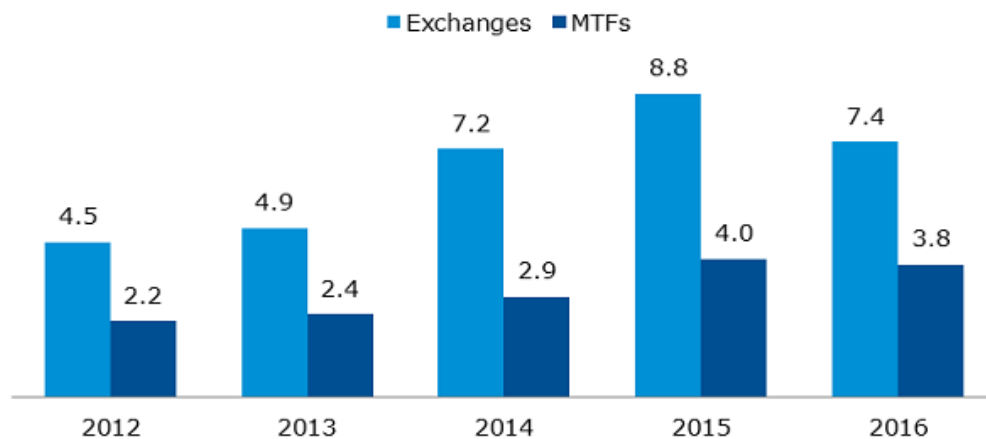


Market Environment[Financial market](#)[Commodity market](#)**Mission and Strategy of the GPW Group****Implementation of the GPW Group Strategy in 2016****Business Lines****International Activity of the GPW Group****Development of the GPW Group in 2017****Risks and Threats****Other Information****ONLINE ANALYST****PAGE TOOLS** 

Competition of financial instrument trading venues has largely increased as a result of ongoing liberalisation of the exchange industry over the past few years. Operators of regulated markets compete for new issuers, investors, liquidity and trade. Another challenge for exchanges is posed by OTC markets and multilateral trading facilities (MTF). They offer trade in the same stocks as those listed on traditional exchanges combined with very short lead times for the execution of orders as well as low trading fees. Some MTFs have been licensed as exchanges, for instance BATS Europe.

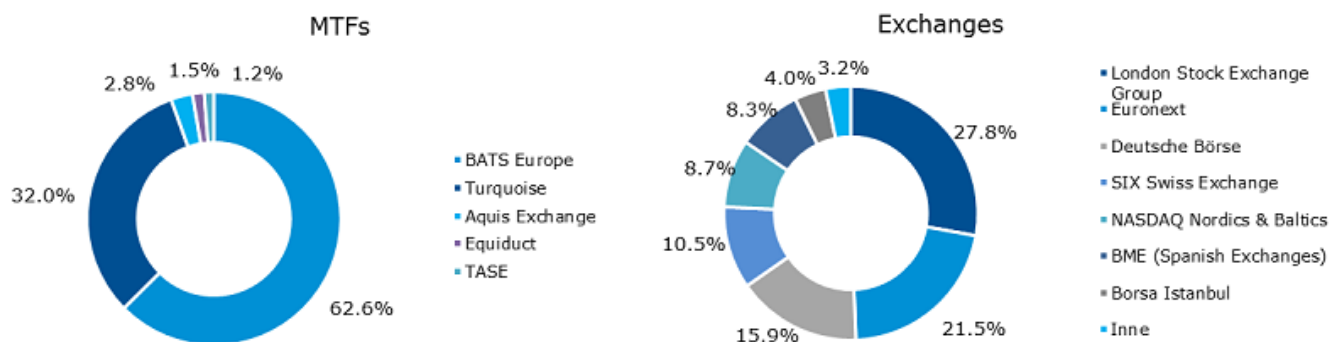
COMPARISON OF EQUITY TRADE IN EUROPE ON EXCHANGES AND MTFs [EUR BILLION]



Source: FESE, LSEG

In 2016, MTFs created under MiFID after 2008 generated more than 34% of turnover in stocks on the electronic order book in Europe, the highest annual percentage ever (in 2015, MTFs generated less than 31% of turnover). However, the turnover in stocks on MTFs decreased from EUR 4 trillion to EUR 3.8 trillion (by 4.3%) year on year in 2016 while the turnover in stocks on exchanges decreased from EUR 8.8 trillion in 2015 to EUR 7.4 trillion in 2016 (by 16%). It should be noted that the total turnover in stocks on the electronic order book in Europe (including exchanges and MTFs) decreased by EUR 1.6 trillion (12.3%) year on year in 2016.

CONCENTRATION OF TURNOVER IN STOCKS ON THE ELECTRONIC ORDER BOOK ON EXCHANGES AND MTFs IN EUROPE IN 2016



Source: FESE, LSEG

According to the FESE European Equity Market Report, MTFs had a much higher concentration of trade in stocks in 2016: the top three MTFs in Europe generated ca. 97.3% of turnover in stocks on all MTFs while the top three exchanges generated 65.3% of turnover in stocks in the European exchange industry. The top five venues which generated the highest turnover in stocks on the electronic order book in Europe in 2016 included:

- BATS Europe; 21.3% share [EUR 2.4 trillion]
- London Stock Exchange Group; 18.4% share [EUR 2.07 trillion]
- Euronext; 14.2% share [EUR 1.6 trillion]
- Turquoise; 10.9% share [EUR 1.2 trillion]
- Deutsche Borse; 10.5% share [EUR 1.2 trillion]

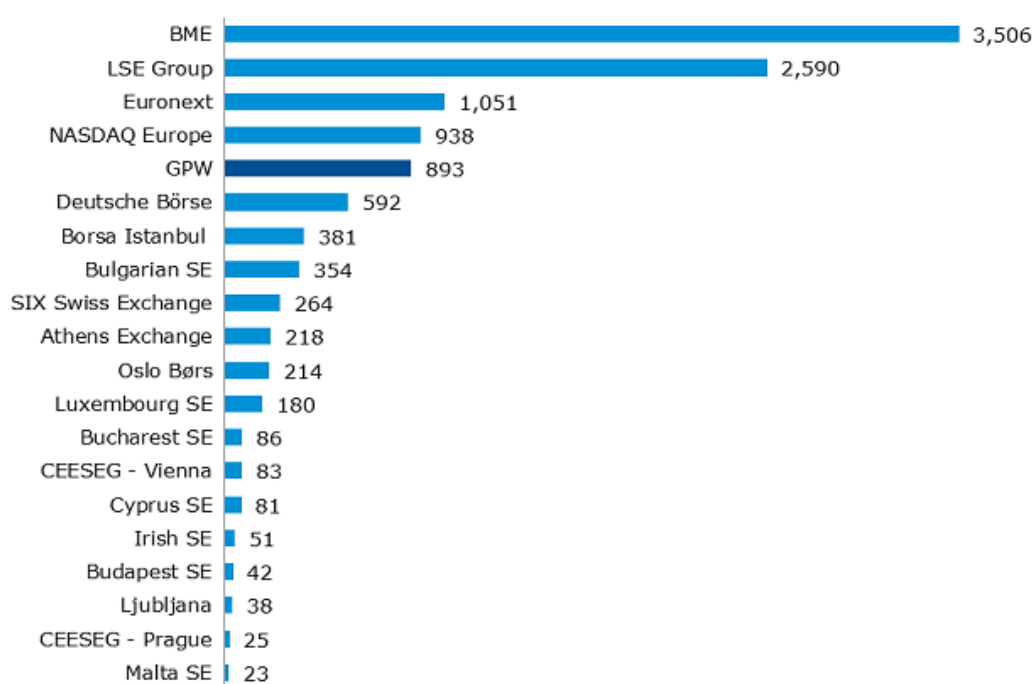
Consequently, the top five venues with the highest share in trading in stocks in Europe

generated more than 75.2% of the total turnover (EUR 11.27 trillion); GPW's share was 0.59% in 2016.

NUMBER OF LISTED COMPANIES

All European exchanges listed 11,610 companies at the end of 2016, a decrease of 276 companies year on year (-2.3%). The Spanish exchange BME had the biggest number of listings (3,506 companies) accounting for more than 30% of all European listings. GPW ranked fifth of the 20 venues surveyed by FESE. GPW listed 893 companies including 487 listings on the regulated market (434 domestic companies and 53 foreign companies) and 406 listings on NewConnect (398 domestic companies and 8 foreign companies). There were 19 IPOs on the main market and 16 IPOs on the alternative market in 2016 (all IPOs were domestic companies).

NUMBER OF LISTINGS ON EUROPEAN EXCHANGES IN 2016

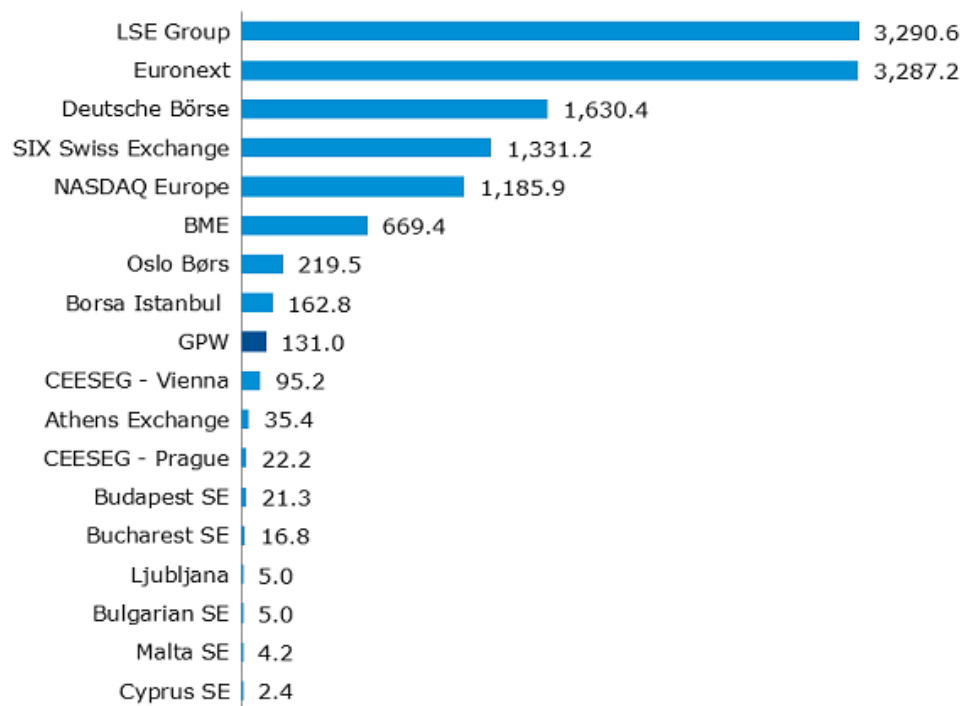


Source: FESE, LSEG

CAPITALISATION OF STOCK MARKETS

In 2016, the total capitalisation of all exchanges globally increased to USD 70.1 trillion at the year's end (up by 4.4% year on year; source: WFE). The biggest increase in capitalisation (10.8% year on year) was reported on the US exchanges whose share in the total capitalisation of all exchanges globally was 44.2% at the end of 2016. The exchanges in Asia and Pacific reported a decrease: their total capitalisation was USD 23.1 trillion at the end of 2016 (-0.7% year on year). The biggest global exchange at the end of 2016 was NYSE with a capitalisation of domestic companies at USD 19.6 trillion, followed by NASDAQ with a capitalisation of USD 7.8 trillion, Japan Stock Exchange – USD 5.1 trillion, Shanghai SE – USD 4.1 trillion, Shenzhen SE – USD 3.2 trillion, and the London Stock Exchange Group and Euronext – USD 3.5 trillion each.

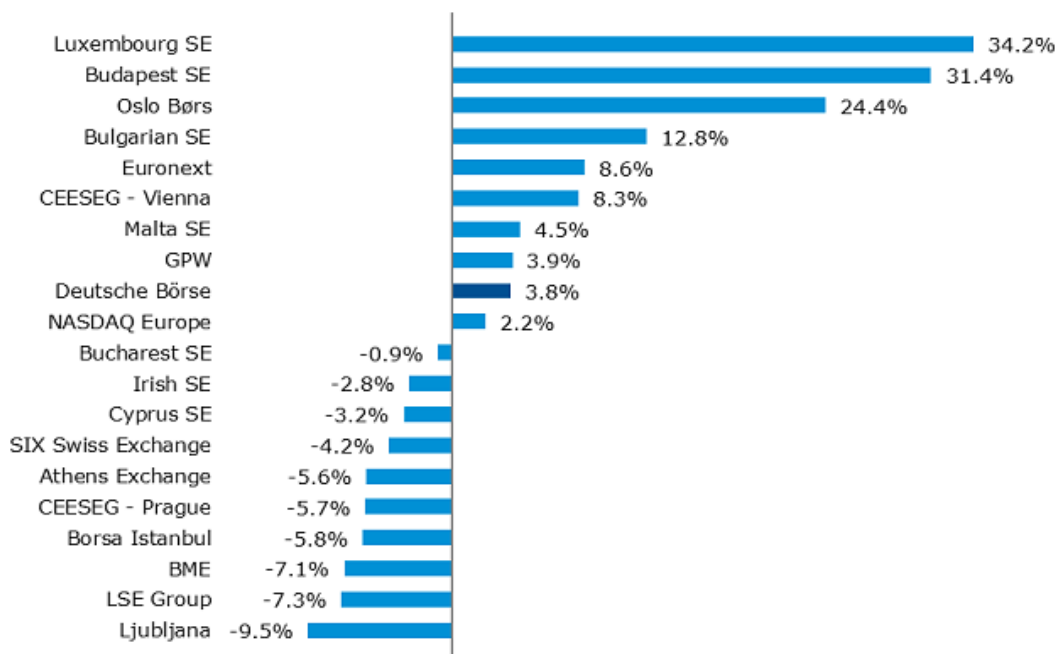
CAPITALISATION OF DOMESTIC COMPANIES ON EUROPEAN EXCHANGES IN 2016 [EUR BILLION]



Source: FESE, LSEG

The capitalisation of European stock exchanges was EUR 12.3 trillion at the end of 2016 (source: FESE, LSEG), representing an increase of 0.3% year on year. However, the capitalisation of domestic companies on the biggest European exchange as measured by capitalisation (LSE) decreased by 7.3%. The biggest drop of capitalisation was reported on the stock exchanges in Slovenia (-9.5% year on year) and Spain (-7.1% year on year). The concentration of the top five European exchanges by capitalisation remained stable year on year at 87.3%. GPW's share was 1.07% in 2016 compared to 1.03% in 2015. The biggest increase in the capitalisation of domestic companies was reported by the stock exchange in Luxembourg (up by 34% year on year in 2016) followed by the Budapest Stock Exchange in Central and Eastern Europe (up by 31%) and the Nordic exchange Oslo Bors (up by 24%).

CHANGE IN CAPITALISATION OF DOMESTIC COMPANIES ON EUROPEAN EXCHANGES IN 2016



Source: FESE (data in EUR), LSEG

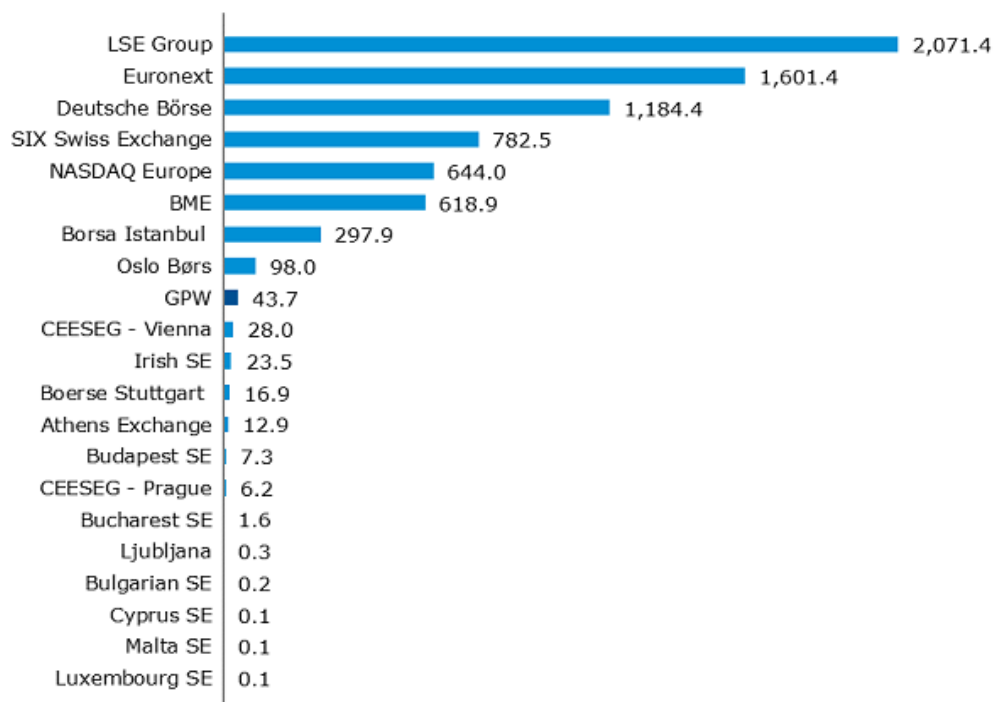
EQUITY TRADE

According to WFE, the total value of trading in shares of domestic companies on the electronic order book was USD 85.4 trillion globally in 2016, a decrease of 24.9% year on year, mainly driven by a decrease in the value of trading on Asian stock exchanges (down by 42.6%). American exchanges also reported a year-on-year decrease (down by 6.8%).

The value of trade in shares on the electronic order book on European exchanges was EUR 7.4 trillion in 2016, a decrease of 15.3% year on year. Compared to the average decrease of turnover in shares on the electronic order book on European exchanges, GPW reported a less pronounced decrease (by 11% year on year), mainly due to an increase of capitalisation of listed companies (by 4%) as well as high volatility on the market due to the macroeconomic environment. However, the decrease was driven by the fact that investor activity on GPW's trading floors was under pressure of the very difficult and demanding market environment in 2016.

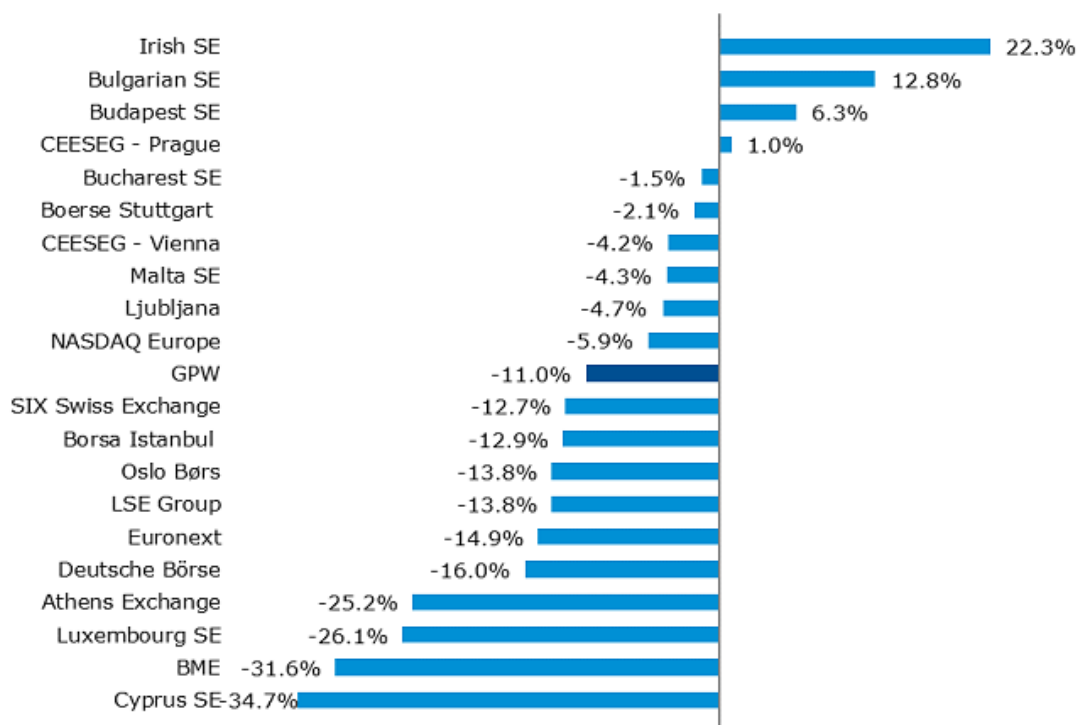
The biggest turnover in shares on the electronic order book on the European market was generated by the LSE Group (EUR 2.1 trillion), followed by Euronext (EUR 1.6 trillion) and Deutsche Borse (EUR 1.2 trillion). The concentration of the top five exchanges with the highest turnover in shares in 2016 was 84.5% of the total turnover in Europe. GPW's share in turnover was 0.59% in 2016 compared to 0.56% in 2015.

VALUE OF TRADE IN SHARES ON EUROPEAN EXCHANGES IN 2016 [EUR BILLION]



Source: FESE, LSEG

CHANGE IN THE VALUE OF TRADE IN SHARES ON EUROPEAN EXCHANGES IN 2016

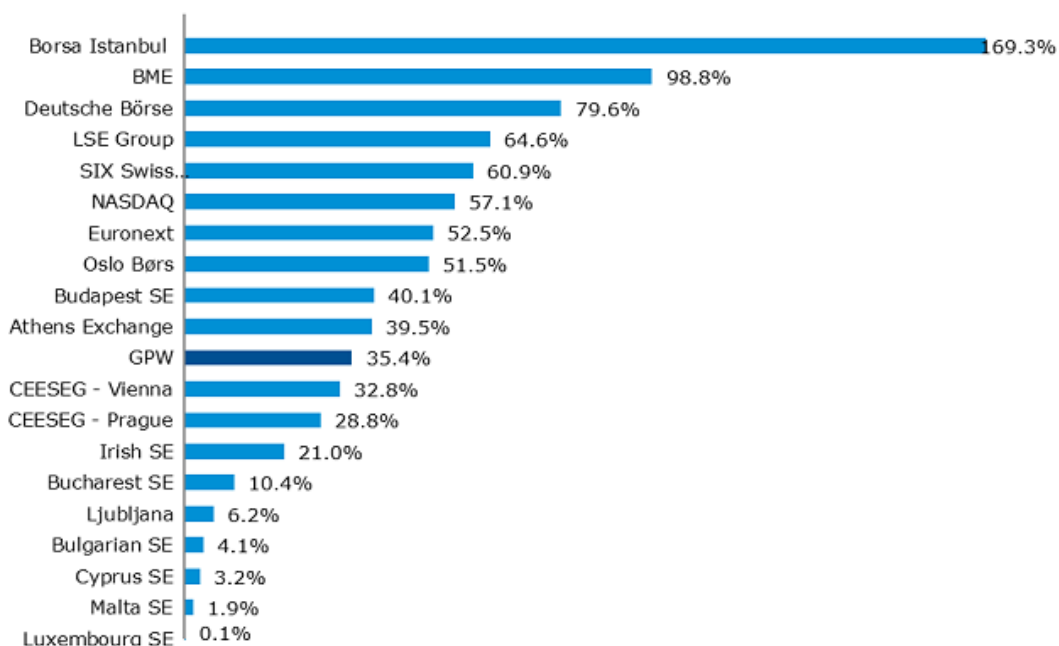


Source: FESE (data in EUR), LSEG

VELOCITY

Velocity measured as turnover to average monthly capitalisation on European exchanges grew by ca. 1.5 percentage points year on year in 2016 (to 35%). In view of the decrease of turnover on the Warsaw Stock Exchange by 11% year on year, the increase of velocity was driven by a decrease of average capitalisation at the end of each month in 2016.

VELOCITY ON EUROPEAN EXCHANGES IN 2016



Source: FESE (data in EUR), LSEG

The average velocity on European exchanges was 63.8% in 2016, representing a decrease of 5.3 percentage points year on year compared to 69.1% in 2015. The sharp decrease in velocity was mainly driven by an increase of the capitalisation of companies listed on European exchanges and a significant decrease of turnover in shares on the electronic order book. It should be noted that the trend of rising capitalisation of domestic companies combined with falling turnover in shares on the electronic order book prevailed both on European exchanges and on exchanges in Asia and the US.

However, under conditions of strong market competition and changing business environment globally, GPW reported a higher percentage increase of capitalisation compared to the overall European market while the decrease in GPW's turnover in shares was lower than on the European and global stock markets; consequently, GPW's share in capitalisation increased (1.07% in 2016 v. 1.03% in 2015) and so did its share in turnover on the European stock market (0.59% in 2016 v. 0.56% in 2015).