

Market Environment

Mission and Strategy of the GPW Group

Implementation of the GPW Group Strategy in 2016

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Risks and Threats

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ANALYST**



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RISK OF LOSS OF THE GROUP'S REPUTATION AND CLIENT TRUST NECESSARY TO PROCESS EXCHANGE TRANSACTIONS

The Group operates in a sector where strong reputation and trust of clients (including

issuers, financial intermediaries, and investors) are particularly important. The Company has achieved a relatively high volume of trade and a high number of IPOs among others owing to its reputation and clients' trust. In view of the role of the Group on the Polish capital market, its reputation could be harmed any malfunctions of the trading system, trading interruptions, operational errors, disclosure of client information, litigation, press speculations and other adverse events. Unexpected changes of regulations governing the capital market and the commodity market in Poland, as well as actions of other participants of the exchange market, including issuers, financial intermediaries, competitive trading platforms and the media, in breach of accepted standards of conduct or good practice, could undermine overall trust in the Polish capital market and the Group. Furthermore, there is a risk that employees of the Group could be in breach of the law or procedures while measures taken by the Group to identify and prevent such behaviour could in certain cases be ineffective, resulting in sanctions and causing a serious harm to the reputation of the Company. No events have ever had a material adverse impact on the reputation of the Group or trust of clients.

RISK OF ATTRACTING AND RETAINING QUALIFIED STAFF OF THE GROUP

Effective management of the GPW Group's business requires recruitment of highly qualified employees. The skills of the Group employees are scarce due to the unique nature of the GPW Group's operations. Any increased turnover of key employees could temporarily affect the GPW Group's effectiveness in view of the lengthy training process necessary to prepare new staff for such positions. This could have an adverse impact on the activity of the Group, its financial position, results, ability to achieve strategic targets, and outlook.

RISK OF INDUSTRIAL DISPUTES

Most of the employees of the Company are members of the Trade Union of Exchange Employees, the sole trade union active in GPW since 2005. Trade unions are entitled to coordinate and consult opinion-making activities (including those related to restructuring of the Company). No industrial action has ever been filed by Group employees. However, there is no guarantee that the Group will not be involved in a future dispute which could have an adverse impact on its activity, revenue, results or financial position.

RISK OF TRADING SYSTEM MALFUNCTION

Safety and continuity of trading are among the key functions of GPW. The Group's operations are strongly dependent on the effective functioning of its trading systems, which are subject to the risk of outages and security breaches. The reliability of the Group's trading systems is as important as their efficiency. In the event that any of the GPW

Group's systems, or those of its third-party service providers, fail or operate slowly, it may cause any of the following to occur: unanticipated disruptions in services provided to the Group's market members and clients; slower response times or delays in trade executions; incomplete or inaccurate recording or processing of trades; financial losses and liability to clients; litigation or other claims against the Group, including formal complaints with the Polish Financial Supervision Authority, proceedings or sanctions. Malfunctions in the trading system and other integrated IT systems could delay a trading session and therefore cause a reduction in the volume of trading and affect confidence in the market, which could have a material adverse effect on the Group's results, its financial position or development prospects. Furthermore, the Group may be forced to make additional material investments in security in order to improve security measures or mitigate existing issues, or to improve its reputation harmed by a potential security breach. Such factors could have an adverse impact on the Group's activity, financial position or results.

RISK OF TECHNOLOGICAL CHANGES

The exchange industry has experienced and will continue to experience fast technological progress, evolving requirements and preferences of clients, launches of products and services integrating new technologies, as well as the emergence of new industry standards and practices. To remain competitive, the Group must continue to strengthen and improve its ability to respond to changes combined with the productivity, availability and functionality of automatic trading and communication systems. This will require the Group to continue attracting and retaining highly qualified staff and to invest heavily in continuous upgrades of its systems. Otherwise, the Group's systems may become less competitive, causing client attribution and reduction of the volume of trade, which could have an adverse impact on the activity of the Group, its financial position and results.

RISKS OF NECESSARY UPGRADES OF UTP

The trading system UTP was implemented by the Company on 15 April 2013. Although UTP now represents the highest global standard and meets growing requirements of market participants, there is no guarantee that it need not be upgraded in the next five years. This could require material investments of the Company. Furthermore, the Company is planning in near future to replace a large part of its computer hardware necessary to ensure proper and effective operation of UTP and to align the system with changing regulatory requirements (MiFID II and MiFIR) and with other systems of the Company. The hardware replacement will materially increase capital expenditures. System upgrades and hardware replacements completed since the implementation of UTP have never before involved major capital expenditures of the Group.

There can be no guarantee that the capital expenditures of the Company required to upgrade UTP or replace IT hardware will have no material adverse impact on the activity of

the Group, its financial position and results.

RISK OF THE GROUP'S RISK MANAGEMENT METHODS

The Group is exposed to market risk, regulatory risk, and financial risks including credit risk and liquidity risk of the Group's investment portfolio, as well as operational risk of its activity. The Group has an insurance cover against risks including natural disasters, theft and burglary, vandalism, improper use of electronic equipment and inadequate power parameters. Furthermore, the Group has third-party liability insurance. The Company has no third-party liability insurance for its operations, including potential damage incurred by Exchange Members and participants of trading due to IT system malfunctions. The Company believes that it has sufficient protection under the agreements signed with Exchange Members and participants of trading. These risk management measures and insurance policies may be insufficient to protect the Group against all risks to which it is exposed. The Group may not be in a position to effectively manage its risks, which could have an adverse impact on the activity of the Group, its revenue, results and financial position.

RISK OF DEPENDENCE OF THE GROUP'S ACTIVITY ON THIRD PARTIES OVER WHICH THE GROUP HAS LIMITED OR NO CONTROL

The GPW Group's activity depends on third parties, including KDPW, KDPW_CCP, as well as several third-party service providers including mainly IT service providers. The ICT systems operated by the GPW Group for trading in financial instruments and commodities are highly specialised and customised, and are not widely used in Poland or elsewhere. Consequently, there is limited choice in service providers for such systems. There can be no assurance that any of the GPW Group's providers will be able to continue to provide their services in an efficient manner, or that they will be able to adequately expand their services to meet the GPW Group's needs. System interruption or malfunction or the cessation of important services by any third party in whole or in part and GPW Group's inability to make alternative arrangements in a timely manner could strongly affect the Group's operation, financial position and results.

RISK OF FAILURE TO IMPLEMENT THE GROUP'S STRATEGY

The strategy of the Group provides among other things for improved attractiveness of GPW for a growing group of market participants, development of GPW's international activity, and reinforcement of its position as a regional financial hub, in particular by investing in state-of-the-art technologies, diversification and expansion of GPW's activity by adding new products and services. The achievement of these goals depends on a range

of factors which are beyond the Group's control, in particular market conditions and the overall economic and regulatory environment. Furthermore, the Group may pay significant costs of new products or services which may not provide the Group with expected revenue in the final analysis. If the launch of such products or services fails to increase revenue, the resulting costs may exceed the amount of revenue, reducing the Group's working capital and profit on operations. The Group's failure to achieve strategic targets could have a material adverse impact on the activity of the Group, its revenue, financial position and results.

RISK OF ACTIONS TAKEN BY THE COMPANY'S DOMINANT SHAREHOLDER WHERE SUCH ACTIONS ARE NOT IN THE INTEREST OR GO AGAINST THE INTEREST OF THE COMPANY OR ITS OTHER SHAREHOLDERS

According to the GPW Articles of Association, the voting rights of shareholders who hold more than 10% of votes at the General Meeting are capped. However, the limitation does not apply to the Company's dominant shareholder, the State Treasury, which holds 14,688,470 shares of GPW with voting rights (each share confers two votes according to the GPW Articles of Association). The State Treasury held 51.76% of the total vote as at the end of 2016. Furthermore, the limitation on the voting rights does not apply to shareholders who hold more than 10,493,000 series A preferred shares (i.e., more than 25% of all preferred shares of the Company). Consequently, the State Treasury controls the Company and any other shareholder may use the exemption if it acquires more than 10,493,000 preferred shares (i.e., more than 25% of all preferred shares of the Company) from the State Treasury.

A shareholder holding the majority of votes at the General Meeting may elect most of the members of the Exchange Supervisory Board and may control the composition of the Management Board. With its corporate rights, the State Treasury or another dominant shareholder that acquires shares of the Company from the State Treasury may directly influence resolutions passed by the authorities of the Company. The State Treasury has, and a dominant shareholder that buys shares from the State Treasury may have, material influence over the activity of the Company, including the development of its strategy and directions of growth, the election of members of the Supervisory Board (subject to the regulations concerning the election of independent members) and of the Management Board. The Company is unable to anticipate how the State Treasury or another dominant shareholder will exercise its rights and how their actions may impact the activity of the Company, its revenue and financial results, and its ability to implement the strategy. The Company is unable to anticipate whether the policies and actions of the State Treasury or another dominant shareholder will be aligned with the interests of the Company. It should be noted that changes of shareholders of GPW could result in a change of the entity which has material influence over the Company or a situation where GPW has no dominant

shareholder.

RISK OF THE CONSIDERED TAKE-OVER OF THE FUNCTIONS OF FIXING ORGANISER

The Group is planning to expand its services following the take-over of the function of organiser of WIBID and WIBOR reference rate fixings from the Financial Markets Association ACI Polska and the functions of the calculation agent currently performed by Thomson Reuters as of November 2016. The Group will apply for authorisation as an administrator within the meaning of Regulation 2016/2011. In the opinion of the Company, the foregoing will not require material costs, and all the costs related to the take-over of the function of organiser and harmonisation with the requirements of Regulation 2016/2011 will be financed with the Group's own funds. Potential disputes or reservations concerning the performance of the functions of fixing organiser by a Group company could have an adverse impact on its perception by market participants and on its reputation, and entail third-party liability of the Group. Once the status of administrator is granted in connection with the application of Regulation 2016/2011 as of the beginning of 2018, any breach of the administrator's obligations could lead to civil, administrative or criminal liability.

RISK OF REDUCED BENEFITS OF THE COMPANY'S INVESTMENT IN KDPW

The Company holds 33.33% of KDPW equity. The KDPW Group (with KDPW as the parent entity and KDPW_CCP as its subsidiary) is responsible for the operation and supervision of the depository, clearing and settlement system for financial instrument trade in Poland, with the exception of trade in Treasury bills where clearing and settlement are operated by the National Bank of Poland. As a minority shareholder, GPW has limited strategic and operational influence over the activity of KDPW. KDPW's business model may be adversely impacted by a range of factors reducing its profits, including price pressures or reduced trading. Lower profits of the KDPW Group including the dividend paid out by KDPW could have an adverse impact on future profits of the Group, which could in turn have a material adverse impact on the financial position and results of the Group.

RISK OF POLPX'S FUNCTION OF NOMINATED ENERGY MARKET OPERATOR FOR THE POLISH PRICE AREA IN THE MARKET COMPETITION MODEL

Poland is the only country in Central and Eastern Europe to have implemented the NEMO competitive model. The legal and organisational position of POLPX following the implementation of CACM is complex because risks for POLPX materialise with the competitive activities of other exchanges on the Polish electricity market. POLPX was

nominated as NEMO by the President of the Energy Regulatory Office on 2 December 2015; EPEX SPOT was nominated on 5 April 2016; NORD POOL was nominated on 22 April 2016. The nomination of two other exchanges as NEMOs in Poland required the Polish Power Grid Company (PSE) to draft regulations and contracts creating a legal framework for the operation of multiple NEMOs on the market. In fulfilment of this obligation, on 4 April 2016, PSE presented the Multi-NEMO Arrangements (MNA) to the Energy Regulatory Office as a set of rules to be approved by the Energy Regulatory Office by 4 February 2017. In its participation in the drafting of MNA, POLPX proposed solutions protecting fair competition and the introduction of uniform regulations ensuring standard effective supervision of all NEMOs by the Energy Regulatory Office and the Polish Financial Supervision Authority.

The implementation of the competitive model with no interim period is a challenge for POLPX because EPEX SPOT and Nord Pool are the biggest European spot energy markets. POLPX's outlook could suffer in the absence of equal terms of supervision of all NEMOs. It should be noted that EPEX SPOT and Nord Pool have great ambitions.

Nord Pool has been nominated as NEMO in 13 countries and it is participating in market development in Bulgaria and Croatia. EPEX SPOT / APX group exchanges have received around 10 nominations (the details are not available) and work with another six exchanges as partners offering services on the market.

As an important factor impacting POLPX's activity on the spot electricity market, the nomination as NEMO implies a new strategic and business dimension and consequently new challenges and risks. The nomination as NEMO means that POLPX's activity on the spot electricity market is subject to the CACM Regulation and the national regulations, which unfortunately have not yet been amended, i.e. the Energy Law, the Commodity Exchange Law, etc. Consequently, in 2017, provisions concerning POLPX's functions as a NEMO need to be added to POLPX's organisational rules, job descriptions of its units and persons in managerial positions, and control units (audit, compliance, risk, market surveillance).

RISK OF REGULATORY FEES

GPW and KDPW are required to pay contributions towards the annual budget of the Polish Financial Supervision Authority in respect of capital market supervision. The amount of the fees is defined on the basis of the expected cost of supervision over the Polish capital market within the year and the estimated revenue of the Polish Financial Supervision Authority from market participants. In 2015, the fees paid by the GPW Group and KDPW represented close to 100% of the capital market supervision budget of the Polish Financial Supervision Authority. The Act of 12 June 2015 amending the Act on Capital Market Supervision and certain other Acts extended the group of entities which finance market supervision and modified the amount of fees contributed by different

institutions. As a result, as of January 2016, the fees paid by the GPW Group decreased substantially (by about one half). GPW has no control of the amount of the fees and it is unable to anticipate the amount to be paid to the Polish Financial Supervision Authority in a given year; consequently, it cannot predict the impact of the fees on the cash flows of the Group. An increase of the fees may have an adverse impact on the activity of the Group, its financial position and results.

RISK OF DEVELOPMENT OF AQUIS EXCHANGE

Aquis Exchange Limited ("Aquis Exchange"), GPW's subsidiary which operates an MTF in London, is a start-up; in such cases, it may take longer than expected to achieve business targets. Aquis Exchange's revenue is currently lower than its costs. Aquis Exchange's loss is recognised in the consolidated statement of comprehensive income under the share of profit/loss of associates. Aquis Exchange's share in the European equity market was 0.93% as at the end of 2016, compared to 0.43% in 2015.

In Q3 2015, Aquis Exchange raised GBP 3 million of equity (at an issue price of 16.93 per share, which was 30% more than the price paid by GPW for Aquis Exchange shares). In 2016, Aquis Exchange issued shares at GBP 18.50 per share, which was more than the price paid by GPW for Aquis Exchange shares (GBP 13.02 per share). Following a share issue without the participation of GPW, GPW's share in Aquis measured by the number of shares decreased from 31.01% as at 31 December 2015 to 23.60% as at 31 December 2016. GPW's share in economic and voting rights decreased from 26.33% to 20.31%. According to the GPW Group's knowledge, Aquis Exchange is planning to raise more equity in 2016 and beyond.

An annex to the Aquis Exchange Shareholders Agreement took effect on 10 June 2016. Under the Annex, GPW agreed to conditionally sell ("call option") the entire package of Aquis shares held as at the call option exercise date at GBP 37 per share. The call option may be exercised by Aquis Exchange upon the future fulfilment of either of the following conditions: (i) a negative decision of GPW concerning potential restructuring of Aquis Exchange or its equity structure necessary to complete an initial public offering (IPO), (ii) a negative decision of GPW concerning a potential IPO of Aquis Exchange. The call option is valid until the end of November 2017 and then expires.

Negative financial results of Aquis Exchange, its failure to improve financial results within the time horizon expected by the shareholders, or its failure to raise expected equity could have an adverse impact on the value of shares held by GPW, causing GPW to lose its investment or its potential gains on the sale of its stake in Aquis Exchange in the future.

