similar risk exists with respect to Deutsche Bank Zrt, the bank with which the Company executed an agreement regarding transactions effected on the Budapest Stock Exchange.

## Risk Relating to the IT and Telecommunications Systems

A particularly sensitive area of the Company's activities is the necessity to ensure uninterrupted and secure operation of its IT and telecommunications systems. Any serious system failure may not only expose the Company to the risk of financial liability to clients for not executed or incorrectly executed orders, but may also undermine the client's confidence. The Company purchased and implemented a dedicated IT system for providers of brokerage services, which has been upgraded and modified on a continual basis. The objective behind the purchase of the system and the ongoing steps taken by the Company in order to ensure the best possible security solutions for its IT and telecommunications infrastructure, is to mitigate the risk of adverse effects of possible failure of the IT systems, unauthorised access to the data collected on the servers used by the Company, or loss of such data. However, there can be no assurance that the risk does not materialise despite the actions taken by the Company.

## Risk Relating to Mistakes and Errors of IPOPEMA's Employees and Breaches of Law

The IPOPEMA Group's position on the markets on which it is present relies primarily on the degree of confidence reposed in the IPOPEMA Group and its employees by the clients. The nature and scope of the Group's services requires not only employees' expertise and experience but also compliance with the procedures in place at each company of the Group, which are designed to limit the risk of mistakes and errors in the Group's operations. Although each employee of the IPOPEMA Group is obliged to know and apply the operational procedures in effect at a given company, there can be no assurance that no mistakes or errors occur in day-to-day operations. Any such errors or mistakes may, depending on their scale, affect the financial standing and financial performance of the IPOPEMA Group. Given the nature of the Company's operations, the risk of mistakes is particularly relevant to the staff operating directly on stock-exchange markets, namely the Secondary Market Department and the Market Making and Proprietary Trading Department of IPOPEMA Securities.

In line with the applicable laws, a company authorised to conduct brokerage activity is required to have a unit which exercises ongoing supervision over compliance of the employees who provide brokerage and investment advice services with legal regulations and internal rules of procedure (including the rules for the protection of inside information and the procedure for counteracting and identifying instances of manipulation). In the case of the Company this responsibility is performed by the Compliance Office. Although as at date of this Report there have been no instances of criminal or unethical conduct on part of the Company's employees, there can be no assurance that such events do not occur in the future. Any such occurrence may expose the Company to adverse administrative consequences from the competent authorities, including the Polish Financial Supervision Authority, and may lead to financial losses to the Company, resulting from the necessity to pay compensations and loss of reputation.

### **Risk Relating to the Implementation of EU Directives on Capital Requirements for Brokerage Houses**

In connection with the requirement to implement Directive 2006/48/EC and Directive 2006/49/EC by the member states of the European Union, a legislative process is underway in Poland to implement the abovementioned Directives into Polish legal system. This necessitates the implementation of secondary legislation to the amended Act on Trading in Financial Instruments. Their implementation will have an effect on how brokerage houses calculate their capital requirements, and thus on their capital needs, as well as the scope and form of reporting information to the competent authorities and the public. In particular, it is expected that the new regime under the abovementioned proposed legislation will result in increased capital requirements for brokerage houses. The Company is in the process of implementing the said regulations, however it is now impracticable to define precisely the target amount of capital adequate for its business.

## **11. Information on qualified auditor of financial statements**

Information on the date of the agreement concluded with the qualified auditor of financial statements and remuneration for the audit is presented in Section 35 of the consolidated financial statements of IPOPEMA Securities S.A.

## 12. Corporate Governance

### Corporate Governance Rules Applied by the Issuer

IPOPEMA Securities complies with corporate governance rules set forth in the document "Best Practices for WSE-Listed Companies", attached to Resolution No. 12/1170/2007 of the WSE Supervisory Board, dated July 4th 2007. The document is available at <http://corp-gov.gpw.pl/assets/library/polish/dobrepraktyki2007.pdf>.

### Corporate Governance Rules which the Issuer Does Not Comply with, Including the Extent of and Justification for such Non-Compliance

- 1) With respect to the rule set forth in Section 1.1 of Best Practices, concerning the use of modern technologies in its information policy, the Company intends to comply with the rule, but its full implementation can be hindered due to certain technical limitations.
- 2) With respect to the rules set forth in Section 11.1.6 and III.1.1, concerning annual reports on the activity of the Supervisory Board and an assessment presented to the General Shareholders' Meeting by the Supervisory Board - the contents of such reports and the scope of such assessments are at the discretion of the Supervisory Board.
- 3) With respect to the rules set forth in Section III.7 and III.8 of Best Practices, concerning an audit committee as well as tasks and operation of the committees of the Supervisory Board – in 2009 the Company did not comply with these rules. On March 12th 2010, however, an audit committee was appointed within the Supervisory Board, in accordance with the provisions of the Act on Auditors, Their Self-Government, Entities Qualified to Audit Financial Statements, and Public Supervision, dated May 7th 2009 (Dz.U. No. 77, item 649)
- 4) With respect to the rule set forth in Section II.2 of Best Practice, concerning a corporate website in the English language, the Company would like to make a reservation that information in the English language may be published later than information in the Polish language.

### Shareholders Holding Significant Blocks of Shares

As at December 31st 2009, 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
Manchester Securities Corp.	3,714,280	12.84%
IPOPEMA 10 FIZAN Fund <sup>1</sup>	2,851,420	9.86%
IPOPEMA PRE-IPO FIZAN Fund <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%
<b>Total shareholders holding more than 5% of shares</b>	<b>17,624,320</b>	<b>60.92%</b>

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

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

## Holders of any Securities Conferring Special Control Rights

There are no securities of IPOPEMA Securities S.A. conferring special control rights.

## Restrictions on Voting Rights

There are no restrictions on the voting rights attached to IPOPEMA Securities S.A. shares.

## Restrictions on Transfer of Ownership Rights to the Issuer's securities

Following the private placement of Company shares in May 2009, the Company entered into lock-up agreements with its existing shareholders. The terms of these agreements apply also to the holders of series C shares issued as part of the Incentive Scheme. The shareholders (save for Manchester Securities Corp.), who hold in total 19,928,561 shares (representing 69.75% of all shares and votes at the GM) agreed, in particular, not to sell the shares held:

- until the last day of the 12-month period following the date of introduction of the Company shares to trading on the Warsaw Stock Exchange (i.e. until May 25th 2010) – with respect to 25% of all the shares held by a given shareholder, subject to the right to sell all or some of such shares in a private placement; these restrictions will not apply if the closing price of the Company shares at any session at the WSE exceeds their closing price on the date of Introduction by at least 100%, provided, however, that the Shareholder obtains IPOPEMA's written consent,
- until the last day of the 24-month period following the date of introduction of the Company shares to trading on the Warsaw Stock Exchange – with respect to the remaining 75% of the shares held by a given shareholder as at the date of the agreement.

Restrictions on the right to sell the shares also apply in the case of shares held by Manchester Securities Corp., which undertook not to dispose of the shares not sold in a private placement for the period of 12 months following the date of introduction of the shares to stock-exchange trading (i.e. until May 25th 2010).

The above restrictions do not apply (neither with respect to Manchester Securities Corp., nor the other shareholders discussed above) to all shareholders with whom the abovementioned agreements were concluded, and the Management Board may resolve to lift the restrictions in the event of:

- (i) a compulsory buyout offer in respect of the Company shares,
- (ii) a tender offer to sell or exchange IPOPEMA shares, and
- (iii) with respect to the 25% of the shares subject to the 12-month lock up, if the closing price of the Company shares on any trading day on the Warsaw Stock Exchange exceeds by at least 100% their closing price as of the date of the Company's first time listing on the WSE.

## Rules Governing Appointment and Removal of the Issuer's Management Staff and such Staff's powers, including in Particular the Power to Make Decisions on Issue or Buy Back of Shares

The Management Board is composed of two to five members, including the President, who are appointed for a 3-year term and removed from office by the Supervisory Board. The Management Board acts in accordance with the Rules of Procedure for the Management Board, adopted by the Supervisory Board.

The Management Board is authorised to increase the Company's share capital, within the limit of the authorised capital, by an aggregate amount of up to PLN 350,000 through the issue of up to 3,500,000 new shares, by way of one or more share capital increases within the limit specified above, within three years as of January 24th 2008, provided that such share capital increase within the limit of the authorised capital is approved by the Supervisory Board.



## Rules Governing Amendments to the Issuer's Articles of Association

The rules governing amendments to the Company's Articles of Association and provided for in the Articles of Association do not differ for those set forth in the Polish Commercial Companies Code.

## Manner of Operation of the General Shareholders Meeting, Its Basic Powers and Description of the Shareholders' Rights along with the Procedure for their Exercise

As the Company did not introduce rules of procedure for the General Shareholders Meeting, the manner of operation of the General Shareholders Meeting of IPOPEMA Securities, its basic powers as well as the shareholders' rights and the procedure for their exercise are stipulated in the Polish Commercial Companies Code (as amended on August 3rd 2009) and the rules of Best Practices for WSE-Listed Companies applied by the Company.

## Composition and Activities of the Issuer's Management, Supervisory and Administrative Bodies or of their Committees; Changes in their Composition in the last Financial Year

The table below presents the composition of the Management Board of IPOPEMA Securities S.A. as at the date of this Report. No changes were made to the composition of the Company's Management Board in the discussed period.

Name	Position	Appointment date <sup>1</sup>
Jacek Lewandowski	President of the Management Board	April 25th 2008
Mirosław Borys	Vice-President of the Management Board	April 25th 2008
Mariusz Piskorski	Vice-President of the Management Board	April 25th 2008
Stanisław Waczkowski	Vice-President of the Management Board	December 18th 2008

<sup>1</sup> Date of appointment for the second term of office.

The table below presents the composition of the Supervisory Board of IPOPEMA Securities S.A. as at the date of this Report. No changes were made to the composition of the Company's Supervisory Board in the discussed period.

Name	Position	Appointment date <sup>1</sup>
Jacek Jonak	Chairman of the Supervisory Board	April 23rd 2008
Roman Miler	Deputy Chairman of the Supervisory Board	April 23rd 2008
Janusz Diemko	Secretary of the Supervisory Board	April 23rd 2008
Bogdan Kryca	Member of the Supervisory Board	April 23rd 2008
Wiktor Sliwinski	Member of the Supervisory Board	April 23rd 2008

<sup>1</sup> Date of appointment for the second term of office.

Warsaw, March 19th 2010

## The 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