

**Market Environment****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**[Risks - market environment](#)[Risks - legal environment](#)[Operational risks](#)[Financial risks](#)[Other risks](#)**Other Information****ONLINE ANALYST****PAGE TOOLS**

## REGULATORY RISK RELATED TO THE POLISH LEGAL SYSTEM

The GPW Group operates primarily in Poland. The Polish legal system and regulatory environment can be subject to significant unanticipated changes and its laws and

regulations may be subject to conflicting official interpretations. The capital market and the commodity market are widely subject to government regulation and increasingly strict regulation. Regulatory change may affect the GPW Group as well as existing and prospective customers of its services. For instance, regulatory changes may affect the attractiveness of listing or trading on the markets organised and operated by GPW or the attractiveness of services provided by the Group. Such changes could also encourage companies listed on GPW to transfer to other markets which offer competitive listing costs or more flexible listing or corporate governance requirements. Furthermore, institutions other than the authorities (e.g., KDPW, KDPW\_CCP) could impose rules which impact the Group similar to laws, affecting the competitiveness and attractiveness of the markets operated by the Group. Attrition of a significant proportion of clients for the Group's services or less active investor trading on GPW could have an adverse impact on the activity of the Group, its financial position and results.

The ability of the Group to comply with the applicable laws and regulations largely depends on its ability to develop and maintain the adequate systems and procedures. There is no guarantee that the Group will be in a position to comply with future amendments of laws and regulations or that such amendments will have no adverse impact on the activity of the Group, its financial position and results.

## REGULATORY RISK RELATED TO EU LAW

European Union regulation increasingly impacts the GPW Group, especially in the area of trading and post-trade services. It could hurt the competitiveness of smaller European exchanges, such as GPW, in favour of larger market players. Changes to regulations could require the harmonisation of the Group's trading systems and operations, which could entail additional capital and operating expenditures, resulting in reduction of the Group's profit.

## RISK OF THE IMPLEMENTATION OF MIFID II

The European exchange industry including the Company will be largely impacted by MiFID II and MiFIR as well as their implementing regulations. MiFID II and MiFIR will take effect in January 2018 following transposition to national law and enactment of implementing regulations. MiFID II and MiFIR modify the detailed requirements for the provision of investment services, the organisational requirements for investment firms and trading systems, providers of market data services, and access rights of supervision authorities. For trading systems, MiFID II and MiFIR modify the following areas: market structure (new form of organised trade in financial instruments: OTF), pre-trade and post-trade transparency, trade reporting, algorithmic trade, activity of third-country firms, access to trading systems and clearing institutions. There can be no guarantee that the cost to the Company in the implementation and application of MiFID II and MiFIR will have

no material adverse impact on the activity of the Group, its financial position and results.

## RISK OF NON-COMPLIANCE WITH REGULATORY REQUIREMENTS AND RECOMMENDATIONS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY APPLICABLE TO THE ACTIVITY OF THE GROUP

The Group is supervised by the Polish Financial Supervision Authority. The Group may be unable to comply with all regulatory requirements and recommendations of the supervisory authority and thus it may be exposed to future proceedings and sanctions (including cash penalties) imposed due to the Group's non-compliance or alleged non-compliance with its obligations under the applicable laws and regulations as well as recommendations of the supervisory authority. Any such proceedings against the Group and resulting sanctions could have a material adverse impact on the activity of the Group, its financial position and results. The Group has never before failed to comply with regulatory requirements and recommendations of the supervisory authority.

## RISK OF REGULATIONS GOVERNING OPEN-ENDED PENSION FUNDS IN POLAND

Open-ended pension funds are an important group of participants in the markets operated by the GPW Group. As at the end of 2016, open-ended pension funds generated ca. 5% of trade in shares on the GPW Main Market and held shares representing 20.9% of the capitalisation of domestic companies and 43.0% of shares traded on the Main Market (among shareholders holding less than 5% of the shares of a public company or classified as financial investors). Legislative amendments announced by the Ministry of Economic Development in July 2016, which would replace open-ended pension funds with other collective investment undertakings and restrict cash flows to/from pension funds, could impair the activity of this investor group on GPW. They could also augment the risk of a large surplus of shares listed on GPW and curb the interest of other investors in such shares. As a consequence, this could cause a significant decrease of trade in financial instruments including shares on GPW, a reduction of the number and value of issues of shares and bonds admitted and introduced to trading on GPW, and consequently a reduction of the GPW Group's revenue and profit.

## RISKS OF CHANGES TO THE ENERGY LAW

Changes to the mandatory public sale of electricity and natural gas may have an adverse impact on the activity of GPW's subsidiary, POLPX, and its financial standing. The Energy Law requires energy companies which generate electricity to sell at least 15% of electricity produced within a year among others on commodity exchanges. Energy companies trading in gas fuels are required to sell at least 55% of high-methane natural gas

introduced to the transmission grid within the year on an exchange. Amendments to or cancellation of these requirements could reduce the activity of certain participants of POLPX. This could restrict the liquidity of trade in electricity and natural gas and the attractiveness of the commodity market for other participants, affecting the volume of trade in such commodities and the resulting revenue. The Energy Law requires energy companies which generate electricity and are entitled to compensation for early termination of long-term power and electricity contracts to sell the remaining amount of generated electricity (not covered by the 15 percent obligation electricity produced on commodity exchanges) in a way that ensures equal public access to energy in an open tender. The obligation implies that energy must be sold on a market organised by the operator of a regulated market in Poland or on commodity exchanges. The number of entities subject to the obligation decreases with time, which could reduce their activity on POLPX, the liquidity of trade in electricity, and the attractiveness of the commodity market for other participants.

## RISK OF THE RENEWABLE ENERGY SOURCES ACT

POLPX operates among other things trade in property rights to certificates of origin of electricity from renewable energy sources as well as the Register of Certificates of Origin. The Renewable Energy Sources Act implements a new support scheme for the production of energy from renewable energy sources based on auctions, which is to replace the existing support system. The existing system of green certificates of origin will expire on or before 31 December 2035. The support scheme may be phased out even earlier as certificates of origin are available within 15 years after the first day of power generation in an installation. For RES installations which were the first to produce energy eligible for green certificates of origin in 2005, the period of 15 years under the Act will expire in 2020, after which the existing support scheme will be gradually phased out over the years. Furthermore, the Renewable Energy Sources Act allows market players eligible for support under certificates of origin to move to the auction system earlier than after 15 years. Consequently, some of them may move to the auction system early, which could affect the results of the Group.

The Renewable Energy Sources Act also limits the group of entities eligible for support under green certificates and imposes restrictions on the issuance of certificates of origin for multi-fuel combustion plants. This could result in a material reduction of the number of green certificates issued each year. These amendments could affect the activity of participants of the Property Rights Market and the Register of Certificates of Origin operated by POLPX.

## RISK OF IRGIT OBTAINING THE CCP STATUS BEFORE THE EFFECTIVE DATE OF MIFID II

The MiFID II Package (Article 29 of MiFIR) requires operators of regulated markets to ensure that all derivatives transactions on the regulated market are cleared by a central counterparty (CCP) within the meaning of EMIR. Consequently, the ability of IRGiT to provide clearing and settlement of transactions on the Financial Instruments Market operated by POLPX after the effective date of the MiFID II Package depends on IRGiT obtaining the CCP status. IRGiT is in the process of being authorised for CCP clearing. The CCP status should be granted in H2 2017.

## RISK OF AMENDMENTS TO AND INTERPRETATIONS OF TAX REGULATIONS

The Polish tax system is not stable. Tax regulations are frequently amended, often to the disadvantage of taxpayers. Interpretations of regulations are also changed frequently. Such changes could not only raise the tax rates but also add new specific legal instruments, extend the scope of taxation, or even impose new tax burdens. Changes of tax laws could also be driven by the implementation of new rules under EU legislation following the interpretation of new tax regulations or amendments of existing tax regulations. Frequent amendments of laws governing corporate taxation and different interpretations of applicable tax regulations by tax authorities could be to the disadvantage of the GPW Group, adversely impacting its activity and financial position.

## RISK OF INTERNAL REGULATIONS OF THE COMPANY

The ability of the Group to comply with all applicable laws in a changing regulatory environment is largely dependent on the implementation and maintenance of a compliance, audit and reporting system as well as on the ability to attract and retain qualified staff responsible for the processes. The Group's policies and procedures of identification, monitoring and management of compliance risk could be insufficiently efficient. Management of legal and regulatory risk requires among other things that the rules and procedures applicable in the Group support adequate monitoring, registration and verification of many transactions and events. The Group can give no guarantee that its policies and procedures will be effective at all times or that it will be able at all times to adequately monitor and properly assess compliance risks to which it is or may be exposed. Non-compliance with laws and standards could reduce the activity of participants, issuers and investors, adversely impacting the activity of the Group, its financial position, results and outlook.

## RISK OF POTENTIAL LITIGATION DUE TO THE GROUP'S INFRINGEMENT ON INTELLECTUAL PROPERTY RIGHTS OF THIRD PARTIES

The Group's contractors and other legal and natural persons were likely to obtain and are

likely to obtain in the future intellectual property rights in products or services related or similar to the types of products or services which the Group offers or intends to offer. The Group may be unaware of all protected intellectual property rights which may be at risk of infringement by the Group's products, services or technologies. Furthermore, the Group cannot be certain that its products and services do not infringe on the intellectual property rights of third parties and that third parties will raise no claims against the Group due to such infringement. If the Group's trading system or at least one of its other products, services or technologies is considered to infringe on the rights of third parties, the Group may be forced to discontinue the development or introduction into trading of such products, services or technologies, to obtain a necessary licence from the holders of intellectual property rights, or to modify such products, services or technologies to avoid infringement of such rights. If the Group is forced to discontinue the development or introduction into trading of some products or is unable to obtain a necessary licence, it may have a material adverse impact on its activity, financial position and results.

## RISK OF INEFFECTIVE PROTECTION OF INTELLECTUAL PROPERTY

The Group protects its intellectual property under agreements concerning trademarks, copyrights, protection of trade secrets, non-disclosure agreements and other agreements with its suppliers, subsidiaries, affiliates, clients, strategic partners and others. The measures implemented by the Group may be insufficient, for instance, to prevent appropriation of information. Furthermore, protection of intellectual property rights of the Group may require significant investments of funds and human resources, which could have an adverse impact on the Group's activity, financial position and results.

## RISK OF POTENTIAL BREACH OF COMPETITION LAWS BY THE COMPANY

GPW has a dominant position on the Polish market. Consequently, the Company is subject to certain limitations including the prohibition of abusing the dominant position and using anti-competitive practices under Polish and EU competition laws. Competition authorities (President of the Office of Competition and Consumer Protection (UOKiK), Commission) may monitor compliance with such limitations. If the Company is found to be in breach of any such limitations, the competition authorities may require the Company to take specific measures in order to discontinue an anti-competitive practice or to discontinue abusing the dominant position, and impose sanctions including cash penalties on the Company up to 10% of revenue earned in the year preceding the year when the penalty is imposed. Such measures could have a material adverse impact on the Group's activity, financial position and results.

