

**MANAGEMENT BOARD'S REPORT ON THE OPERATIONS****OF IPOPEMA SECURITIES S.A. IN 2008****PREPARED ON THE BASIS OF ART. 49 OF THE POLISH ACCOUNTANCY ACT  
OF SEPTEMBER 29TH 1994****1. Important events which occurred in 2008 and in 2009 until the date of this Report which have, or may have in the future, effect on the Company's operations and its financial performance**Public Company Status

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 by Manchester Securities Corp, 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 in connection with IPOs. Additionally, the status of a listed company will also enable the implementation of an incentive scheme based on the company shares, designed to incline 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 new subsidiary: IPOPEMA Business Consulting

2008 saw the establishment of IPOPEMA Business Consulting Sp. z o.o. ("IPOPEMA BC", "IBC"), whose business consists in providing specialised services in the area of strategic advisory (such as development and review of business strategies, development of operational strategies, creation of organisational structures, definition and implementation of technological strategies), advisory on the creation, implementation and optimisation of business processes throughout the entire value chain. In particular, the key product lines of IBC are as follows:

- (i) business consultancy (strategy and operational management) on:
  - strategy, organisation, and management
  - mergers and acquisitions (in the area of post-merger integration)
  - shared services centres and outsourcing
  - management of the logistics chain
- (ii) IT consultancy on:
  - IT management and technologies
  - business applications
  - dedicated solutions (specialised industry solutions)

IPOPEMA Business Consulting has assumed a strategic goal of securing a significant position on the consultancy services market. The company has started its operations in Poland, but in a short term it intends to obtain advisory assignments on the Central and Eastern European market. The company launched its operations in January 2009 and has since then established working relations with the first clients. Apart from obtaining further contracts, the company also plans to enter into cooperation with a few large clients, as well as to look for partners among global players on the consultancy and IT markets for the purpose of completing projects together.

Entering the consultancy services segment was possible thanks to cooperation with top class specialists with huge professional experience and knowledge of the industry. The current team of IPOPEMA BC comprises more than a dozen staff, of whom the key partners responsible for the business line are Eliza Łoś-Strychowska and Tomasz Rowecki. The detailed terms of cooperation on this project are set forth in the investment agreement executed between the Company and the aforementioned persons on August 26th 2008. The agreement resulted in the establishment by IPOPEMA Securities of subsidiary IPOPEMA Business Consulting Sp. z o.o., with the capital of PLN 3m, for which IPOPEMA Securities S.A. acquired 100% of shares (PLN 50 thousand is the value of the share capital, while the balance represents statutory reserve funds). The agreement provides that IPOPEMA Securities' ultimate shareholding in IBC is to fall to 50% + 1 share, and the balance is to be acquired by the partners named above, which is planned still in 2009.

#### 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.

#### Obtaining the status of member of the Budapest Stock Exchange

In 2008, the Company obtained the status of a remote member of the Budapest Stock Exchange, which is very important given the planned launch of brokerage services offering on the Hungarian market. The launch is planned to take place in the coming months.

#### 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.

## **2. Comparison of the Performance of IPOPEMA Securities S.A. for 2008 and 2007**

### Revenue

In 2008, IPOPEMA Securities' revenue on core activities totalled PLN 49,219 thousand and was down by 39.1% on the 2007 figure, when it totalled PLN 80,877 thousand. The decline in revenue was due to a significant downturn on the secondary market of the Warsaw Stock Exchange (in 2008 the total trading value was down by 30.9% relative to 2007) and a collapse of the public offering market (the total value of public offerings completed in 2008 was down by 73.4% relative to 2007). As a result of the above, revenue on transactions in securities was down by 27.1%, while revenue on investment banking services fell by 86.5% relative to 2007.

### Operating expenses

In 2008, the costs of core activities amounted to PLN 30,857 thousand (PLN 40,028 thousand in 2007), and included chiefly the cost of salaries and wages of PLN 15,392 thousand (PLN 20,272 thousand in 2007), i.e. about a half of operating expenses incurred by the Company (50.6% in 2007 and 47.5% in 2008). However, a significant portion of the costs of salaries and wages tends to change as bonuses play a major part in the costs. The costs of salaries and wages were lower than in 2007 due to lower amounts of bonuses paid, with the employment level remaining similar.

The second largest item of operating expenses are transaction costs related to fees payable to capital market institutions in connection with the Company's brokerage activities, which amounted to PLN 8,949 thousand (share of total costs: 36.6% in 2007 and 28.5% in 2008). The amount of these costs depends primarily on the value of trades in securities on the secondary market. The drop from the 2007 level (PLN 14,663 thousand) was mainly an outcome of lower value of trades on the secondary market and lower value of capital market transactions executed by the Company.

Other costs of brokerage activities in 2008 amounted to PLN 6,516 thousand and comprised chiefly costs of contracted services, amortization and other operating expenses.

### Profit (loss) on core activity

The Company's profit on core activity amounted to PLN 18,363 thousand, which represented a 55.1% decline from PLN 40,849 thousand reported in 2007. The margin on core activities also deteriorated, from 50.5% in 2007 to 37.3% in 2008.

### Gain (loss) on transactions in financial instruments held for trading/sale

In 2008, due to erroneously executed transactions the Company reported losses of PLN 3,060 thousand on sale of financial instruments held for trading/sale. This was the main factor driving down the total result on transactions in financial instruments, which stood at PLN -2,483 thousand in 2008. In 2007, the Company reported the result on sale of financial instruments held for trading/sale in financial income and expenses; however, comparing the data relating to the abovementioned transactions, in 2007 the Company reported losses of PLN 1,435 thousand on transactions in financial instruments held for trading/sale.

### Other operating income / expenses

The Company's other operating income amounted to PLN 177 thousand in 2008 and PLN 17 thousand in 2007. Other operating expenses totalled PLN 299 thousand in 2008 and PLN 117 thousand in 2007. In 2008, operating expenses totalled PLN 365 thousand in comparison with PLN 338 thousand reported for 2007.

### Difference between provisions and impairment charges for receivables

Substantially higher costs of provisions in 2008 followed from the need to create provisions for receivables of PLN 891 thousand from a client against whom the Company filed a suit.

### Operating profit

All the developments described above contributed to the Company's operating profit of PLN 14,441 thousand in 2008 and PLN 40,528 thousand in 2007. The operating margin earned by the Company in 2008 and 2007 stood at 29.3% and 48.3%, respectively.

### Financial income

Financial income, comprising mainly interest income earned on surplus cash kept in bank deposits, totalled PLN 3,157 thousand in 2008 and PLN 1,643 thousand in 2007 (without the revenue related to transactions in financial instruments held for trading/sale).

#### Financial expenses

The 2008 financial expenses totalled PLN 1,780 thousand and included mainly interest expense related to the credit lines used to service payments to the Guarantee Fund. Higher financial expenses incurred in 2007 (PLN 5,181 thousand without costs related to transactions in financial instruments held for trading/sale) followed from the need to temporarily use debt financing, which is much more costly, in order to service the Guarantee Fund, and from negative financial differences on executed transactions.

#### Corporate income tax

The corporate income tax amounted to PLN 3,319 thousand in 2008 and PLN 6,901 thousand in 2007, with the effective tax rate of 21.0% and 19.4%, respectively.

#### Net profit

All of the above contributed to the Company's net profit of PLN 12,499 thousand in 2008 and PLN 28,653 thousand in 2007. The Company's net margins in the above periods were 25.4% and 35.4%, respectively.

### **3. Anticipated Development of the Company**

#### Development prospects for the market

The future financial performance of IPOPEMA Securities will be influenced by such factors as the general macroeconomic conditions, situation on the WSE and global stock exchanges, investors' sentiment, trading volumes and companies' willingness to conduct equity offerings on the WSE. However, the Company is not able to predict how these factors will develop in future. On the one hand, the return of an economic upswing and an improvement in the situation on the WSE will have a positive bearing on the main areas of IPOPEMA's operations and its financial performance. On the other hand, further decline in the macroeconomic conditions, lower trading volumes and valuations of WSE-listed companies, as well as companies' reduced readiness to raise financing on the capital market can have an adverse effect on the Company's revenues and financial performance.

The Warsaw Stock Exchange is Central and Eastern Europe's largest floor in terms of market capitalisation, the number of listed stocks and the number of licensed brokers. At the end of 2008, the aggregate value of companies listed on the WSE was EUR 65.2bn, whilst the aggregate market capitalisation of the Prague Stock Exchange and the Budapest Stock Exchange amounted to EUR 29.6bn and EUR 13.3bn, respectively. At the same time, the number of companies traded on the WSE was 374, compared with 29 and 43 issuers listed in Prague and in Budapest, respectively<sup>1</sup>.

The WSE's efforts to secure and retain the status of the region's financial hub, which are a crucial element of its strategy for the coming years, are supported by key institutions connected with the Polish capital market. It needs to be stressed that in terms of market capitalization and the number of traded stocks the WSE has already overtaken the main rival with which it is vying for

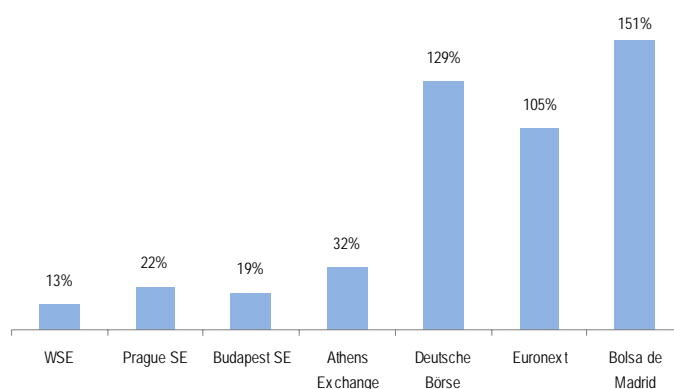
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<sup>1</sup> Source: WSE, Federation of European Securities Exchanges; capitalization of domestic companies.

regional leadership, namely the Vienna Stock Exchange (Wiener Börse), on which 118 companies, with aggregate market value of EUR 54.8bn<sup>2</sup> were listed at the end of 2008.

When set against more mature markets of Western Europe (London, Paris, Frankfurt), the WSE has potential for further growth. At the end of 2008, the list of issuers listed on the London Stock Exchange included 3,096 names, their market capitalisations adding up to a total of EUR 1,352bn. The number of stocks listed on Euronext (the shared trading platform for France, the Netherlands and Belgium) was 1,002 and their total capitalisation stood at EUR 1,508bn. At the same time, the roll of companies listed on Frankfurt's Deutsche Börse included 832 names and their total market value was EUR 797bn. Another measure suggesting that the WSE has prospects for future growth is the ratio of its capitalisation to the GDP. At the end of 2008, in Poland the ratio was 18%. The respective figures for the London Stock Exchange, Euronext (the ratio of market capitalisation to the combined GDP of France, the Netherlands and Belgium) and Deutsche Börse were 74%, 52% and 32%<sup>3</sup>. Also in terms of the value of trading, the Western European stock exchanges are much more active – the total value of trading generated in 2008 on Euronext represented 105% of the combined GDP of France, the Netherlands and Belgium, while the corresponding ratio for Deutsche Börse was 129%. The total value of trading recorded in the same period on the WSE represented only 13% of Poland's GDP.<sup>4</sup>

*Chart 1. Value of trading as a percentage of GDP – WSE vs. other European stock markets*



■ *Ratio of the value of trading (in 2008, single-counted) to GDP (2008 forecast – Eurostat)*

*Source: Company based on data from the Federation of European Securities Exchanges and Eurostat*

Due to large capital flows and strong business ties between Poland and other global markets, Poland has not been immune to the unfolding global economic crisis, although – thanks to the relatively small size of the Polish market – the scale of the impact has been rather limited compared with that experienced by more developed economies. Consequently, Poland's economic situation can be expected to improve mainly on the back of a global economic recovery.

In addition, the current global bear market prevailing since mid-2007 is one of the most severe on record. Even though in statistical terms the bear market has already been a prolonged one, it is impossible to predict how the situation on the capital markets will develop in a near term.

<sup>2</sup> Source: Federation of European Securities Exchanges; capitalization of domestic companies.

<sup>3</sup> Ratio of capitalisation (domestic companies) as at the end of September 2008 to the GDP for 2007 (source: IPOPEMA on the basis of data sourced from Federation of European Securities Exchanges, Eurostat)

<sup>4</sup> Ratio of trading value for January–September 2008 to the GDP for 2007 (source: IPOPEMA on the basis of data sourced from Federation of European Securities Exchanges i Eurostat; single-counted trading)

Given the current recession experienced by the most developed economies, we can expect Poland's economic growth to considerably decelerate in its wake. According to recent forecasts of the National Bank of Poland, Poland's GDP is expected to grow by 1.1% in 2009 and by 2.2% in 2010; however, there are economists who claim that in 2009 it will grow at an even slower rate. Currently, it is impossible to precisely determine how long the economic slowdown will last and what its effects on Poland's macroeconomic situation can be.

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. As part of its operations IPOPEMA seeks to leverage competitive advantages created by strategic cooperation with other organisations (such as Mergers Alliance and Alior Bank) and does not rule out entering into other alliances in the future, where justified by business benefits.

#### Development of the Brokerage Business

Offering high-quality research products will play an important part in strengthening of the Company's position of a leading brokerage in Poland. It is assumed that the Research Office will provide regular coverage of 50 companies listed on the WSE and a few largest companies whose shares are traded on stock exchanges in Prague and Budapest. Furthermore, the Research Office will continue to monitor and comment on the performance of a broad group of WSE-listed companies that are not covered regularly. The Research Office will expand its product portfolio as it develops. Apart from supreme research reports and recommendations concerning companies already listed on the WSE, and comments on companies' periodic reports, the Company's clients are also made available monthly publications discussing the market situation and macroeconomic data, and containing proposed model portfolios and investment strategies.

The Company also intends to develop its brokerage business on foreign markets. Currently, the scale of transactions executed through the agency of local brokers is limited, but the Company plans to launch brokerage activities as a remote member on the stock exchanges in Budapest and Prague, which will enable the Company to extend a more comprehensive offering to its clients. Therefore, the Company has already obtained the status of a remote member of the Hungarian stock exchange. As regards the stock exchange in Prague, the process is less advanced because of the more hermetic nature of this market and existence of regulations which materially impede access of new financial intermediaries to the market. It is the Company's intention to obtain membership and launch operations on the Czech market by the end of 2009, but this is conditional on whether the regulations are amended and adapted to the EU standards in terms of competitiveness and access of new participants.

In order to make its brokerage offering more attractive, the Company has implemented the FIX protocol supporting more streamlined communication between the broker and the client.

#### Development of the Investment Banking Business

IPOPEMA Securities 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 versatile product portfolio, enabling the Company to assist clients in public offerings, raising capital on the private market, as well as M&A transactions, will limit the impact of developments on stock exchanges on the revenue amount. It will also serve as a platform for further operational expansion.

Continued offering of the existing broad range of high-quality investment banking services will facilitate progressive reinforcement of the Company's market position and growth in the number of executed transactions and their average value. The strong position of the Company's brokerage segment and high level of appreciation enjoyed by the recommendations and research reports issued by the Research Office should contribute to obtaining larger (in terms of value) IPO assignments. This will foster perception of IPOPEMA Securities as a broker of choice for transactions to the order of PLN 50-500m. The Company will also seek to act as Polish co-manager in large international offerings (over PLN 500m), including private companies' offerings and privatisation transactions.

In recent years (until the end of 2007), the M&A market was developing at a vigorous pace. However, as company valuations fell and conditions for obtaining credit to finance transactions were significantly tightened in 2008, there was a slowdown in M&A activity. The aggregate value of transactions completed in 2008 fell by 42% relative to the 2007 level<sup>5</sup>. When the situation on the financial market improves and banks become more inclined to lend, the M&A market will certainly pick up momentum (on the back of transactions executed by both companies and private equity funds), all the more so because low stock-exchange valuations are putting a downward pressure on the valuations of non-public businesses, while providing an additional incentive to acquire publicly traded companies.

With a view to diversifying revenue sources and executing more M&A deals, with a concurrent increase in the average value of the transactions, IPOPEMA strengthened its team that will be potentially dedicated to the handling of this type of assignments. The Company believes that this will allow it to exploit to a greater extent the potential created by its membership in Mergers Alliance, a group of independent advisory firms with a presence in 26 countries in Europe, Americas, Asia and Africa, specialising in advisory on international mergers and acquisitions. It is the Company's goal that M&A transactions (including acquisition of financing through private equity funds) should generate revenue at a level similar to the revenue from IPOs. In particular, the Company intends to continue to focus on mergers and acquisitions, sale of companies to strategic investors and private equity funds (including dual-track transactions, which involve a simultaneous public offering and sale to a strategic investor/fund), and public-to-private deals.

The Company also plans to intensify its activities in the area of advisory on financial restructuring processes. Given the current trends in the economy and on the financial markets, and the deteriorating finance and liquidity position of companies, their interest in this type of services is growing. In this area the Company will cooperate with IPOPEMA Business Consulting, which provides services relating to operational restructuring of companies.

The Company will also enhance its offering by adding comprehensive capital raising services. As part of such services, following a preliminary analysis of a company's standing and business plans, IPOPEMA Securities will assist its clients by developing capital raising strategies based on public offerings or private placements.

Given the current trends in the economy and on the financial markets, as well as deteriorating financial standing and liquidity of businesses, corporate demand for financial restructuring advisory services has been growing. Thanks to the extensive relevant experience of the Company's team, IPOPEMA Securities has promptly added this type of services to its offering.

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<sup>5</sup> Source: *Rzeczpospolita* daily.

#### 4. Employment

The headcount has not changed materially in comparison with the end of the year 2007 and is currently as follows:

Unit	Dec 31 2007	Dec 31 2008	At present
Management Board	4	4	4
Secondary Market Department	7	7	7
Capital Market Department	15	14	13
Accounting and Settlements Department	3	3	4
Research Office	6	4	7
Market Making and Proprietary Trading Dept.			2
Other organisational units	9	11	9
<b>Total</b>	<b>44</b>	<b>43</b>	<b>46</b>

#### 5. Corporate Governance

On January 24th 2008, acting pursuant to Par. 4.) of the Rules of Procedure of the Management Board, the Company's Management Board adopted Resolution No. 1/1/2008 on compliance with corporate governance rules (amended by Resolution No. 5/V/2009 of May 12th 2009). According to the Resolution, the Company intends to comply with the 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 ("Best Practices"), with the following exceptions:

- (i) 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;
- (ii) 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.
- (iii) 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, the Company will not comply with the above rules until an audit committee is established within the Supervisory Board. The Company does not exclude, however, the possibility of establishing an audit committee in the future.
- (iv) 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.

#### 6. Other information

##### Changes in the Shareholder Structure

2008 saw the performance of the option agreements executed in 2006 between Dom Inwestycyjny IPOPEMA S.A., the sole shareholder in the Company at the time, and the present



Management Board members, i.e. Stanisław Waczkowski, Mariusz Piskorski and Mirosław Borys, member of the Supervisory Board – Bogdan Kryca, as well as key staff of the Secondary Market Department and the Capital Market Department. On the basis of the agreements, the above persons acquired (directly or through related entities) existing shares in the Company, representing in aggregate 31.25% of all the shares and votes at the GM, of which 18.75% of the total number of the Company shares are held by the above members of the Company’s governing bodies, including: (i) Stanisław Waczkowski – 11%, (ii) Mariusz Piskorski – 4.5%, (iii) Mirosław Borys – 3.25% and (iv) Bogdan Kryca – 1%.

Further changes in the shareholder structure took place in 2009 following the share sale offering preceding the introduction of the Company shares to trading on the WSE. ”). The total number of shares sold in the offering represented 18.38% of the Company’s share capital, of which 17% were sold by Manchester Securities Corp. (out of its original shareholding of 30%), and the balance – 1.38% – by some of the Company employees (each of them sold no more than 25% of this shareholdings). The Management Board members did not sell their Shares.

The current shareholder structure is as follows:

Shareholder	Number of shares	% of share capital
Manchester Securities Corp.	3,714,280	13.00%
Jacek Lewandowski *	11,070,067	38.75%
Stanisław Waczkowski *	3,142,855	11.00%
Mariusz Piskorski *	1,285,713	4.50%
Mirosław Borys *	928,571	3.25%
Bogdan Kryca *	285,714	1.00%
Other existing shareholders	2,894,213	10.13%
Investors acquiring the shares in the private placement	5,249,997	18.38%
<b>Total number of shares</b>	<b>28,571,410</b>	<b>100.00%</b>

\* directly or indirectly together with their subsidiary or related undertakings.

### Incentive Scheme

In 2009, given the resolutions adopted by the Company’s General Shareholders Meeting of December 5th 2007 (amended on March 20th 2009) and concerning the launch of an incentive scheme at the Company and a conditional share capital increase in connection with the scheme implementation, the Management Board adopted and the Supervisory Board approved the Incentive Scheme Rules, defining the terms and conditions of implementing the scheme.

Under the incentive scheme the Company may issue a total of 4,857,140 series C new shares, representing 17% of the current total number of shares in the Company’s share capital. 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 authorised 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 number of the Company shares) at the issue price of PLN 0.47 per share. The other persons included in the scheme will be entitled to acquire a total of 714,285 Series C shares (2.50% of the current total number of the Company shares) at the issue price of PLN 5 per share (equal to the price of the shares sold in the offering preceding the introduction of the shares to stock exchange trading).

With respect to the remaining Series C shares, no list of persons entitled to acquire the shares has been drawn up, and no decisions on offering of the shares have been made.

Inspection by the Polish Financial Supervision Authority

In 2008, a routine inspection was carried out at the Company by the Polish Financial Supervision Authority (PFSA) as the supervisor of brokerage houses. The inspection was carried out in the period February 27th – June 27th 2008 and covered various aspects and areas of the Company’s business activity. As a result of the inspection, on September 17th 2008 the Company received post-inspection recommendations to eliminate the identified irregularities. The Company immediately set about eliminating the irregularities, having notified the PFSA accordingly

Warsaw, 4th June 2009

The Management Board of IPOPEMA Securities S.A.:

Jacek Lewandowski – President \_\_\_\_\_*[illegible signature]*\_\_\_\_\_

Mariusz Piskorski – Vice-President \_\_\_\_\_*[illegible signature]*\_\_\_\_\_

Stanisław Waczkowski – Vice-President \_\_\_\_\_*[illegible signature]*\_\_\_\_\_

Mirosław Borys – Vice-President \_\_\_\_\_*[illegible signature]*\_\_\_\_\_