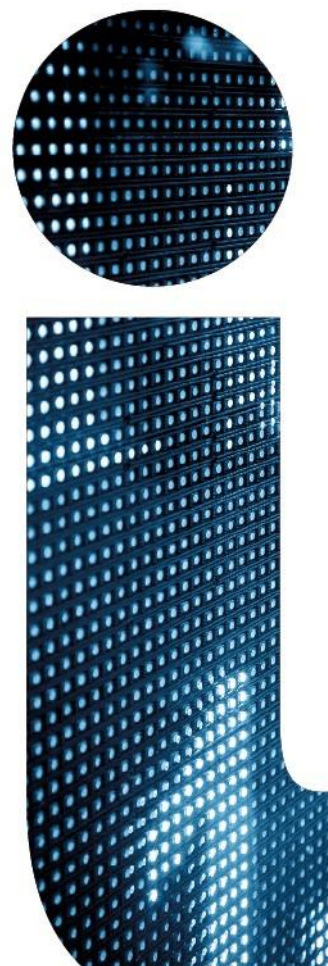


The IPOPEMA Securities Group

# Directors' Report

**on the operations of the IPOPEMA  
Securities Group in the nine months  
ended September 30th 2018**

Warsaw, November 15th 2018



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# PART I

## 1. Financial results

Consolidated financial highlights*	Q1–Q3 2018	Q1–Q3 2017
Total revenue, including	66,111	68,957
<i>Brokerage and related services</i>	24,918	34,168
<i>Investment fund management</i>	24,679	22,808
<i>Advisory services</i>	16,514	11,981
Total operating expenses	69,021	63,092
Profit on core activities	-2,910	5,865
Net profit for period	-4,335	2,826

\*Unaudited

### Revenue

Despite higher revenue from investment fund management and advisory services, a decline in revenue from brokerage services contributed to a slight decrease (4.1%) in the Group's total consolidated revenue in Q1–Q3 2018 (to PLN 66,111 thousand from PLN 68,957 thousand in the first nine months of 2017).

Revenue from brokerage services (PLN 24,918 thousand or 37.7% of consolidated revenue) was 27.1% lower than a year earlier (PLN 34,168 thousand), due mainly to a significant decline in revenue from investment banking services (PLN 5,881 thousand vs PLN 14,948 thousand in the first three quarters of 2017), with revenue from securities trading down by 4.8%, or PLN 17,079 thousand vs PLN 17,948 thousand in Q1–Q3 2017). The decrease in revenue from investment banking services was due to a significantly lower value of transactions completed in the first three quarters of 2018 compared with the same period of 2017. On the other hand, an increase in retail business revenue by 53.9% (to PLN 1,958 thousand) drove an increase in other revenue from core activities.

In Q1–Q3 2018, IPOPEMA TFI (the investment fund and portfolio management segment) posted revenue of PLN 24,679 thousand (37.3% of consolidated revenue), i.e. 8.2% more than the year before (PLN 22,808 thousand). Relative to Q1–Q3 2017, the structure of revenue changed towards a higher share of revenue from the management of capital market funds following an increase of their assets value, which averaged PLN 1.4bn in Q1–Q3 2018 vs PLN 1.1bn in the first nine months of 2017. The total value of assets under management as at the end of September 2018 was PLN 59.1bn (up from PLN 48.0bn a year earlier).

IPOPEMA Business Consulting (advisory services segment) posted revenue of PLN 16,514 thousand in the first three quarters of 2018 (25.0% of consolidated revenue), which represented a 37.8% increase year on year, from PLN 11,981 thousand.

### Costs and expenses

The IPOPEMA Group's total operating expenses in Q1–Q3 2018 were up 9.4% year on year and amounted to PLN 69,021 thousand (vs PLN 63,092 thousand).

From January to September 2018, operating expenses in the brokerage services segment totalled PLN 27,080 thousand, having decreased by 10.6% compared with the first three quarters of 2017 (from PLN 30,291 thousand), mostly due to lower transaction costs.

Higher operating expenses in the investment fund and portfolio management segment (PLN 26,031 thousand vs PLN 21,263 thousand in the first nine months of 2017) were primarily driven by higher costs of fund distribution.

The higher revenue in the advisory services segment in the first three quarters of 2018 entailed an increase in operating expenses (PLN 15,910 thousand), which went up by 37.9% compared with the same period of 2017.

### Financial results

Despite operating profit earned on advisory services, loss posted by the brokerage services and investment fund management segments resulted in a consolidated operating loss of PLN 2,910 thousand (vs profit of PLN 5,865 thousand a year earlier). As regards the net result, the advisory services segment was again the only one to record a profit and, consequently, the consolidated net loss for Q1–Q3 2018 amounted to PLN 4,335 thousand (vs net profit of PLN 2,826 thousand a year earlier).

As IPOPEMA Securities' respective equity interests in IPOPEMA Business Consulting and IPOPEMA Financial Advisory are 50.02% and 77%, loss attributable to owners of the parent amounted to PLN 4,339 thousand, while profit attributable to non-controlling interests was PLN 4 thousand.

Despite lower operating expenses, a marked decrease in revenue in the brokerage services segment resulted in a loss of PLN 2,162 thousand on core activities (vs profit of PLN 3,877 thousand a year earlier) and a net loss of PLN 3,732 thousand (vs net profit of PLN 576 thousand a year earlier).

On a separate basis, IPOPEMA Securities reported a net loss of PLN 2,758 thousand for the first nine months of 2018 (vs net profit of PLN 2,308 thousand for the first nine months of 2017).

Despite an 8.2% increase in revenue from management of investment funds, an increase in operating expenses (by 22.4%) translated into a PLN 1,352 thousand loss on the operations of the fund and portfolio management segment (vs profit of PLN 1,545 thousand a year earlier) and a PLN 1,096 thousand net loss (vs net profit of PLN 1,913 thousand for the first nine months of 2017).

In Q1–Q3 2018, the advisory services segment recorded an operating profit of PLN 604 thousand and net profit of PLN 493 thousand, vs PLN 443 thousand and PLN 337 thousand, respectively, a year earlier.

## 2. Material events and factors with a bearing on financial results

### Equity market and investment banking

In Q1–Q3 2018, the total value of trades executed on the Warsaw Stock Exchange was 14.4% lower than a year earlier. Over the same period, the Company's market share contracted as well, to 4.56% from 5.06%, leading to a 4.8% decline in revenue from securities trading (PLN 17,079 thousand vs PLN 17,948 thousand a year earlier).

The conditions prevailing on the capital market between January and September 2018 were definitely more challenging than in the first nine months of 2017. Despite several transactions, the segment's revenue from investment banking services was significantly lower than for the first nine months of 2017 (PLN 5,881 thousand vs PLN 14,948 thousand).

On the other hand, in Q1–Q3 2018 the Company recorded an increase in other revenue from core activities (PLN 1,958 thousand vs PLN 1,272 thousand a year earlier), driven mainly by higher revenue from the retail business.

As a result of these factors, despite lower operating expenses the brokerage segment posted a loss on core activities amounting to PLN 2,162 thousand and net loss of PLN 3,732 thousand (vs profit on core activities of PLN 3,877 thousand and net profit of PLN 576 thousand, respectively, in the first nine months of 2017).

### Activities of IPOPEMA TFI

An increase in the value of assets in capital market funds (to PLN 1.4bn at the end of September 2018, compared with PLN 1.2bn a year earlier) brought about an increase in revenue from the management of these funds. At the same time, as a result of changes in the laws governing fund activities, introduced in 2016, revenue from fees for managing closed-end investment funds declined. In the end, despite the 8.2% higher total revenue posted by IPOPEMA TFI, the 22.4% increase in operating expenses translated into the segment's net loss of PLN 1,096 thousand (compared with a net profit of PLN 1,913 thousand the year before).

### **IPOPEMA Business Consulting**

A higher number of advisory projects carried out by IPOPEMA Business Consulting in the first nine months of 2018 resulted in a significant increase in revenue (by 37.8%) which, despite higher operating expenses (up by 37.9%), was reflected in improved net profit (PLN 493 thousand vs PLN 337 thousand posted a year earlier).

## **3. Factors which may affect the Group's performance in Q4 2018**

### **Market situation on the Warsaw, Budapest and Prague Stock Exchanges and IPOPEMA Securities' position on the secondary market**

Following a surge in the WIG index by more than 20% in 2017, the Warsaw Stock Exchange has remained in a downward trend this year. At the end of October, WIG was 13.2% lower than at the end of 2017 (having lost 18.1% from its peak of late January). The deteriorated sentiment was also seen in weaker investor activity – in Q1–Q3 2018, the value of trading on the WSE was 14.4% lower than last year. It is difficult to predict how the market situation will develop in the coming months of 2018.

### **IPOPEMA Securities' involvement in investment banking projects and execution of transactions in the order book**

Looking at the capital and public offerings market in the first three quarters of the year, it is hard to expect any improvement in the market conditions over the entire 2018 in relation to last year. Nonetheless, the Company is currently working on several transactions and continues to seek new clients, including from sectors which are more resilient to stock market volatility.

### **Expansion of IPOPEMA Securities' retail business**

In February 2016, the Company started offering brokerage services and investment products to a wider retail audience. At present, the Company is working with several entities acting as investment firm agents, and notification procedures before the Polish Financial Supervision Authority are under way to establish several new relations. Although the retail business is already contributing to the Company's revenue, considering the stage of the project as well as current market conditions that suppress demand from retail investors for specific investment products (bonds, closed-end investment fund certificates), it is hard to reliably predict the rate of its growth in the following periods. Nevertheless, the Company is continuing efforts to expand its product offering and establish relations with new entities acting as agents of IPOPEMA Securities.

### **Further expansion of IPOPEMA TFI's business**

Changes of the situation on capital markets are reflected in the volume of inflows of assets to investment funds. Any strong market downturn causes a decline in the value of assets under management, but also undermines investors' confidence in this type of products, which translates not only into a very limited inflow of new funds but also into unit redemptions. Investors' renewed interest in investment products was seen between January 2017 and August 2018. In that period, retail investment funds recorded net redemptions only in June 2018. However, the trend reversed in September and October, with PLN 2.9bn and PLN 1.4bn in net redemptions from the retail funds present on the market, respectively. At present, it is difficult to determine to what extent these net redemptions are the result of withdrawal of funds from management companies holding GetBack instruments, and to what extent they reflect a permanent change in investors' sentiment, which could potentially have an adverse effect on the performance of the fund and portfolio management segment. However, a large proportion of IPOPEMA TFI's revenue (from management of closed-end funds) does not depend on the value of the funds' assets and, consequently, on market conditions. Nevertheless, changes in the legal regime introduced in 2016 and affecting the operation of such funds have had an adverse effect on revenues from this area. This adverse effect may continue into future periods, and its scale will depend on the direction of further changes in the laws governing fund activities, including taxation. Given that IPOPEMA TFI is a leading market player specialising in closed-end investment funds, such legislative changes may have an adverse effect on its revenue streams in this business segment.

### Expansion of IPOPEMA Business Consulting's business

In the following months of 2018, the key drivers of IPOPEMA Business Consulting's operations will include continued performance of its existing contracts and new additions to the order book, coupled with tight cost control.

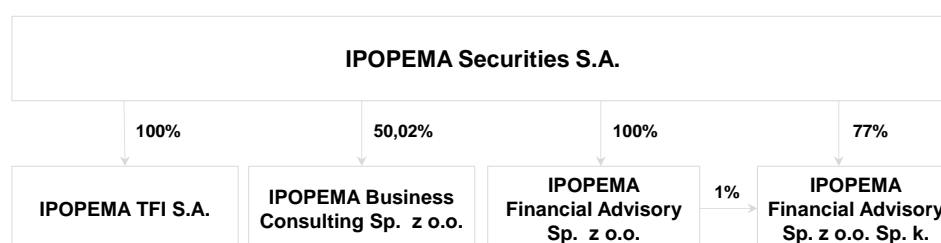
## 4. Performance against forecasts

The Company has not published any performance forecasts.

## PART II

### 1. Organisational structure of the IPOPEMA Securities Group

As at September 30th 2018, the IPOPEMA Securities Group comprised IPOPEMA Securities S.A. as the parent, and the following subsidiaries: IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A., IPOPEMA Business Consulting Sp. z o.o., IPOPEMA Financial Advisory Sp. z o.o., and IPOPEMA Financial Advisory Sp. z o.o. Sp. k. IPOPEMA Securities, IPOPEMA TFI, IPOPEMA Business Consulting and IPOPEMA Financial Advisory Sp. z o.o. Sp. k. are consolidated, while IPOPEMA Financial Advisory Sp. z o.o. is excluded from consolidation based on the immateriality of its financial data.



### 2. Changes in the Group's organisational structure

Liquidation of the Romanian subsidiary IPOPEMA Business Services SRL was completed in June 2018.

### 3. Shareholding structure of IPOPEMA Securities S.A.

As at September 30th 2018, the following shareholders held more than 5% of shares in IPOPEMA Securities S.A.:

Shareholder	Number of shares and voting rights	% of total voting rights at GM
IPOPEMA PRE-IPO FIZAN <sup>1</sup>	2,990,789	9.98%
JLC Lewandowski S.K.A. <sup>2</sup>	2,990,789	9.98%
OFE PZU Złota Jesień*	2,950,000	9.85%
IPOPEMA 10 FIZAN <sup>3</sup>	2,851,420	9.52%
Quercus Parasolowy SFIO*	2,827,552	9.44%
Value FIZ*	2,750,933	9.18%
Katarzyna Lewandowska	2,136,749	7.14%
<b>Total shareholders holding over 5% of the share capital</b>	<b>19,498,232</b>	<b>65.12%</b>

\* Based on notifications received by the Company from the shareholders.

<sup>1</sup> The main investors in the fund are Jacek Lewandowski, President of the Company's Management Board, and Katarzyna Lewandowska.

<sup>2</sup> Subsidiary of Jacek Lewandowski, President of the Company's Management Board.

<sup>3</sup> The only investor in the fund is Stanisław Waczkowski, Vice President of the Company's Management Board.

Following the notification received on October 16th on completing the liquidation of Pekao OFE, resulting in transferring all of its assets to OFE PZU (as announced by the Company in Current Report No. 12/2018), as at the date of issue of this report the following shareholders held more than 5% of shares in IPOPEMA Securities S.A.:

Shareholder	Number of shares and voting rights	% of total voting rights at GM
OFE PZU Złota Jesień*	3,471,868	11.59%
IPOPEMA PRE-IPO FIZAN <sup>1</sup>	2,990,789	9.98%
JLC Lewandowski S.K.A. <sup>2</sup>	2,990,789	9.98%
IPOPEMA 10 FIZAN <sup>3</sup>	2,851,420	9.52%
Quercus Parasolowy SFIO*	2,827,552	9.44%
Value FIZ*	2,750,933	9.18%
Katarzyna Lewandowska	2,136,749	7.14%
<b>Total shareholders holding over 5% of the share capital</b>	<b>20,020,100</b>	<b>66.87%</b>

\* Based on notifications received by the Company from the shareholders.

<sup>1</sup> The main investors in the fund are Jacek Lewandowski, President of the Company's Management Board, and Katarzyna Lewandowska.

<sup>2</sup> Subsidiary of Jacek Lewandowski, President of the Company's Management Board.

<sup>3</sup> The only investor in the fund is Stanisław Waczkowski, Vice President of the Company's Management Board.

## 4. Number of shares held by members of management and supervisory personnel

Below are specified members of the management and supervisory personnel who, as at September 30th 2018 (and as at the date of this report), held – either directly or indirectly through subsidiaries or related entities (including dedicated funds) – IPOPEMA Securities shares. The shareholdings of members of the management and supervisory staff did not differ from those disclosed in the report for H1 2018.



Person	Number of shares and voting rights	% of ownership interest and total voting rights
Jacek Lewandowski – CEO and President of the Management Board <sup>1</sup>	6,320,868	21.11%
Stanisław Waczkowski – Vice President of the Management Board	3,142,855	10.50%
Mariusz Piskorski – Vice President of the Management Board	915,000	3.06%
Miroslaw Borys – Vice President of the Management Board	696,428	2.33%
Piotr Szczepiórkowski – Member of the Supervisory Board	10,020	0.03%
<b>Total</b>	<b>11,085,171</b>	<b>37.03%</b>

<sup>1</sup> As disclosed in item 3, shares in IPOPEMA Securities S.A. were also held by Katarzyna Lewandowska, Jacek Lewandowski's wife.

## 5. Issue, redemption and repayment of equity and non-equity securities

In connection with the implementation of the variable remuneration components policy, in Q1–Q3 2018, IPOPEMA Group companies issued bonds with a total value of PLN 2.4 thousand (Q1–Q3 2017: PLN 5.2 thousand). By the date of issue of this report, the Group redeemed PLN 5.2 thousand worth of bonds (PLN 5.2 thousand in the first three quarters of 2017). For more information on the issue and redemption of bonds, see Note 11 to the separate financial statements of IPOPEMA Securities S.A., and Note 15 to the consolidated financial statements.

## 6. Loans, guarantees and sureties

In the first nine months of 2018 and in the comparative period, the Company did not receive or provide any sureties or loans (with the exception of loans to employees and associates of immaterial value to the Company). The guarantees provided to the Company, as detailed in Note 12 to the financial statements of IPOPEMA Securities, were renewed or expired.

## 7. Selected corporate events

### Changes in the structure of the IPOPEMA Group

As mentioned in Section 2 above, liquidation of the Romanian subsidiary IPOPEMA Business Services SRL was completed in June 2018.

### Dividend paid by IPOPEMA Business Consulting

In June 2018, a resolution on dividend payment was passed by IPOPEMA Business Consulting, pursuant to which IPOPEMA Securities is to receive PLN 600 thousand.

## 8. Material court proceedings

On July 27th 2016, IPOPEMA TFI received a certified copy of a statement of claim filed by Górnośląskie Przedsiębiorstwo Wodociągów S.A. of Katowice ('GPW'), in which GPW sought payment of PLN 20,554,900.90m for an alleged financial loss incurred by GPW as a result of its investment in investment certificates of one of the dedicated funds managed by IPOPEMA TFI (a closed-end private equity fund). IPOPEMA TFI considers GPW's claims to be groundless and is seeking to have the action dismissed. It filed a response to the statement of claim with the court and has participated in successive procedural steps. By the date of this report, only one hearing had been held (on February 13th 2018). During the hearing, IPOPEMA TFI's attorney requested the court to admit further evidence which, as was the case with the request to admit evidence submitted in the response to the statement of claim, has not yet been considered. In view of the early stage of evidence taking and the complexity of factual and legal circumstances, the outcome of the proceedings cannot yet be determined.

## 9. Related-party transactions

In Q1–Q3 2018, the Company did not conclude any material related-party transactions on a non-arm's length basis. For details of related party-transactions, see Note 26 to the interim condensed consolidated financial statements.

## 10. Material events subsequent to the reporting date

In the period between September 30th 2018 and the date of issue of the financial statements, there were no material events which would affect the Company's business.

Warsaw, November 15th 2018

### Management Board of IPOPEMA Securities S.A.:

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Jacek Lewandowski  
President of the Management Board

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Mariusz Piskorski  
Vice President of the Management Board

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Stanisław Waczkowski  
Vice President of the Management Board

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Mirosław Borys  
Vice President of the Management Board