2016

Management Board Report on the Activity of the Warsaw Stock Exchange Group in 2016

February 2017

Giełda Papierów Wartościowych w Warszawie S.A.- Warsaw Stock Exchange
registered address: ul. Książęca 4, 00-498 Warsaw, Poland
registered by the District Court for the City of Warsaw in Warsaw, entry no. KRS 82312,
share capital of PLN 41,972,000 fully paid up. VAT no. 526-025-09-72.

This document presents the Report of the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. ("Warsaw Stock Exchange", "GPW", "Exchange", "parent entity") on the activity of the Giełda Papierów Wartościowych w Warszawie Group ("GPW Group" or "Group") in 2016. The content of this document includes also the Report of the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. on the activity of the Giełda Papierów Wartościowych w Warszawie, the parent entity.

The source of data presented in this Report is the GPW Group, unless indicated otherwise.

Statistics of the value and volume of trade are single-counted, unless indicated otherwise.

I. For the Shareholders

Letter from the President of the Management Board

Ladies and Gentlemen, Dear Shareholders and Investors,

It is with great satisfaction that I present to you the report of the Exchange Management Board on the activity of the Warsaw Stock Exchange Group and the consolidated and separate financial statements for 2016.

The strong financial position of GPW as measured by its capitalisation and rising share price, a record-high increase in turnover in stocks and its average daily value clearly demonstrate that investors are mainly focusing on the strong fundamentals of the Polish economy as well as an outlook of stable returns. The very conducive conditions currently prevailing on the Warsaw Stock Exchange as well as the emerging acceleration in the Polish economy are the key drivers of fast growth of the GPW Group and the capital market.

GPW is now one of the few European trading venues where companies continue to raise capital: in IPO Watch report we ranked third in Europe by the number of IPOs in 2016. Investors' sentiment about GPW continues to improve as their trust in our company consolidates. It all has a tangible financial impact. The report on the activity of the GPW Group in 2016 is best proof of that.

Despite the unfavourable market environment, the GPW Group pursued a strict cost discipline and reported the highest net profit since 2011 at PLN 131.1 million which increased by 7.9 percent year on year in 2016. This was driven by a reduction of operating expenses to PLN 150.2 million, the lowest level since 2012, as well as the generated revenue of PLN 310.9 million. As a result, the cost/income ratio was record-low at 48.3 percent. The separate revenue of GPW stood at PLN 175.5 million and its operating expenses decreased by more than PLN 20 million to PLN 100.1 million. As a result, we are reporting a net profit which improved by 19.8 percent.

Investor activity improved strongly in Q4 2016. The value of trade in shares on the electronic order book increased by 12.3 percent year on year and stood at PLN 55.3 million in Q4 2016. As a result, the velocity ratio was 41.1 percent, the highest since Q2 2013. The strong improvement of investor activity on the financial market is both a reason for satisfaction and an incentive to continue strengthening the liquidity on the cash and derivatives markets.

In 2016, GPW proved that it is a well-manged, transparent company which enjoys strong investor confidence. This was demonstrated by the issue of GPW bonds, where subscriptions in the tranche addressed to individual investors were reduced by as much as 63.4 percent. Another proof is GPW's participation in the Respect Index portfolio, which represents those companies listed on the GPW Main Market which follow the highest standards of corporate governance, disclosures and investor relations.

GPW generously shares its profits with the shareholders. The dividend paid by GPW in 2016 implied a dividend yield of 6.7 percent. It was one of the best ratios on the local market and in the global exchange industry. The total shareholders return on GPW stocks was in 2016 at 17,6%.

Growing the shareholder value is as important for us as operational transparency based on the highest standards of corporate governance. The key project implemented by the Warsaw Stock Exchange in the area of dialogue and relations with market participants was the introduction of the Code of Best Practice of GPW-Listed Companies in 2016. The Code was aligned with the current market conditions and European regulations, and aims to further improve the quality of corporate governance in public companies.

It should be noted, however, that GPW is at a turning point in its 25-year history, as are other large traditional exchanges around the world. This is a time for a new opening, which is how the current phase should be viewed. I am positive that GPW has a great potential, multiple growth opportunities, and a promising future.

Yours truly,

Professor Dr hab. Małgorzata Zaleska

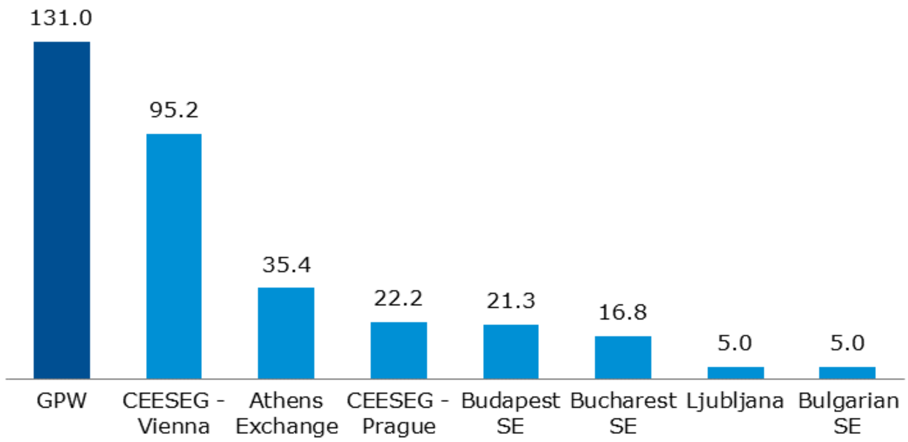
I. 1. Brief Description of the GPW Group

The GPW Group includes the leading institutions of the Polish capital and commodity market. It is one of the biggest exchanges in Central and Eastern Europe. The parent entity of the Group is the Warsaw Stock Exchange ("GPW"), which organises trade in financial instruments and pursues a range of educational initiatives to promote economic knowledge of the general public. GPW is the key source of capital for companies and local governments in the region, contributing to dynamic growth of the Polish economy, creation of new jobs, international competitiveness of Polish businesses and the resulting affluence of Poles. Presence on the capital market provides Polish companies with additional benefits including enhanced visibility, credibility, efficiency and transparency in governance.

GPW is a vibrant renowned institution with strong international recognition. For 25 years, we have helped Polish and European companies to raise capital and provided an educational background, contributing to economic and social progress.

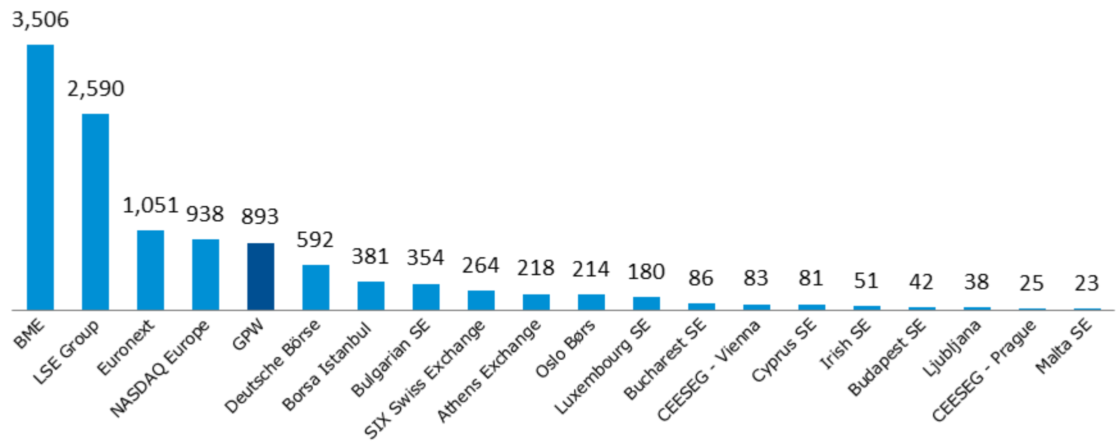
The Warsaw Stock Exchange has the biggest capitalisation of all exchanges in Central and Eastern Europe at EUR 131 billion. It is one of the biggest markets in Europe and lists 893 domestic and foreign companies. It attracts new issuers every year, which ranks GPW the fourth biggest market in Europe as measured by the number of IPOs. Capital raised by companies on GPW in 2016 was EUR 127 million, ranking GPW first in the region and eighth in Europe.

Figure 1 Capitalisation of CEE exchanges at 2016 YE [EUR billion]



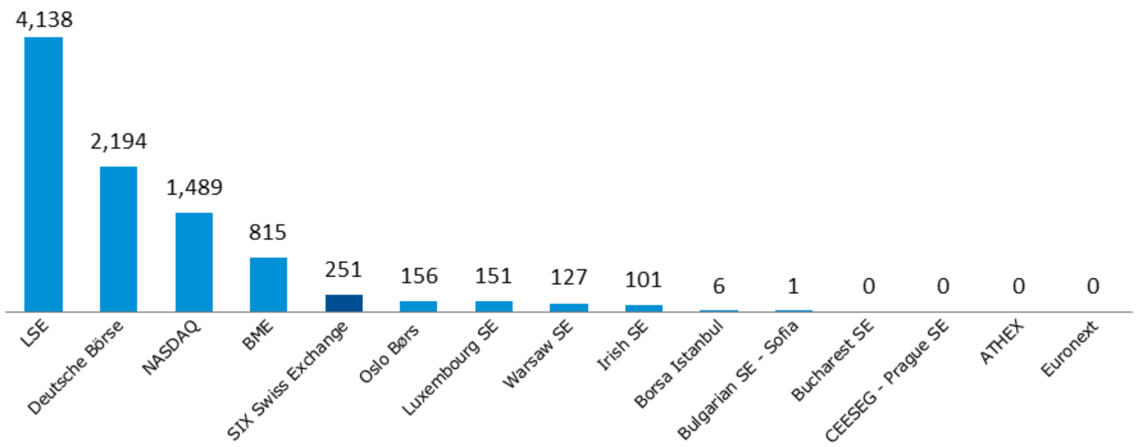
Source: FESE

Figure 2 Number of companies listed on European exchanges at 2016 YE



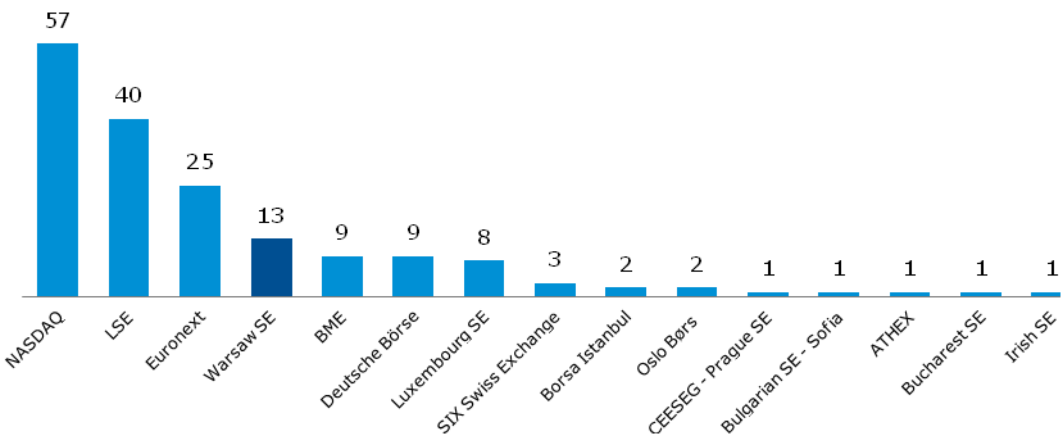
Source: FESE

Figure 3 Value of IPOs on European exchanges in 2016 [EUR million]



Source: FESE

Figure 4 Number of IPOs on European exchanges in 2016



Source: FESE

The Polish Power Exchange (POLPX), GPW's 100% subsidiary, is a pioneer of innovation in trade in exchange-listed commodities. POLPX operates markets for the biggest energy companies in Poland. In addition to trade in electricity, the commodity market also offers trade in natural gas, property rights in certificates of origin, CO_2 emission allowances, as well as electricity futures. POLPX also operates a Register of Certificates of Origin and a Register of Guarantees of Origin; through the subsidiary Warsaw Commodity Clearing House (IRGiT), it clears transactions on the POLPX commodity and financial markets.

POLPX's product offer is similar to the product range of the most advanced commodity exchanges in EU Member States. The volume of trade in electricity and gas makes POLPX the biggest exchange in the region and a major European market. Considering that POLPX products are offered only for the Polish market while many European exchanges pool trade from many national markets on a shared platform, POLPX's volume of trade confirms its strong position.

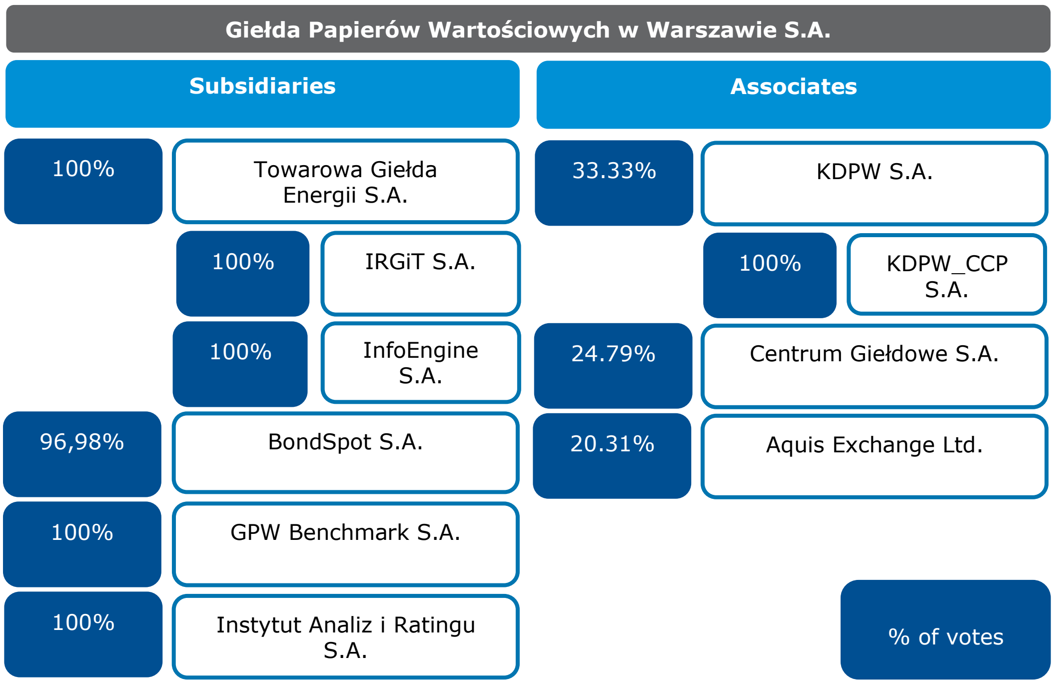
Post-trade services for the financial market operated by GPW and BondSpot, including depository, clearing and settlement services, are offered by GPW's associate, the Central Securities Depository of Poland (KDPW), and its subsidiary KDPW_CCP S.A.

Chart 1 Business lines and product offer of the GPW Group

Listing	Trading					Post-trading *including COR and RGO*	Market data
	Membership	Equities & other	Derivatives	Bonds	Commodities		
• Equities • Bonds • ETFs • Warrants • Structured products	• Access and use of GPW trading system • Membership and participation on the commodity markets	• Equities • Structured products • Warrants • ETFs • Investment certificates	• Futures: - index - single stock - fx - interest rate • Options - index	• Corporate bonds • Municipal bonds • Bank bonds • T-bills • T-bonds	• Electricity spot and forward contracts • Natural gas spot and forward contracts • Property rights in certificates of origin • CO_2 emission allowances	• Settlement • Custody • Clearing • COR • RGO kdpw_[1]	• Real-time data • Non-display data • Delayed data • Historical data • Indices

The Warsaw Stock Exchange Group was comprised of the parent entity and four consolidated subsidiaries as at 31 December 2016. GPW holds a stake in three associates.

Chart 2 GPW Group and associates



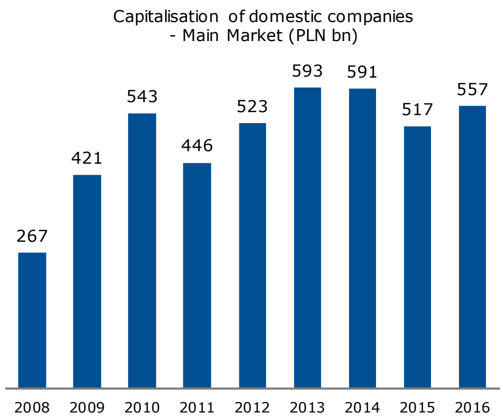
[1] Associate (GPW stake: 33.33%); offers post-trade services on the financial market

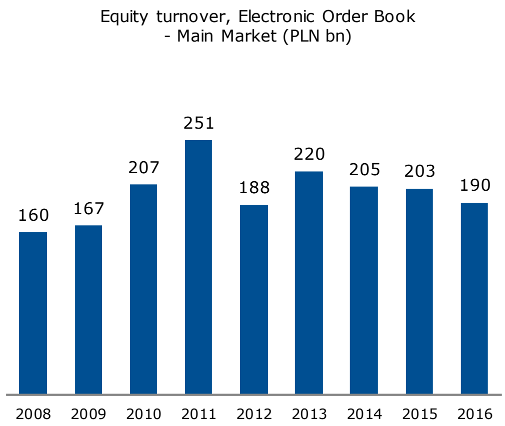
Table 1 Core business of GPW Group companies

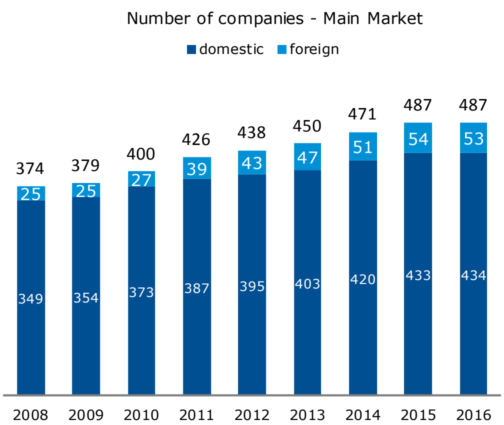
Subsidiary	Business profile
BondSpot S.A.	Operates trade in Treasury and non-Treasury debt securities. Treasury BondSpot Poland, operated by BondSpot, holds the status of electronic market in Treasury securities authorised by the Ministry of Finance and the Treasury Securities Dealers.
Towarowa Giełda Energii S.A. (Polish Power Exchange, POLPX)	The only licensed commodity exchange in Poland, operates trade in electricity, natural gas, emission allowances, property rights in certificates of origin of electricity, certificates of origin of biogas, energy efficiency certificates; operates the Register of Certificates of Origin of electricity generated from renewable energy sources and high-efficiency co-generation, agricultural biogas and energy efficiency certificates; operates the Register of Guarantees of Origin; operates the Financial Instruments Market since 2015.
Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House, IRGiT, a subsidiary of POLPX)	Operates a clearing and settlement system for transactions in exchange-listed commodities and financial instruments other than securities.
InfoEngine S.A. (a subsidiary of POLPX)	Operates an electronic OTC commodity trading platform, provides services to electricity market participants.
GPW Benchmark S.A.	The company will ultimately act as the organizer and administrator of fixing rates WIBID and WIBOR.
Instytut Analiz i Ratingu S.A. (IAiR)	It is planning to develop and public ratings for companies and local governments. GPW is seeking partners/investors for the endeavour.

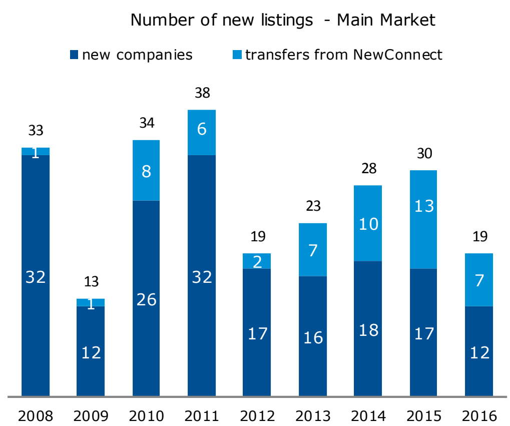
In addition, GPW holds 19.98% of InfoStrefa S.A. (formerly Instytut Rynku Kapitałowego WSE Research S.A.), 10% of the Ukrainian stock exchange INNEX PJSC, and 1.3% of the Romanian stock exchange S.C. SIBEX – Sibiu Stock Exchange S.A. Furthermore, GPW operates a representative office in London. The Group has no branches or establishments.

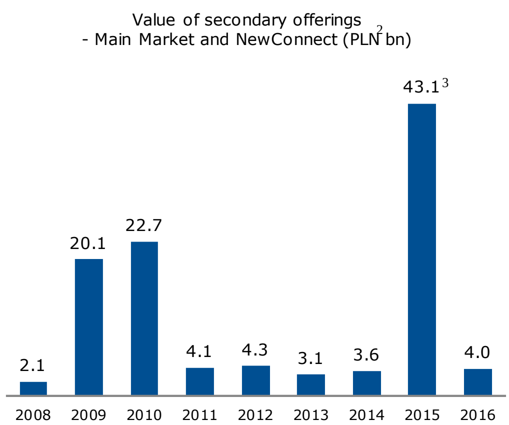
I. 2. Selected Market Data

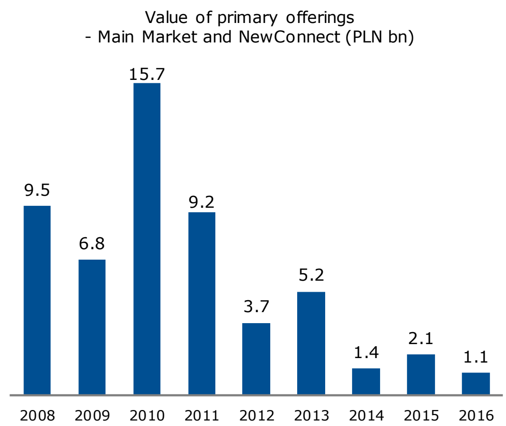




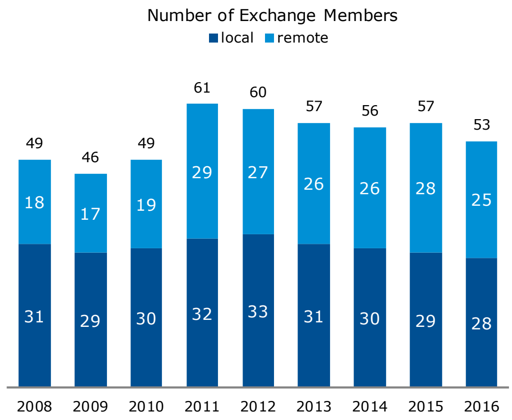


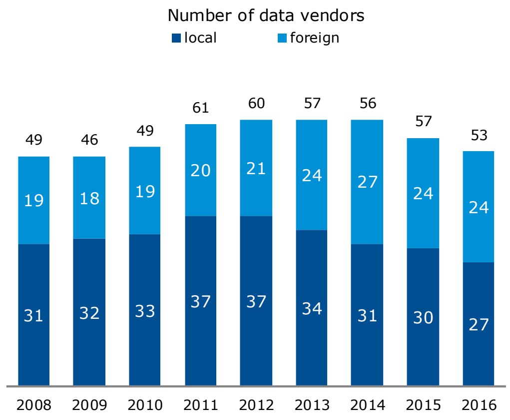


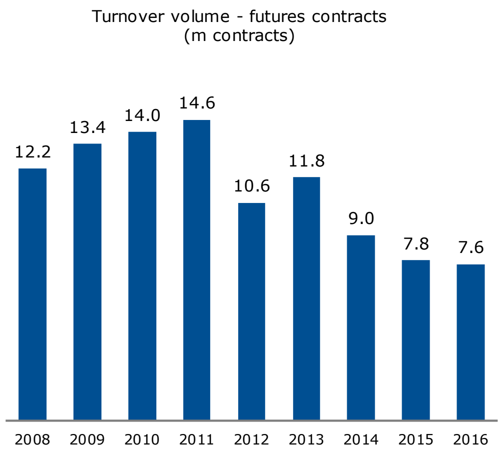


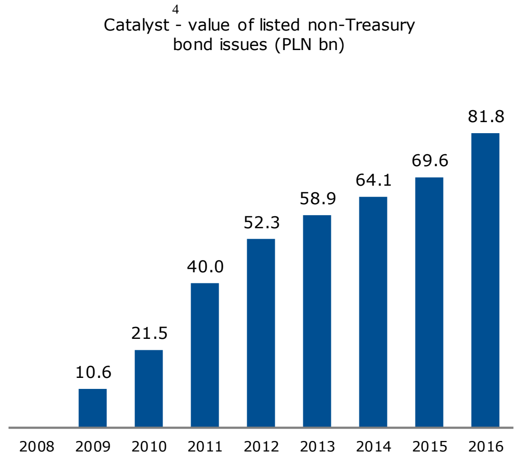


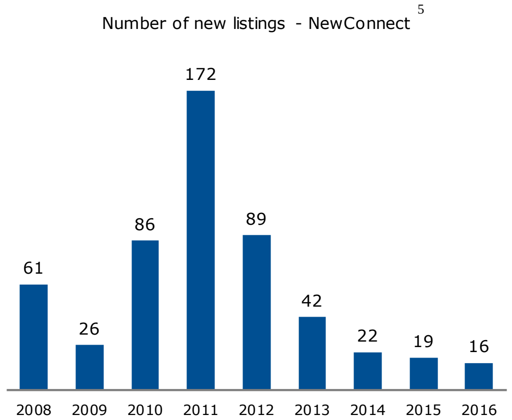
[2] Including dual-listed companies
[3] There were two SPOs of Banco Santander SA worth PLN 33 billion in aggregate in Q1 2015.

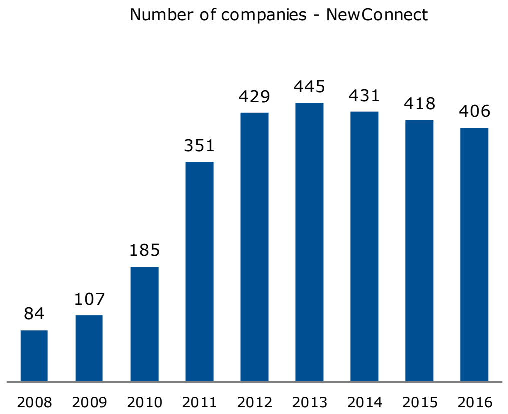






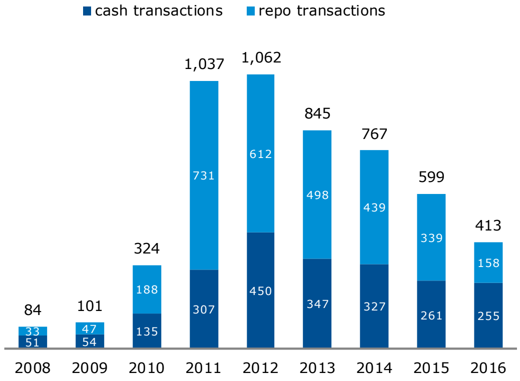




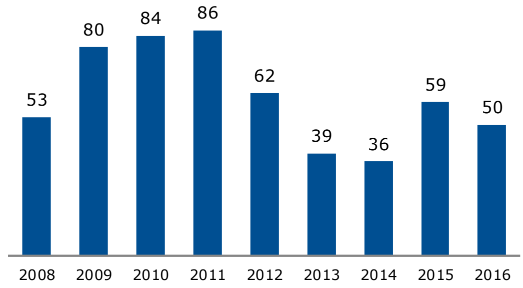


[4] The Catalyst market opened on 30 September 2009
[5] The NewConnect market opened on 31 August 2007

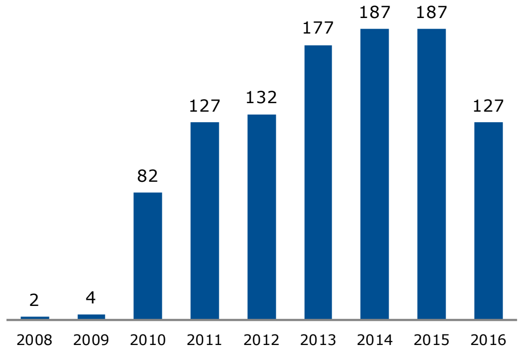
Treasury debt securities turnover value - TBSP (PLN bn)



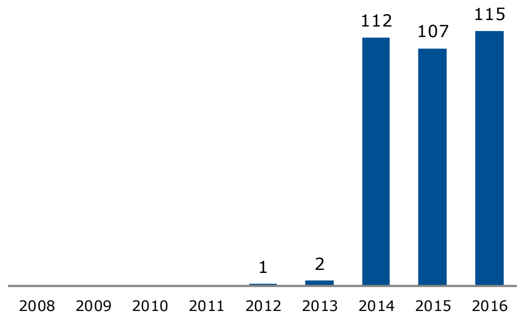
Turnover volume - property rights in certificates of origin of electricity (TWh)[6]



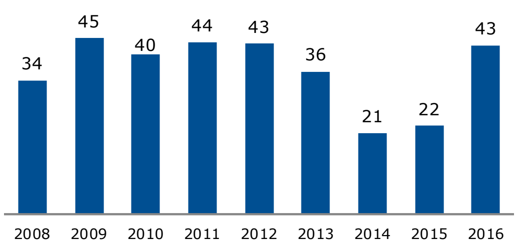
Turnover volume - electricity (spot + forward; TWh)



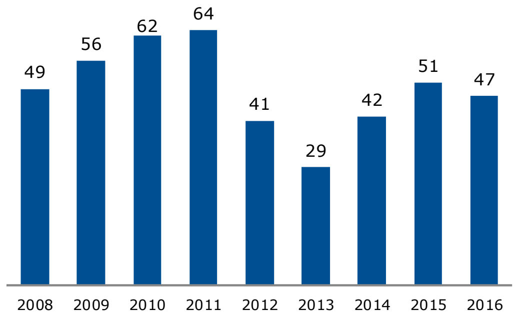
Turnover volume - gas[7] (spot + forward; TWh)



Volume of redeemed certificates of origin of electricity (TWh)



Volume of issued certificates of origin of electricity (TWh)



[6] The volume of trade in property rights net of the volume of white certificates die to a different measurement unit (toe)
[7] Trade in gas opened in December 2012

I. 3. Selected Consolidated Financial Data

Table 2 Selected data on the statement of comprehensive income, consolidated, under IFRS, audited

	Year ended 31 December			
	2016	2015	2016	2015
	PLN'000		EUR'000[8]	
Sales revenue	**310,862**	**327,890**	**71,258**	**78,369**
Financial market	**184,025**	**199,955**	**42,183**	**47,791**
Trading	119,079	136,948	27,296	32,732
Listing	23,930	24,497	5,485	5,855
Information services	41,016	38,510	9,402	9,204
Commodity market	**124,927**	**125,193**	**28,637**	**29,922**
Trading	60,857	62,552	13,950	14,951
Register of certificates of origin	24,907	24,166	5,709	5,776
Clearing	39,163	38,475	8,977	9,196
Other revenue	**1,910**	**2,743**	**438**	**656**
Operating expenses	**150,155**	**174,391**	**34,419**	**41,682**
Other income	1,736	1,962	398	469
Other expenses	4,553	2,151	1,044	514
Operating profit	**157,890**	**153,310**	**36,192**	**36,643**
Financial income	12,950	9,941	2,968	2,376
Financial expenses	12,079	12,117	2,769	2,896
Share of profit of associates	3,518	(1,530)	806	(366)
Profit before income tax	**162,279**	**149,604**	**37,199**	**35,757**
Income tax expense	31,145	28,062	7,139	6,707
Profit for the period	**131,134**	**121,542**	**30,059**	**29,050**
Basic / Diluted earnings per share[9] (PLN, EUR)	3.12	2.89	0.72	0.69
EBITDA[10]	**183,683**	**180,147**	**42,105**	**43,057**

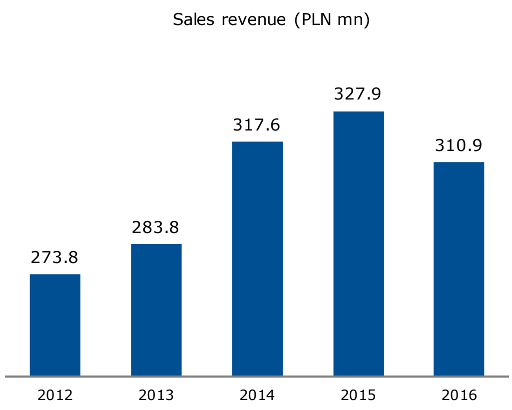
Table 3 Selected data on the statement of financial position, consolidated, under IFRS, audited

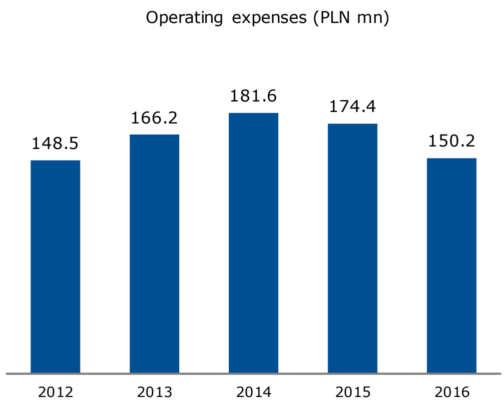
	As at			
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	PLN'000		EUR'000[11]	
Non-current assets	**597,287**	**580,645**	**135,011**	**136,254**
Property, plant and equipment	119,130	125,229	26,928	29,386
Intangible assets	273,815	261,728	61,893	61,417
Investment in associates	197,231	188,570	44,582	44,250
Deferred tax assets	1,809	-	409	-
Available-for-sale financial assets	288	282	65	66
Prepayments	5,014	4,836	1,133	1,135
Current assets	**560,561**	**492,454**	**126,709**	**115,559**
Corporate income tax receivable	428	369	97	87
Trade and other receivables	113,262	131,557	25,602	30,871
Available-for-sale financial assets	-	-	-	-
Cash and cash equivalents	446,814	360,393	100,998	84,570
Other current assets	57	135	13	32
TOTAL ASSETS	**1,157,848**	**1,073,099**	**261,720**	**251,813**
Equity attributable to the shareholders of the parent entity	744,727	712,646	168,338	167,229
Non-controlling interests	525	546	119	128
Non-current liabilities	143,422	258,930	32,419	60,760
Current liabilities	269,174	100,977	60,844	23,695
TOTAL EQUITY AND LIABILITIES	**1,157,848**	**1,073,099**	**261,720**	**251,813**

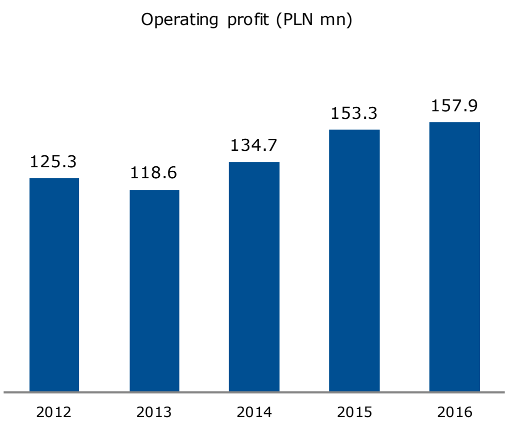
Table 4 GPW Group's selected financial ratios

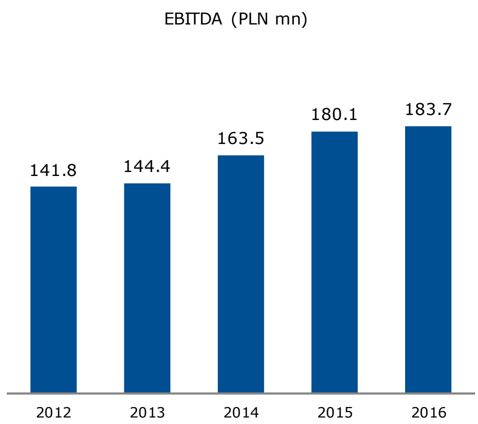
	Year ended / As at	
	31 December 2016	31 December 2015
EBITDA margin *(EBITDA/Sales revenue)*	59.1%	54.9%
Operating profit margin (*Operating profit/Sales revenue)*	50.8%	46.8%
Return on quity (ROE) *(Net profit for the last 12 months / Average equity at the beginning and at the end of the last 12 month period*	18.0%	17.3%
Debt to equity *(Interest-bearing liabilities[12]/Equity)*	33.1%	34.3%

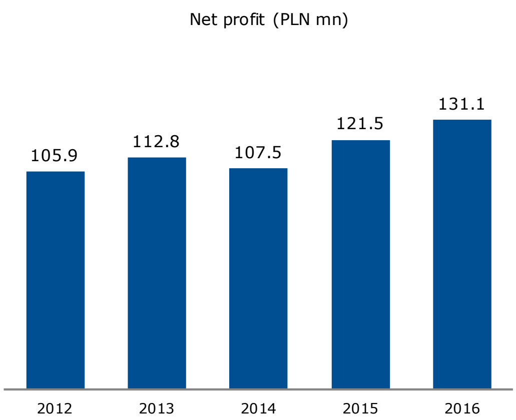
[8] Based on average annual EUR/PLN exchange rate published by the National Bank of Poland (1 EUR = 4.3625 PLN in 2016 and 1 EUR = 4.1839 PLN in 2015)
[9] Based on the total net profit.
[10] EBITDA = operating profit + depreciation and amortisation (net of associates)
[11] Based on the average EUR/PLN exchange rate of the National Bank of Poland as at 31.12.2015 (1 EUR = 4.4240 PLN) and 31.12.2015 (1 EUR = 4.2615 PLN)
[12] Liabilities in respect of interest and principal

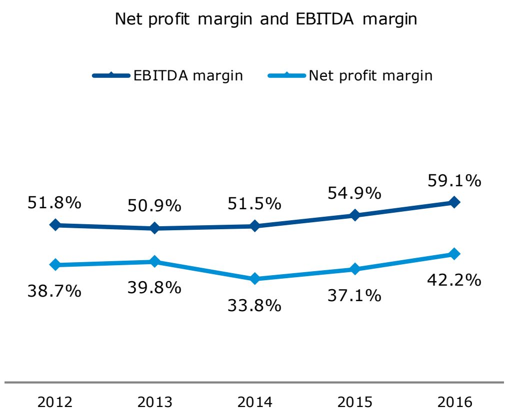

Sales revenue (PLN mn)
273.8
283.8
317.6
327.9
310.9
2012
2013
2014
2015
2016


Operating expenses (PLN mn)
148.5
166.2
181.6
174.4
150.2
2012
2013
2014
2015
2016


Operating profit (PLN mn)
125.3
118.6
134.7
153.3
157.9
2012
2013
2014
2015
2016


EBITDA (PLN mn)
141.8
144.4
163.5
180.1
183.7
2012
2013
2014
2015
2016


Net profit (PLN mn)
105.9
112.8
107.5
121.5
131.1
2012
2013
2014
2015
2016


Net profit margin and EBITDA margin
EBITDA margin
Net profit margin
51.8%
50.9%
51.5%
54.9%
59.1%
38.7%
39.8%
33.8%
37.1%
42.2%
2012
2013
2014
2015
2016

I. 4. Selected Separate Financial Data

Table 5 Selected data on the statement of comprehensive income, separate, under IFRS, audited

	Year ended 31 December			
	2016	2015	2016	2015
	PLN'000		EUR'000[13]	
Sales revenue	**175,454**	**191,781**	**40,219**	**45,838**
Financial market	**173,226**	**188,730**	**39,708**	**45,109**
Trading	109,328	126,562	25,061	30,250
Listing	23,167	23,652	5,310	5,653
Information services	40,731	38,516	9,337	9,206
Commodity market	**-**	**-**	**-**	**-**
Clearing	-	-	-	-
Other revenue	**2,228**	**3,052**	**511**	**729**
Operating expenses	**100,070**	**120,354**	**22,939**	**28,766**
Other income	680	497	156	119
Other expenses	4,330	1,345	993	321
Operating profit	**71,734**	**70,579**	**16,443**	**16,869**
Financial income	66,354	48,153	15,210	11,509
Financial expenses	8,073	8,965	1,851	2,143
Profit before income tax	**130,015**	**109,768**	**29,803**	**26,236**
Income tax expense	13,930	12,863	3,193	3,074
Profit for the period	**116,085**	**96,905**	**26,610**	**23,161**
EBITDA[14]	**91,074**	**92,051**	**20,877**	**22,001**

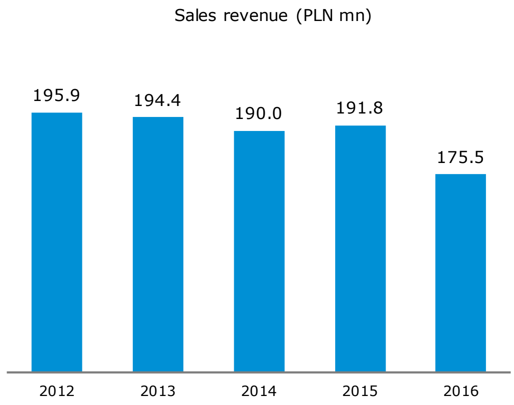
Table 6 Selected data on the statement of financial position, separate, under IFRS, audited

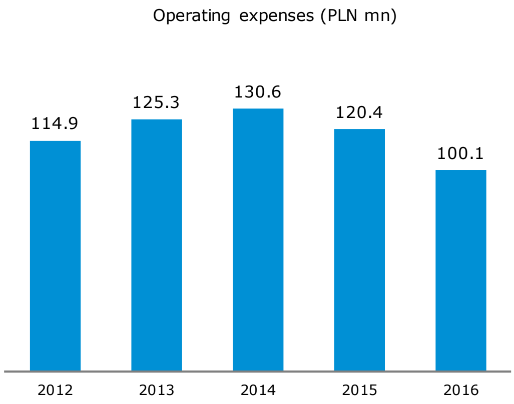
	As at			
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	PLN'000		EUR'000[15]	
Non-current assets	**472,942**	**472,253**	**106,904**	**110,818**
Property, plant and equipment	101,034	94,773	22,838	22,239
Intangible assets	75,918	81,601	17,160	19,148
Investment in associates and subsidiaries	291,944	291,943	65,991	68,507
Available-for-sale financial assets	288	282	65	66
Prepayments	3,758	3,653	849	857
Current assets	**291,788**	**261,770**	**65,956**	**61,427**
Trade and other receivables	23,941	26,091	5,412	6,122
Cash and cash equivalents	267,789	235,560	60,531	55,276
Other current assets	58	119	13	28
TOTAL ASSETS	**764,730**	**734,023**	**172,859**	**172,245**
Equity	472,102	454,881	106,714	106,742
Non-current liabilities	136,794	258,242	30,921	60,599
Current liabilities	155,834	20,900	35,225	4,904
TOTAL EQUITY AND LIABILITIES	**764,730**	**734,023**	**172,859**	**172,245**

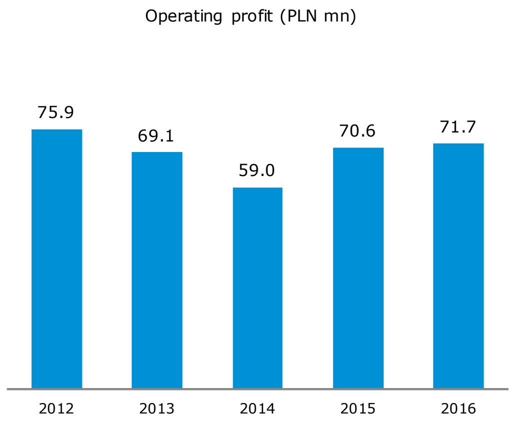
Table 7 GPW's selected financial ratios

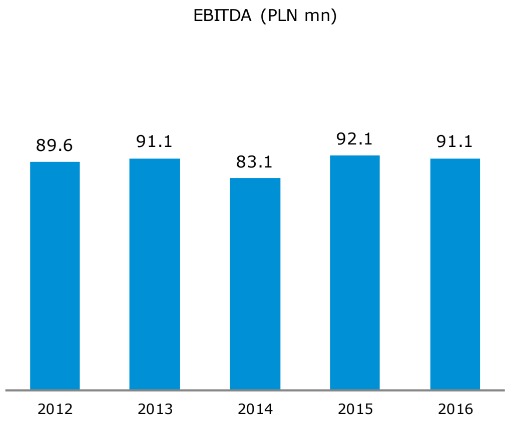
	Year ended / As at	
	31 December 2016	31 December 2015
EBITDA margin *(EBITDA/Sales revenue)*	51.9%	48.0%
Operating profit margin *(Operating profit/Sales revenue)*	40.9%	36.8%
Return on quity (ROE) *(Net profit for the last 12 months / Average equity at the beginning and at the end of the last 12 month period*	25.0%	21.2%
Debt to equity *(Interest-bearing liabilities[16]/Equity)*	52.2%	53.7%

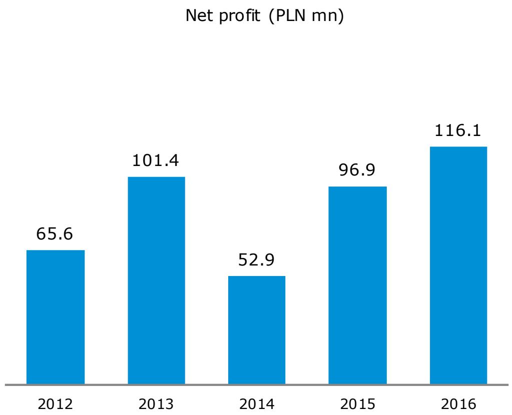
13 Based on average annual EUR/PLN exchange rate published by the National Bank of Poland (1 EUR = 4.3625 PLN in 2016 and 1 EUR = 4.1839 PLN in 2015)
14 EBITDA = operating profit + depreciation and amortisation
15 Based on the average EUR/PLN exchange rate of the National Bank of Poland as at 31.12.2016 (1 EUR = 4.4240 PLN) and 31.12.2015 (1 EUR = 4.2615 PLN)
16 Liabilities in respect of interest and principal

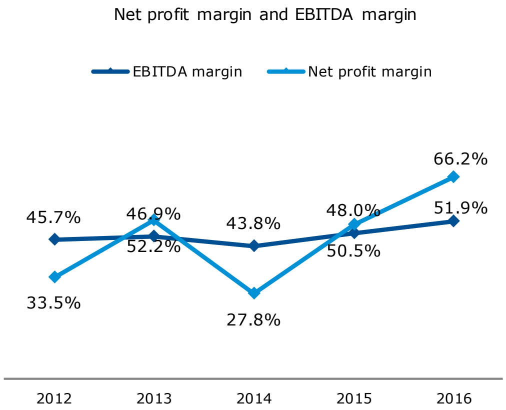

Sales revenue (PLN mn)
195.9
194.4
190.0
191.8
175.5
2012
2013
2014
2015
2016


Operating expenses (PLN mn)
114.9
125.3
130.6
120.4
100.1
2012
2013
2014
2015
2016


Operating profit (PLN mn)
75.9
69.1
59.0
70.6
71.7
2012
2013
2014
2015
2016


EBITDA (PLN mn)
89.6
91.1
83.1
92.1
91.1
2012
2013
2014
2015
2016


Net profit (PLN mn)
65.6
101.4
52.9
96.9
116.1
2012
2013
2014
2015
2016


Net profit margin and EBITDA margin
EBITDA margin
Net profit margin
45.7%
46.9%
43.8%
48.0%
51.9%
33.5%
52.2%
27.8%
50.5%
66.2%
2012
2013
2014
2015
2016

I. 5. GPW on the Capital Market

GPW has been listed on the Warsaw Stock Exchange since 9 November 2010. The Company's shares are listed in the continuous trading system on the GPW main market. The capitalisation of the company was PLN 1.66 billion as at the end of 2016, ranking #52 among all domestic stocks on GPW.

GPW shares once again participate in the dividend index WIGdiv of GPW-listed companies which regularly share profits with the shareholders, and in the RESPECT index of companies which follow high standards of sustainability and corporate responsibility

The Company is part of the mid-cap index mWIG40 since 19 March 2011 with a 1.7% share in the index portfolio at the end of 2016. GPW shares are also part of the broad market indices (WIG and WIG-Poland), as well as WIGdiv, the GPW regular dividend index. In addition, GPW shares participate in a number of small and mid-cap indices on the emerging markets, as well as indices which group securities exchanges, computed by global specialised, renowned index providers (including MSCI, FTSE Russel and SP Dow Jones). In December 2016, GPW was once again included in the RESPECT Index portfolio, which it first joined in 2013. Thus, GPW is one of 25 Polish companies which follow the highest standards of environmental, social and governance.

GPW STOCK PRICE

The GPW stock price ranged in 2016 from PLN 31.12 (16 June 2016) to PLN 41.50 (18 March 2016). The stock price was PLN 39.93 at the end of 2016, compared to PLN 33.00 as at 30 June 2016 and PLN 35.95 as at the end of 2015, gaining 11.1% during the year. Including the dividend of PLN 2.36 per share, the total shareholder return in 2016 was 17.6%. In the same period, the GPW mid-cap index mWIG40 gained 18.2%, and the broad market index WIG gained 14.1%.

Figure 5 GPW stock price in 2016 v. mWIG40 and WIG [normalised]

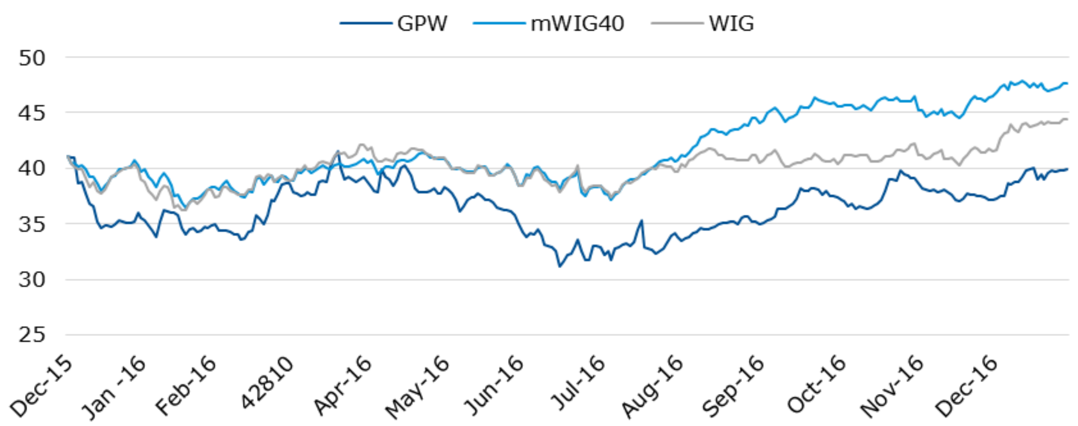


Figure 6 GPW stock price since new listing on GPW [PLN]

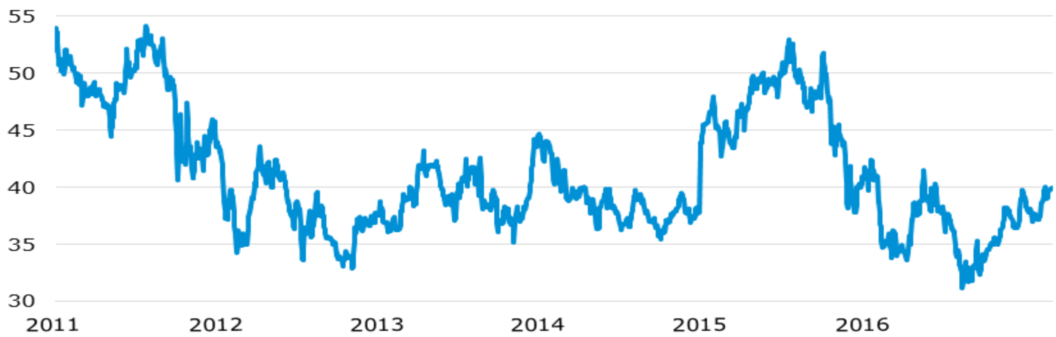


Table 8 Selected statistics of GPW SA stock

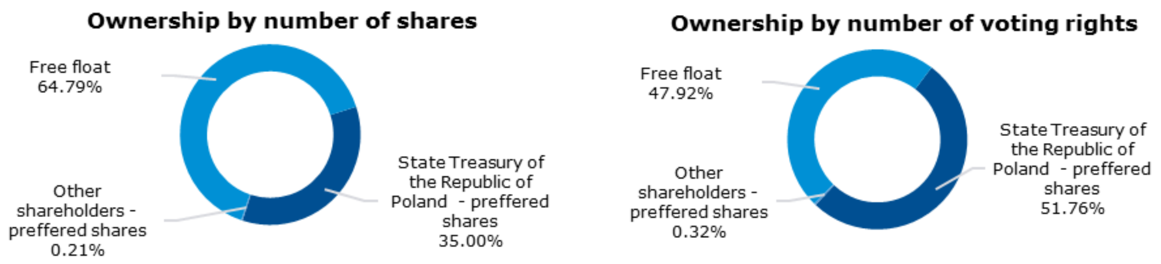
	2016	2015	2014	2013	2012	2011	2010[17]
Earnings per share (PLN)[18]	3.12	2.95	2.67	2.70	2.52	3.19	2.26
Dividend per share (PLN)[19]	2.36	2.40	1.20	0.78	1.44	3.21	-
Dividend yield[20]	6.7%	4.9%	3.3%	2.0%	3.8%	6.1%	-
P/E	12.8	12.2	17.1	15.4	15.4	11.1	21.7
Maximum share price (PLN)	41.50	53.00	48.04	45.10	43.89	54.20	54.00
Minimum share price (PLN)	34.12	34.53	35.25	34.75	32.10	34.20	48.70
Share price at the end of the period (PLN)	39.93	35.95	45.70	41.50	38.87	35.25	49.00
Average (volume) weighted share price (PLN)	36.4	44.99	39.52	40.22	37.55	45.84	51.84
Return rate on shares	11.1%	-21.3%	10.1%	6.8%	10.3%	-28.1%	14.0%[21]
Total shareholder return (TSR)[22]	17.6%	-16.1%	13.0%	8.8%	14.4%	-21.5%	14.0%[21]
Number of shares (thousand)	41 972	41 972	41 972	41 972	41 972	41 972	41 972
Capitalisation (PLN million)	1 676	1 509	1 918	1 742	1 631	1 480	2 057
Free float[23] (PLN million)	1 089	978	1 241	1 127	1 054	948	1 313
Free float %	65.0%	64.8%	64.7%	64.7%	64.6%	64.1%	63.8%
Volume of trading (million shares)[24]	11.8	11.7	14.5	14.8	19.2	25.9	20.4
Value of trading (PLN million)[24]	424.00	526.4	571.8	596.1	720.7	1 188.5	1 055.7
Number of transactions (thousand)[24]	89.7	63.0	68.8	67.3	73.3	170.6	167.0
Average volume of trading per session (thousand)[24]	47.1	46.6	58.1	60.0	77.1	103.3	550.4
Average value of trading per session (PLN thousand)[24]	1 689.1	2 097.4	2 296.2	2 413.4	2 894.2	4 735.0	28 531.5
Average number of transactions per session[24]	357.4	250.9	276.0	272.6	294.2	679.8	4 512.8
Velocity[25]	35.9	31.1%	31.2%	35.4%	46.2%	67.1%	344.8%

[17] GPW shares were newly listed on the exchange on 9 November 2010.
[18] Based on the consolidated profit attributable to the shareholders of the parent entity.
[19] Based on last year's profit
[20] Dividend paid / share price at dividend record date
[21] In relation to the IPO price for individual investors (PLN 43.00)
[22] (Annual change of share price + dividend per share) / share price at the end of the previous period
[23] Free-float shares (excluding shares held by the State Treasury and strategic investors)
[24] Electronic Order Book (net of block trades)
[25] Value of trading (annualised for 2010) / average capitalisation at the beginning and at the end of the period

GPW SHAREHOLDERS

The State Treasury of the Republic of Poland was the biggest shareholder of GPW and the only shareholder with a stake greater than 5% of the share capital as at 31 December 2016: it holds 14,688,470 shares representing 35.00% of all shares and 51.76& of the total vote.

Figure 7 GPW shareholders as at the end of 2016



Polish open-ended pension funds jointly held 3.17 million GPW shares at the end of 2016, representing 7.4% of the share capital of GPW. According to GPW estimates, another 6.7% of shares were held by other domestic institutional investors (mainly investment funds), 33.3% directly by domestic individual investors, and 17.6% by foreign investors.

DIVIDEND FOR GPW SHAREHOLDERS

According to the current strategy, it is the intention of the GPW Management Board to recommend that the General Meeting pay dividend depending on the profitability and the financial capacity of GPW, above 60% of the consolidated net profit of the GPW Group for the financial year adjusted for the share of profit of associates. The dividend is to be paid annually upon the approval of the Company's financial statements by the General Meeting. Furthermore, it is the intention of the GPW Management Board to recommend that the General Meeting pay dividend from GPW's net profit for 2015 at PLN 2.60 per share gross; at the share price at the end of 2015, the dividend yield would be 7.2%. To determine the final amount of dividend to be recommended to the General Meeting, the GPW Management Board will consider among others the following factors:

GPW is a financially sound company which has regularly paid dividend to the investors for many years. The dividend yield was record-high at 6.7% in 2016. Since its IPO, the Company has paid PLN 11.39 of dividends per share in aggregate.

- investment needs in the implementation of the strategy of the GPW Group;
- the dividend yield and the pay-out ratios used by peer companies;
- the needs to take measures necessary to develop Poland's capital market infrastructure,
- liquidity requirements of the GPW Group depending on actual and expected market and regulatory conditions, liabilities incurred in current operations and debt service, and optimisation of the GPW Group's financing structure.

Dividend paid in 2016

GPW has paid the owners a dividend for each year since the company went public. On 4 August 2016, the Company paid PLN 99.1 million of dividend, including PLN 96.6 million from the 2015 profit and PLN 2.5 million from the Company's capital reserve. The dividend of PLN 2.36 per share was paid to GPW shareholders who held shares at 18 July 2016 (record date). The dividend yield at the closing price on the record date was 6.7%.

Table 9 GPW dividend from profits in 2010-2015

Year for which dividend was paid	Dividend paid (PLN'000)	Dividend per share (PLN)	Dividend pay-out ratio[26]	Dividend yield[27]	Dividend record date	Dividend payment date
2015	99 054	2.36	80.27%	6.69%	20.07.2016	04.08.2016
2014	100 733	2.40	89.88%	4.93%	15.07.2015	04.08.2015
2013	50 366	1.20	44.45%	3.31%	07.08.2014	26.08.2014
2012	32 738	0.78	30.95%	2.03%	12.07.2013	26.07.2013
2011	60 440	1.44	45.19%	3.84%	06.07.2012	20.07.2012
2010	134 730	3.21	142.28%	6.05%	12.07.2011	27.07.2011

DIALOGUE WITH SHAREHOLDERS AND INVESTORS

GPW aspires to comply with the highest standards of investor communications as it considers its presence on the capital market to be a part of a long-term growth strategy. Pursuant to the investor relations policy approved in January 2015, GPW develops long-term professional relations with all participants of the capital markets and ensures active communications and equal access to information for all investor groups. In 2016, GPW took a number of initiatives and applied a broad range of tools in its on-going communications with the shareholders, investors and analysts, including:

- presentations of the financial results after the end of each quarter at meetings of the GPW Management Board with capital market analysts (broadcast live online);
- participation in nine conferences dedicated to institutional investors in Poland and abroad;
- more than 100 one-on-one and group meetings and other contacts with representatives of domestic and international institutional investors;
- participation in the Polish Capital Markets Days: a series of conferences co-organised by GPW in London, Stockholm, New York and Paris;
- participation in two conferences dedicated to individual investors in Poland.

GPW's investor relations policy aims to provide transparent, credible and consistent information about the Company, ensuring effective communication with capital market participants.

According to the investor relations policy approved in January 2015, the Exchange voluntarily applies periods of limited communications with capital market participants preceding the publication of financial results. Consequently, the Company neither holds nor takes part in investor meetings two weeks before the publication of financial statements (periodic reports).

As an important part of the Company's open communications, the Investor Relations section of the Company's website regularly provides information relevant to shareholders and investors including the current financial results, investor presentations, dates of events, video recordings of quarterly conferences and the General Meeting, news. GPW also provides an IR alert service in order to communicate current corporate news to subscribers.

GPW BONDS ON THE EXCHANGE

Series A and series B bonds have been traded on the GPW regulated market and in the BondSpot alternative trading system since 2012. The series A and B bonds were issued at the turn of 2011 to 2012 in a total amount of PLN 245 million, introduced to trading on Catalyst (regulated market and alternative

[26] Based on the consolidated profit attributable to the shareholders of the parent entity
[27] At the share price as at the dividend record date

trading system) and assimilated under a single ISIN code. GPW's series A and B bonds are unsecured floating-rate bonds. Interest is fixed within six-month interest periods at WIBOR 6M plus a margin of 117 basis points. GPW redeemed one half, i.e., PLN 124.5 million of the bonds at PLN 101.20 per bond in October 2012. PLN 120.5 million of bonds remained in trading. In 2015, the GPW bond price ranged from PLN 100.40 on 21 December 2015 to PLN 101.60 on 28 September 2015. The maturity of the bonds was 2 January 2017.

In connection with the redemption of one half of the series A and B bonds on 6 October 2015, GPW issued PLN 125 million seven-year series C bonds maturing on 6 October 2022. The bonds are unsecured. The bonds are listed in the alternative trading system operated by GPW and BondSpot since December 2015. The series C bonds have fixed interest at 3.19% p.a., interest is paid semi-annually. At the date of issue, the interest rate was the lowest of all corporate long-term fixed-coupon PLN bonds listed on Catalyst. The proceeds from the issue of series C bonds were used for partial redemption of series A and B bonds.

High demand for series D and E bonds combined with the margin level confirms the robust position of the Company and strong trust of investors in GPW.

In connection with the redemption of the second part of series A and B bonds, maturing on 2 January 2017, the GPW Management Board passed Resolution No. 1058/2016 in October 2016 concerning the issue of 1,200,000 five-year series D and E bearer bonds. Series D bonds were addressed to institutional investors and series E bonds to individual investors. The issue price of series D bonds was PLN 100 per bond. The issue price of series E bonds depended on the date of subscription as follows: PLN 99.88 for subscriptions submitted on 2 January 2017 and PLN 99.89 for subscriptions submitted on 3 January 2017. The total nominal value of the issue was PLN 120,000,000. Series D bonds were allocated on 29 December 2016 and series E bonds were allocated on 5 January 2017. The bonds have a fixed interest rate at WIBOR 6M plus a margin of 0.95 percent p.a. Interest is paid semi-annually. The bonds are listed on the Catalyst regulated market operated by GPW and on the Catalyst regulated market operated by BondSpot.

Table 10 Interest on GPW series D and E bonds

Interest Period	First Day of Interest Period	Number of days in Interest Period	Record Date	Last Day of Interest Period and Payment Date
1	Issue Date	Number of days from Issue Date (inclusive) to 31.01.2017 (exclusive)	23.01.2017	31.01.2017
2	31.01.2017	181	21.07.2017	31.07.2017
3	31.07.2017	184	23.01.2018	31.01.2018
4	31.01.2018	181	23.07.2018	31.07.2018
5	31.07.2018	184	23.01.2019	31.01.2019
6	31.01.2019	181	23.07.2019	31.07.2019
7	31.07.2019	184	23.01.2020	31.01.2020
8	31.01.2020	182	23.07.2020	31.07.2020
9	31.07.2020	184	22.01.2021	31.01.2021
10	31.01.2021	181	23.07.2021	31.07.2021
11	31.07.2021	184	21.01.2022	31.01.2022

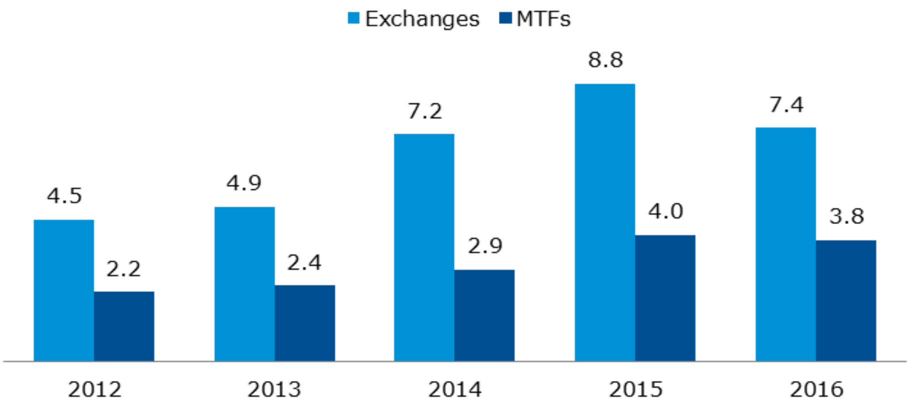
II. Activity of the GPW Group

II. 1 Market Environment

FINANCIAL MARKET

Competition of financial instrument trading venues has largely increased as a result of on-going 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[28] 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.

Figure 8 Comparison of equity trade in Europe on exchanges and MTFs[29] [EUR billion]

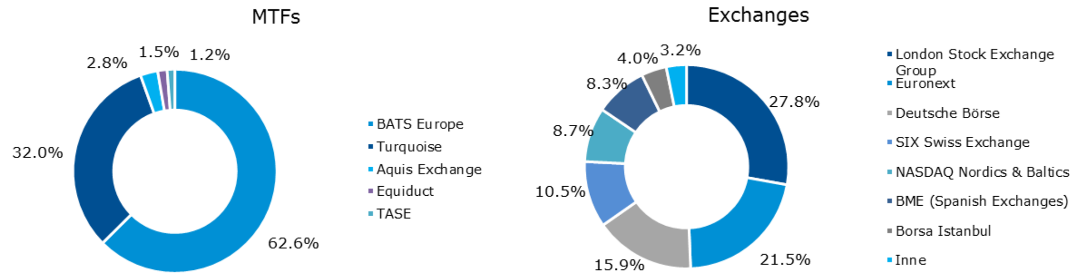


Source: FESE, LSEG

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.

[28] OTC (over the counter) market, where trade is made directly between market participants without the mediation of a securities exchange
[29] MTFs and exchanges which originated as MTFs (including BATS Europe, Turquoise, Burgundy, NYSE Arca Europe)

Figure 9 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[30], 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]*

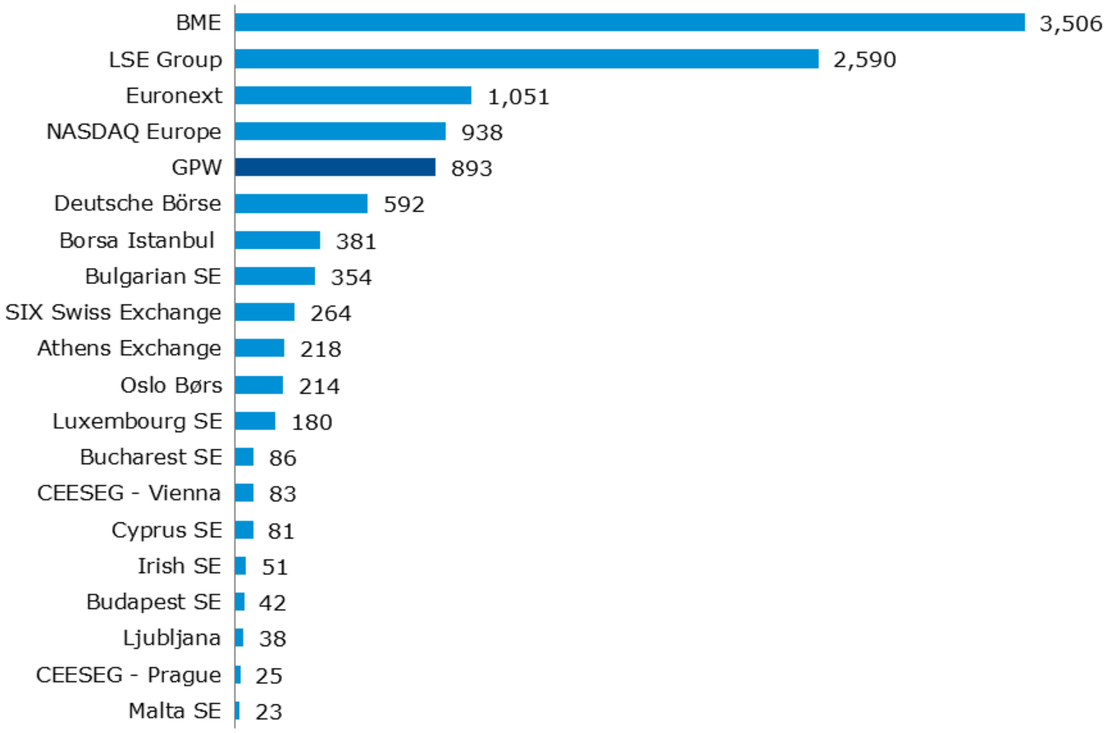
Consequently, the top five venues with the highest share in trading in stocks in Europe generated more than 75.2% of the total turnover (EUR 11.27 trillion); GPW's share was 0.59% in 2016.

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).

[30] http://www.fese.eu/statistics-market-research/european-equity-market-report

Figure 10 Number of listings on European exchanges in 2016

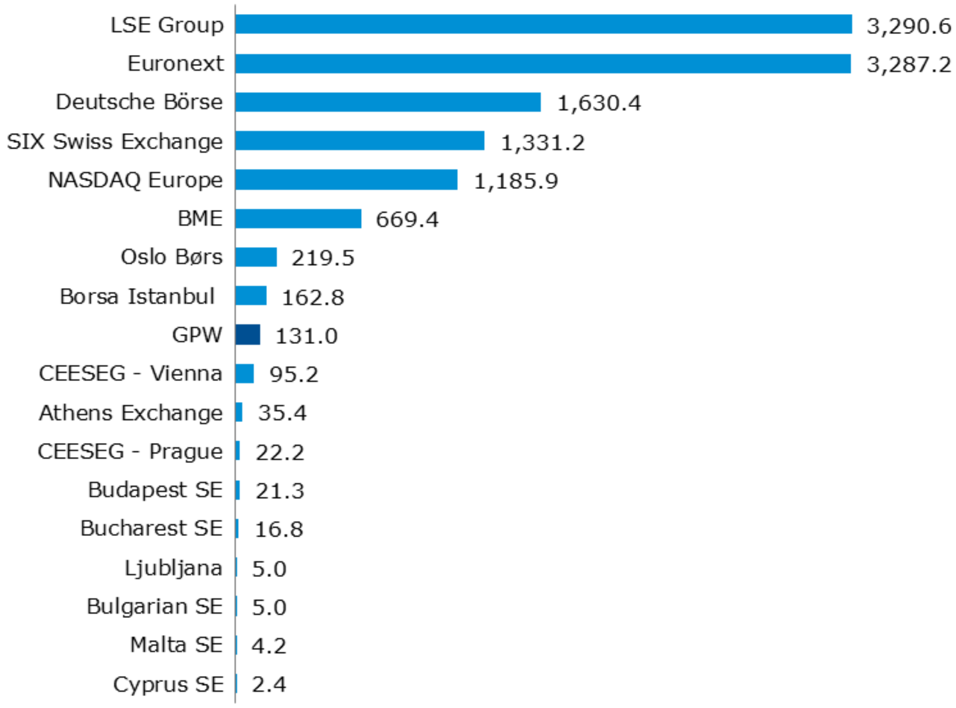


Source: FESE, LSEG

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, Shenzen SE – USD 3.2 trillion, and the London Stock Exchange Group and Euronext – USD 3.5 trillion each.

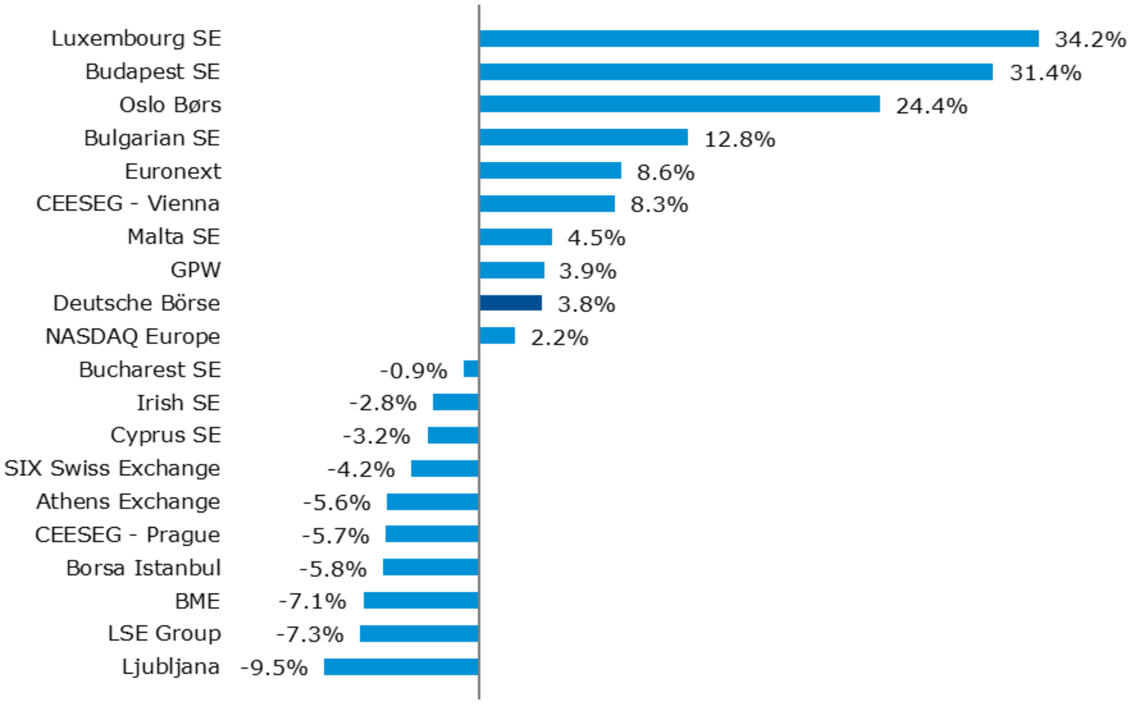
Figure 11 Capitalisation of domestic companies on European exchanges in 2016 [EUR billion]



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%).

Figure 12 Change in capitalisation of domestic companies on European exchanges in 2016



Source: FESE (data in EUR), LSEG

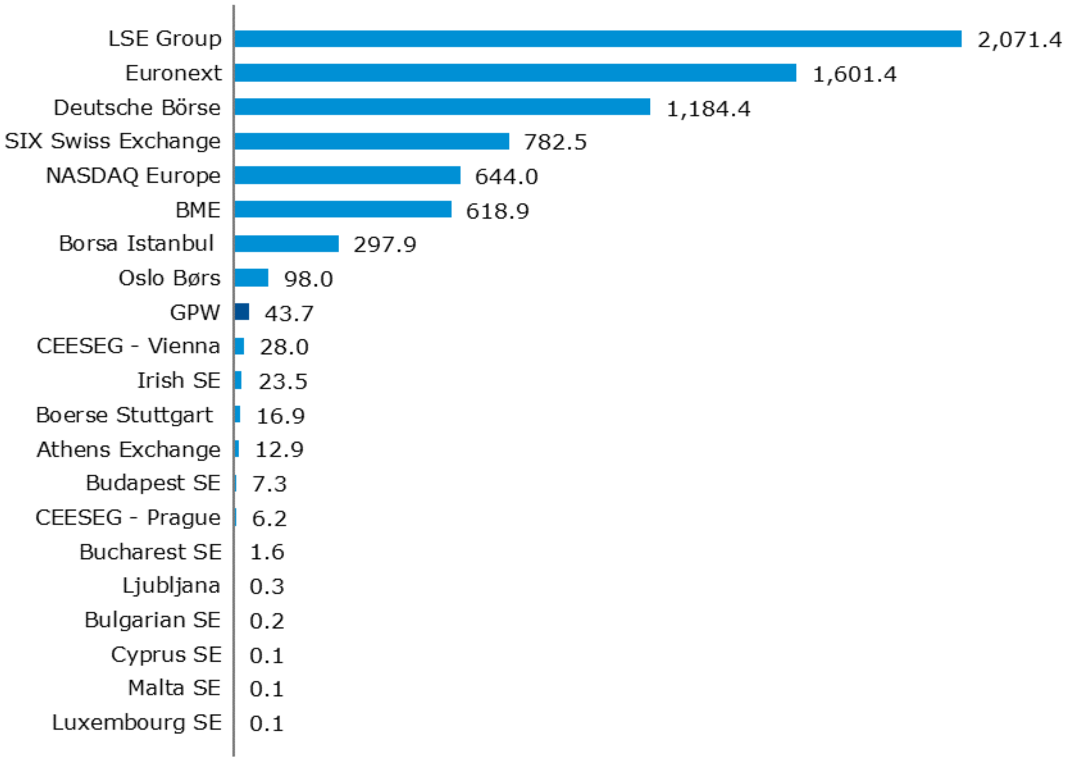
Equity Trade

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.

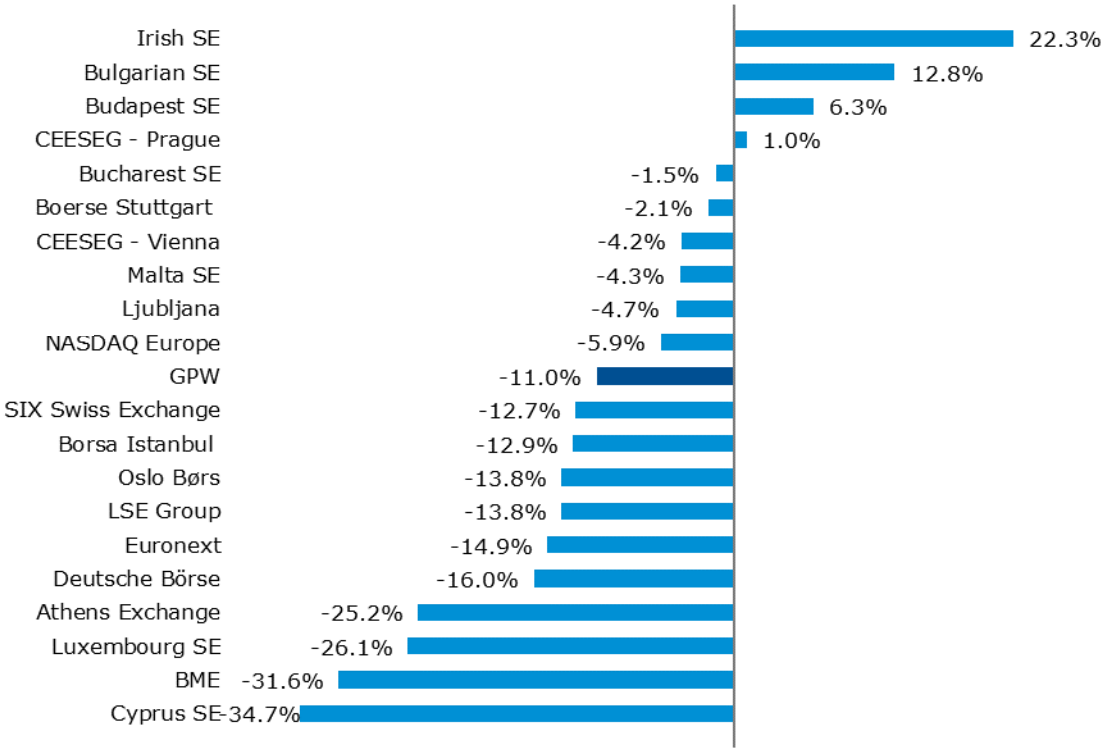
The biggest turnover in shares on the electronic order book on the European market was generated by the LSE Group (EUR 2.1 trillion), followed by Euronext (EUR 1.6 trillion) and Deutsche Borse (EUR 1.2 trillion). The concentration of the top five exchanges with the highest turnover in shares in 2016 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.

Figure 13 Value of trade in shares on European exchanges in 2016 [EUR billion]



Source: FESE, LSEG

Figure 14 Change in the value of trade in shares on European exchanges in 2016

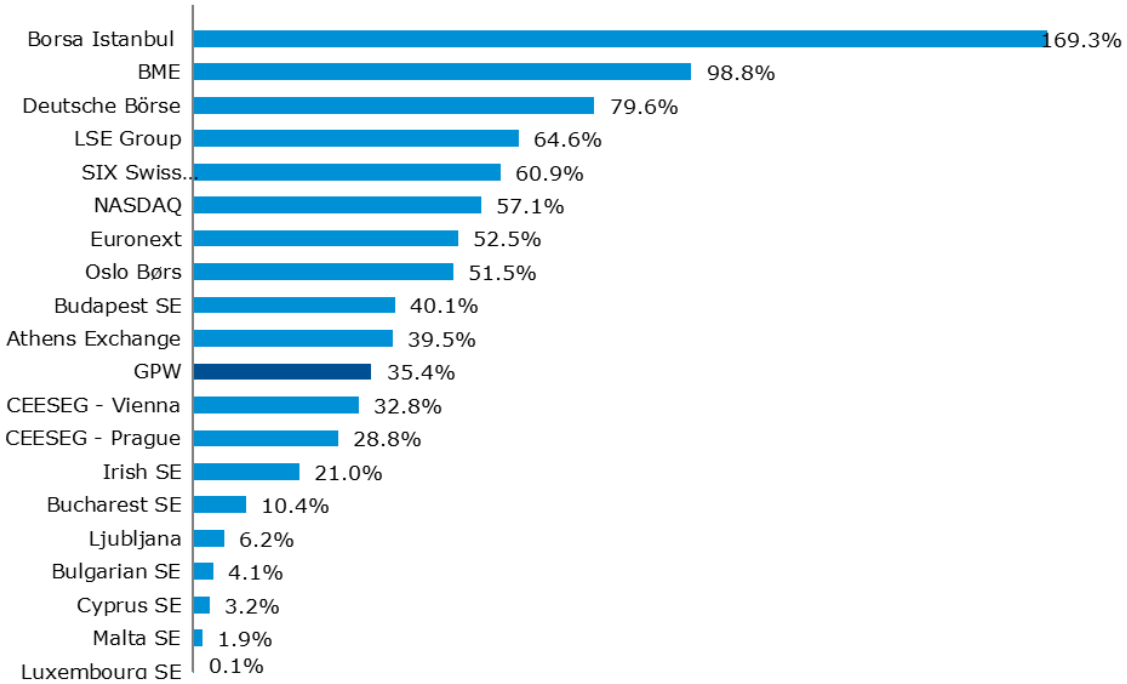


Source: FESE (data in EUR), LSEG

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.

Figure 15 Velocity[31] 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).

COMMODITY MARKET

The European market is dominated by several large exchanges which participated in consolidations and now decide about the strategic directions of development of the single energy market and its technologies. Nord Pool Spot (present in Norway, Sweden, Finland and Denmark) has expanded to the Baltic states (Lithuania, Estonia, Latvia); APX-Endex has expanded to the UK and has a presence in the UK, Belgium and the Netherlands; EPEX Spot has expanded to France (presence in Germany, France, Switzerland and Austria).

[31] Velocity measured as turnover in 2016 to average capitalisation at the end of each month on European exchanges

In the course of consolidations on the European market, smaller exchanges may lose their footprint, especially where their local markets are statistically and geographically small. With a very liquid energy market and good geographic location in Central and Eastern Europe, POLPX aspires to be one of the major exchanges.

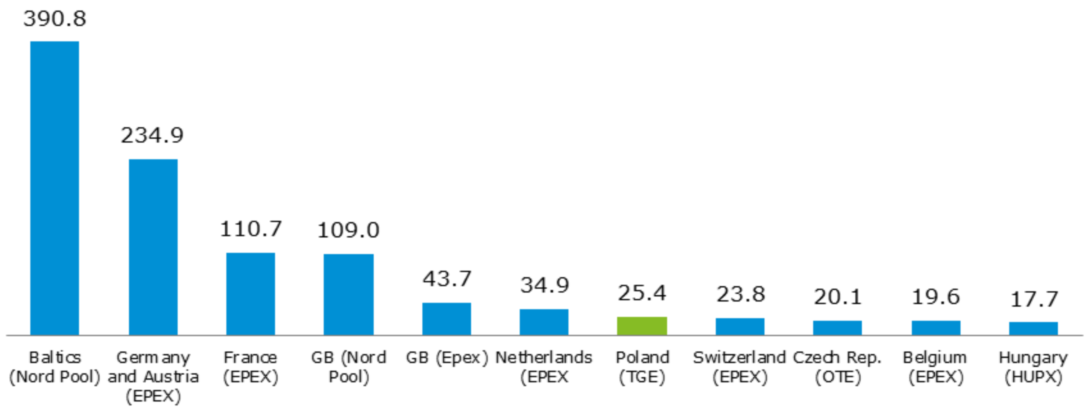
Energy and Gas Market in Europe

POLPX's market environment including participants of the wholesale electricity and gas markets remained stable in 2016. The number of active participants of trade in electricity and gas increased but not significantly as there were close to fifty Exchange Members. The other participants of trading used the exchange's services through the mediation of brokerage houses. A rising volume of spot trade was coupled with a decrease in trading on the Commodity Forward Instruments Market, where falling trade in electricity drove down the overall volume of trade in electricity year on year. This was one of effects of phasing out a solution which impacts the size of mandatory trading on the exchange as a major part of wholesale trade in electricity moved to the OTC market. The gas market, which is resilient to such developments owing to its current regulatory framework, reported the highest volume of trade in history of the exchange. The rising importance of the spot market as compared to forward trade, observed over the past years, has continued, especially on the market in gas.

Other power exchanges in the vicinity of Poland reported a rising turnover in forward transactions in 2016 while the spot markets were more diverse. Several forward markets witnessed a moderate increase (by several percentage points), including countries south of Poland (Czech Republic and Hungary: PXE, HUPX) as well as the Nordic region (Nasdaq OMX). The European Energy Exchange (EEX) enjoyed a much stronger growth of trade in forward instruments on its three core markets: German/Austrian, Italian, and French. The volume on the first two markets grew by more than a half year on year in 2016. Unlike POLPX, EEX saw a shift in trade in electricity from the OTC to the exchange market.

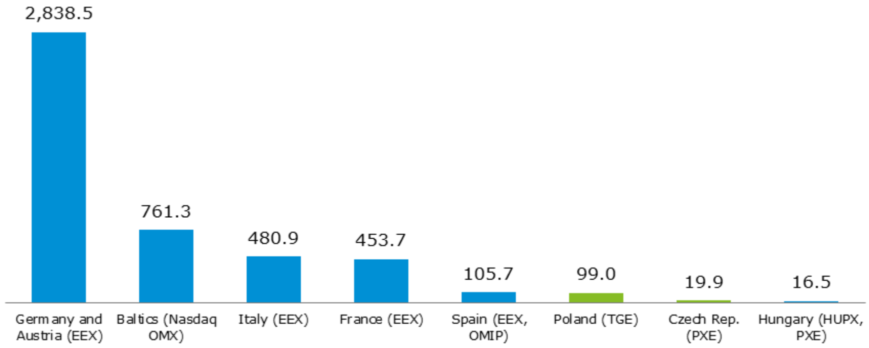
On the spot markets, a moderate increase in turnover in the Czech Republic, Hungary, and the Nordic region coincided with a decrease in several Western European countries including Germany, the Benelux, and the UK. They dropped by several percent, more than the reduction in electricity consumption in some of those countries. The markets in natural gas operated for the biggest European hubs on the PEGAS platform witnessed continued growth in 2016, including spot and forward trade, for nearly all hubs. The increase was almost as sharp as in 2015 at close to 50% on the spot market and close to 90% on the forward market.

Figure 16 Volume of trade in electricity on European exchanges in 2016 (spot) [TWh]



Source: POLPX based on exchange data

Figure 17 Volume of trade in electricity on European exchanges in 2016 (forward) [TWh]

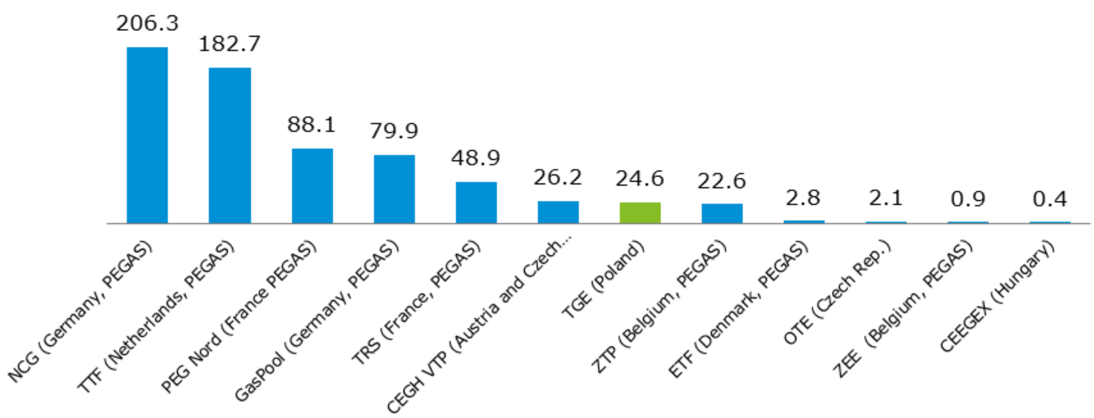


The example of other European countries confirms that the energy exchange has prospects of further growth driven by two factors. First, on the market in electricity, the volume of trade on the exchange may be greater than ever before as compared to OTC trade; second, there is room to grow the overall liquidity of trade in commodities. This is facilitated by the development of infrastructure supporting imports of both commodities as well as the generation of power; just as important is the continued development of POLPX's relations with market participants aiming to align its organisation with their specific needs.

The biggest room for growth on the electricity market is opened by the liquidity of the exchange forward market; for gas, it is driven by the OTC platform operated in the POLPX Group.

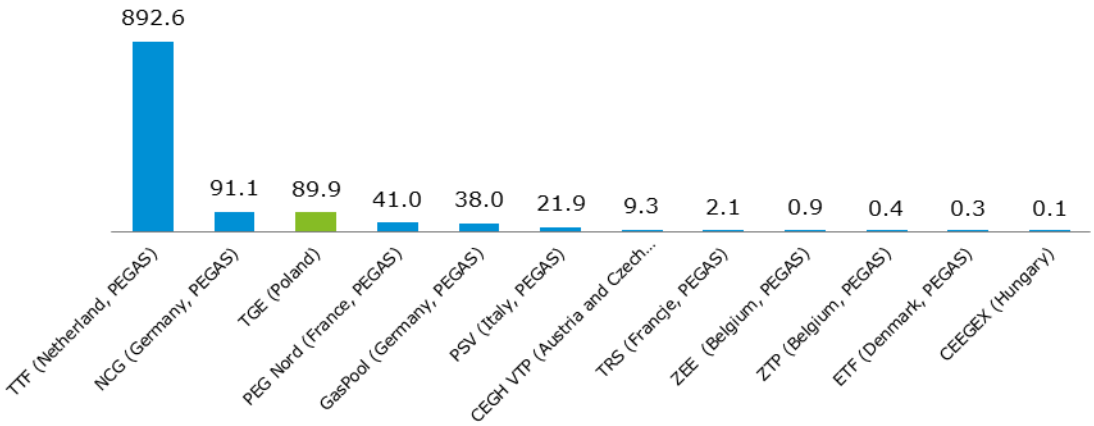
In 2016, the Parliament approved deregulation of gas prices for industrial customers in two phases on 2017. The decision is good for POLPX as the organiser of a wholesale market as it will become more involved in the pricing of products for industrial customers. The regulations imposing mandatory sale of electricity and natural gas on the exchange have remained unchanged. However, the expiration of long-term contracts caused a sharp decrease in the volume of mandatory sale of electricity on the exchange, resulting in lower liquidity of the POLPX forward market. In 2016, the volume of trade in electricity on the Commodity Forward Instruments Market was less than two-thirds of energy consumption in Poland (excluding own consumption of power plants), which hurts the transparency of the local market.

Figure 18 Volume of trade on European gas exchanges in 2016 (spot) [TWh]



Source: TGE

Figure 19 Volume of trade on European gas exchanges in 2016 (forward) [TWh]



In terms of prices, 2016 brought a major reduction of gas prices as well as diverse trends on the electricity market. Average spot prices increased in Poland and in the Nordic region; however, the increase followed very low electricity prices in 2015. Electricity prices on the POLPX forward market were lower than in 2015. Prices on the wholesale market in electricity and gas are driven mainly by two factors, i.e. the cost of production or imports, as a function of the market balancing demand and supply, leveraged to maximise gains of trading participants. The second element indirectly involves the impact of prices of emission allowances, property rights to certificates of origin, and in the future support for the construction of new conventional power plants on the power market. In 2017, the prices of oil, natural gas and probably also coal are expected to rise, resulting in higher electricity prices.

II. 2 Mission and Strategy of the GPW Group

The main objective of the strategy pursued by the GPW Group in 2016 is to make GPW a stock exchange of first choice for investors and issuers in Central and Eastern Europe.

In 2016, the GPW Group was working to develop a new strategy. The final draft was tabled to the GPW Supervisory Board for approval in September 2016. Consultations on the new strategy and its main assumptions with the Supervisory Board were not yet completed by the year's end[32]; hence, the strategy GPW.2020 approved in October 2014 continued to be implemented by the Group throughout 2016. It should be noted that the measures identified in the strategy from 2014., In the view of the current Management Board of the Warsaw Stock Exchange, can hardly be considered up to date, given the volatility of the environment and operating conditions of the Company in 2014-2016.

According to the assumptions of the strategy GPW.2020, the Warsaw Stock Exchange plays an important role in the economy: it provides growth capital to companies and local governments, thus supporting national growth by creating new jobs, fostering innovation, and raising the standards for public companies. GPW addresses the needs of Polish companies and local governments with a full range of available instruments tailored for both large and small market players active in all sectors. This is based on state-of-the-art technology, in compliance with the highest standards, ensuring security of trade on the markets operated by the Group, including the appropriate liquidity of traded instruments, as well as a broad range of products and services.

The GPW Group pursues its strategy through comprehensive development and utilisation of available skills and resources. This is supported by efforts focused on further operational integration of the GPW Group including the consolidation of processes and procedures, the establishment of a shared services centre, and the optimisation of real estate.

[32] At the meeting on 24 January 2017 the GPW Supervisory Board ultimately decided to terminate and discontinue the works on the material on the Warsaw Stock Exchange Strategy Group for the years 2017-2021

In addition, the strategy GPW.2020 provides for improved cost efficiency. A savings programme has been put in place covering such cost lines as rent, IT services, external service charges. This savings are used to support the areas with the greatest potential of growth, enabling GPW to better align with the demanding environment.

According to the strategy GPW.2020, the growth of the GPW Group will rely on six pillars:

- a liquid equity market;
- a developed debt market;
- a competitive derivatives market;
- a commodity market attractive to investors;
- a comprehensive offer of information products for investors and issuers;
- new business segments opened based on existing competences of the Group.

Chart 3 GPW's key strategic initiatives, strategy GPW.2020

Equity market
- Active acquisition of new issuers
- Activation and acquisition of investors including retail investors
- Acquisition of new Exchange Members
- Simplification and shortening of procedures
- Promotion of short selling and securities lending
- Unlocking the free float
- Promotion of HVP Programme
- Promotion of NC as a source of new listings for MM
- International promotion of companies

Debt market
- Simplified architecture of the corporate debt market
- Simplified procedures and tools on Catalyst
- Focus on sales
- Promoting debt ratings
- Growing activity of banks as debt market participants

Derivatives market
- Development of derivatives based on bonds, interest rates, electricity and natural gas
- Activating the investor pool
- Product development including option strategies based on new technologies

Commodity market
- Development of the gas market based on the potential of energy companies and financial investors
- More attractive offer, attracting active financial investors to other market segments

Information services
- Building an integrated offer through consolidation of data from external sources
- Implementation of new WSE Group information sales standards
- Building a regional index offer and competence centre
- Development of tailor-made indices for asset managers

Chart 4 Key aspirations of the GPW Group by 2020

Equity market	# companies listed on Main Market > 550 Velocity ratio on Main Market > 50% NewConnect – important source of new listings for Main Market NewConnect – improved quality and attractiveness for investors
Debt market	# non-Treasury issues > 1 thou. Focus on issues > PLN 100 mn Simplified structure of Catalyst and development of TBSP
Derivatives market	Developed market in electricity and gas derivatives Active market in interest rate/debt derivatives New derivatives depending only on clients' needs
Commodity market	Financial market in electricity >60% of domestic consumption Financial market in gas > 15% of liberalised gas market
Market information	One offer for all sources of data across the Group Development of index products Manufacture of tailored-made information products
New Business Segments	Post-trade services: integrated offer to address changing needs for clearing and risk management Under consideration: coal market, agricultural market, ETP
Operating efficiency	C/I ratio < 0.50 Organisational and operational integration of the Group

II. 3 Implementation of the GPW Group Strategy in 2016

GPW took active efforts to unlock the full potential and grow its core markets in equities, debt, derivatives, commodities, and information services. The goal is to reinforce the key business segments of the exchange and to develop those areas where GPW has a competitive advantage and can effectively use the potential of its employees and assets. This section presents the key initiatives of the strategy GPW.2020 implemented in 2016 to grow the Group.

Technology and security

- **100 percent availability of GPW's trading system:** in 2016, similar to previous years, GPW maintained 100 percent availability of the services provided by GPW's trading system (defined as the ability to place orders, execute trades, set prices, and publish market data).
  - **Colocation and support services:** the colocation service was opened to GPW's clients in Q1 2016 and the first client, ERSTE Securities Polska, started to use the service in April 2016. The service is dedicated to algorithmic traders seeking the closest possible access to GPW markets for themselves and for their clients in order to place orders and receive market data. The service provides all clients with the same latency of communications with the trading system UTP at no more than 500 microseconds (μs). The objective of launching the service is to expand the offer of access to GPW markets and to improve the liquidity of financial services. Furthermore, since 2016, GPW provides clients with two services supporting colocation: remote hands (where clients' hardware may be installed in colocation in the absence of the client) and precision time protocol (where GPW provides time synchronisation to colocation clients).
  - **New trading systems on POLPX:** in September 2016, POLPX accepted two new systems provided by Nasdaq: the trading system X-stream Trading and the energy auction application SAPRI (POLPX and Nasdaq signed the trading system X-stream Trading contract in December 2014; the SAPRI annex was signed in February 2015). POLPX's new trading system will support efficient processing of growing trading volumes and the future addition of new commodities and derivatives. SAPRI, Nasdaq's energy auction application, will be used by POLPX in European cross-border energy auctions including PCR (Price Coupling of Regions). The solutions will be rolled out in production in H1 2017.
  - **IRGiT's new clearing system:** in June 2016, the Warsaw Commodity Clearing House (IRGiT) implemented a new clearing system, X-Stream Clearing from NASDAQ. The system replaced the legacy solution CONDICO Clearing. The new clearing system X-Stream Clearing provides a range of improvements including: clearing of multiple trading platforms; clearing of new types of instruments, such as "balance of" instruments; full flexibility of the selection of trade, clearing, and collateral currencies; improved management of non-cash collateral; netting of margins across groups of companies; facilitated management of the calculation of taxes including excise duties on natural gas. The implementation of IRGiT's new system will ensure effecting processing of cross-border trade and the addition of new services. The clearing system X-Stream Clearing supports the clearing of multiple financial instruments, especially commodity-based instruments.

Equities

- **Trading fee reductions:**
  - ✓ As of 1 January 2016, GPW reduced the transaction fees on trade in shares, rights to shares and ETF units in the part charged on the value of an order up to PLN 100 thousand from 0.033% to 0.029%. It is a promotion without a fixed deadline offered on the Main Market and NewConnect. GPW decided to reduce the trading fees as a result of changes in the system of financing supervision of the capital market.

- ✓ As of 1 November 2016, GPW reduced fees for Exchange Members on transactions in shares as well as market data from the GPW Main Market and the Alternative Trading System NewConnect. The fixed fee on an order was reduced from PLN 0.20 to PLN 0.15. The reduction is a promotion without a fixed deadline applicable to all broker's orders executed on the order book and in block trades in shares, rights to shares and ETFs. The reduction mainly applies to small orders placed by retail investors and via DMA.
- ✓ As of 1 July 2016, GPW introduced a new price list on the Main Market for market makers of shares and participants of the High Volume Provider (HVP) programme which promotes passive orders building up the order book. The new price list offers very attractive low transaction fees for professional market players participating in the building of the order book. The new transaction fees for market players placing buy and sell "maker" orders (which remain on the order book) are much lower than for buy and sell "taker" orders (which hit other orders on the order book). The new price list is optional so market makers of shares and participants of the HVP programme may use it or continue with the existing price list and promotions. The new "maker/taker" price list is designed to incentivise GPW's professional clients to place more passive orders. This will improve the pricing conditions (expanded order book, smaller spreads) for trade of individual and institutional investors.
- ✓ A reduction of fees for market makers of non-WIG20 shares, extended by the GPW Management Board until 31 March 2017, was effective throughout 2016. The promotion is designed to support liquidity of trade in shares of companies which do not participate in WIG20 and to support the local brokerage industry. The promotion is a part of the strategy encouraging investor activity with a flexible pricing policy aligned with the needs of different groups of GPW clients.
- ✓ In 2016 was in force the promotion of market makers operating on futures on the WIG20 index. The promotion involves reducing transaction fees for the most active team, in case of exceeding the threshold of 15,000 contracts per month animator pays for each transaction on contracts PLN 0.50, and in the case of exceeding the 30,000 contracts in the month of 0.40 PLN. The promotion aims to encourage animators to greater investment activity. The Management Board decided to continue the promotion and its validity was extended until 31 March 2017.
- ✓ The 2016 program also in force was SuperAnimator for TOP7, which aims to support liquidity and the intensification of turnover on the largest companies.

- ♦ **35 IPOs** of companies on both stock markets (including 7 transfers from NewConnect to the Main Market) and continued focused activity promoting the exchange as the venue to raise growth capital for companies and local governments. In 2016, GPW continued the "Capital for Growth" programme launched in 2015 and changed its format to one-on-one meetings with companies interested in raising capital on the exchange. Furthermore, in October 2016, GPW signed a memorandum of understanding to create a Polish-Belarussian IPO Centre. The objective is to establish a professional education, consultation and legal advisory centre facilitating the access of Belarussian companies to financing via the Polish capital market.
- ♦ **Sustained high liquidity of the Main Market in shares as measured by velocity due to:**
  - ✓ acquisition of new clients including exchange members, market makers and participants of the liquidity support programmes (HVP and HVF);
  - ✓ continuation of transaction fee promotion programmes;
  - ✓ improvement of the infrastructure and accessibility of the Polish market for global investors (KDPW_CCP's first foreign clearing member, ABN AMRO Clearing Bank N.V., started operation on the Warsaw Stock Exchange in June 2016 and clears transactions on GPW's cash and derivatives markets, opening access to the local capital market for investors who use the bank's post-trade services globally);
  - ✓ continuation of initiatives promoting the Polish capital market and companies listed on GPW as well as investing in instruments listed on GPW (the Ambassador programme launched in September 2016 attracted 11 biggest banks active in Poland; the programme promotes the

capital market among bank advisors to help them communicate the opportunities of investing on GPW among their retail clients and other bank officers).

- **Continued initiatives enhancing the quality of NewConnect and making it more attractive for investors in the NewConnect 2.0 programme**
  - ✓ On 3 July 2016, GPW amended the ATS Rules as required to align the regulations with the EU Market Abuse Regulation (MAR).
  - ✓ On 28 September 2016, a new segmentation of the NewConnect market replaced the segments NC Lead, NC HLR and NC SHLR with the segments NC Focus, NC Base and NC Alert. NC Focus includes shares of 90 companies, NC Base has 250 companies, and NC Alert has 68 companies. With the new segmentation, GPW modified the terms of market making by market makers who support liquidity of trade in financial instruments listed on NewConnect. The new segmentation helps investors to identify companies listed on NewConnect in terms of their condition and the related investment risk, makes the market more transparent, and encourages investors to seek new investment opportunities.

Debt market

- **Number of new non-Treasury issues in 2016:** 23 including 6 issues worth more than PLN 100 million.
- **Catalyst reform:** working towards an optimal model of the Catalyst market, GPW reviewed solutions available in Europe and consulted with market participants. GPW intends to simplify the Catalyst structure by creating two segments: Treasury securities and other debt.
- **Intensified acquisition and promotion of Catalyst among local governments and companies.**

Derivatives market

- **New single-stock futures**: to address investor demand, GPW introduced several new classes of single-stock futures in 2016:
  - ✓ Futures on the stock of Eurocash S.A. were introduced into trading on 1 March 2016.
  - ✓ Five new single-stock futures were introduced into trading on 19 September 2016 on the shares of: Grupa Azoty S.A., ING Bank Śląski S.A., Ciech S.A., mBank S.A., Kruk S.A.
- **New FX futures**: GBP futures were introduced to trading on the GPW Main Market on 21 November 2016.
- **Intensified promotion and education concerning interest rate futures**: in 2016, GPW held a range of meetings and workshops dedicated to investment portfolio managers, active traders, banks and brokers in order to present the practicalities of interest rate futures, transactions with market makers, and the benefits of trading on GPW.

Commodity market

- **Electricity market:**
  - ✓ POLPX maintained its position of Nominated Electricity Market Operator (NEMO) on the local energy market, safeguarding the Polish market against acquisitions by the largest foreign exchanges.
  - ✓ On 1 July 2016, POLPX signed a market maker contract with Polenergia Obrót, the fourth market maker on POLPX after Enea Trading, PGNiG and Tauron Polska Energia.
- **Gas market:**

- ✓ Continued development of liquidity on the market in gas: in 2016, POLPX successfully focused on building up high liquidity on the market in gas, especially the spot market. The volume of trade in natural gas was 114,468,886 MWh in 2016, the highest annual figure in the history of the Polish Power Exchange. The high turnover on the gas market allows POLPX to add gas-based derivatives to its product range. Consultations with market participants helped to define a preliminary structure of gas futures. Their structure will be similar to the products already offered by POLPX and to derivatives traded on the European gas market: they will be based on continuous trading with physical delivery of gas.
- ✓ In 2016, SGT instruments for the Polish section of the Transit Gas Pipeline System (SGT) Yamal-Europe were introduced to trading on the Day-Ahead Market in gas and a new index of SGT transactions was launched (TGEsgtDA).
- ✓ In July 2016, the Intraday Market in gas opened on the POLPX brokerage platform InfoEngine, which supports orders 24/7/365. The launch of trade on InfoEngine is yet another step in the development of the Polish market in gas.

- **Property rights market:**
  - ✓ Blue certificates: following an amendment of the Renewable Energy Sources Act in 2016, the Register of Certificates of Origin introduced a new instrument, PMOZE-BIO: the certificate of origin of electricity from agricultural biogas. With the start of trade in PMOZE-BIO, POLPX launched the publication of the price indices TGEozebio for trades on the order book and TGEozebioTP for block trades.
  - ✓ White certificates: the volume of trade in white certificates increased with the extension of the support system for certificates of energy efficiency and simplification of their issue procedures.
- **New business lines:**
  - ✓ **CO2 platform:** POLPX received the approval of the Polish Financial Supervision Authority to operate a CO2 allowances platform on 20 December 2016. In the next step, POLPX will participate in a tender for the operation of an auction platform for Polish emission allowances. As the last step, POLPX needs to be entered into the list of auction platforms in Annex III to Commission Regulation 1031/2010. Operation of an auction platform will help to develop the market operated by POLPX which offers trade in emission allowances and to improve liquidity of the market. With the launch of the auction platform, financial instruments on delivery of emission allowances will be introduced into trading.
  - ✓ **Reporting of OTC trades under REMIT**: as of 7 April 2016, POLPX supports reporting of OTC trade in the system RRM TGE. The system addresses the requirements of the Regulation of the European Parliament on wholesale energy market integrity and transparency (REMIT), whereby participants of the wholesale market in electricity and gas have to report orders and trades on organised trading platforms in such commodities. The obligation to report OTC trades took effect on 7 April 2016. In June 2016, the Agency for Cooperation of Energy Regulators (ACER) granted to POLPX additional authorisations to report wholesale trade in transmission of natural gas and basic data REMIT LNG.

Information services

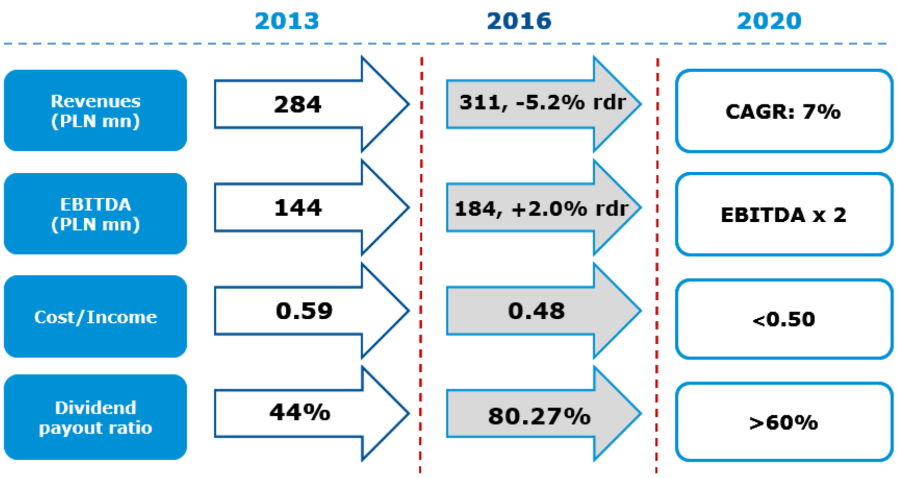
- **Taking over the function of the organiser of WIBID and WIBOR reference rate fixings**: in November 2016, GPW decided to take over the functions performed by the Financial Markets Association ACI Polska as the organiser of WIBID and WIBOR reference rate fixings. The transition will take place in phases including: starting the organisation of fixings; obtaining the authorisation to perform the functions of administrator; reviewing the rates methodology. The change of the organiser of fixings is related to the Regulation of the European Parliament and of the Council which imposes major requirements on institutions which calculate reference rates.

- **Continuation of initiatives boosting the sale of data from the commodity market and non-display data**: in 2016, following focused acquisition initiatives, GPW had 43 new clients for non-display data (used in algorithmic trading, risk management, portfolio valuation, and other non-display applications). The sale of POLPX data also developed. In 2016, POLPX acquired the first industry data vendor who specialises in processing and distribution of commodity market data: the Norwegian company Montel.
- **Making GPW's offer more attractive through reductions of fees for market data for Exchange Members:** in November 2016, GPW reduced the monthly fee for the best bid/ask for retail investors by 25 percent irrespective of the number of subscribers.

Operational excellence

- **Cost optimisation:** the GPW Group's operating expenses decreased by PLN 24.2 million year on year as a result of the implementation of a savings programme which covers administration, IT, HR, real estate, and external services.
- **Integration of the GPW Group**: in 2016, GPW continued the Group's programme launched in 2015 to ensure effective and efficient services for GPW Group companies in different areas with improved quality, standardised methods and scope of work, elimination of duplicated processes, adequate use of available resources, cost reductions, standardisation and simplification of information flows. The following projects were initiated among others: unification of accounting and financial processes, unification of HR and payroll processes, development of a single controlling methodology, a shared system of electronic document flows, and common rules of corporate identity across the Group.

Chart 5 2016 in the GPW Group v. ambitions under the strategy



External Drivers of the Group's Growth in 2016

Macroeconomic Conditions in 2016

According to the Central Statistical Office (GUS), Poland's gross domestic product (GDP) grew by 2.8 percent in 2016 and 3.9 percent in 2015. According to GUS, domestic demand grew by 2.8 percent while investments shrank by 5.5 percent in 2016.

Productivity in the industry grew by 1.0 percent year on year in 2016 while employment grew by 2.2 percent and the average monthly gross wage grew by 3.2 percent.

Consumer price deflation continued in Poland in 2016 as a result of external factors, including mainly falling commodity prices on the global markets, and in the absence of demand pressures in Poland.

According to GUS, deflation was 0.6 percent in 2016. According to GUS, the consumer price index in 2016 was mainly driven by lower prices of transport (down by 4.6 percent), clothing and footwear (down by 4.4 percent), which reduced CPI in the period by 0.40 percentage points and 0.24 percentage points, respectively. Higher food prices (up by 1 percent) raised CPI by 0.21 percentage points.

NBP maintained the interest rates unchanged throughout 2016 and made it known that the monetary policy was unlikely to change at least until the end of 2017. As a result, WIBOR3M and WIBOR6M remained stable throughout 2016 within a very narrow band of 1.67%-1.73% and 1.74%-1.81%, respectively (moving closer to the ceiling of the band later in the year). Although the rates were kept unchanged, market expectations of the monetary policy throughout the year varied considerably from an interest rate cut by 25 bps in 2017 to a 25 bps hike in late 2017.

In Europe, the ECB's continued asset purchase programme resulted in a steady decrease of rates on EUR interbank deposits. Consequently, the rates approached the central bank's deposit rate (-0.4%) in the longer tenors. The US followed the opposite trend as the short end of the yield curve was driven up by rate hike expectations. As a result, USD deposit rates rose considerably.

The exchange rate of PLN against the main currencies remained relatively stable under those conditions. Treasury yields were also relatively stable from mid-2015 onwards.

Announcements of Further Reform of the Open-ended Pension Fund System

In July 2016, the Government published a proposal of a further reform of the pension system involving the nationalisation of a part of savings in open-ended pension funds and a transfer of 25% of liquid assets (cash, foreign stocks, bonds) to a Demographic Reserve Fund. The remaining 75% of the assets (Polish stocks) would remain in open-ended pension funds, which would eventually be transformed into investment funds. The changes are expected to take effect in early 2018 and the details will be disclosed in early 2017.

Although the details of the reform have not yet been defined, the very announcement of such reform was welcomed by participants of the Polish capital market and foreign investors. First, the announcement of the reform partly eliminated investors' uncertainty about the future of open-ended pension funds and assets, which in early 2016 largely affected their activity on GPW's equity market and resulted in lower turnover. Second, the announcement of transformation of open-ended pension funds into investment funds may release some of the free float on GPW and improve the liquidity of securities locked in open-ended pension fund portfolios. For many years, open-ended pension funds have been rather passive investors on GPW, and their share in the turnover in equities was ca. 5-6 percent. Meanwhile, investment funds are much more active investors and compete with their peers, which opens prospects of better liquidity on GPW's stock market.

In 2016, the value of Polish shares in open-ended pension fund portfolios increased by 9.4% to PLN 116.2 billion (Source: KNF).

Change of the Model of Financing of Supervision of the Polish Capital Market

Starting in 2016, a new model of financing of supervision of the Polish capital market is in place, where the cost of supervision by the Polish Financial Supervision Authority is paid not only by GPW and KDPW as before but by a broader group of entities (including issuers, investment firms, banks, insurers, investment fund managers). As a result, the cost paid by the GPW Group was reduced in 2016 by approximately one half compared to 2015. In response, GPW decided to reduce its transaction fees:

- ✓ As of 1 January 2016, GPW reduced the transaction fees on trade in shares, rights to shares and ETF units for all orders in the part charged on the value of an order up to PLN 100 thousand from 0.033% to 0.029%. It is a promotion without a fixed deadline offered on the Main Market and NewConnect. GPW decided to reduce the trading fees as a result of changes in the system of financing supervision of the capital market.
- ✓ As of 1 November 2016, GPW reduced fees for Exchange Members on transactions in shares as well as market data from the GPW Main Market and the Alternative Trading System NewConnect. The fixed fee on an order was reduced from PLN 0.20 to PLN 0.15. The reduction

is a promotion without a fixed deadline applicable to all broker's orders executed on the order book and in block trades in shares, rights to shares and ETFs. The reduction mainly applies to small orders placed by retail investors and via DMA.

II. 4 Business Lines

The activity of the GPW Group focuses on two markets: the financial market and the commodity market, where Group companies organise trade in financial instruments and commodities, and offer complementary services.

FINANCIAL MARKET

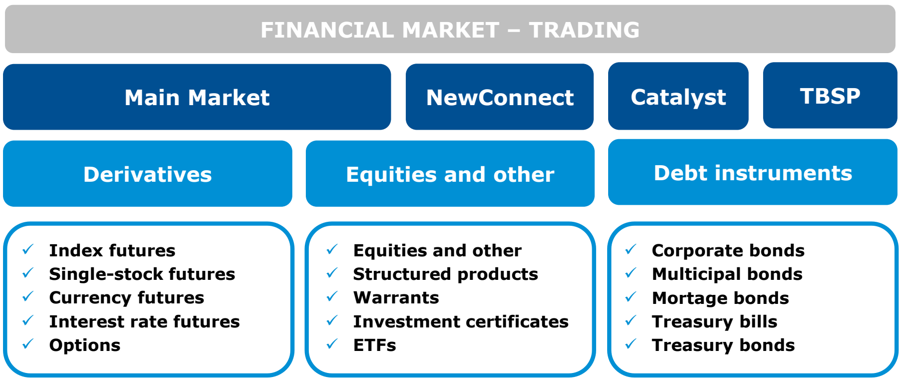
The activities of the GPW Group on the financial market include:

- trade in financial instruments on the regulated market and in the alternative trading system:
- ✓ trade in shares and other equity instruments on the Main Market and on the NewConnect market,
- ✓ trade in derivatives on the Main Market,
- ✓ trade in debt instruments on the Catalyst market organised by GPW and BondSpot and on Treasury BondSpot Poland (TBSP),
- listing, including introduction to trading and listing of financial instruments,
- information services including data from the financial and commodity markets.

TRADING

Trading encompasses trade in financial instruments on the Main Market and on GPW regulated markets NewConnect and Catalyst, and on Treasury BondSpot Poland.

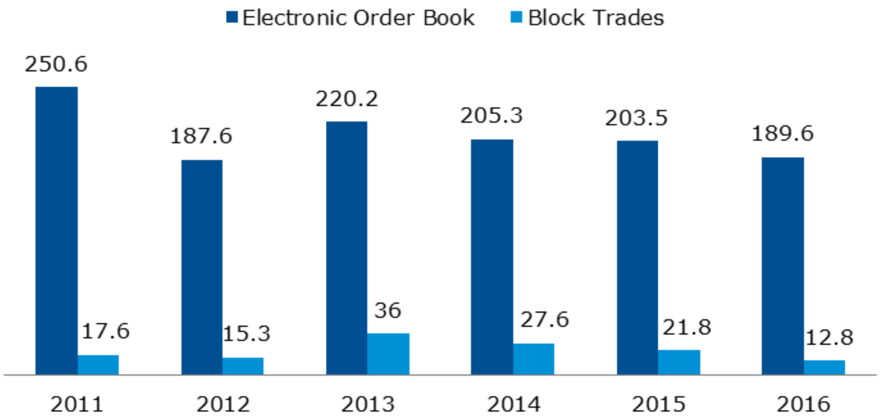
Chart 6 Financial instruments in trading on the GPW Group financial markets



Stock Market

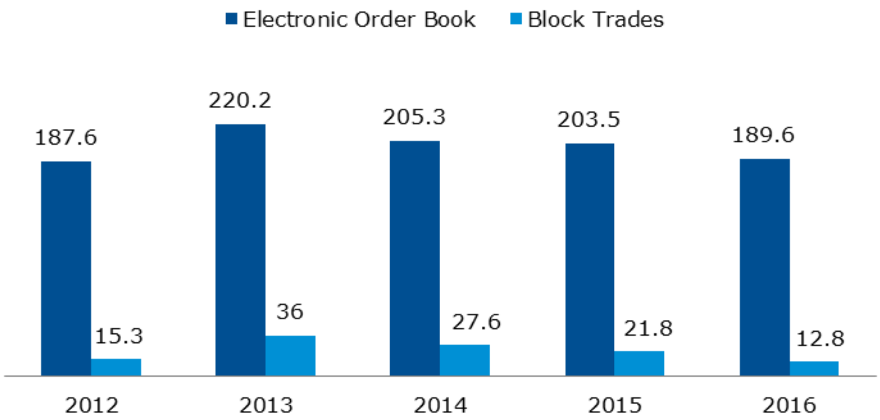
The total value of trade in shares on the electronic order book (EOB) on the GPW Main Market was PLN 189.6 billion in 2016, a decrease of 6.8% year on year. The average daily value of trade on the was PLN 755.6 million, a decrease of 6.8% year on year. The number of transactions was 17.6 million, an increase of 6.4% year on year. The value of trade increased particularly in Q3 and Q4 2016. The value of trade in shares on the electronic order book on the GPW Main Market in Q4 2016 was PLN 55.3 billion, the highest figure since Q1 2014.

Figure 20 Value of trade in shares on the Main Market [PLN billion]



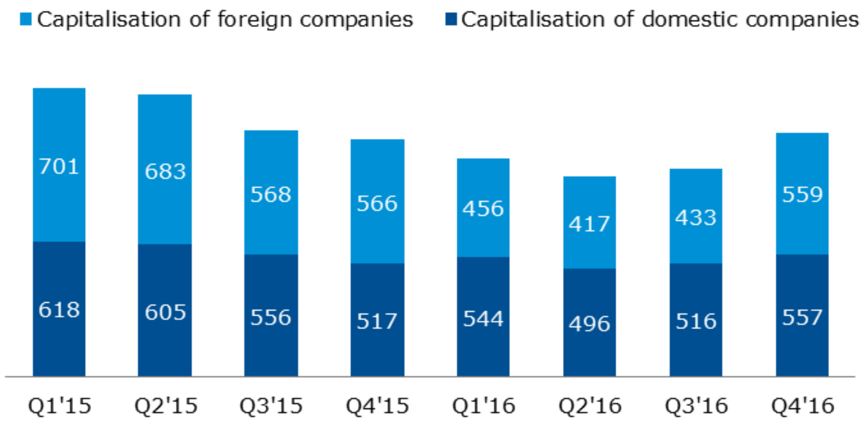
The value of trade on NewConnect decreased in 2016. The value of trade in shares on the electronic order book was PLN 1,198 million, a decrease of 30.5% year on year; the value of block trades decreased by 28.1% year on year to PLN 163 million. The number of transactions on the electronic order book was 858 thousand in 2015, a decrease of 22.0% year on year.

Figure 21 Value of trade in shares on NewConnect [PLN million]



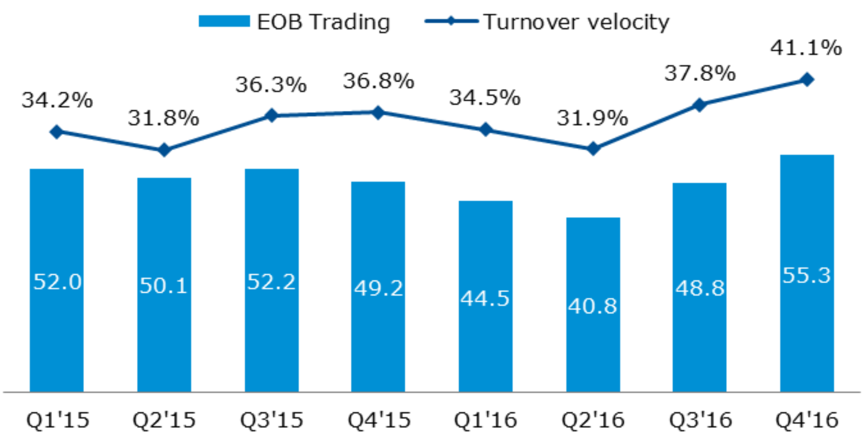
The turnover in equities on the GPW markets in 2016 was largely impacted by local drivers: the uncertainty associated with the further reform of the pension funds, the introduction of a bank tax and its impact on the banking sector and the issue of a possible conversion of mortgage loans denominated in CHF and the potential impact on the banking sector which is strongly represented on the Stock Exchange and in the WIG20 index. The negative impact on the situation on the stock market were also issues of a global nature. Particularly noteworthy impact of Brexit, elections in the US but also the general reluctance of investors to invest in assets from emerging markets due to, among others, an increase in the debt of these economies in foreign currencies due to the strong appreciation of the USD. Since Q3 2016 the situation has improved particularly among foreign investors, who have returned to the market and thus contributed to the growing turnover on the stock market, particularly in the bluechips segment.

Figure 22 Capitalisation of domestic and foreign companies on the Main Market [PLN billion]



The capitalisation of domestic companies listed on the Main Market was PLN 557.1 billion at the end of 2016 compared to PLN 516.8 billion at the end of 2015 (an increase of 7.8%). Velocity increased starting in Q2 2016 and reached 41.1% in Q4 2016, the highest figure since Q2 2013.

Figure 23 Turnover in shares on the Main Market [PLN billion] and velocity [%]



This was driven by many efforts launched to attract investors to the GPW markets and to build up liquidity. ABM Amro Clearing, KDPW_CCP's first foreign clearing member, started operation on GPW in May 2016, which opened the prospect of acquiring new foreign clients active in electronic trading whose presence on GPW depended on the availability of clearing from ABN Amro Clearing. GPW implemented many projects in 2016 to develop its infrastructure and make it more accessible to global traders. These include the colocation service and the supporting functionalities: remote hands and precision time protocol, which provide technologically advanced trading opportunities to GPW clients.

A new Independent Software Provider (ISV) was acquired in 2016, and GPW is currently negotiating with another ISV, the first potential provider of software for professional derivatives traders in Poland. A new External Administrator was acquired in Q1 2016, responsible for technical market access services for Exchange Members.

The HVP and HVF programmes were modified in 2016 and the price promotions under the programmes were extended for another year. HVP and HVF are special promotion programmes dedicated to active investors in equities and derivatives:

- High Volume Provider (HVP) programme is addressed to entities which invest on own account only. Launched by GPW in November 2013, it offers promotional fees to those investors who generate at least PLN 5 million of trade in equities per session on the stock market or 150 thousand futures and options on the derivatives market. In addition, as of 1 July 2016, GPW introduced a new price list on the Main Market for stock market makers and participants of the High Volume Provider programme which promotes passive orders building up the order book. Thus, GPW follows international trends of exchange prices to create the best possible conditions for the execution of orders of individual and institutional investors. The new price list offers very attractive low transaction fees for professional market players participating in the building of the order book. The new transaction fees for market players placing buy and sell "maker" orders (which remain on the order book) are much lower than for buy and sell "taker" orders (which hit other orders on the order book). The new price list is optional so market makers of shares and participants of the HVP programme may use it or continue with the existing price list and promotions.

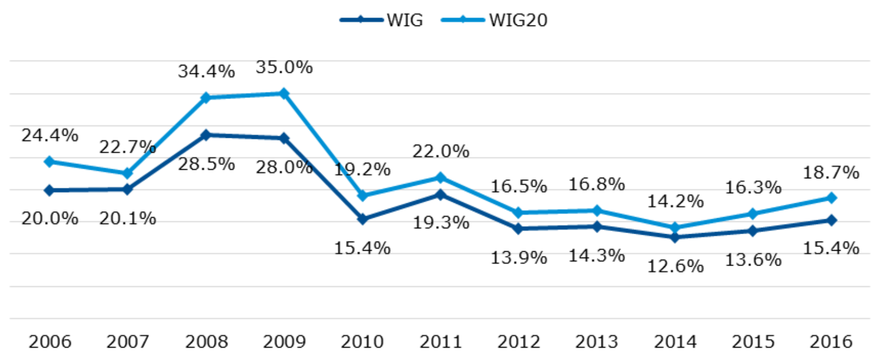
- High Volume Funds (HVF) Programme: the programme was addressed to investment funds which actively trade in shares or derivatives on GPW. It was launched in July 2015. Similar to HVP, it is a fee promotion for those funds which generate daily trade in shares exceeding PLN 5 million or 150 futures and options on the derivatives market. The condition of generating average turnover at PLN 5 million on the cash market was waived until the end of March 2017. The velocity ratio of a fund, calculated as the turnover generated within three months to the fund's net asset value, should be at least 200 percent per month. The formula was changed from a one-month to a three-month volume.

Both these programmes on the cash and derivatives markets jointly had 7 participants in 2016, which generated 10.2% of the value of trade in shares on the electronic order book; in the best months, their share in trade in equity trade was 12%.

Seven new exchange members (Flow Traders, SUN Trading, Spire Europe, Q Securities, ING Bank, mBank and Alior) were admitted or started operation on the exchange in 2016, which also helped to improve liquidity.

The demanding market environment is coupled with growing volatility. After very low volatility in 2014, it improved in 2015 and 2016, driving the activity of investors on the exchange.

Figure 24 Annual volatility of WIG and WIG20



In addition to the trading fee promotions under the HVP and HVF programmes, GPW trading participants benefited from other fee reductions as well. As of 1 January 2016, all market participants were eligible for reduced fixed fees on the value of an order up to PLN 100 thousand for orders on the cash market (reduced from PLN 0.33% to PLN 0.29%). The fee reduction was offered as a promotion without a fixed deadline on the Main Market and NewConnect. It followed the reduction of GPW's fees paid to the Polish Financial Supervision Authority and was offered to share a part of the savings with capital market participant. The structure of the fee reduction implemented on 1 January 2016 was consulted by GPW with the Chamber of Brokerage Houses.

The fee on market maker transactions in shares other than WIG20 shares (small and mid-caps) was reduced to zero and the promotion was extended in 2016. At the request of GPW, KDPW_CCP waived market maker fees on transactions in shares other than WIG20 shares within that period. The market maker promotion was extended by GPW and KDPW_CCP until the end of March 2017.

Under the maker-taker price list introduced as of 1 July 2016, the fees on orders in WIG20 stocks for HVP programme participants and stock market makers are PLN 0.02 for buy and sell maker orders and PLN 0.01 for buy and sell taker orders. The fees for orders in non-WIG20 stocks are PLN 0.02 for buy and sell maker orders and PLN 0.01 for buy and sell taker orders for HVP programme participants. The fees for non-WIG20 stock orders of stock market makers are PLN 0.01 for maker orders and PLN 0.06 for taker orders.

In 2016, as part of the Exchange's educational initiatives, GPW launched the "Ambassador" programme dedicated to the staff of Poland's top 20 banks. The programme aims to improve the qualifications of selected employees through training and meetings devoted to the capital market, followed by cascading of knowledge about investing on the exchange in relations with retail clients.

Other Cash Market Instruments

The GPW cash market also lists structured products, investment certificates, warrants and ETF certificates.

Table 11 Number of structured products, investment certificates, ETFs and warrants

As at 31 December (#)	2016	2015	2014	2013	2012
Structured products (certificates)	784	702	744	550	327
Structured products (bonds)	0	0	4	7	16
Investment certificates	37	30	31	37	58
ETFs	3	3	3	3	3
Warrants	0	0	76	72	68

In total, GPW listed 784 structured products, 37 investment certificates and 3 ETFs at the end of 2016, and the total value of trade in these instruments was PLN 1.1 billion in 2016, an increase of 6.1% year on year. Structured products had the biggest share in total trade (77.8%), followed by ETFs (16.3%).

Derivatives Market

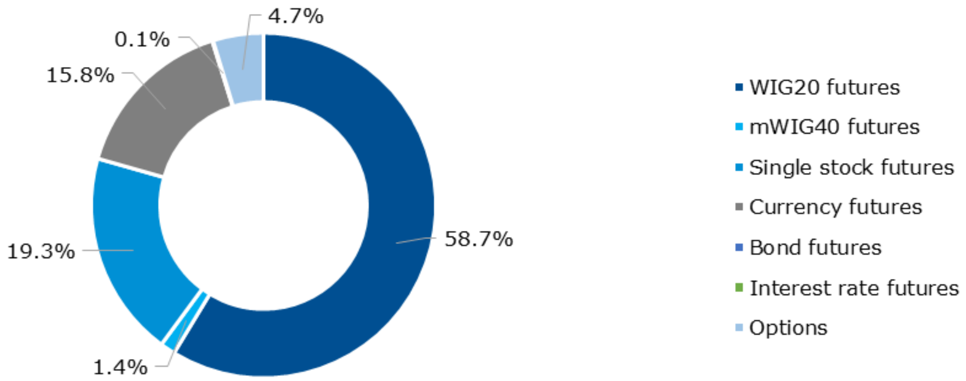
The Warsaw Stock Exchange operates the biggest derivatives market in Central and Eastern Europe. WIG20 futures have for years been the most liquid instrument that generates the highest volume of trading on GPW, representing 58.7% of the volume of trade in all derivatives in 2016 (54.1% in 2015, 63.7% in 2014, 65.4% in 2013, 80.1% in 2012).

Single-stock futures attract growing interest of investors (they accounted for 19.3% of the total volume in 2016), as do currency futures (15.8% of the volume in 2016). Trade in single-stock futures increased by 48.5% year on year. Interest rate futures also attract growing investor interest and the volume of trade increased by 218.5%.

Six new single-stock futures were introduced to trading in 2016 on stocks listed on the Main Market. The futures on Eurocash S.A. were introduced to trading on 1 March 2016; the other five futures on the stock of Grupa Azoty S.A., ING Bank Śląski S.A., Ciech S.A., mBank S.A., Kruk S.A. were introduced to trading on 19 September 2016. After the addition of the six new instruments, GPW lists 33 single-stock futures. The multiplier is 100 or 1,000 depending on the contract, which means that one contract corresponds to 100 or 1,000 shares. The futures value is equal to the contract price times the multiplier.

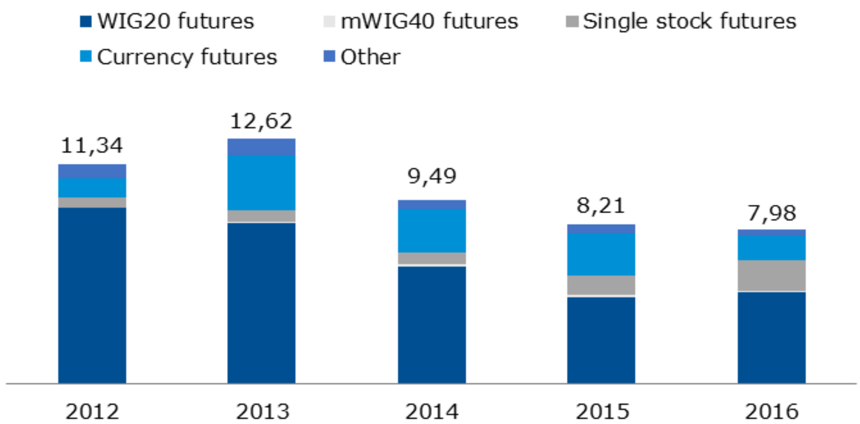
GBP futures were introduced to trading on 21 November 2016. GBP/PLN is the fourth currency pair available for trading. The other instruments are USD/PLN, EUR/PLN and CHF/PLN. The introduction of new futures to trading on the exchange is a part of GPW's policy of expanding the product offer addressed to investors.

Figure 25 Structure of volume of trade in derivatives in 2016 by category of instrument



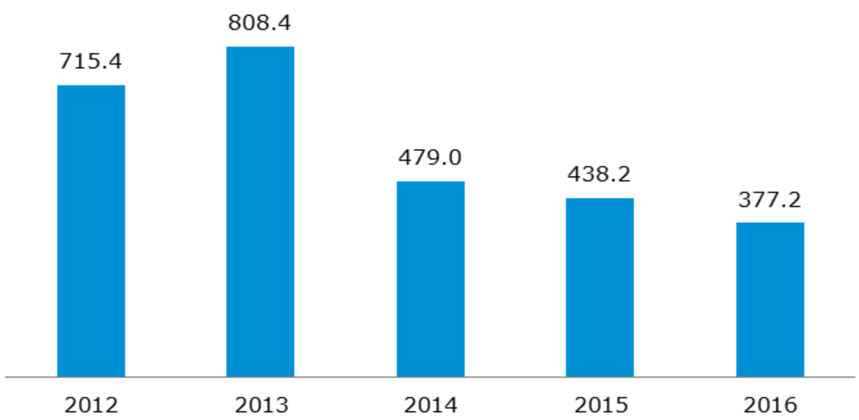
The volume of trade in WIG20 futures was 4.7 million instruments in 2016, an increase of 5.4% year on year. As a result, the total volume of trade in derivatives was 8.0 million instruments in 2016, a decrease of 2.8% year on year. The number of open interest was 165.0 thousand as at 31 December 2016, an increase of 58.3% year on year.

Figure 26 Volume of trade in futures, EOB and block trades [million instruments]



The total volume of trade in options was 377.2 thousand instruments in 2016, a decrease of 13.9% year on year.

Figure 27 Volume of trade in options, EOB and block trades [thousand instruments]



The activity of investors on the derivatives market is largely driven by the volume of trade on the underlying instrument market but it is even more sensitive to volatility than investor activity on the cash market.

Similar to the cash market, GPW supports the liquidity of trade in derivatives by offering trading fee reductions and promotions. The following promotion fees for trading in futures introduced as of 1 January 2013 were extended in 2016:

- reduction of the fixed fee on index futures from PLN 1.70 to PLN 1.60;
- reduction of fees for day trading in futures on the electronic order book (excluding transactions on the account of a market maker and transactions on own account of an exchange member);
- reduced fees for transactions in futures on own account of brokers.

In 2016, GPW continued to offer promotions for fees on market maker trade in WIG20 futures. As a condition of the promotion, market makers needed to generate a certain volume of trade. The promotion is available until 31 March 2017. Furthermore, the fee charged from exchange members for trade in bond futures and WIBOR futures was reduced to zero from 1 November 2014 to 31 December 2016. The promotion was extended until the end of June 2017.

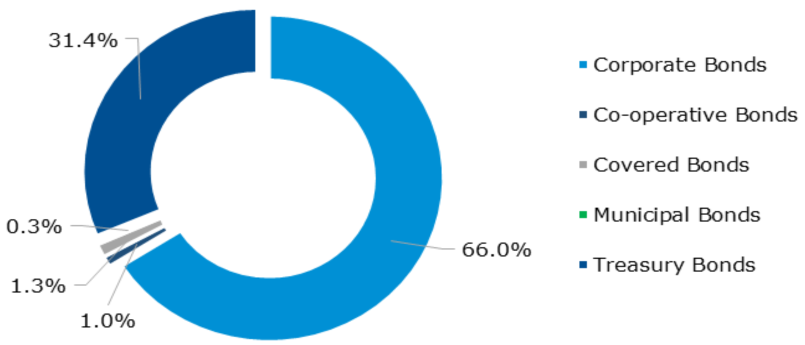
Liquidity on GPW's financial derivatives market was additionally supported by the HVP and HVF programmes which continued in 2016. The share of programme participants in the volume of trade in derivatives on GPW in 2016 was 7% for index futures and 3% for single-stock futures.

Debt Market

The GPW Group offers trade in debt instruments on Catalyst, which is comprised of regulated and alternative trading systems operated on the trading platforms of GPW and BondSpot. The following instruments are traded on Catalyst:

- corporate bonds;
- municipal bonds;
- co-operative bank bonds;
- covered bonds;
- Treasury bonds.

Figure 28 Structure of trade on Catalyst (EOB and block trades) in 2016 by instrument



The value of trade in non-Treasury instruments on the electronic order book on the markets operated within Catalyst was PLN 1,377 million in 2016 as compared to PLN 1,554 million in 2015 (a decrease of 11.4%), and the value of block trades was PLN 770 million in 2016 as compared to PLN 359 million in 2015. The total value of trade in non-Treasury and Treasury instruments on Catalyst was PLN 3,131 million in 2016 as compared to PLN 2,522 million in 2015, representing an increase of 24.2%.

Figure 29 Value of trade on Catalyst, EOB and block trades [PLN million]

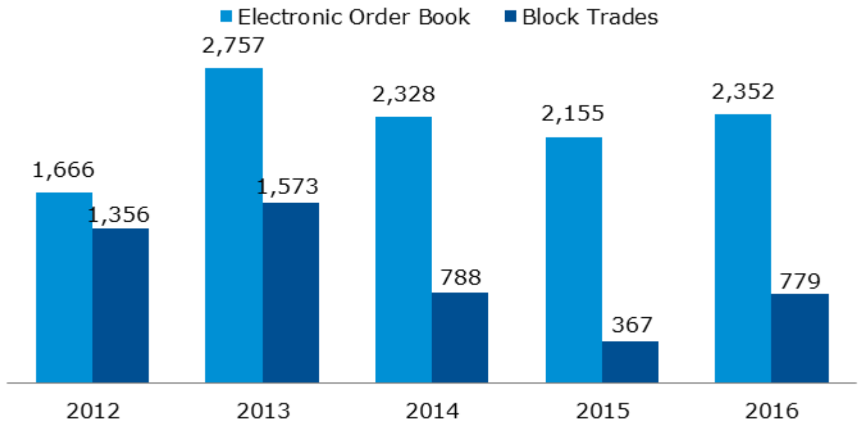
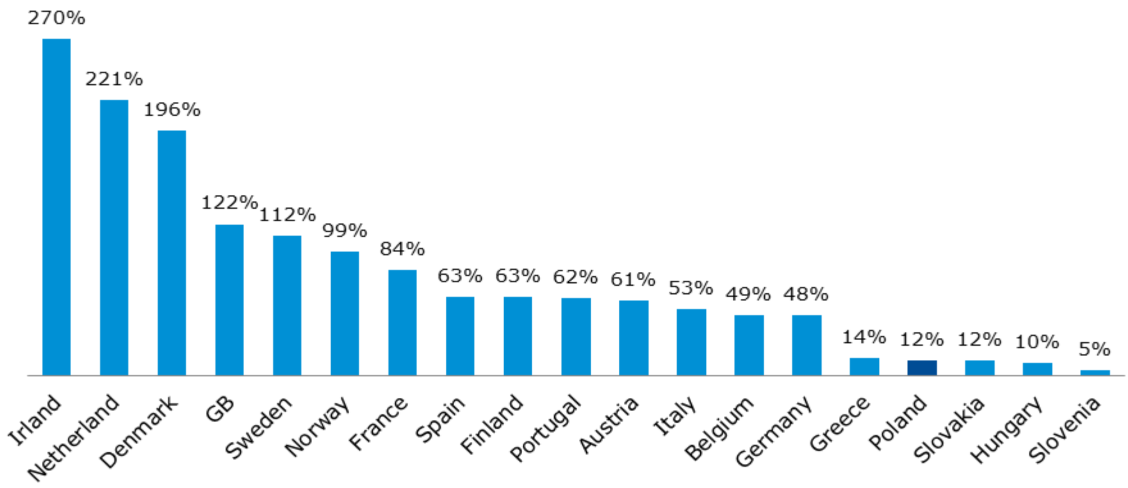


Figure 30 Outstanding non-Treasury bonds to GDP [%]



Source: BIS (non-Treasury bonds as at the end of H1 2016), IMF (GDP at the end of October 2016)

Catalyst activation and promotion initiatives addressed to local governments and companies intensified in 2016. GPW was a partner of conferences dedicated to education on the Polish debt market including the Local Government Forum of Capital and Finance in Katowice and the SME Forum in October 2016 in Katowice.

Treasury BondSpot Poland

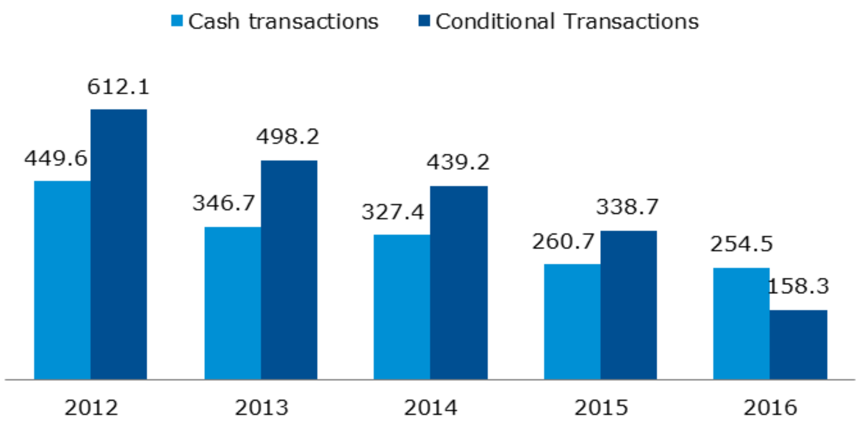
Treasury BondSpot Poland (TBSP) operated by BondSpot S.A. is an integral part of the Treasury Securities Dealer system operated by the Ministry of Finance with the support of the National Bank of Poland and the banking industry. The main objective of the system is to minimise the cost of public debt by improving liquidity, transparency and effectiveness of the Treasury securities market. TBSP includes a market of cash transactions and a market of conditional transactions (repo).

TBSP offers trade in Treasury securities (Treasury bonds and bills). TBSP listed 32 series of Treasury bonds only with a nominal value of PLN 576.2 billion at the end of 2016. TBSP also offers trade in EUR Treasury bonds. The market listed 17 series of EUR Treasury bonds with a nominal value of EUR 30.9 billion at the end of 2016.

In January 2016, Treasury BondSpot Poland was once again selected by banks holding the status of Treasury Securities Dealers and approved by the Minister of Finance as the electronic market within the Treasury Securities Dealer System for another three periods (from 1 October 2016 to 30 September 2019).

Treasury BondSpot Poland held 251 trading sessions in 2016. The total number of transactions was 19.151 thousand. The total value of trade was PLN 412.8 billion, a decrease of 31.1% year on year. The share of cash transactions and conditional transactions in total trade was 61.6% and 38.4%, respectively, in 2016.

Figure 31 Value of trade on Treasury BondSpot Poland [PLN billion]



The value of cash transactions in PLN instruments was PLN 254.5 billion in 2016, a decrease of 2.4% year on year. The value of conditional transactions was PLN 158.3 billion in 2016, a decrease of 53.3% year on year.

In 2016, the local bond market was under an increased impact of capital flows driven by the activity of the biggest central banks. On the one hand, FED changed its monetary policy; on the other hand, ECB and the Bank of Japan continued quantitative easing in order to stimulate growth and prevent deflation. These measures impacted interest rates and bond prices on the leading markets, affecting yields and prices on the local market.

The key events which impacted the international financial markets and indirectly also the local market included the outcome of the UK vote in the referendum on leaving the UE (Brexit) and the outcome of the US Presidential election. The prices of Polish bonds were also driven by local factors including the end of several months of deflation and the resulting increased expectations of a future change in the monetary policy, S&P's downgrade of Poland's credit rating, and plans of future changes in the pension fund system. The activity of participants of the Treasury securities market, especially repo trade, was indirectly impacted by the introduction of a tax on bank assets effective as of the beginning of February 2016. Given the structure of the tax combined with a large overliquidity of the banking industry, banks were disinterested in repo and sell/buy back transactions so their value in the interbank segment dropped considerably.

As at the end of 2016, TBSP had 33 market participants (banks, credit institutions, investment firms), including:

- 21 market makers on the cash market, including 14 Treasury Securities Dealers;
- 5 market takers on the cash market;
- 7 institutional investors (2 on the institutional cash market, 5 on the cash and conditional market, 1 on the cash market).

LISTING

Listing encompasses admission and introduction to exchange trading and listing of securities on the markets organised and operated by the GPW Group.

GPW listed 893 companies at the end of 2016 (487 companies on the Main Market and 406 on NewConnect), including 61 foreign issuers (905 listings including 64 foreign issuers at the end of 2015).

Figure 32 Number of domestic and foreign companies – Main Market

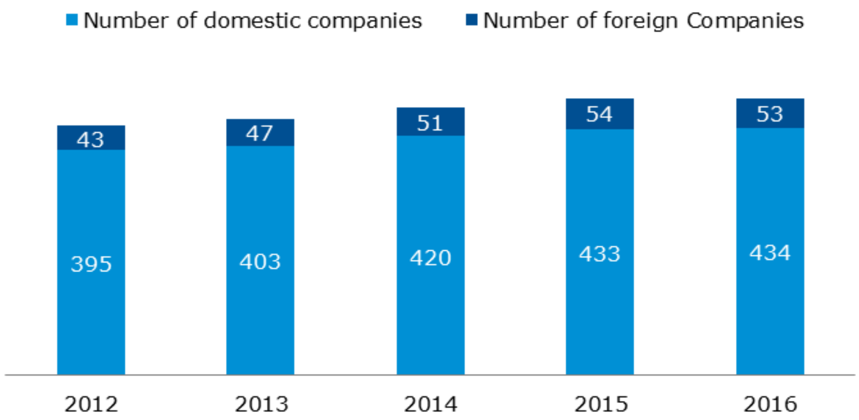
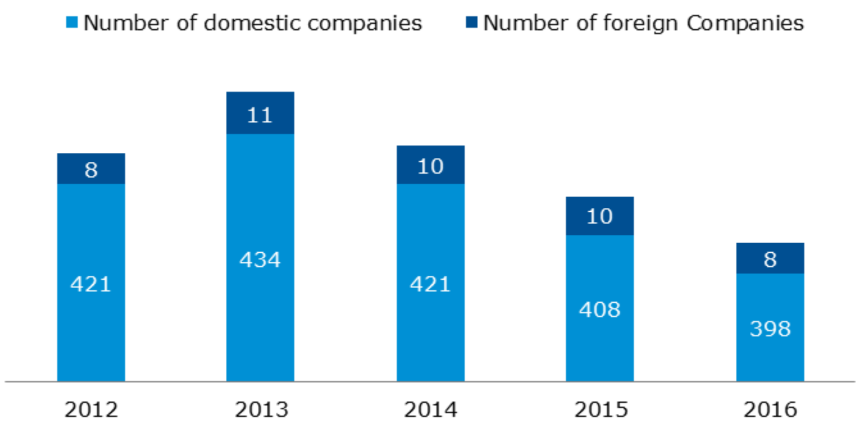


Figure 33 Number of domestic and foreign companies - NewConnect



The total capitalisation of domestic and foreign companies on GPW's two equity markets was PLN 1,126 billion at the end of 2016 compared to PLN 1,092 billion at the end of 2015. The change of capitalisation was different in different sectors. The biggest year-on-year decrease of capitalisation was reported in the pharmaceutical industry (down by PLN 71.0 billion), the developer sector (down by PLN 24.9 billion) and wholesale trade (down by PLN 14.9 billion). The biggest increase of capitalisation in 2016 was reported by the fuel industry (up by PLN 80.0 billion).

Figure 34 Change of capitalisation of domestic companies in 2016 by sector [PLN million]

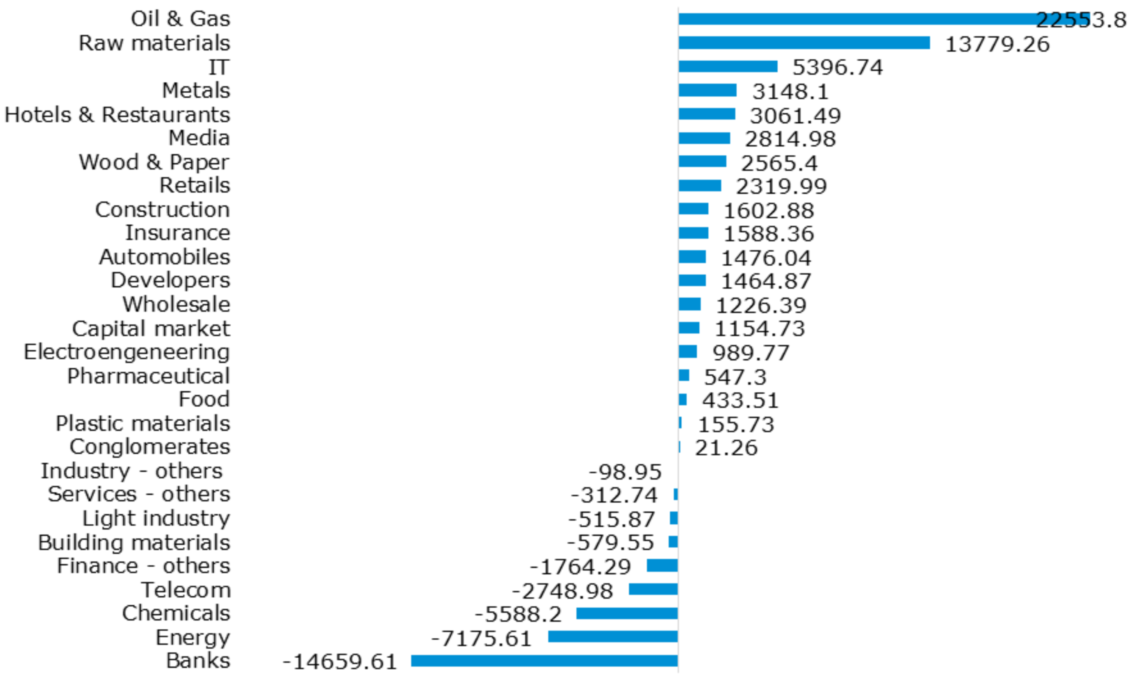
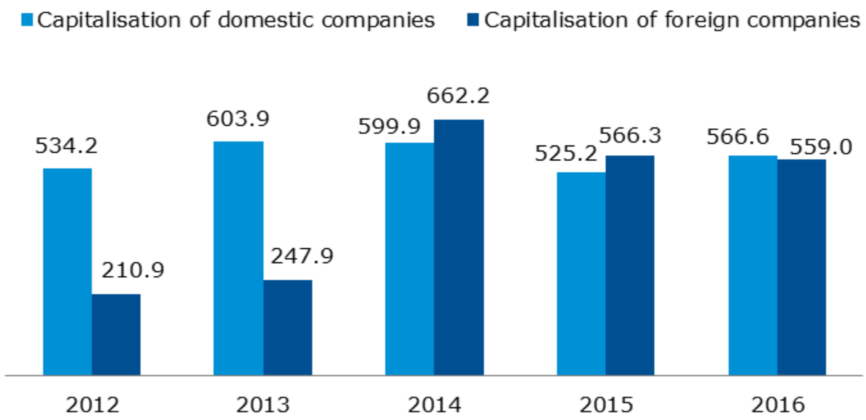


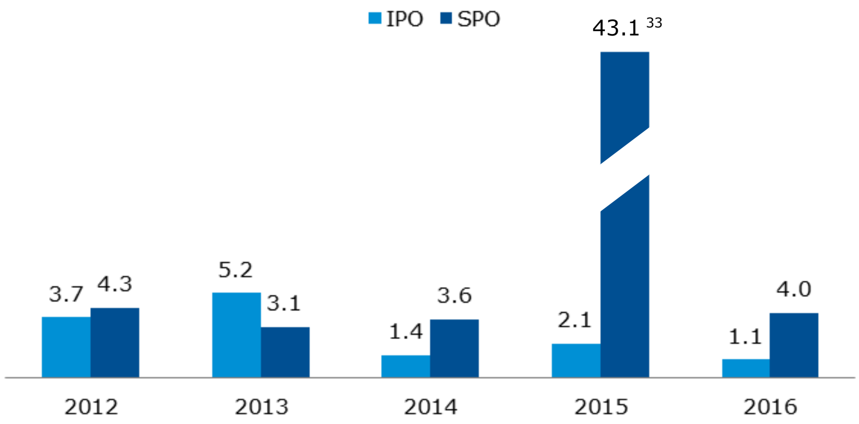
Figure 35 Capitalisation of domestic and foreign companies – Main Market and NewConnect [PLN billion]



There were 35 IPOs on GPW's two stock markets in 2016 (including 7 companies which transferred from NewConnect to the Main Market), compared to 49 IPOs in 2015. The total value of IPOs on the two stock markets was PLN 1.1 billion and the value of SPOs was PLN 4.0 billion in 2016.

In 2016, GPW implemented a range of initiatives supporting Polish companies and local governments in raising capital on the market. In 2016, GPW continued the "Capital for Growth" initiated in 2015 but did so in a new format of one-on-one meetings with companies interested in raising capital on the exchange. This allows GPW to source necessary information and to raise awareness of the benefits of raising capital on the exchange. GPW is also involved in activities which activate and promote the Polish exchange market among investors. The conference series "Polish Capital Market Days" took place once again in 2016. GPW entered into a cooperation agreement with Haitong Bank to exchange information about the capital markets in support of their growth. A similar agreement was signed with the Association of Chinese Financial Institutions in Hong Kong. In October 2016, GPW signed a memorandum of understanding to create a Polish-Belarussian IPO Centre. The objective is to establish a professional education, consultation and legal advisory centre facilitating the access of Belarussian companies to financing via the Polish capital market.

Figure 36 Value of IPOs and SPOs – Main Market and NewConnect [PLN billion][33]



The number of IPOs both on the Main Market and NewConnect grew less dynamically 2016. There were 16 IPOs on NewConnect, compared to 19 IPOs in 2015. Seven issuers transferred from the alternative market to the Main Market. With 406 listings (including 8 foreign companies), the capitalisation of NewConnect was PLN 9.8 billion at the end of 2016.

The nominal value of non-Treasury debt listed on Catalyst was PLN 81.8 billion at the end of 2016, an increase of 17.5% year on year. Catalyst listed 525 series of non-Treasury debt instruments at the end of 2016. Issuers whose instruments were listed at the end of 2016 included 18 local governments, 133 enterprises and 21 co-operative banks. Including the State Treasury, the number of issuers on Catalyst was 176 at the end of 2016, compared to 192 at the end of 2015. The total nominal value of non-Treasury and Treasury debt instruments listed on Catalyst was PLN 707.4 billion at the end of 2016, as compared to PLN 613.1 billion at the end of 2015.

INFORMATION SERVICES

GPW collects, processes and sells market data from all of the markets operated by the GPW Group. The status of GPW as the original source of information on trading and its strong brand and diversified business activity within the GPW Group enable the Company to successfully reach various groups of market participants with advanced information adjusted to individual needs.

The main clients using information provided by GPW are specialised data vendors who deliver the data made available by the Company in real time to investors and other market participants. Amongst the vendors there are information agencies, investment firms, internet portals, IT companies and other entities.

As at 31 December 2016, the Company's information services clients were 51 data vendors, including 27 domestic and 24 foreign ones, with nearly 224.6 thousand subscribers (including 14.3 thousand subscribers using professional data feeds). At the end of 2016, GPW had data vendors in such countries as the United Kingdom, the USA, France, Germany, Switzerland, Denmark, Norway, Ireland, the Netherlands, and Cyprus.

In 2016, GPW launched a new policy of selling market data; as a result of focused efforts, GPW attracted 43 new clients for non-display data (used in algorithmic trading, risk management, portfolio valuation, and other non-display applications). The sales of licences for use of non-display data were the main driver of growth in this business line in 2016.

The sale of POLPX data also developed. In 2016, POLPX acquired the first industry data vendor who specialises in processing and distribution of commodity market data: the Norwegian company Montel.

[33] There were two SPOs of Banco Santander SA worth PLN 33 billion in aggregate in Q1 2015.

Table 12 Number of data vendors and subscribers, as at 31 December

	2016	2015	2014	2013	2012
Number of real-time data vendors	51	54	58	58	58
- local	27	30	31	34	37
- foreign	24	24	27	24	21
Number of real-time data subscribers (thousand)	224.6	221.1	240.3	261.9	288.1
- number of subscribers using professional data feeds	14.3	15	15.1	16.2	16.3
Number of companies using GPW's non-display data	43	-	-	-	-
Number of licensees using GPW indices as underlying instruments of financial products	18	18	16	17	17

In addition to quotation data, the Company also provided data vendors in 2016 with reports of issuers listed on NewConnect and Catalyst.

The Company's information services also include:

- delivery of processed data and indicators;
- services for licensees issuing financial instruments with the use of GPW indices as underlying instruments;
- licences on GPW data for use in the calculation and publication of clients' proprietary indices;
- calculation of indices for clients;
- licences for television stations using real-time data feeds for limited presentation in public financial programming.

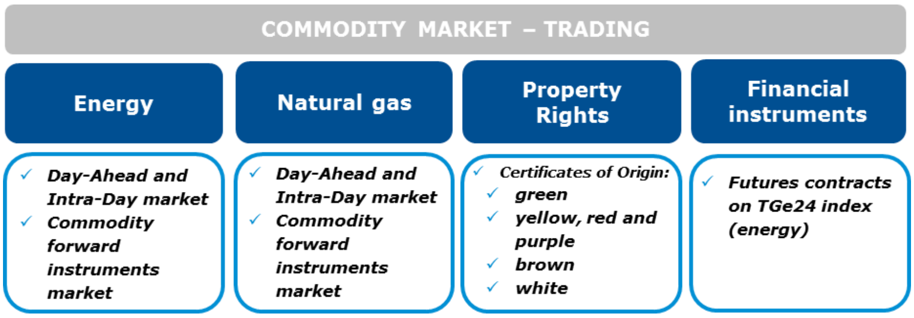
COMMODITY MARKET

The activity of the GPW Group on the commodity market is concentrated in the Polish Power Exchange Group which is comprised of POLPX, its subsidiary the Warsaw Commodity Clearing House, as well as the OTC platform InfoEngine. The activity of the Polish Power Exchange includes:

- operation of a commodity exchange which offers trade among others in:
  - ✓ electricity,
  - ✓ natural gas,
  - ✓ emission allowances,
  - ✓ property rights in certificates of origin of electricity, certificates of origin of biogas and energy efficiency certificates
  - ✓ commodity derivatives settled in cash;
- operation of the Register of Certificates of Origin and the Register of Guarantees of Origin;
- operation of the trade reporting system RRM TGE;
- clearing of transactions on the commodity exchange;
- operation of an OTC commodity trading platform.

TRADING

Chart 7 Trade on POLPX commodity markets



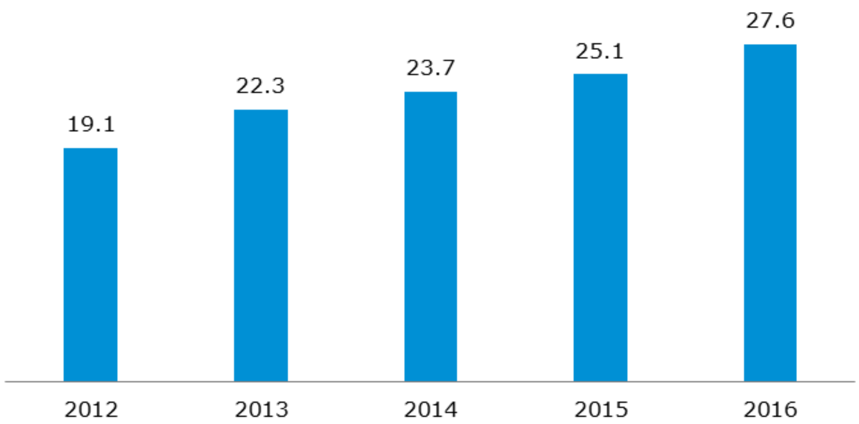
Electricity Market

Day-Ahead and Intra-Day Market

The Day-Ahead and Intra-Day Market is a market in electricity with physical delivery and offers short-term electricity buy and sell transactions (spot market). This POLPX market lists hourly instruments for each hour of delivery day as well as block instruments. Trade on the Day-Ahead Market takes place two days before and one day before the day of delivery. Trade on the Intra-Day Market takes place one day before the day of delivery and on the day of delivery.

The volume of spot trade in electricity was 27.6 TWh in 2016, an increase of 9.9% year on year and a historical high. The volume increased among others due to the start-up of a link on the border with Lithuania as part of Market Coupling.

Figure 37 Volume of trade in electricity on the Day-Ahead and Intra-Day Market [TWh]

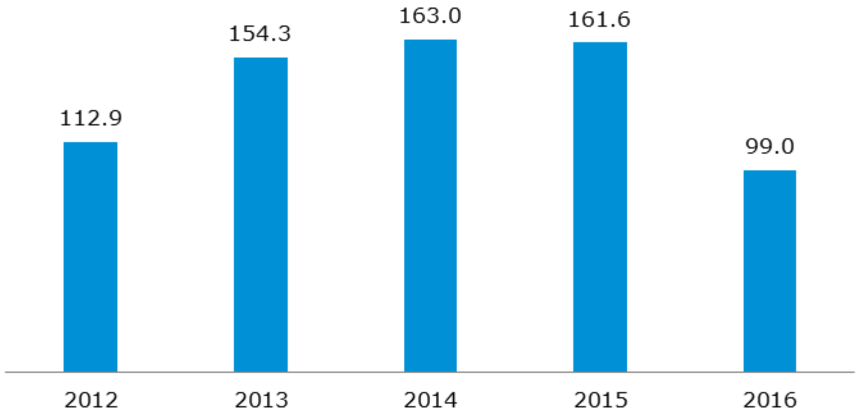


Commodity Forward Instruments Market in Electricity

The Commodity Forward Instruments Market in electricity offers trade in standard forward instruments for delivery of the same quantity of electricity on every hour of delivery. Contracts are executed on a weekly, monthly, quarterly and annual basis.

The volume of trade in electricity on the Commodity Forward Instruments Market was 99.0 TWh in 2016, a decrease of 38.7% year on year. The decrease in the volume of trade was due among others to the reduced volume of mandatory sales of energy on the exchange under Article 49a(2) of the Energy Law.

Figure 38 Volume of trade in electricity on the Commodity Forward Instruments Market [TWh]



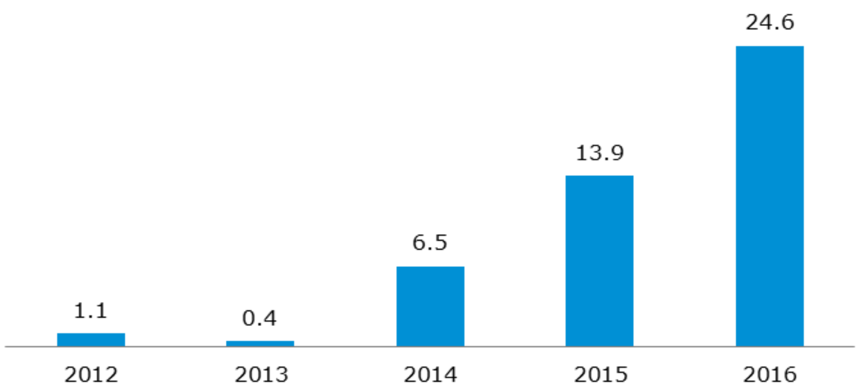
Gas Market

Day-Ahead and Intra-Day Market in Gas

In December 2012, POLPX launched a spot market in natural gas and opened trade on the Day-Ahead Market in Gas (RDNg). The Day-Ahead Market in Gas lists the following types of contracts: BASE with delivery on 24 hours of the next day of the same quantity of gas in every hour of the day, and WEEKEND with delivery on two days (Saturday and Sunday) of the same quantity of gas in every hour of the day (between 47 and 49 hours). On 30 July 2014, POLPX launched the Intra-Day Market in gas. The Intra-Day Market in gas lists hourly instruments with delivery on the day of trading.

The total volume of trade on the gas spot markets was 24.6 TWh in 2016, representing a share of 21.5% in the total volume of the gas market. The share increased by 76.6% year on year. The high share of the Day-Ahead and Intra-Day Market in Gas suggests that POLPX is a highly liquid trading platform for the balancing market. The spot market also performs an important role for the operator Gaz-System whose regulations include a formula for the calculation of the average settlement price for balancing.

Figure 39 Volume of trade in natural gas on the Day-Ahead and Intra-Day Market [TWh]

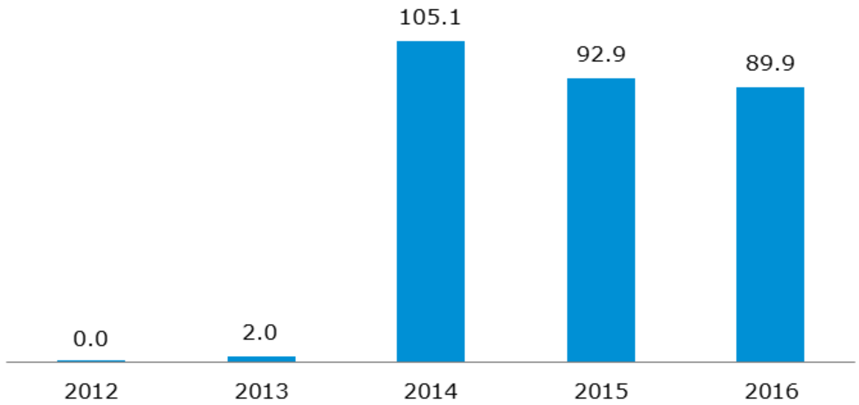


Commodity Forward Instruments Market in Gas

Since 20 December 2012, POLPX offers trade in forward instruments with physical delivery of natural gas on the Commodity Forward Instruments Market. It offers trade in standard forward products for delivery of natural gas in the same quantity in the exercise hours on a weekly, monthly, quarterly, seasonal and annual basis. Trade is available in BASE contracts with delivery of gas on 24 hours of the day.

The total volume of trade on the Commodity Forward Instruments Market in gas was 89.9 TWh in 2016, a decrease of 3.3% year on year.

Figure 40 Volume of trade in natural gas on the Commodity Forward Instruments Market [TWh]



Property Rights Market

POLPX operates a Property Rights Market in certificates of origin of electricity produced:

- from renewable energy sources (PMOZE and PMOZE_A, known as green certificates),
- in high-efficiency cogeneration (PMGM, known as yellow certificates; PMEC, known as red certificates; and PMMET, known as purple certificates),

Furthermore, the Property Rights Market lists:

- property rights in certificates of origin of biogas (PMBG, known as brown certificates),
- property rights in certificates of origin of agricultural biogas (PMOZE-BIO, known as blue certificates),
- property rights in energy efficiency certificates (PMEF, known as white certificates).

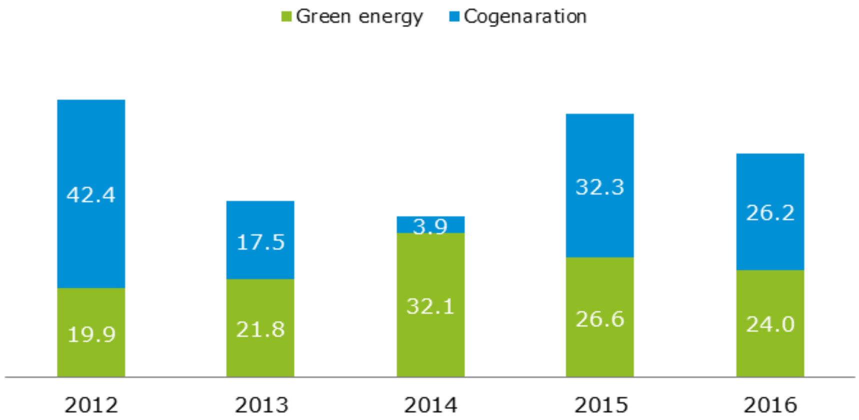
The Property Rights Market is a part of the support scheme for producers of energy from renewable energy sources. It allows producers of energy from renewable energy sources, cogeneration, biogas and holders of energy efficiency certificates to sell property rights, and energy operators required to pay substitution fees or to cancel certificates of origin to meet that obligation.

The volume of trade on the Property Rights Market is driven by the number of certificates issued in the Register of Certificates of Origin: increased production of energy generates the obligation to issue more certificates of origin, which in turn generates an increase of the volume of certificates of origin available on the market.

The total volume of trade in property rights for electricity on the spot market was 50.2 TWh in 2016 compared to 58.9 TWh in 2015, a decrease of 14.9% year on year. At the same time, the volume of trade in property rights to certificates of energy efficiency increased sharply year on year from 82.3 ktoe in 2015 to 314.7 ktoe in 2016.

In addition, in January 2016, POLPX introduced to trading futures on property rights to certificates of origin of energy produced from renewable energy sources, which allow market participants to hedge the price and delivery of property rights in the future. The volume of trade in property rights on the derivatives market was 0.5 TWh in 2016.

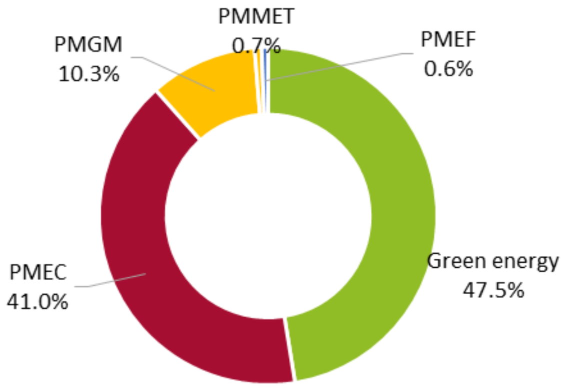
Figure 41 Volume of trade in property rights to certificates of origin [TWh]



The volume of trade in property rights in certificates of origin of electricity generated from renewable energy sources was 24.0 TWh in 2016, a decrease of 10.1% year on year. The supply side, i.e., the volume of issued certificates of origin of RES, shrank considerably, affecting trade on the RES property rights market in 2016. A decrease of the volume of issued certificates of origin always results in lower trading volumes.

The volume of trade in certificates of origin of energy from cogeneration,[34] i.e., red and yellow certificates, was 26.2 TWh (a decrease of 18.8% year on year).

Figure 42 Structure of the volume of trade in property rights in 2016 by type of certificate



REGISTER OF CERTIFICATES OF ORIGIN

The Register of Certificates of Origin is a system of registration and recording of:

- certificates of origin which confirm that electricity was generated in high-efficiency cogeneration;
- certificates of origin which confirm that electricity was generated from renewable energy sources (RES);
- certificates of origin which confirm that agricultural biogas was produced and introduced to the gas distribution network;

[34] Cogeneration – technological process where electricity and heat are generated simultaneously in a combined heat and power plant. Thanks to lower consumption of fuel, cogeneration provides material economic benefits and environmental advantages over separate generation of heat in a traditional heat plant and of electricity in a condensation power plant

- energy efficiency certificates which confirm that the project improved energy efficiency;

and recording of property rights under such certificates.

The main functions of the Register of Certificates of Origin include:

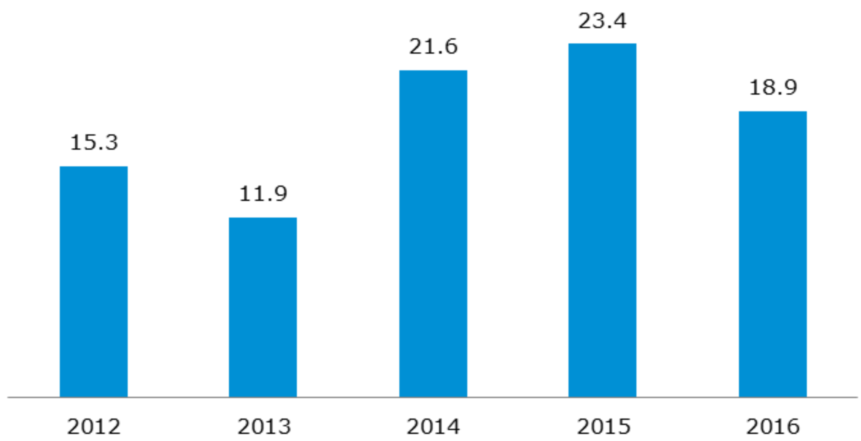
- to identify entities entitled to property rights in certificates of origin;
- to identify property rights under certificates of origin and the corresponding quantity of electricity;
- to register certificates of origin and the resulting property rights;
- to record transactions in property rights and balances of property rights in certificates of origin;
- to issue documents confirming property right balances in the register, used by the Energy Regulatory Office for cancellation of certificates of origin.

Certificates Issued and Cancelled (Register of Certificates of Origin)

RES – Green Certificates

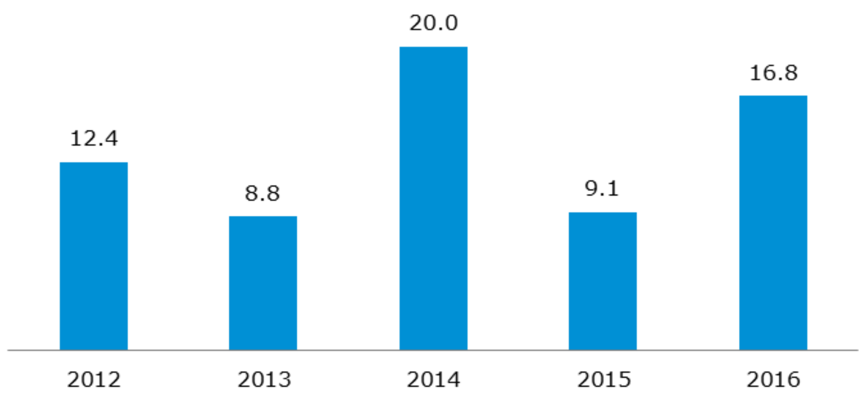
In 2016, the volume of issued green certificates was 18.9 TWh, a decrease of 19.0% year on year. The decrease in the volume of issued green certificates followed the implementation of RES Act provisions which eliminated support for large hydroenergy projects (installed capacity above 5MW) with green certificates and limited the volumes of certificates of origin issued to multi-fuel combustion technologies. The decrease was partly offset by the development of other technologies, mainly wind energy.

Figure 43 Volume of issued RES property rights [TWh]



The volume of certificates cancelled in a year depends on the Energy Regulatory Office. POLPX received relatively many cancellation decisions from the Energy Regulatory Office in 2016. The total volume of green certificates cancelled was 16.8 TWh in 2016, compared to 9.1 TWh in 2015. POLPX received exceptionally few cancellation decisions from the Energy Regulatory Office in 2015, resulting in a significant year-on-year increase in 2016.

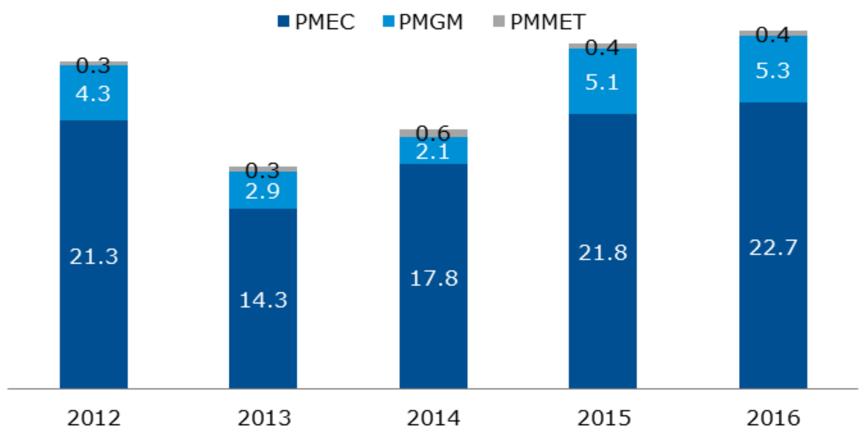
Figure 44 Volume of cancelled RES property rights [TWh]



Cogeneration: Red, Yellow, and Purple Certificates

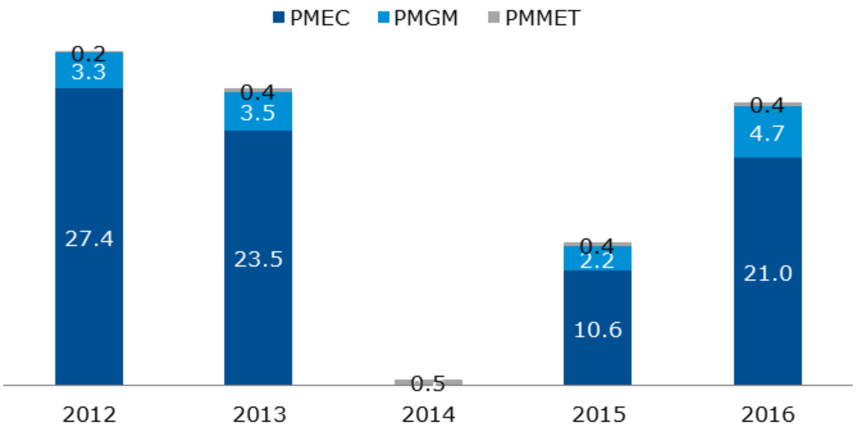
The total volume of issued co-generation certificates was 28.3 TWh in 2016, an increase of 3.8% year on year. The volume of issued co-generation certificates increased very moderately in 2016. The legal environment is stable and so are the volumes of certificates issued by the Energy Regulatory Office.

Figure 45 Volume of issued cogeneration property rights (TWh)



The total volume of red, yellow, and purple certificates cancelled in 2016 was 26.1 TWh, compared to 13.2 TWh in 2015. Similar to certificates of origin of RES, POLPX received exceptionally few Energy Regulatory Office decisions cancelling red, yellow, and purple certificates in 2015, resulting in a significant year-on-year increase in 2016. In the current legal system, the market of red, yellow, and purple certificates includes three series of instruments with a tenor of 18 months: one full calendar year plus another six months of the following year as required by law for eligible companies to complete mandatory cancellation of co-generation certificates. There could be differences in trading volumes from year to year because subsequent series of 18-month instruments overlap during the year. The situation is stable from the perspective of an instrument rather than a calendar year. This situation has prevailed over the past few years.

Figure 46 Volume of cancelled cogeneration property rights (TWh)



Energy Efficiency: White Certificates

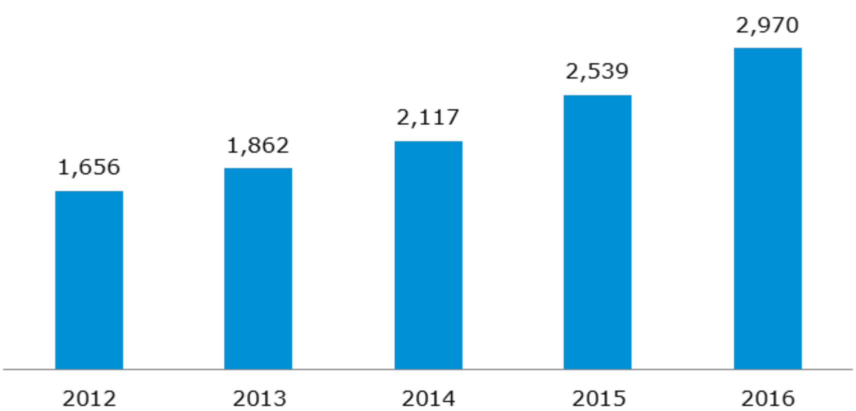
In July 2016, the Energy Regulatory Office selected bids in the fourth tender for energy efficiency improvement projects. The volume of the winning bids was more than double the volume in the first three tenders combined, resulting in a significant increase in the volume of energy efficiency certificates registered in the Register of Certificates of Origin. The boosted supply combined with an unsaturated market drove an increase in turnover and cancellations.

Number of Participants of the Register of Certificates of Origin

The Register of Certificates of Origin had 2,970 participants at the end of 2016. In 2016, 431 companies applied to the POLPX Register Department (422 companies in 2015).

Many of the new participants are beneficiaries of the system of white certificates, i.e., energy efficiency certificates. The increase in H2 2015 was driven by the postponement by six months of the effective date of the Renewable Energy Sources Act (to 1 July 2016) as well as changes in the support system for producers of energy from renewable energy sources. Many market players were keen to complete investments before the effective date of Chapter 4 of the RES Act. The increase in the number of participants in 2016 was driven by the completion of the Energy Regulatory Office's fourth PMEC tender.

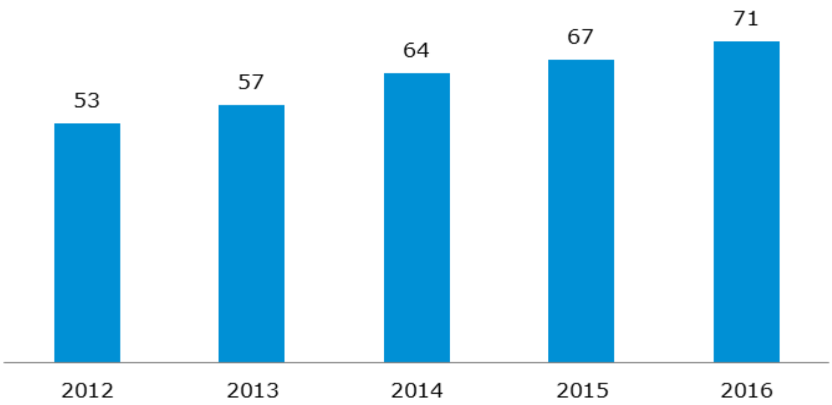
Figure 47 Number of participants of the POLPX Register of Certificates of Origin



NUMBER OF POLPX MEMBERS

POLPX had 51 members at the end of 2016.[35] The development of the Exchange Broker training programme helped to attract six new Exchange Members and facilitated active participation on the market, especially for foreign entities as training and examinations are offered both in Polish and English. A new market maker was acquired for the Exchange Commodity Market.

Figure 48 Number of POLPX members



REGISTER OF GUARANTEES OF ORIGIN

Directive 2009/28/EC which imposes the obligation to set up registers of guarantees of origin in the European Union member states was implemented in Poland in an amendment of the Energy Law of 26 July 2013, known as the small energy tripack, effective as of 11 September 2013. It requires POLPX to operate a Register of Guarantees of Origin and to organise trade in guarantees of origin.

In September 2014, POLPX launched the Register of Guarantees of Origin which registers energy from renewable sources and OTC trade in environmental benefits of its production. Unlike certificates of origin, guarantees do not involve property rights or a support scheme for renewable energy sources: they are issued for information only. There is no obligation to acquire guarantees but they can be used by entities to prove that a certain quantity of consumed energy was generated from renewable sources. POLPX offers trade in guarantees of origin of energy since November 2014.

According to the regulations, the Energy Regulatory Office issues guarantees of origin which are then uploaded to the IT system of the Register of Guarantees of Origin operated by POLPX. System users can trade in guarantees of origin or transfer them to end users as proof that energy was generated from renewable sources.

The volumes of guarantees of origin registered in the Register of Guarantees of Origin increased substantially in 2016. Producers of electricity from RES increasingly appreciate the benefits of guarantees as an additional source of income. Unfortunately, this did not drive the volumes of other operations performed by the Register, which decreased moderately year on year in 2016. The number of participants of the register increased significantly from 157 at the end of 2015 to 255 at the end of 2016.

Table 13 Register of Guarantees of Origin

	Issued	**Sold**	**Transferred**
	TWh	**GWh**	**GWh**
2014	4.87	-	11
2015	7.23	635	732
2016	12.3	591	702

[35] Some members of the markets operated by POLPX operate on more than one market.

TRADE REPORTING – POLPX RRM

Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (REMIT) and its Implementing Regulations require market participants to report orders and trades on the wholesale electricity and gas market to the Agency for Cooperation of Energy Regulators (ACER).

Under the REMIT Implementing Regulations, the obligation to report trades on organised trading platforms took effect on 7 October 2015. As of that date, all POLPX energy and gas market participants are required to report their orders and trades on those markets. The OTC trade reporting obligation took effect on 7 April 2016.

Under REMIT and its Implementing Regulations, only Registered Reporting Mechanisms (RRM) authorised by ACER are eligible to report trades.

POLPX RRM Trade Reporting Service

The POLPX RRM reporting service supports:

- reporting of orders and trades on organised trading platforms (as of 07.10.2015);
- reporting of OTC trades (as of 07.04.2016);
- backloading of trades concluded before the effective date of the reporting obligation for the given category of contracts (07.10.2015 - 07.07.2016);

in compliance with the requirements of Article 8 of REMIT.

Until the end of 2016, there were:

- ✓ 10,338,015 reported operations on exchange orders
- ✓ 4,822,119 reported exchange orders
- ✓ 1,856,270 reported exchange transactions
- ✓ more than 35,000 reported OTC transactions
- ✓ more than 52,000 exchange transactions sent to ARIS
- ✓ more than 10,000 OTC transactions sent to ARIS
- ✓ reporting services for more than 480 clients – ACER has registered 557 entities, which means that we report for more than 85% of participants of the Polish energy market.

More than 1,250 users have access to the POLPX RRM system.

FINANCIAL INSTRUMENTS MARKET

In February 2015, POLPX was authorised by the Minister of Finance to operate a financial instrument exchange. The decision of the Minister of Finance allowed POLPX to open market consultations on the structure of new instruments. As a result, following the approval given by the Polish Financial Supervision Authority for the terms of trade in electricity futures programmes, POLPX launched the Financial Instruments Market in November 2015.

Market participants were offered trade in futures based on electricity prices, later to be followed by instruments linked to the price of natural gas. The terms of operation of the POLPX Financial Instruments Market are similar to those applicable for years on the GPW futures market. The underlying instrument is the TGe24 index calculated on the basis of transactions at the first fixing on the Day-Ahead Market in electricity. Eligible as members of the POLPX Financial Instruments Market are local and international investment firms and other buyers and sellers of financial instruments acting on own account, provided that they fulfil the conditions of trading on the regulated market.

Key elements of further development of the financial market and other markets operated by the Polish Power Exchange include their alignment and compliance with MiFID II by 3 January 2018. On the one hand, the existing Financial Instruments Market must be harmonised with the MiFID II requirements. On the other hand, considering that the position of both European and Polish supervisory authorities suggests that the Commodity Forward Instruments Market operated by POLPX will be unable to continue operating in its current structure after the implementation of MiFID II, POLPX is working to put in place the following solutions in close consultation with market participants:

- application for authorisation as an operator of an organised trading platform (OTF) upon the issuance of regulations which provide a legal basis in the national legal system;
- extension of the product range of the Financial Instruments Market operated by POLPX to include futures (mainly on gas and electricity) with physical delivery or option of physical delivery.

The preferred strategy of POLPX's harmonisation with the requirements of MiFID II to the extent of the Commodity Forward Instruments Market will shortly be discussed by POLPX with all interested national regulators: the Ministry of Finance, the Ministry of Energy, the Energy Regulatory Office, and the Polish Financial Supervision Authority.

CLEARING

The Warsaw Commodity Clearing House (IRGiT), which is a subsidiary of POLPX, offers clearing of transactions of POLPX members on its markets.

In 2016, IRGiT continued operations launched in 2010 as an exchange clearing house. Since 2010, IRGiT is authorised by the Polish Financial Supervision Authority to clear and settle transactions in financial instruments on the exchange and OTC regulated market.

Currently IRGiT clears the full volume of electricity and gas sold on the exchange market in Poland. The total volume of cleared transactions in electricity was 126.7 TWh while the total volume of cleared transactions in gas was 114.5 TWh in 2016.

Since 4 November 2015, based on state-of-the-arty IT systems and a proprietary settlement model, IRGiT offers clearing and settlement of transactions in TGe24 futures on the POLPX Financial Instruments Market. This is the first step in the development of services on the financial market in commodities. In the next step, clearing will be offered for financial instruments based on gas.

As a service complementary to the clearing of financial instruments based on commodities, IRGiT offers the service of reporting trades on the financial market to a trade repository.

In June 2016, the Warsaw Commodity Clearing House (IRGiT) implemented a new clearing system, X-Stream Clearing from NASDAQ. The system replaced the legacy solution CONDICO Clearing. The new clearing system X-Stream Clearing provides a range of improvements including: clearing of multiple trading platforms; clearing of new types of instruments, such as "balance of" instruments; full flexibility of the selection of trade, clearing, and collateral currencies; improved management of non-cash collateral; netting of margins across groups of companies; facilitated management of the calculation of taxes including excise duties on natural gas. The implementation of IRGiT's new system will ensure effecting processing of cross-border trade and the addition of new services. The clearing system X-Stream Clearing supports the clearing of multiple financial instruments, especially commodity-based instruments.

II. 5 International Activity of the GPW Group

The goals of the GPW Group include consistent acquisition of foreign clients by aligning the prodict offer, price list, and infrastructure with their needs.

GPW's international position is mainly reinforced with on-going expansion of the foreign client base including issuers, brokers, investors and data vendors, as well as initiatives designed to promote the Polish market and Polish companies among international investors.

In 2016, GPW continued its efforts to acquire new clients outside of Poland. The liquidity support programmes (HVP and HVF) grew dynamically, and the biggest trading volumes in the programmes are generated by remote exchange members. GPW continued to promote the Polish market and GPW-listed companies internationally by holding investor events in partnership with brokers and investment banks around the world and by participating in international conferences and investor meetings. The investor event series Polish Capital Market Days initiated in 2015 included four meetings in 2016: in London, New York, Stockholm and Paris.

The GPW Group also participates in international projects and initiatives for the commodity market, mainly focusing on the integration of European energy markets.

GPW REPRESENTATIVE OFFICES OUTSIDE POLAND

The Representative in London was hired in June 2013 to enhance GPW's acquisition activities on that market. In 2016, the Representative focused on supporting relations with GPW's business partners including exchange members, investors and providers of technology services for GPW and its clients.

Until the end of Q2 2016, GPW operated a Representative Office in Kiev (Ukraine), whose operations focused on promoting GPW amongst Ukrainian investors, issuers and financial intermediaries. As part of its strict cost discipline policy, GPW decided to close down the Representative Office in Ukraine in mid-2016 and to continue promotions in the region from its head office in Warsaw.

The two Representative Offices have no separate legal personality and do not carry on any profit earning independent business operations. In all their activities, the Representative Offices act on behalf and for GPW to the extent of powers of attorney granted by the GPW Management Board.

DEVELOPMENT OF A NETWORK OF FOREIGN INVESTMENT FIRMS – EXCHANGE MEMBERS

International acquisitions in 2016 continued to focus on clients and partners offering a potential of improved liquidity on the markets operated by GPW.

In 2016, GPW expanded its acquisition activities addressed to GPW's business partners including existing and prospective exchange members, investors and providers of technology services.

In 2016, GPW acquired three new remote exchange members: Flow Traders B.V., Spire Europe Ltd., SUN Trading Ltd.; as a result, GPW had 53 members, including 28 local members and 25 remote members, at the year's end. The share of remote exchange members in trade increased, among others driven by their participation in the HVP (High Volume Provider) programme. The share of remote members in EOB trade in shares was 31.1% in 2016 compared to 25.1% in 2015.

Table 14 Share of local and remote GPW members in EOB trade in shares on the Main Market

	2016	2015	2014	2013	2012
Local	68.9%	74.9%	78.3%	77.8%	89.0%
Remote	31.1%	25.1%	21.7%	22.2%	11.0%

ATTRACTING FOREIGN ISSUERS

One of the key goals of the GPW Group is to strengthen the position of the regional financial hub by making the Warsaw Stock Exchange the market of first choice for investors and issuers in Central and Eastern Europe. In 2016, GPW took many initiatives to promote the Polish capital market among issuers in the CEE region. The key initiative was a memorandum of understanding signed in October 2016 to create a Polish-Belarussian IPO Centre. The MoU was signed by the Warsaw Stock Exchange, the Polish-Belarussian Chamber of Commerce and Industry, and the Belarussian State University. The objective is to establish a professional education, consultation and legal advisory centre for Belarussian companies. The Polish-Belarussian IPO Centre will take measures to facilitate the access of Belarussian companies to modern financing via the Polish capital market.

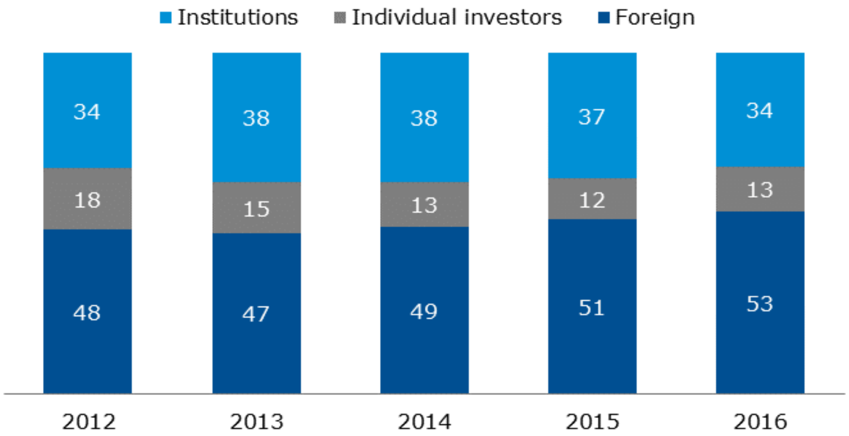
As at the end of 2016, the GPW markets listed shares of 61 foreign companies, including 53 foreign companies listed on the Main Market and 8 companies on NewConnect, with total capitalisation of PLN 558.9 billion, compared to PLN 566.3 billion in 2015 (a decrease of 1.5%). The share of foreign companies in total trade in shares on the Main Market was 2.2% in 2016 as compared to 1.8% in 2015.

Foreign companies listed on GPW as at 31 December 2016 originate from 24 countries, mainly Ukraine (13 issuers) and the Czech Republic (7 issuers). 34 companies are dual-listed and 30 are single-listed on GPW.

SHARE OF FOREIGN INVESTORS IN TRADING ON GPW MARKETS

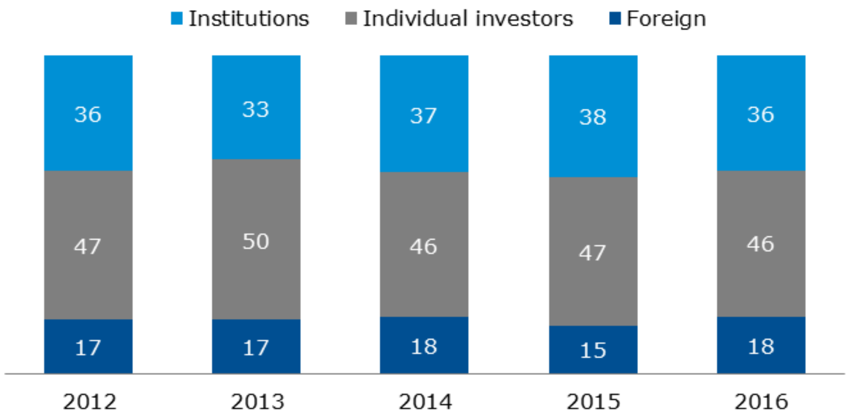
According to GPW's research, foreign investors generated 53% of turnover in shares on the GPW Main Market in 2016, 1 percentage point more than in 2015 (52%).

Figure 49 Share of investors in trade in shares on the Main Market (%)



Foreign investors' activity on the futures market remained increased to 18% in 2016 compared to 15% in 2015.

Figure 50 Share of investors in trade on the futures market (%)



THE GPW GROUP AS A MEMBER OF INTERNATIONAL ORGANISATIONS AND INITIATIVES

FESE

The Warsaw Stock Exchange has co-operated with the Federation of European Securities Exchanges (FESE) since 1992. GPW was granted the status of associated member in 1999 and has been a full member of FESE since June 2004. FESE represents 35 exchanges which organise trading in equities, bonds, derivatives and commodities through 19 full members from 28 countries as well as 1 affiliated exchange and 1 non-European observer member.

Capital Market Union

In 2015, the Warsaw Stock Exchange was involved in consultations of the Capital Market Union project, designed to create a single capital market across the 28 European Union member states. GPW welcomed the Green Paper which provides for a greater role of the capital market in financing of the EU economy, especially SMEs. In the opinion of GPW, the main objective is to support initiatives which facilitate market access, improve market transparency and encourage mid-term and long-term investing. However, the Capital Market Union concept should take into account the importance of regional capital markets to the national economies.

Sustainable Stock Exchanges (SEE)

GPW is a member of the Sustainable Stock Exchanges (SSE) since December 2013. SSE is a UN initiative of global exchanges which promote the development of corporate social responsibility and sustainable development on their home capital markets. SSE was created in 2009 by the United Nations to exchange members' experience in the development and promotion of corporate social responsibility and responsible investment among investors, public companies, regulators and capital market infrastructure institutions. GPW was the ninth exchange to join SSE, the first one in Central and Eastern Europe. SSE has 56 members.

FIX Trading Community

GPW became a member of the FIX Trading Community in 2014. It is a non-profit industry-driven body which brings together close to 300 financial companies: banks, exchanges, brokers, the buy side, ISVs. The organisation supports dialogue and exchange of information concerning the best practice and standards of messaging on the financial market. The flagship achievement of the FIX Trading Community is the creation and development of the FIX messaging protocol broadly used in the financial industry.

Association of European Energy Exchanges EUROPEX

EUROPEX is the association of European commodity and financial energy exchanges which represents exchange markets in electricity, gas and derivatives. POLPX is a EUROPEX member since 2005.

The mission of EUROPEX is to enhance competition on the European market by ensuring transparent price setting and implementing a single European market in electricity and gas enabling convergence of prices as well as benefits for customers. EUROPEX participates in the development of market solutions and engages in dialogue with EU authorities and other European institutions which contribute to the development of the markets.

Association of Power Exchanges (APEx)

The Association of Power Exchanges (APEx) is an international organisation of world energy exchanges and transmission system operators. It has 50 members around the world. APEx supports the development of energy markets. Its key initiatives include development of a platform for exchange of information and experience among its members. POLPX is an APEx member since 2000.

Association of Futures Markets (AFM)

AFM is an organisation of 26 financial and commodity exchanges around the world. AFM holds its AFM Annual Conferences as a platform for exchange of information and experience between exchanges. The mission of the Association is to promote and encourage the development of new derivatives markets and to support their growth. POLPX is an AFM member since 2014. In 2015, POLPX Vice President Michał Tryuk was elected to the AFM Board. Thanks to close cooperation between POLPX and AFM, the AFM Board selected POLPX as the host and co-organiser as the 18th AFM Annual Conference in 2015. The Conference was held in Poland for the first time ever.

EACH – European Association of CCP Clearing Houses

IRGiT representatives take part in plenary meetings, teleconferences and work of the Policy Committee, the Risk Committee and the Legal Committee of the European Association of CCP Clearing Houses EACH. IRGiT takes active part in consultations of draft European regulations on …

PRICE COUPLING OF REGIONS – PCR

PCR is the initiative of co-owners of an energy market coupling algorithm. PCR is a decentralised model which combines pricing zones managed by individual local energy exchanges within a single auction mechanism. It is a model solution which ensures price coupling of the day-ahead markets on all borders of EU member states. Each exchange is individually responsible for the use of the common algorithm in electricity pricing and cross-border capacity allocations for each price zone of the European single energy market. The Polish Power Exchange is a full member of the PCR project since Q4 2015. In December 2016, POLPX received all necessary acceptance certifications as an operator and co-ordinator in the PCR model.

MULTI-REGIONAL COUPLING

The Multi-Regional Coupling market was founded through integration of regional markets in 2014-2015 and continues to expand. The European project of operational integration of electricity spot markets spans a territory where demand for electricity is ca. 2,800 TWh, equal to 85% of total European demand. This is Europe's biggest and most liquid market. Poland participates in MRC through the Swe-Pol Link and the LitPol Link. In July 2015, POLPX became a full member of the MRC market and signed the Day-Ahead Market Operations Agreement, which supports the co-operation of 12 energy exchanges and 25 transmission system operators.

II. 6 Development of the GPW Group in 2017

The development of the GPW Group in 2017 will be driven among others by the following internal and external factors.

INTERNAL DRIVERS

The GPW Group's Strategy and its Implementation:

- Further development of projects supporting liquidity on GPW and acquisition of new market participants, including:
  - ✓ development of the HVP Programme;
  - ✓ acquisition of new market makers on the derivatives and cash markets;
  - ✓ further improvement of GPW's access infrastructure including development of the colocation service,
  - ✓ launch of operations by new Exchange Members.
- Continued optimisations to enhance organisation and improve integration within the GPW Group.
- Harmonisation of GPW's infrastructure and internal regulations with MiFID II.
- GPW's plans to integrate post-trade services within the GPW Group including a majority stake to be held in the KDPW Group (currently GPW holds 33.33% of KDPW).

GPW's Potential Decisions to Reduce Trading Fees

Starting in 2016, a new model of financing of supervision of the Polish capital market is in place, where the cost of supervision by the Polish Financial Supervision Authority is paid not only by GPW and KDPW as before but by a broader group of entities (including issuers, investment firms, banks, insurers, investment fund managers). As a result, the cost paid by the GPW Group was reduced in 2016 by approximately one half compared to 2015. In response, GPW decided to reduce its transaction fees and market data fees (for details, see the section on the implementation of GPW's strategy). However, GPW may decide to offer further reductions of trading fees mainly with a view to supporting liquidity on the GPW markets.

POLPX's New Trading Systems in H1 2017

State-of-the-art technology will provide POLPX with improved functionalities and enable it to efficiently handle growing trading volumes and add new commodities and derivatives in the future. The Polish Power Exchange and Nasdaq signed an agreement concerning the implementation of the trading system X-stream Trading on 22 December 2014; the SAPRI annex was signed in February 2015.

SAPRI, Nasdaq's energy auction application, will be used by POLPX in European cross-border energy auctions including PCR (Price Coupling of Regions). POLPX accepted the two new systems in September 2016 and is currently running final tests with market participants. The solutions will be rolled out in production in H1 2017.

POLPX's Participation in the International Market

POLPX's accession to the PCR will impact the development of the spot market in 2017 with the delivery of electricity on POLPX's Day-Ahead and Intraday Markets in Poland. It will also allow POLPX to participate in the spot markets of other Western and Northern European countries.

In 2017, POLPX's involvement in international projects will include the operational launch of the Day-Ahead Market in the PCR model on the MRC, expected at the turn of Q1 to Q2 2017 (date to be determined). For this purpose, POLPX will make the necessary applications in the PCR and MCR. It expects to conclude operational agreements for Market Coupling at the SwePol and LitPol links under the PCR model. The process will be initiated in February 2017. The Polish Power Grid Company (PSE) and POLPX expect to negotiate and sign cross-border cooperation agreements with the participation of exchanges and operators for the links with Lithuania and Sweden in Q1 2017.

POLPX expects to participate in the LIP POLSKA and XBID intraday market projects following necessary arrangements with the Energy Regulatory Office and the Polish Power Grid Company. The 2017 financial plan is based on project budgets; the costs of intraday market projects will be determined once the agreements are signed.

EXTERNAL DRIVERS

Macroeconomic Situation, the Government's Economic Policy, Conditions on the Exchange

GPW's results will be driven in equal measure by the activity of investors on the capital market and by the overall economic conditions.

According to European Commission forecasts, GDP growth should rise up to 3.2 percent in 2017 and stabilise at 3.1 percent in 2018. The recovery will be driven by domestic demand. The Commission expects private consumption to grow sharply in 2017 and to stabilise in 2018 with the end of the temporary effect of higher social transfers. Employment will also stop growing.

In its report, the Commission expects public investments to rise in 2017 and 2018 owing to improved absorption of EU funding. Private investments should grow gradually, driven by solid domestic demand and an expected increase in exports.

According to the Commission, inflation should rise sharply in early 2017 to ca. 2 percent in the first months of the year, driven mainly by growing energy and food prices. Price pressures should drive inflation even further in the following months but the Commission expects inflation to remain below 2.5 percent until the end of 2018. Commission economists expect the growth of employment to slow down in 2017 due a shrinking working age population combined with legislative disincentives for occupational activity including a significant reduction of the retirement age as of October 2017 and the 500+ programme active since April 2016. The Commission sees some risks in its projection, including prevailing political and regulatory uncertainty, affecting investments and private consumption.

In 2017, the global capital markets will be impacted by a shift from quantitative easing (including US rate hikes) to fiscal expansion. According to general expectations, this will boost inflation expectations and accelerate capital transfers from bond markets to equity and commodity markets. With rising GDP and higher commodity prices, aggregate profits of public companies should improve, bolstering exchange indices.

Competition of Multilateral Trading Platforms (MTF)

In October 2015, a European multilateral trading facility started to offer trade in Polish stocks participating in WIG30. Until the date of this report, trades on the MTF reached PLN 39 thousand (at trading sessions on 8 and 9 October 2015; source: Reuters). The figure is negligible compared to trade on GPW within that period; however, trade in GPW listed stocks on the MTF may increase in the future. Likewise, other European MTFs may also offer trade in Polish stocks.

The launch of trade in Polish stocks on MTFs could grow the overall value of trade in such stocks, including among others arbitrage and trade by investors active on MTFs with no access to GPW. However, it is not unlikely that MTFs could also attract part of the trade currently handled by GPW.

Final Shape of the Pension System Reform in Poland.

In July 2016, the Government published a proposal of a further reform of the pension system involving the nationalisation of a part of savings in open-ended pension funds and a transfer of 25% of liquid assets (cash, foreign stocks, bonds) to a Demographic Reserve Fund. The remaining 75% of the assets (Polish stocks) would remain in open-ended pension funds, which would eventually be transformed into traditional investment funds. The changes are expected to take effect in early 2018 and the details will be disclosed in early 2017.

Although the details of the reform have not yet been defined, the very announcement of such reform was welcomed by participants of the Polish capital market and foreign investors. First, the announcement of the reform partly eliminated investors' uncertainty about the future of open-ended pension funds and assets, which in early 2016 largely affected their activity on GPW's equity market and resulted in lower turnover. Second, the announcement of transformation of open-ended pension funds into investment funds may release some of the free float on GPW and improve the liquidity of securities locked in open-ended pension fund portfolios. For many years, open-ended pension funds have been rather passive investors on GPW, and their share in the turnover in equities was ca. 5-6 percent. Meanwhile, investment funds are much more active investors and compete with their peers, which opens prospects of better liquidity on GPW's stock market. Thus, the final shape of the reform and especially the structure of and potential limitations and investment restrictions imposed on the entities which will receive 75% of existing pension fund assets (Polish stocks) will impact liquidity on the GPW stock market, the value of trade and the valuation of companies listed on GPW.

In 2016, the value of Polish shares in open-ended pension fund portfolios increased by 9.4% to PLN 116.2 billion (Source: KNF).

Financial and Commodity Market Regulation

- **MiFID II and the financial market -** The European exchange industry and trading platforms will be largely impacted by amendments of European legislation under MiFID II, which will take effect in January 2018 following transposition to national law and enactment of implementing regulations. The new legislation defines among others the requirements for the publication of data on pre/post-trade transparency and exemptions from the publication obligation. MiFID II modifies 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. It imposes additional standards on algo trading and direct market access. From the perspective of GPW, the new legislation requires a regulatory, technological and operational realignment entailing capital expenditures.
- **MiFID II and the commodity market** - MiFID II extends the definition of financial instruments to include commodity-based derivatives which can be cleared with physical delivery and are traded on regulated markets, MTFs and OTFs, other than energy products in wholesale trade (within the meaning of REMIT) which must cleared with a physical delivery and are traded on OTFs. For the first time ever, MiFIR requires that certain categories of derivatives (financial instruments which must be centrally cleared under EMIR and are considered to be sufficiently

liquid) are barred from OTC trade and must be traded on organised trading platforms. Trading on OTFs should be fully transparent, including pre-trade and post-trade. Specific transparency requirements will apply to all trading systems and all financial instruments traded in such systems. MiFID II introduces a range of new regulations addressed exclusively to commodity-based derivatives.

These regulations may largely impact the future organisation of markets operated by POLPX. In view of the scale and importance of those changes to the organisation and security of trade and clearing as well as market transparency, POLPX took necessary measures to prepare for the requirements imposed on regulated markets. POLPX was involved in the consultations of all legislative drafts relevant to its activity and actively participates in EU working groups. All the aforementioned documents were reviewed by a dedicated project team within POLPX. On the one hand, considering that the position of the supervisory authorities suggests that the Commodity Forward Instruments Market operated by POLPX will be unable to continue operating in its current structure after the implementation of MiFID II, the Management Board of POLPX is considering the following solutions:

- ✓ application for authorisation as an operator of an organised trading platform (OTF) upon the issuance of regulations which provide a legal basis in the national legal system;
- ✓ extension of the product range of the Financial Instruments Market operated by POLPX to include futures (mainly on gas and electricity) with physical delivery or option of physical delivery.

- **Renewable Energy Sources Act:** The Renewable Energy Sources (RES) Act took effect on 1 July 2016. It implements a new support scheme for the production of energy from renewable energy sources be based on auctions. Auctions will be held by the Energy Regulatory Office. Auction winners who offer the lowest price for energy generation will receive support for a period of 15 years. The existing system of green certificates of origin will be phased out. All producers who generated electricity before 30 June 2016 are still eligible to receive certificates of origin. Generation of energy after 1 July 2016 allows producers to participate in auctions but they are not eligible to apply for certificates of origin. The potential impact of amendments to RES regulations on the business of POLPX is discussed in section *II.7. Risks and Threats*.
- **CO_2 Trading Act** effective as of September 2015 enables POLPX to grow a new business segment by becoming the national platform authorised to organise CO_2 primary market auctions (currently Poland sells them on the German exchange EEX). POLPX received the approval of the Polish Financial Supervision Authority to operate a CO_2 allowances platform on 20 December 2016. In the next step, POLPX will participate in a tender for the operation of an auction platform for Polish emission allowances. As the last step, POLPX needs to be entered into the list of auction platforms in Annex III to Commission Regulation 1031/2010. Operation of an auction platform will help to develop the market operated by POLPX which offers trade in emission allowances and to improve liquidity of the market. With the launch of the auction platform, financial instruments on delivery of emission allowances will be introduced into trading.
- **Energy Efficiency Act:** The Energy Efficiency Act took effect on 1 October 2016. It modifies the white certificate system. Previously, the President of the Energy Regulatory Office opened tenders for white certificates. White certificates of origin were granted to tender winners. The new Act eliminates tenders: from now on, certificates of origin of energy efficiency will be issued by the President of the Energy Regulatory Office on the same terms as other types of certificates of origin. Furthermore, the new Act imposes limits on the performance of the obligation to acquire white certificates by the payment of a substitution fee as follows: 30% of the obligation for 2016, 20% of the obligation for 2017, 10% of the obligation for 2018. The new regulations provide for a gradual increase of the unit substitution fee (the unit substitution fee is 1,000 PLN/toe for 2016, 1,500 PLN/toe for 2017, and will be increased by 5% of last year's unit substitution fee for 2018 and each subsequent year). Those market players which previously met the obligation by paying the substitution fee exclusively, will start to operate on POLPX. Under the new Act, the obligation may be fulfilled by paying a substitution fee above the caps only if the market player demonstrates that it has placed buy orders for property rights on

the exchange but was unable to buy property rights in the absence of trade or because the price of property rights exceeded the substitution fee. The new solutions will boost investments in energy efficiency and improve liquidity of trade in white certificates on POLPX.

- **CACM Regulation – POLPX as NEMO in the market competition mode**l: The Third Energy Package of September 2009 is a key element of EU legislation governing the European electricity markets. Under these regulations and the 2011 decisions of the European Council, the governments of the EU Member States made commitments to jointly develop a spot electricity market. The CACM Regulation published in July 2015 specifies the obligations of exchanges and operators and the powers of regulators. For POLPX, its authorisation as NEMO on 2 December 2015 triggered focused involvement in international intraday and day-ahead market projects. In December 2016, POLPX successfully completed PCR acceptance tests confirming POLPX's full organisational operational and technological readiness for participation in the European energy market. POLPX and the Polish Power Grid Company (PSE) signed an operational agreement under the European PCR MRC standard. According to a financial analysis of POLPX's participation in the European market integration projects, including POLPX's full participation in the PCR project, the efforts are not profitable for the exchange; however, in the absence of POLPX's involvement and investment in the development and integration of the market, POLPX would suffer adverse market consequences, leading to a decrease of turnover in electricity and hindering the operation of the financial market. As a result, POLPX could be unable to grow or to maintain growth of revenue across its business segments, especially that exchange giants competing with POLPX such as EPEX SPOT and NORD POOL will be active as NEMOs on the Polish energy market under CACM. Thus, POLPX will compete with two peers to attract clients and volumes of trade in electricity.The financial impact of the new regulations on the energy market under the CACM Regulation will probably materialise for POLPX already in 2017, coinciding with other factors including the phasing out of the obligation to trade on the exchange and the limitation of trading on the commodity forward instruments market. The presence of competitive exchanges on the Polish energy market could reduce the projected volume and value of turnover.

Internal Electricity Market

The objective of integration of the European market as a coherent harmonised internal market (Internal Electricity Market – IEM) is to enable all market players to participate in cross-border trade in electricity. The target market coupling (MC) solution for day-ahead markets is the Price Coupling of Regions (PCR) developed by Western European exchanges while the Cross-border Intra-day model (XBID) is the MC solution for the intraday market. In July 2015, POLPX became a full member of the Multi Regional Coupling market and signed the Day-Ahead Market Operations Agreement, which supports the co-operation of 12 energy exchanges and 25 transmission system operators. The Day-Ahead Market in electricity on the Polish-Lithuanian connection LitPol Link opened in December 2015.

Gas Hub

The implemented and planned projects which diversify the supplies of natural gas into the national market should ensure lasting security of the Polish market in natural gas. As a result, the expanded Polish gas transport system could play a key role in the development of the national market in gas and in the integration of the gas markets in Central and Eastern Europe and in the Baltic region. The existing supplies of gas from the Świnoujście LNG Terminal and a future transmission link with Norway combined with new interconnectors on the borders with the Czech Republic, Slovakia, Lithuania, and Ukraine will turn the Polish market into the most diversified market in V4 and a potential source of gas supplies to the countries of Central Europe and the Baltic region.

The first commercial transactions and supplies of natural gas from Poland to Ukraine took place in 2016. Ukraine's gas market is estimated at 40 bcm per year. The aforementioned infrastructure investments will create conditions to develop a gas hub in Poland, dedicated among others to the participants of the gas market in Central and Eastern Europe and in the Baltic region. The project creating a gas hub in Poland, understood as a gas distribution and trade centre, is defined in the "Strategy for Responsible Development" published by the Ministry of Economic Development. The launch of a gas hub in Poland

and the completion of initiated infrastructure investments will improve market liquidity by integrating the markets in Central and Eastern Europe and create pressures to reduce wholesale prices. POLPX initiated conceptual work on the gas hub project in 2016.

Reappointment of TBSP as the Reference Platform for Trade in Treasury Debt

In January 2016, TBSP was once again appointed the electronic market within the Treasury Securities Dealer System, a reference platform of secondary trade in Treasury debt, for another three periods until 30 September 2019.

II. 7 Risks and Threats

The operation of the Warsaw Stock Exchange Group is exposed to various risks, both external related to the market conditions and Poland and globally, the legal and regulatory environment, and internal related to the operating activities of the Group companies.

In pursuit of its strategic goals, in view of the special sensitivity of different business segments to many risks beyond the control of the GPW Group, the GPW Group actively manages its risks aiming to mitigate or eliminate their potential adverse effect on the Group's results.

GPW RISK MANAGEMENT

The goal of GPW risk management is to ensure that all material risks of GPW's activity are properly measured, reported and controlled and do not pose a threat to the operational stability and continuity of the Company. The risk management system includes a range of processes, organisational solutions, technology tools and documented rules for risk management. The key assumptions and principles of the Company's risk management system derive from the GPW Risk Management Strategy approved by the GPW Management Board and regularly reviewed to bring it in line with changes of the GPW risk profile and the market environment.

The key role in the risk management system is that of the Exchange Supervisory Board supported by the Audit Committee in supervising the GPW risk management system through on-going monitoring and assessment of the GPW risk management system approved by the Exchange Management Board. Risk management is a responsibility of the Exchange Management Board supported by the Risk Management Committee. The Company's Management Board drafts, approves and implements GPW's risk management strategy and takes the key decisions affecting the risk levels. The GPW risk management process is monitored and controlled by the Compliance and Risk Department. Business process owners and participants are responsible for on-going risk management, including identification of risks in the area of their responsibility, monitoring, controlling and taking actions to mitigate such risk. Effective operations and assessment of the risk management system as well as its adequacy for the GPW risk profile are regularly reviewed by the Internal Audit Department.

GPW builds an organisational culture which focuses on effective risk management, compliance with procedures, as well as enforcement of the rules of conduct. For this purpose, steps are taken in order to raise GPW employees' awareness of risk management responsibilities at each level of the GPW organisation, including training, a dedicated risk management section of the corporate portal available to employees, and on-going advice.

Chart 8 GPW risk management process

The GPW risk management process is continuous and includes the following elements:

- **Risk identification** – identification of existing and potential sources of risk which impact or may impact GPW's financial position.
- **Risk assessment** – analysis of internal and external threats to GPW's operation in order to determine the risk profile.
- **Risk prevention or acceptance** – application of any of the following strategies:
- ✓ risk mitigation;
- ✓ risk transfer, e.g., transfer of risks of a threat in whole or in part to a third party;
- ✓ risk avoidance by taking no action involving the threat;
- ✓ risk acceptance.
- **Risk review** – periodic review of the effectiveness of the existing risk management system and its adequacy for the GPW risk profile.
- **Risk monitoring** – monitoring the gap between risks and projections or benchmarks. Risk monitoring is an early warning system and triggers management actions when adverse change to the GPW risk profile is identified.
- **Risk reporting** – regular reporting of risk measurements, actions taken or recommendations to withhold actions to the GPW authorities.

The risk management system described above is being implemented in GPW Group companies to ensure shared standards of risk management across the Group.

GPW's risk management strategy covers the following risks:

- Non-financial risks:
- ✓ business risk, including: economic environment risk, strategic risk, competition risk, project risk,
- ✓ operational risk, including legal risk,
- ✓ compliance risk,

- ✓ reputation risk.
- ♦ Financial risks:
- ✓ credit risk,
- ✓ liquidity risk,
- ✓ market risk,

The order in which individual risks are discussed below does not reflect the extent of their relative importance for the Group, the probability of their occurrence or their potential impact on the GPW Group's operations.

RISKS RELATED TO THE MARKET ENVIRONMENT

Risks of the geopolitical and economic situation globally

The Group's business depends on conditions on the global financial markets. Economic trends in the global economy, especially in Europe and the USA, as well as the geopolitical situation in neighbouring countries impact investors' perception of risks and their activity on financial and commodity markets. As global investors evaluate geographic regions from the perspective of potential investment, their perception of Poland and GPW may decline in spite of a relatively stronger macroeconomic situation compared to other countries of the region. Less active trading by international investors on the markets operated by the GPW Group could make the markets less attractive to other participants and the amount of charged trading fees, which are the main source of the Group's revenue. Combined with a stable cost level, this could reduce the GPW Group's potential profit.

Risk of the economic situation of other countries

The economic situation and market conditions in other countries could impact the perception of the Polish economy and its financial markets. Although the economic situation of other countries could be materially different from the economic situation in Poland, investors' risk aversion caused by the economic situation of other countries could reduce the volume of trade in financial instruments on GPW. In particular, an economic slowdown or crisis in Europe or unexpected economic crises in other parts of the world, especially caused by difficulties of some countries with the repayment of debt, could affect the assessment of investment risk in European economies and consequently cause a shift to safe havens, which could have an adverse impact on investors' activity and sentiment and consequently an adverse impact on the activity of the Group, its financial position and results.

Risk of the economic situation in Poland

The conditions in the Polish economy impact strongly investors' activity and sentiment on the Polish market and consequently the level of turnover on the markets of the Group. Changes in the state of the Polish economy affect the business and investment activities of issuers whose securities are listed on the markets operated by the Group, including their financial results, which in turn may affect the prices of these securities, the volume of transactions, as well as activities related to issuing new securities. Changes of investors' activity and sentiment on the Polish market have a direct impact on the turnover on the GPW Group's trading revenue. In periods of economic instability and under conditions of risk aversion, the Company's revenue may decrease; even combined with a strict cost discipline, this could reduce the GPW Group's profits. GPW's listing revenue depends directly on the prices of listed instruments. Furthermore, perception of higher risks of investment in Polish assets could restrict access to capital which could be invested on GPW and could adversely impact prices of assets traded on the markets organised and operated by the Group. Changing FX rates could have an adverse impact on investment decisions and their frequency, which could affect the volume, value and number of transactions on GPW and consequently also the Group's revenue.

Risk of market and political events beyond the GPW Group's control

The volume of trading, the number of new listings and demand for the GPW Group's products and services are affected by economic, political and market developments, both domestic and global, that are beyond the Group's control, including in particular:

- general trends in the global and domestic economy and on financial markets;
- changes in monetary, fiscal and tax policies;
- the level and volatility of interest rates;
- inflation pressures;
- changes in foreign exchange rates;
- adoption of the euro as the currency of Poland (causing potential changes to monetary and fiscal policy or causing changes in the allocation of investor portfolios);
- reclassification of Poland from Emerging Market to Developed Market in global benchmarks;
- change of Poland's credit rating;
- institutional or individual investors' behaviour;
- volatility in the prices of securities and other financial instruments;
- availability of short-term and long-term funding;
- availability of alternative investment opportunities;
- legislative and regulatory changes; and
- unforeseen market closures or other disruptions in trading.

These events could have a significant impact on the activity of GPW Group clients, mainly issuers and investors. Their low activity could affect the Company's trading and listing revenue, revenue from introduction of financial instruments, and consequently information services, and it could affect the GPW Group's profit.

Risk of competition from other exchanges and alternative trading platforms

The global exchange industry is strongly competitive. In the European Union, competition in the trade and post-trade sectors is amplified by legal amendments designed to harmonise legislation of the EU member states and integrate their financial markets. Hence, the Group is exposed to the risk of competition from other exchanges and alternative trading platforms whose presence on the Polish market could adversely impact the activity of GPW. In particular, the GPW Group may face competition of multilateral trading facilities (MTF) and other venues of exchange and OTC trade. Their activity on the Polish market could take away part of the trading volumes handled by the platforms operated by the Group and exert additional pressures on the level of transaction fees.

Risk of competition from MTFs and other platforms on the Polish market and other Central and Eastern European markets

The liberalisation of the European exchange industry under MiFID has caused the emergence of alternative trading platforms in the past few years, including multilateral trading facilities (MTF). The competition from MTFs in Central and Eastern Europe is still limited. The launch of active trade in Polish stocks by MTFs could impact the value of trade in stocks on GPW. Fees charged by MTFs are low compared to the fees charged by exchange operators including GPW, which could exert price pressures and cause attrition of the market share, adversely impacting the activity of the Group, its financial position and results.

Risk of price competition

The trading cost on large foreign exchanges and MTFs is lower than on GPW, mainly due to the relatively small size of the market in Poland. Consolidations in the global exchange sector and the development of MTFs may increase pressures to reduce fees charged for trade on the financial markets. As a result, GPW clients could exert pressures on GPW to reduce listing and trading fees, affecting GPW's revenue. These factors could strongly affect the Company's financial position and results.

RISKS RELATED TO THE LEGAL ENVIRONMENT

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 competiveness 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 or 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 property 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.

OPERATIONAL RISKS

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.

The 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 be 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.[36]

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.

FINANCIAL RISKS

Risk of interest rate hikes

The Company is exposed to a risk of interest rate changes due to debt instruments issued by GPW with variable interest maturing on 2 January 2017. A sharp increase of the interest rates including the base rate of the bonds could boost the cost of servicing the liabilities under the bonds and have an adverse effect on GPW's financial position and results.

Risk of material periodic volatility of revenue and profits due to unforeseeable revenue levels and relatively high fixed costs

The Group's sales revenue and net profit are strongly dependent on a range of external factors which are beyond the Group's control, including the activity of investors and the prices of financial instruments listed on the markets organised and operated by the Group; consequently, the Group's sales revenue could vary from period to period. A decrease in the value of IPOs on GPW could have an adverse impact on revenues from fees for admission and introduction to trading on the exchange and listing revenues. A significant part of the Group's costs (salaries and other employee expenses, external service charges, rent and other maintenance fees) are fixed and do not vary significantly. Such costs represented 64.9% of the operating expenses of the Group in the period of 12 months ended 31 December 2016. If its sales revenue decreases, the Group may be unable to reduce its operating expenses, which could have a material adverse impact on its operating profit.

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[36] Source: FESE

Risk of dependence of a large part of the Group's sales revenue on trade in shares of a limited number of issuers and trade in futures by a limited number of Exchange Members

The Group is exposed to the risk of concentration of trade among a small number of investment firms operating on GPW. In 2016 (according to GPW data), there was one Exchange Member that had a share of more than 10% of trade in stocks on the electronic order book on the Main Market (10.3%), and another 23 Exchange Members that had a share between 1% and 10%. Furthermore, there were three Exchange Members that had a share of more than 10% each in the volume of trade in futures, jointly representing 42.3% of the volume of trade in futures. The loss of one or more of such Exchange Members could have a material adverse impact on the activity of the Group, its financial position or results.

Furthermore, the revenue from trade in equities and other equity-related securities represented 28,8% of the Group's total sales revenue in 2016. In that period, the top five companies with the biggest share in trade on GPW generated 47.8% of the average monthly value of trade in shares on the electronic order book on the Main Market while the top 10 companies generated 64.9%. The concentration of a large part of the Group's revenue in the context of a small number of issuers and securities generates material risks. In particular, if those and other major issuers decide to have their shares delisted, it could have an adverse impact on the activity of the Group, its financial position, results and outlook.

Risk of dependence of a large part of the Group's revenue from derivatives on trade in WIG20 futures

Trade in derivatives is the Group's second largest source of revenue from trading on the financial market and accounted for 10.2% of the Group's sales revenue from trading on the financial market and 3.9% of the Group's total revenue in 2016. The vast majority of the Group's revenue from trade in derivatives was generated by trade in a single product: WIG20 futures. A large decrease in trade in WIG20 futures could have an adverse impact on the revenue from trade in derivatives, which could have a material adverse impact the activity of the Group, its financial position and results.

Risk of dependence of the Group's revenue from trade in commodities on the propensity of producers to sell energy and gas on the exchange

The Group's revenue from trade in commodities depends among other things on the propensity of producers to sell energy and gas on the exchange above the required mandatory level. The mandatory sale on the exchange currently applies to 15% of produced energy and 55% of gas. Trading on the exchange above the required mandatory volumes is up to energy and gas producers to decide. The Group has no direct control of the volume, value and number of transactions on the exchange. The Group's revenue depends among other things on the attractiveness of trade in commodities compared to other exchanges and trading platforms. Reduced supply of energy or activity of trading participants could have a material adverse impact the activity of the Group, its financial position and results.

Risk of insufficient insurance cover

In view of the insurance cover held by the Group, certain types of damage may not be covered by insurance or may be covered by partial insurance only. Furthermore, the Group could incur material losses or damage covered by no insurance or by limited insurance only. Consequently, the Group may have insufficient insurance cover against all damage that it could potentially incur. In the event of damage that is not covered by insurance or damage exceeding the sum insured, it may erode the Group's capital. Furthermore, the Group may be required to redress damage caused by events not covered by insurance. The Group may also have liability for debt and other financial commitments related to such damage. Furthermore, the Group cannot guarantee that there will be no future material damage exceeding the Group's insurance cover. Any damage not covered by insurance or damage exceeding the sum insured could have an adverse impact on the activity of the Group, its financial position and results.

OTHER RISKS

Other risks, which are unknown or considered irrelevant at this time, may also have a material negative effect on the GPW Group's operation, financial position and results.

II. 8 Other Information

MATERIAL AGREEMENTS

The GPW Group concluded no material agreements in 2016.

RESEARCH AND DEVELOPMENT

The GPW Group's research focuses on prospects of development of new trading platforms and products. The initiatives completed in 2016 are described in section *II.3. Implementation of the GPW Group's Strategy in 2016.*

LITIGATION

GPW is not a party to any litigation where the value of liabilities or receivables would represent at least 10% of its equity.

III. Corporate Governance

III. 1. Statement of Compliance with Corporate Governance Rules

TERMS AND SCOPE OF COMPLIANCE WITH CORPORATE GOVERNANCE RULES

GPW accepted the corporate governance rules laid down in the Code of Best Practice for GPW Listed Companies, applicable until 31 December 2015, as of the date of admission of the Company's shares to trading on the regulated market on 5 November 2010. GPW complied with all of the rules of the Code in 2016. The Code of Best Practice for GPW Listed Companies is available on the GPW website (http://www.gpw.pl) under the listed companies corporate governance tab.

GPW in 2016 consistently complied with the principles and recommendations of the Code of Best Practice for GPW Listed Companies 2016 and the Corporate Governance Rules for Supervised Institutions issued by the Polish Financial Supervision Authority.

As of 1 January 2016, GPW follows the new rules published by the trading organiser, the Code of Best Practice for GPW Listed Companies 2016. The Code is available on the GPW website (http://www.gpw.pl) under the listed companies corporate governance tab.

GPW complies with most of the recommendations and rules of the Code of Best Practice for GPW Listed Companies 2016 with the exception of Rule VI.Z.2, which requires that the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years. The non-compliance is due to the fact that the Company's incentive scheme, approved before the effective date of the Code of Best Practice for GPW Listed Companies 2016, included phantom shares, where the exercise period is 1 year. However, the phantom shares are only one of three incentive measures with a minor weight. The biggest part of the Management Board incentive system in 2015 was the "bonus bank" paid out in equal parts over three consecutive years (for more information, see the Remuneration Policy section).

Furthermore, with regard to the recommendations I.R.2. GPW informs, that the functioning of the company policy of business sponsorship and charity there is no form of a document. The Company has developed a document in 2016. Based on the guidelines provided by the Ministry of Treasury, but it is in the course of internal consultation and is not a binding document. In terms of the Stock Exchange activity is guided by the principle of concentration on the core area of business. The value of donations amounted in 2016 PLN 3.1 million, of which PLN 3 million fund fed into the Polish National Foundation. The remaining part was transferred to the Foundation L. Paga (PLN 34.4 thousand), the Foundation for Youth Entrepreneurship (PLN 10 thousand) donation to Caritas at a summer camp for children (PLN 10 thousand) And on the promotion of Polish Capital Market among entrepreneurs of China Republic of China (PLN 28.5 thousand)

- direct support for the sale of GPW's products and services (mainly industrial conferences: the Polish Capital Markets Day co-organised by GPW in New York, FOW Derivatives World CEE, conferences and activities of the Association of Individual Investors promoting the Exchange among individual investors);
- support for events dedicated to the capital markets (in particular, conferences organised by the Chamber of Brokerage Houses, the Association of Listed Companies – the Investor Relations Congress, the Listed Company CFO Congress, the Listed Company Lawyer Congress).

GPW partnered with many foundations, associations and organisations in events and conferences dedicated to the economy and the capital markets, including the Polish Institute of Directors in the organisation of corporate governance conferences, the Lesław A. Paga Foundation (mainly training and educational projects devoted to the capital markets) and the Polish Entrepreneurship Support Association (European Economic Congress, Eastern Economic Congress).

In addition, GPW is subject to the Corporate Governance Rules for Supervised Institutions issued by the Polish Financial Supervision Authority on 22 July 2014 as a set of rules governing internal and external relations of supervised institutions, including relations with shareholders and clients, their organisation, the operation of internal supervision and the key internal systems and functions, as well as the statutory authorities and the rules of their co-operation. The Corporate Governance Rules for Supervised Institutions are available on the website of the Polish Financial Supervision Authority (http://www.knf.gov.pl).

The Exchange complies with the rules laid down in the Corporate Governance Rules for Supervised Institutions with the exception of the rules defined in § 10.2, § 12.1 and § 28.4, and except the rules defined in § 53, § 54.1-3, § 55, § 56, § 57, which are inapplicable to GPW's business profile as GPW does not manage assets on clients' account.

Non-compliance with the rule defined in § 10.2, concerning the introduction of personal entitlements or other special entitlements for shareholders, and in § 12.1, which provides that shareholders shall be responsible for an immediate capital increase of the supervised institution, is due to the incomplete privatisation of the Company by the State Treasury. Non-compliance with the rule defined in § 28.4, which provides that the General Meeting shall assess whether the established remuneration policy contributes to the development and security of the operations of the supervised institution, is due to the excessively broad range of the remuneration policy to be assessed by the General Meeting. The remuneration policy for key managers other than the members of the supervisory board and the management board should be assessed by their employer, i.e., the Company represented by the Management Board and controlled by the Supervisory Board.

The full statement of the Exchange on compliance with the Code of Best Practice for GPW Listed Companies 2016 and the Corporate Governance Rules for Supervised Institutions is available on the Company's website under the GPW corporate governance tab.

III. 2. Internal Control System and Risk Management in the Preparation of Financial Statements

The preparation of financial statements is governed by:

- the International Financial Reporting Standards;
- the Accountancy Act of 29 September 1994;
- the Articles of Association of the Warsaw Stock Exchange;
- the Accounting Rules of the Warsaw Stock Exchange and the accounting rules of the subsidiaries;
- internal accounting procedures.

The preparation of financial statements is subject to the internal control system and the risk management system, which ensures fair and true financial reporting in compliance with laws and internal regulations.

The internal control system includes:

- controls exercised by all employees as part of their responsibilities;
- functional controls exercised as part of responsibilities of supervision of organisational units by all employees in managerial positions;
- checks of GPW's compliance with laws and internal regulations;
- internal controls exercised by the Compliance and Risk Department, responsible for assessment of organisational units' effectiveness and compliance with laws and internal regulations;
- internal audit exercised by the Internal Audit Department, responsible for independent and objective assessment of the risk management and internal control systems.

Risk management in the preparation of financial statements involves the identification and assessment of risks, as well as the development and implementation of measures which mitigate or eliminate risks. In particular, GPW on an on-going basis monitors amendments of laws and regulations applicable to the preparation of financial statements, updates the Company's internal regulations and harmonises its IT systems.

The Company's Financial Reporting Section is responsible for enforcing internal and external regulations. The Financial Reporting Section is responsible for preparing financial statements under substantive supervision of and in co-ordination with the Chief Accountant and the Director of the Economic and Financial Department. The Company keeps its books of account using computer technology. The Company uses a financial and accounting system implemented in August 2011, which includes embedded mechanisms protecting against destruction, modification or concealment of records. Controls are carried out at the stage of entering accounting records. In addition, financial and accounting processes are subject to independent internal audits.

The auditor controls separate and consolidated financial statements every quarter. Quarterly financial statements for Q1 and Q3 as well as financial statements for six months are reviewed by the auditor while the annual financial statements are audited.

The Company's Management Board and the members of the Exchange Supervisory Board are required to ensure that financial statements and activity reports comply with the requirements defined in the Accountancy Act of 29 September 1994. GPW's Audit Committee which is part of its Supervisory Board controls the financial reporting process. Within its powers, the Audit Committee monitors the financial reporting process, financial audit functions, and the independence of the auditor. GPW's auditor is appointed by the Exchange Supervisory Board by recommendation of the Audit Committee from among renowned audit companies. Auditors of subsidiaries are appointed by their Supervisory Board. The Audit Committee also supervises the organisational unit responsible for internal audit and the Compliance Officer, and monitors the effectiveness of the internal control, internal audit, and risk management systems. The responsibilities of the Supervisory Board include assessment of the GPW Management Board's reports on the activity of the Company and financial statements, and presentation of a written report on the results of the assessment to the General Meeting.

In the opinion of the Company, the division of tasks related to the preparation of financial statements in the Company, review of financial statements by the auditor, monitoring of the preparation and review of financial statements by the Audit Committee, and assessment of financial statements by the Exchange Supervisory Board ensure that information presented in financial statements is true and fair.

III. 3. Diversity Policy

The company has not prepared a formal diversity policy applicable to the company's governing bodies and key managers, but implemented in GPW human relations policies include in all processes, particularly recruitment, performance evaluation, promotion and professional development, the elements of diversity such as gender, education, age and professional experience recognizing diversity and equal opportunities for significant competitive advantages enabling GPW to capture and retain talented employees and utilize their full professional potential. The Company will seek to formalize existing policy rules in the area of diversity as a diversity policy.

III. 4. Auditor

According to § 18(2)(12) of the Exchange's Articles of Association, the auditor of the Company's financial statements is appointed by the Supervisory Board of the Warsaw Stock Exchange ("Exchange Supervisory Board"). The Exchange Supervisory Board appoints the auditor on the basis of opinions and recommendations of the Audit Committee. According to the Annex to the Exchange Supervisory Board Rules which defines the functions of the Committees of the Exchange Supervisory Board, the responsibilities of the Audit Committee include among other things the following: to issue opinions on proposals of potential auditors and to present recommendations on the appointment of the potential auditor. The Company complies with the Act on Auditors, Their Self-Government, Entities Authorised to Audit Financial Statements and Public Supervision of 7 May 2009, whereby the key auditor shall not audit financial statements of a company for a period of more than 5 years unless the key auditor dedicated to audits of the company's financial statements is replaced.

The entity authorised to audit the separate financial statements of GPW and the consolidated financial statements of the GPW Group for the financial year ended 31 December 2016 is KPMG Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa ("KPMG Audyt"), entered in the list of entities authorised to audit financial statements, entry no. 3546.

The agreement between GPW and KPMG Audyt was concluded on 21 October 2015 and covers the audit of the annual separate and consolidated financial statements for the financial years ended 31 December 2016 and the review of the interim separate and consolidated financial statements for each quarter of 2017.

The agreement concluded on 10 December 2013 between GPW and KPMG was in force in 2015 and covered the audit of the annual separate and consolidated financial statements for the financial years ended 31 December 2013 and 2014, the review of the interim separate and consolidated financial statements for each quarter of 2014 and 2015, and the verification of the calculation of Management Board bonus indicators for 2013 and 2014.

Table 15 Auditor's fees for services provided to GPW Group (net amounts, PLN)

Service	2016	2015	2014
Audit: • annual separate and consolidated financial statements for the financial year ended 31 December • verification of the calculation of GPW Management Board bonus indicators	80,000	80,000	85,500
Review of interim financial statements:			
• consolidated, for the period 01.01. – 31.03.	15,000	19,000	19,000
• consolidated, for the period 01.01 – 30.09.	15,000	19,000	19,000
• separate and consolidated, for the period 01.01. – 30.06.	22,000	28,500	28,500

III. 5. GPW Share Capital, Shares and Bonds

The share capital of the Company amounts to PLN 41,972,000 and is divided into 41,972,000 shares with a nominal value of PLN 1 per share including:

- 14,779,470 series A preferred registered shares, and
- 27,192,530 series B ordinary bearer shares.

27,192,530 series B ordinary bearer shares are introduced to trading on GPW (64.79% of all shares representing 47.92% of the total vote).

The series A registered shares are preferred as follows:

- each series A share represents two votes, and
- shareholders who hold more than 25% of the total number of series A registered shares (i.e., more than 10,493,000 series A registered shares) are not subject to the limitation on voting rights laid down in § 9(3) of the Articles of Association.

Holders of series A preferred registered shares may convert series A shares to series B ordinary bearer shares. Conversion of preferred registered shares to ordinary bearer shares results in a change of the number of votes conferred by each share from two votes to one vote per share.

GPW has no information as to agreements which could result in any changes in the future in respect of the proportions in shares held by the existing shareholders.

Table 16 GPW shareholders

Shareholder	Stake in the share capital		Votes at the General Meeting	
	Number of shares	Stake	Number of votes	Stake
State Treasury of the Republic of Poland - preferred shares (series A)	14 688 470	35.00%	29 376 940	51.76%
Other shareholders - preferred shares (series A)	91 000	0.21%	182 000	0.32%
Other shareholders - bearer shares (free float; series B)	27 192 530	64.79%	27 192 530	47.92%
Total	**41 972 000**	**100%**	**56 751 470**	**100%**

As at 31 December 2016, and as at the date of preparation of this report, the State Treasury of the Republic of Poland was the only shareholder holding directly or indirectly at least 5% of the overall number of votes at the GPW General Meeting.

Amongst all persons managing and supervising the Company, its shares bought in public offering (25 shares) were held as at the balance-sheet date by:

- Dariusz Kułakowski, Vice-President of the Management Board.

According to the Company’s best knowledge, persons currently managing and supervising the Company do not hold shares in its related parties.

The Company did not purchase its own shares in 2016. The Company has no employee share scheme; accordingly, it has no control system for an employee share scheme.

III. 6. Controlling Rights and Restrictions of Rights from Shares

CONTROLLING RIGHTS

As at the date of preparation of this report, the State Treasury of the Republic of Poland holds 14,688,470 series A registered shares preferred as to vote (one share gives two votes at the General Meeting); consequently, the State Treasury may exercise 51.76% of the total vote at the General Meeting. Thus, the State Treasury as a shareholder controls the Company and may exercise strategic control of the Company by exercising voting rights at the General Meeting. Only acquisition of more than 10,493,000 preferred shares (i.e., more than 25% of all preferred shares of the Company) from the State Treasury would enable another shareholder to use the aforementioned exemption. The State Treasury may exercise most of the votes at the General Meeting and may elect most of the members of the Exchange Supervisory Board. Furthermore, according to the Articles of Association, the President of the Management Board is elected by the General Meeting and the other Members of the Management Board including the Vice-Presidents of the Management Board are elected by the Exchange Supervisory Board. As the State Treasury may exercise most of the votes at the General Meeting and may elect most of the members of the Exchange Supervisory Board, it may control the composition of the Management Board directly or indirectly.

RESTRICTIONS ON EXERCISE OF VOTING RIGHTS

According to the Articles of Association, the voting right of shareholders is limited to the extent that none of them may exercise at the General Meeting more than 10% of the overall number of votes in GPW on the day when the General Meeting is held, provided that, for the purpose of determining obligations of acquirers of significant blocks of shares stipulated in the Act on Public Offering, such limitation of the voting right will be considered as not existing. The above limitation of voting right does not apply to:

- shareholders who on the day when the General Meeting passed a resolution on introducing the restriction referred to above (i.e., 30 July 2010) were authorised due to holding shares representing more than 10% of the overall number of votes existing in the Company (the State Treasury of the Republic of Poland is the only such shareholder);
- shareholders who are authorised due to holding more than 25% of the total number of shares preferred as to voting right referred to in § 4.1.1 of the Articles of Association, i.e., shareholders authorised due to holding more than 10,493,000 series A registered shares preferred as to voting right (the State Treasury of the Republic of Poland was the only such shareholder as at the date of preparation of this report).

In order to limit the voting right, the votes of shareholders between which a domination or dependency relationship exists are summed up in accordance with the rules laid down in the Company's Articles of Association. The Articles of Association define detailed limitations of the voting right. Should any doubts arise, the provisions regulating the voting right restrictions should be construed in accordance with Article 65 § 2 of the Civil Code.

No limitations or restrictions have been imposed on the transfer of proprietary rights to the Company's securities.

III. 7. Obligations of Shareholders Related to Material Blocks of GPW Shares

Obligations of GPW shareholders concerning material blocks of shares are subject to the provisions applicable to public companies laid down in the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies (including Article 69 which defines the threshold at or above which the shareholder is required to notify the Polish Financial Supervision Authority and the issuer of shares).

GPW is also subject to the provisions of the Act on Trading in Financial Instruments, in particular Article 24 which requires a person or entity intending to acquire or take up, directly or indirectly, shares of the Warsaw Stock Exchange representing at least 5% of the total number of votes or shares or causing it to reach or exceed 5%, 10%, 15%, 20%, 25%, 33% or 50% of the total number of votes or shares to notify the Polish Financial Supervision Authority. The Polish Financial Supervision Authority may raise objections within three months of the notification. If the Polish Financial Supervision Authority raises no objections, the acquisition of shares on the terms laid down in the notification may take place after three months from the notification or at the date set by the Polish Financial Supervision Authority. If GPW shares are acquired in the absence of objections of the Polish Financial Supervision Authority earlier than after three months or earlier than the date set by the Polish Financial Supervision Authority or in breach of objections of the Polish Financial Supervision Authority, any exercise of rights attached to GPW shares is ineffective.

III. 8. Rules for Amending the Articles of Association

Any amendment to the Articles of Association must be passed in the form of a General Meeting resolution adopted by a qualified majority of three fourths of votes. Moreover, in accordance with § 9.1 of the Articles of Association, a resolution on amending the Articles of Association may be adopted only by such General Meeting at which at least 50% of total votes in the Company are represented.

Amendments to the Articles of Association are effective if approved by the Polish Financial Supervision Authority and registered by the competent court. The Exchange Supervisory Board is authorised, at each time after the court decision to register amendments to the Articles of Association has become final, to adopt the consolidated text of the Company's Articles of Association.

GPW's Articles of Association were valid in 2016 in the same wording as in 2015. However, GPW's General Meeting on 25 June 2015 approved amendments of GPW's Articles of Association including:

- harmonisation of the Articles of Association with the actual structure of the share capital following the conversion of registered shares into bearer shares;

- procedure of appointment of members of the Exchange Management Board and the Exchange Supervisory Board;
- procedure of passing resolutions of the Exchange Management Board.

GPW published the text of the resolution in Current Report No. 15/2015, available on the company's website under the investor relations tab.

The amendments of the Articles of Association, other than the amendment authorising the GPW Management Board to pass resolutions in writing or through telecommunications, were approved by the Polish Financial Supervision Authority on 21 December 2015 and will apply following registration by the competent court.

III. 9. General Meeting

MAIN POWERS OF THE GENERAL MEETING

The powers of the General Meeting include decisions on the organisation and operation of the Company subject to the Code of Commercial Companies and Partnerships and the Articles of Association.

PROCEDURES OF THE GENERAL MEETING

The General Meeting makes decisions on the organisation and operation of the Company, appoints Members of the Exchange Supervisory Board and the President of the Exchange Management Board.

The General Meeting is the supreme authority of the Exchange. The General Meeting is summoned and operates under the Code of Commercial Companies and Partnerships, the Company's Articles of Association (in particular § 8 - § 12) and the General Meeting Rules. The Articles of Association and the General Meeting Rules are available on the GPW website under the Regulations tab.

The General Meeting may be held as:

- an ordinary general meeting summoned once per year within 6 months after the end of each financial year, i.e., no later than the end of June;
- an extraordinary general meeting summoned in the events laid down in the generally applicable regulations and in the Articles of Association.

A General Meeting is summoned by posting an announcement on the GPW website and in the procedure required for the publication of current reports by public companies. An announcement and the materials presented to the shareholders are available from the day that the General Meeting is summoned on the GPW website under the Investor Relations tab.

The General Meeting resolutions are passed in an open ballot, subject to other regulations, by an absolute majority of votes, save for resolutions which require a qualified majority in accordance with the Code of Commercial Companies and Partnerships or the Articles of Association. Secret ballot is ordered for elections and motions for revoking members of the Company's authorities or the Company's liquidators, or for holding them liable, and for other personal issues. Additionally, a secret ballot must be ordered if requested by at least one shareholder present in person or by proxy at the General Meeting.

It is possible to participate in the General Meeting by means of electronic communications if the announcement about the General Meeting contains information that such type of participation in the Meeting is admissible. Such participation includes: real-time broadcast of the General Meeting, two-way communication in real time where shareholders may speak during the General Meeting from a location other than the General Meeting, and exercising the voting right during the General Meeting in person by the shareholder or through a proxy.

SHAREHOLDER RIGHTS

The rights of shareholders and the procedure of exercising the rights at the General Meeting are laid down in the Code of Commercial Companies and Partnerships, the Articles of Association and the General Meeting Rules.

A shareholder or shareholders representing at least 30% of the share capital or at least 30% of total votes of the Company may summon a General Meeting. In addition, a shareholder or shareholders representing at least 1/20 of the share capital may request that items be put on the agenda of the next General Meeting under generally applicable regulations.

Only persons who are shareholders of the Company sixteen days before the date of the General Meeting (record date) are eligible to participate in the General Meeting. Shareholders may participate and exercise their rights at the General Meeting in person or through a proxy. Each shareholder may speak on matters put on the agenda.

A detailed description of the procedures of participation in the General Meeting and exercising the voting rights is presented at each time in the announcement of the General Meeting.

GENERAL MEETING IN 2016

The Ordinary General Meeting of GPW was summoned on 22 June 2016 and adjourned until 21 July 2016. Its agenda included among others review and approval of the report of the Management Board on the activity of the Company and the GPW Group and the financial statements for 2015, adoption of the resolution concerning distribution of the Company's profit for 2015, vote of discharge of duties to Members of the Exchange Supervisory Board and the Exchange Management Board, approval of the Corporate Governance Rules for Supervised Institutions issued by the Polish Financial Supervision Authority, approval of amendments of the Company's Articles of Association, changes in the composition of the Exchange Supervisory Board. The resolutions of the Ordinary General Meeting were published in Current Report No. 27/2016 of 23 June 2016 and Current Report No. 30/2016 of 21 July 2016; both documents are available on the Company's website under the Investor Relations tab.

The Extraordinary General Meeting of GPW was summoned on 12 January 2016 with an agenda including changes of the President of the Company and Members of the Exchange Supervisory Board. Another Extraordinary General Meeting was summoned on 30 November 2016 to change the composition of the Exchange Supervisory Board and to amend the rules of remuneration of Members of the Management Board and Members of the Exchange Supervisory Board. The resolutions of the Extraordinary General Meetings were published in Current Report No. 4/2016 and Current Report No. 41/2016.

GENERAL MEETING IN 2017

The Extraordinary General Meeting of GPW was summoned on 4 January 2017 with an agenda including changes in the composition of the Exchange Management Board and changes in the composition of the Exchange Supervisory Board. The resolutions of the Extraordinary General Meeting were published in Current Report No. 5/2017 of 4 January 2017 and are available on the Company's website under the Investor Relations tab.

III. 10. Supervisory Board and Committees

APPOINTMENT AND DISMISSAL OF SUPERVISORY BOARD MEMBERS

According to the Articles of Association, the Exchange Supervisory Board consists of five to seven members appointed for a joint three-year term by the General Meeting. Members of the Exchange Supervisory Board are elected and dismissed by the General Meeting. In the event of voting in groups under Article 385(3) of the Commercial Companies Code, the Exchange's Supervisory Board is composed of seven members.

The Exchange Supervisory Board elects the Chairman and the Deputy Chairman of the Exchange Supervisory Board from amongst its members. The Exchange Supervisory Board may elect the Secretary to the Exchange Supervisory Board from amongst its members.

According to the Articles of Association, the General Meeting appoints:

- at least one of the Exchange Supervisory Board members from among the candidates proposed by the shareholders being exchange members; and

- at least one of the Exchange Supervisory Board members from among the candidates proposed by the shareholder or shareholders who jointly represent at least 10% of the share capital not being exchange members.

Candidates nominated by both these groups need to meet the criteria for independence laid down below. A candidate must be nominated not later than 7 days before the scheduled date of the General Meeting. The nomination must be accompanied by the candidate's CV and specify the number of the shares and the number of votes the shareholder(s) nominating the given candidate represent(s). When voting on the candidates nominated by the shareholders who at the same time are exchange members, the first candidates put to vote are these nominated by the shareholders being exchange members representing the highest number of votes. If no candidates are nominated by the shareholders who at the same time are exchange members or by minority shareholders, the General Meeting elects all the Exchange Supervisory Board members on the general terms and conditions. If at least one candidate is nominated by the shareholders who at the same time are exchange members or by minority shareholders, the General Meeting elects the remaining Exchange Supervisory Board members on the general terms and conditions. If the General Meeting does not elect two Exchange Supervisory Board members following the procedure set out above in spite of candidates having been nominated by the shareholders, another General Meeting is convened, where the elections are held of such Exchange Supervisory Board members. If another General Meeting is convened, the shareholders must nominate other candidates than these originally nominated. The Exchange Supervisory Board member(s) elected following the procedure set out above may be dismissed only with the simultaneous election of an Exchange Supervisory Board member following the same procedure. In the event when due to the expiration of a mandate in the course of the term of office, except for dismissing an Exchange Supervisory Board member, the Exchange Supervisory Board does not include an Exchange Supervisory Board member elected following the procedure set out above, the elections are held not later than at the nearest Ordinary General Meeting.

At least two members of the Exchange Supervisory Board need to meet the criteria for independence laid down below. If an Exchange Supervisory Board member is elected in breach of the criteria for independence, such election will be ineffective in respect of the Company, and if the Exchange Supervisory Board member no longer meets the criteria for independence during the term of his/her office, his/her mandate shall expire.

The criteria for independence are met by a person who:

- is not a related person in respect of the Company (except for being the Exchange Supervisory Board member),

- is not a related person in respect of the Company's parent or subsidiary or a subsidiary of the Company's parent or a related person in respect of an entity in which the Company holds more than 10% of share capital;

- is not a relative by blood or marriage to the second degree of the person referred to above;

- is not a relative by blood or marriage to the second degree of the Company's shareholder holding more than 5% of all votes in the Company;

- is not a related person in respect of a Company's shareholder holding more than 5% of all votes in the Company as well as a related person in respect of such shareholder's parent or subsidiary or a subsidiary of such shareholder's parent;

- is not a relative by blood or marriage to the second degree of the person referred to in the item above.

A "related person" means a person who:

- is a member of the governing body of a legal person and, in the case of a partnership, a partner or a general partner;

- is employed, mandated or otherwise legally engaged by the entity the relationship with whom is being determined. The above shall apply to the persons who during the least 3 years preceding their election as the Exchange Supervisory Board members have been employed, mandated or otherwise legally engaged by the Company.

COMPOSITION OF THE SUPERVISORY BOARD

The powers of the Exchange Supervisory Board are laid down in the Articles of Association as follows:

- appointing members of the Management Board as described in the section "Management and Corporate Governance – Management Board - Composition";

- assessing the Exchange Management Board's report on the Company's operations and the financial statements for the preceding financial year;

- assessing the Exchange Management Board's proposals on the distribution of profits or covering the losses;

- presenting to the General Meeting a written report on the findings of the above assessment;

- approving the Exchange Management Board Rules at the request of the Exchange Management Board;

- adopting the Exchange Supervisory Board Rules;

- adopting the Exchange Rules at the request of the Exchange Management Board and amendments to these Rules;

- determining the terms and conditions of contracts and remuneration of the President of the Exchange Management Board and the other Exchange Management Board members, where the terms and conditions of contracts and remuneration of the other Exchange Management Board members are determined at the motion of the President of the Exchange Management Board;

- representing the Company in contracts and disputes between the Company and the Exchange Management Board members;

- consenting to the Company and a Company's related party entering into a significant contract within the meaning of the regulations on the current and periodic information provided by the issuers of securities admitted to trading on a regulated market, except for the standard contracts concluded by the Company at arm's length in the course of its business operations;

- determining the rules on which the Exchange Management Board members buy and sell the securities listed on the stock exchange operated by the Company;

- appointing the chartered auditor to audit the Company's financial statements;

- approving, at the request of the Exchange Management Board, the financial plan and the report on its implementation;

- presenting to the General Meeting an annual concise assessment of the Company's situation, including the internal control system and the system of managing the risks material for the Company;

- presenting to the General Meeting an annual report on the works of the Exchange Supervisory Board;

- considering and presenting opinions on the items to be placed on the General Meeting's agenda.

According to the Articles of Association, Exchange Supervisory Board as a rule passes resolutions by an absolute majority of votes; however, resolutions of the Exchange Supervisory Board in the following matters are passed by a majority of 4/5 of votes:

- approving the execution of an agreement which establishes a strategic alliance with another exchange (an agreement concerning in particular long-term operational relations to the extent of the Company's core business);

- approving the multi-annual development strategy of the Exchange on the request of the Exchange Management Board;

- approving the execution, to the extent permissible under legal regulations, of an outsourcing agreement concerning operational support of trading on the regulated market or any of its segments or an outsourcing agreement concerning operational support of trading in the alternative trading system;

- acquisition of an IT system dedicated to exchange transactions;

- approving the acquisition or disposal of shares or other interest in commercial companies or partnerships where their amount at purchase or sale price is more than 1/10 of the share capital of the Company, subject to § 9.2(2) of the Articles of Association.

The composition of the Exchange Supervisory Board as at the end of 2016 is presented in the table below.

Table 17 Composition of the Exchange Supervisory Board as at 31 December 2016

Name	Function	Independence
Wojciech Nagel	Chairman of the Exchange Supervisory Board	
Jarosław Grzywiński	Deputy Chairman of the Exchange Supervisory Board	Independent Member of the Exchange Supervisory Board
Marek Dietl	Member of the Exchange Supervisory Board	
Jarosław Dominiak	Member of the Exchange Supervisory Board	
Marek Słomski	Member of the Exchange Supervisory Board	Independent Member of the Exchange Supervisory Board

Mr Marek Wierzbowski resigned as a Member of the Exchange Supervisory Board on 11 January 2016. On 12 January 2016, GPW's Extraordinary General Meeting dismissed Mr Bogdan Klimaszewski, Mr Andrzej Ladko, Mr Waldemar Maj and Mr Wiesław Rozłucki from the Exchange Supervisory Board and appointed Mr Jarosław Grzywiński (from among candidates nominated by minority shareholders), Mr Łukasz Hardt, Mr Adam Miłosz, Mr Wojciech Nagel and Ms Ewa Sibrecht-Ośka to the Exchange Supervisory Board. Mr Marek Słomski is the Member of the Exchange Supervisory Board nominated by shareholders who at the same time are exchange members.

Mr Łukasz Hardt resigned as a Member of the Exchange Supervisory Board on 18 February 2016 following his appointment to the Monetary Policy Council.

On 22 June 2016, GPW's Ordinary General Meeting dismissed Mr Wojciech Nagel from the Exchange Supervisory Board. The Company's Ordinary General Meeting appointed Mr Jarosław Dominiak and Mr Marek Dietl to the Exchange Supervisory Board.

On 30 November, GPW's Extraordinary General Meeting dismissed the following Members of the Exchange Supervisory Board: Ms Ewa Sibrecht-Ośka, Mr Jacek Lewandowski and Mr Adam Miłosz. The Company's Extraordinary General Meeting appointed Mr Wojciech Nagel, Mr Wojciech Sawicki and Mr Łukasz Świerżewski to the Exchange Supervisory Board. Mr Wojciech Sawicki and Mr Łukasz Świerżewski resigned as Members of the Exchange Supervisory Board on 30 December 2016.

Table 18 Composition of the Exchange Supervisory Board as at the date of this Report

Name	Function	Independence
Wojciech Nagel	Chairman of the Exchange Supervisory Board	
Jarosław Grzywiński	Deputy Chairman of the Exchange Supervisory Board	Independent Member of the Exchange Supervisory Board
Marek Dietl	Member of the Exchange Supervisory Board	

Jarosław Dominiak	Member of the Exchange Supervisory Board	
Marek Słomski	Member of the Exchange Supervisory Board	Independent Member of the Exchange Supervisory Board
Grzegorz Kowalczyk	Member of the Exchange Supervisory Board	
Eugeniusz Szumiejko	Member of the Exchange Supervisory Board	

COMMITTEES OF THE EXCHANGE SUPERVISORY BOARD

According to the Exchange Supervisory Board Rules, the Exchange Supervisory Board appoints the following committees: the Audit Committee, the Remuneration and Nominations Committee, the Regulation and Corporate Governance Committee, and the Strategy Committee. The committees report to the Exchange Supervisory Board on an annual basis. The detailed powers and procedures of appointment and operation of the committees are defined in the Articles of Association and the Exchange Supervisory Board Rules available on the GPW website under the Regulations tab.

Table 19 Composition of Supervisory Board Committees as at 31 December 2016

Strategy Committee	
Marek Dietl Jarosław Dominiak Wojciech Nagel	Chairman Member Member
Regulation and Corporate Governance Committee	
Jarosław Grzywiński Jarosław Dominiak	Chairman Member
Remuneration and Nominations Committee	
Jarosław Grzywiński Marek Słomski	Member Member
Audit Committee [37]	
Marek Słomski Marek Dietl Jarosław Grzywiński	Chairman Member Member

Table 20 Composition and powers of Supervisory Board Committees as at the date of this Report

Strategy Committee		
Marek Dietl Jarosław Dominiak Wojciech Nagel	Chairman Member Member	♦ issues opinions on GPW's strategy and its updates, ♦ issues opinions on implementation of GPW's strategy, ♦ issues opinions on the aspects of GPW's privatisation, ♦ issues opinions on proposals of strategic alliances, ♦ issues opinions on proposals of acquisition of stakes in entities of strategic significance, ♦ issues opinions on materials related to exchange fees,
Regulation and Corporate Governance Committee		
Jarosław Grzywiński Jarosław Dominiak Wojciech Nagel	Chairman Member Member	♦ initiates and issues opinions on proposed changes in regulations, ♦ prepares position statements of the Supervisory Board and the Management Board,

[37] Two members of the Audit Committee met the criteria of independence and one member of the Audit Committee was qualified in accounting or auditing according to Article 86.4 of the Act on Auditors.

		♦ initiates, issues opinions and monitors activities related to the implementation of the corporate governance rules by GPW, ♦ initiates, issues opinions and monitors activities supporting the implementation of the corporate governance rules in listed companies,
Remuneration and Nominations Committee		
Jarosław Grzywiński Marek Słomski Wojciech Nagel	Member Member Member	♦ issues opinions on the remuneration system, ♦ issues opinions on employment contracts with the Exchange Management Board members, ♦ issues opinions on annual awards proposed for the Exchange Management Board members, ♦ issues opinions on the incentive system,
Audit Committee[38]		
Marek Słomski Marek Dietl Jarosław Grzywiński	Chairman Member Member	♦ issues opinions on financial statements and motions of the Management Board concerning profit distribution or coverage of a loss, ♦ issues opinions on GPW's financial plan, ♦ issues opinions on Exchange Management Board reports on performance of the financial plan, ♦ monitors financial audits, including the presentation of results of audits of annual financial statements, ♦ recommends the selection of the Company's auditor and its fees to the Exchange Supervisory Board, ♦ monitors the independence of the auditor and the entity authorised to audit financial statements

PARTICIPATION OF WOMEN AND MEN IN THE EXCHANGE SUPERVISORY BOARD

According to the *Code of Best Practice for GPW Listed Companies* applicable until 31 December 2016, GPW publishes information on the participation of women and men in the Exchange Supervisory Board.

Table 21 Number of women and men on the Exchange Supervisory Board

As at:	Number of women	Number of men
31 December 2010	2	5
31 December 2011	0	7
31 December 2012	0	7
31 December 2013	0	7
31 December 2014	0	7
31 December 2015	0	7
12 January 2016	1	6
19 February 2016	1	5

[38] As at the date of preparation of this Report, two members of the Audit Committee meet the criteria of independence and one member of the Audit Committee is qualified in accounting or auditing according to Article 86.4 of the Act on Auditors.

31 December 2016	0	5

III. 11. Exchange Management Board

APPOINTMENT AND DISMISSAL OF MANAGEMENT BOARD MEMBERS

The Exchange Management Board consists of three to five members, including the President of the Management Board. The Exchange Management Board members are appointed for a joint four-year term. The President of the Management Board is appointed by the General Meeting. The other members of the Exchange Management Board are appointed by the Exchange Supervisory Board at the President's request. At least one member of the Exchange Management Board should be appointed by a qualified majority of four-fifths of votes. However, if the Exchange Supervisory Board fails to appoint an Exchange Management Board member in such a manner within one month from the event which gives rise to the obligation to appoint such member, such member will be appointed by an absolute majority by the General Meeting. The first election of Exchange Management Board members under the above rules is held to appoint Exchange Management Board members for a new term of office or in the case of expiry of an Exchange Management Board member's mandate. Exchange Management Board members can serve as board members in other business entities only with the approval of the Exchange Supervisory Board.

The Exchange Management Board is the Company's executive body comprised of three to five members. As at 31 December 2016 and as at the date of this Report, the Exchange Management Boardu Zarząd Giełdy składał się z 4 członków

Given that the Company operates a stock exchange, additional rules regarding the composition of the Exchange Management Board apply under the Act on Trading in Financial Instruments of 29 July 2005. Accordingly, the Management Board should include persons with higher education, at least three years of experience in financial market institutions, and a spotless reputation as regards the functions they perform. If a company running an exchange organises an alternative trading system, the above conditions should also be satisfied by the persons directing those activities, unless members of the Exchange Management Board direct the organisation of the alternative trading system.

Changes to the composition of the Exchange Management Board require the consent of the Polish Financial Supervision Authority, which is granted at the request of the Exchange Supervisory Board. The Polish Financial Supervision Authority may refuse to grant consent if the proposed changes do not ensure that operations will be conducted in a way which does not jeopardize the safety of securities trading and properly safeguards the interests of participants in that trading.

POWERS OF THE MANAGEMENT BOARD

The Exchange Management Board handles the Company's affairs and assets, and represents it in its dealings with third parties. The Exchange Management Board exercises all powers that are not vested in the General Meeting or the Exchange Supervisory Board. Resolutions of the Exchange Management Board are adopted by an absolute majority of votes. Two Exchange Management Board members acting jointly or an Exchange Management Board member acting together with a commercial proxy are authorised to represent the Company. As at the date of preparation of this Report, no commercial proxies have been granted.

Pursuant to § 5.3 of the Articles of Association, the Exchange Management Board may, with the consent of the Exchange Supervisory Board, make interim dividend payments to the shareholders on the terms laid down in the Code of Commercial Companies and Partnerships. The Management Board has, however, no authority to issue or buy out shares.

COMPOSITION OF THE EXCHANGE MANAGEMENT BOARD

The table below presents the composition of the GPW Management Board as at the end of 2016:

Table 22 Composition of the Exchange Management Board as at the end of 2016

Name	Function
Małgorzata Zaleska	President of the Management Board
Paweł Dziekoński	Vice-President of the Management Board
Dariusz Kułakowski	Member of the Management Board
Michał Cieciórski	Member of the Management Board

The composition of the Exchange Management Board changed as follows in 2016: Mr Karol Półtorak resigned as Vice-President of the Exchange Management Board on 16 March 2016; Mr Grzegorz Zawada resigned as Vice-President of the Exchange Management Board on 23 May 2016.

On 12 January 2016, the Extraordinary General Meeting of the Company appointed Ms Małgorzata Zaleska as President of the Management Board. The decision took effect upon the delivery of the decision of the Polish Financial Supervision Authority approving the change to the composition of the Exchange Management Board to the Company on 10 February 2016. On 16 Match 2016, the Exchange Supervisory Board appointed Mr Paweł Dziekoński as Vice-President of the Exchange Management Board. The decision took effect upon the delivery of the decision of the Polish Financial Supervision Authority approving the change to the composition of the Exchange Management Board to the Company on 20 April 2016. On 23 May 2016, the Exchange Supervisory Board appointed Mr Michał Cieciórski as Member of the Exchange Management Board. The decision took effect upon the delivery of the decision of the Polish Financial Supervision Authority approving the change to the composition of the Exchange Management Board to the Company on 29 September 2016. On 16 December 2016, the Exchange Supervisory Board appointed Mr Jacek Fotek as Vice-President of the Exchange Management Board. The decision will take effect subject to the decision of the Polish Financial Supervision Authority approving the change to the composition of the Exchange Management Board.

Table 23 Composition of the Exchange Management Board as at the date of this report

Name	Function
Małgorzata Zaleska	President of the Management Board
Paweł Dziekoński	Vice-President of the Management Board
Michał Cieciórski	Vice-President of the Management Board
Dariusz Kułakowski	Member of the Management Board

On 7 February 2016, the Exchange Supervisory Board appointed Member of the Exchange Management Board Michał Cieciórski as Vice-President of the Exchange Management Board.

PARTICIPATION OF WOMEN AND MEN IN THE EXCHANGE MANAGEMENT BOARD

According to the *Code of Best Practice for GPW Listed Companies* (Section II.1.2a) applicable until 31 December 2016, GPW publishes information on the participation of women and men in the Exchange Management Board.

Table 24 Number of women and men on the Exchange Management Board

As at:	Number of women	Number of men
31 December 2010	2	2
31 December 2011	2	2
31 December 2012	2	2
31 December 2013	1	4
31 December 2014	0	5
31 December 2015	0	4
1 January 2016	0	3
10 February 2016	1	3
31 December 2016	1	3

ORGANISATIONAL CHART OF GPW S.A.

Chart 9 Organisational chart of GPW as at 31 December 2016

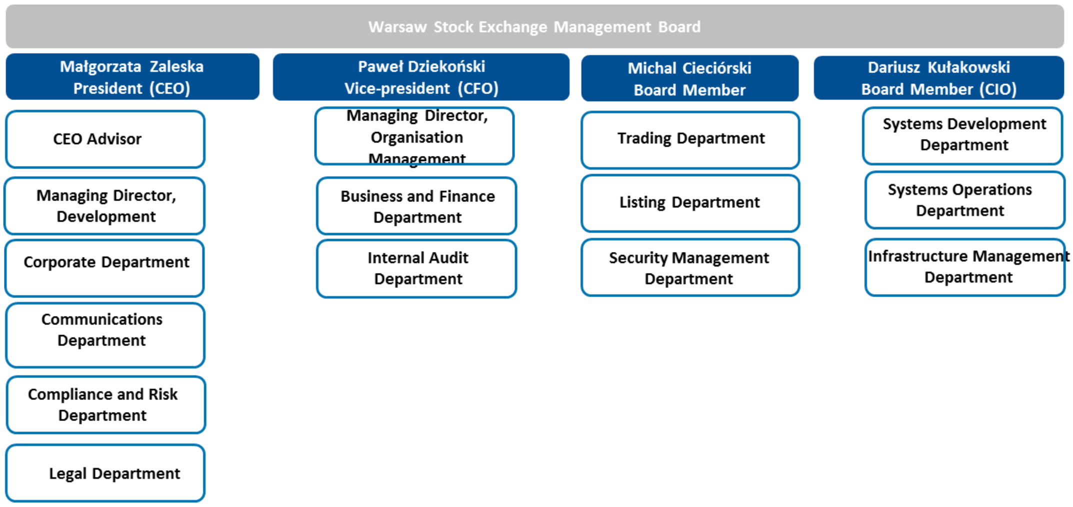
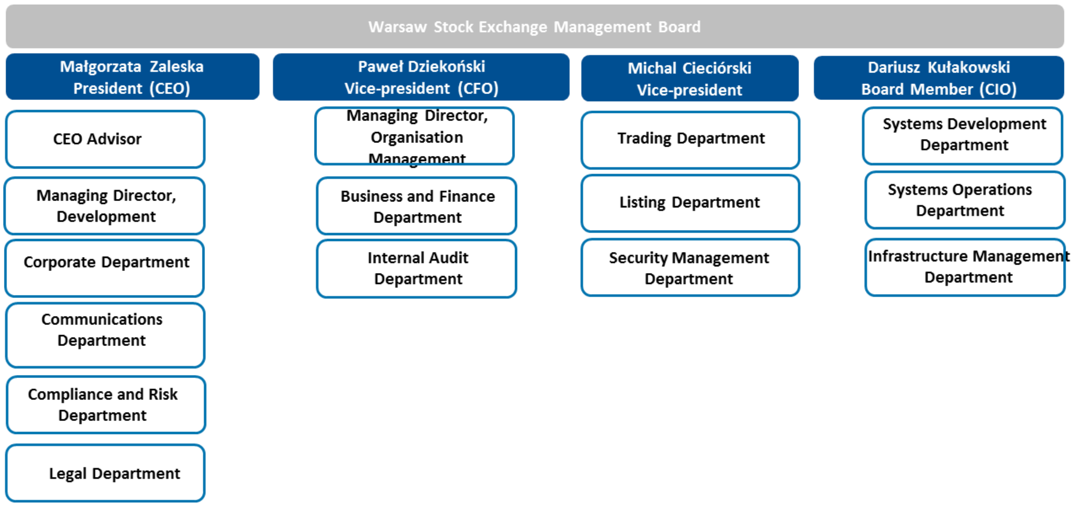


Chart 10 Organisational chart of GPW as at the date of this report



III. 12. Remuneration Policy

GPW REMUNERATION POLICY

The incentive remuneration system for employees and managers consists of the following components: a fixed part (basic remuneration), a variable part (including the annual bonus and discretionary awards), as well as fringe benefits. Basic remuneration on GPW is linked to the employee's potential, competences and performance.

The bonus system covers all GPW employees other than the Exchange Management Board Members. It provides a simple and clear mechanism of calculating and distributing the bonus pool. The overall bonus pool available for bonuses for all eligible GPW employees in a bonus year depends on the profit on sales generated by GPW.

The system is designed to incentivise employees for superior performance by achieving individual targets and evaluating employee attitudes; it incentivises managers to motivate their employees. The bonus system includes an annual employee appraisal which covers the employee's overall performance in the bonus year, identifies the employee's strengths and areas for improvement. The annual appraisal includes an assessment of the employee's individual targets and attitudes throughout the bonus year as well as the employee's overall performance in the bonus year as the basis for determining the amount of the bonus.

GPW provides employees with a wide range of fringe benefits including health care, life insurance, reimbursement of commuting costs, the Employee Pension Scheme, a canteen system. GPW employees can use loans including housing and medical loans, as well as payments from the Company Social Benefits Fund. Managers are entitled to a flat-rate reimbursement of the cost of a vehicle.

More information about employees, including the GPW training policy, recruitment policy and employee volunteering is presented in section *IV.4 Responsible Human Relations Policy*.

REMUNERATION POLICY FOR EXCHANGE MANAGEMENT BOARD MEMBERS

Pursuant to the Articles of Association, the power to determine the terms of the employment contracts and the amount of remuneration of the President and the other members of the Exchange Management Board has been vested in the Exchange Supervisory Board. However, the terms of the employment contracts and the amount of remuneration of the other members of the Exchange Management Board are determined upon the request of the President of the Exchange Management Board. The Members of the Management Board of the current term of office receive no remuneration for their functions on the boards of subsidiaries and associates of the GPW Group.

The remuneration system for the members of the Exchange Management Board is based on a long-term incentive system. It consists of a fixed part (basic remuneration), a variable part (incentive system, i.e., discretionary annual bonus), as well as fringe benefits to the extent defined by the Exchange Supervisory Board. The bonus system was implemented in 2014.

The variable part of remuneration, i.e., the discretionary annual bonus, may be awarded provided that the following criteria are met:

- the Company reports a net profit for the financial year for which the discretionary bonus is to be awarded;

- the member of the Exchange Management Board is employed as at the 30th day after the publication of the consolidated financial statements of the GPW Group;

- the Members of the Exchange Management Board are granted a vote of discharge of their duties for the last bonus year.

The amount of the bonus for Members of the Management Board depends on semi-annual appraisal of performance and the Company's results performed by the Exchange Supervisory Board, as well as verification of results of work of the Exchange Management Board Members in previous bonus years.

The Exchange Supervisory Board performs an annual appraisal which may determine the grant and the amount of the discretionary bonus awarded to a Management Board Member. The maximum amount of the discretionary annual bonus is capped as a percentage of annual basic remuneration. Payments of the awarded discretionary bonus are made as follows:

- 30% of the awarded bonus paid on a one-off basis;

- 30% paid in phantom shares, which are paid out one year after the award;[39]

- 40% of the awarded bonus is added to the bonus bank and settled in equal parts in the next three years subject to positive reassessment by the Supervisory Board of the work taken in the period of the bonus.

Fringe benefits available to the Management Board Members in 2016 included medical insurance, life insurance, a canteen system, as well as an Employee Pension Plan.

In addition to the foregoing, the Company has no incentive or bonus schemes based on the issuer's equity (including schemes based on bonds with pre-emptive rights, convertible bonds, subscription warrants, or stock options).

Table 25 Remuneration and benefits of Members of the Exchange Management Board paid and due for 2016 (PLN thousand)[40]

Management Board Member	Basic salary	Holiday equivalent	Bonus – one-off payment	Bonus – bonus bank	Bonus – phantom shares	Other benefits	Benefits after termination	Total
Małgorzata Zaleska	736	0	0	0	0	22	0	758
Paweł Dziekoński	457	0	0	0	0	11	0	467

[39] Form of remuneration where a certain number of virtual (phantom) shares are allocated for a period of time. The block of such shares authorises the manager to draw phantom payments in an amount depending on the GPW share price on the exchange.
[40] The amounts of bonus – one-off payment represent benefits paid in 2016 and due as at the end of 2016; the amounts of bonus – bonus premium and bonus –phantom shares for 2016 represent provisions.

Michał Cieciórski	169	0	0	0	0	4	0	173
Dariusz Kułakowski	660	0	0	0	0	28	0	688
Paweł Tamborski	207	0	0	0	0	7	67	280
Karol Półtorak	330	27	0	0	0	11	53	421
Grzegorz Zawada	440	53	0	0	0	17	42	553
Mirosław Szczepański						0,4	55	55
Total	**2999**	**80**	**0**	**0**	**0**	**100,4**	**217**	**3 395**

Table 26 Remuneration and benefits of Members of the Exchange Management Board paid and due for 2015 (PLN thousand)[41]

Management Board Member	Basic salary	Holiday equivalent	Bonus – one-off payment	Bonus – bonus bank	Bonus – phantom shares	Other benefits	Benefits after termination	Jubilee award	Total
Paweł Tamborski	826	0	267	255	198	52	0	0	1 599
Karol Półtorak	660	0	205	216	162	49	0	0	1 292
Grzegorz Zawada	660	0	195	200	150	38	0	0	1 243
Mirosław Szczepański	550	63	70	35	27	23	110	0	877
Dariusz Kułakowski	648	0	178	181	135	32	0	0	1 174
Adam Maciejewski	0	0	0	0	0	0	553	0	553
Beata Jarosz	0	0	0	0	0	0	221	0	221
Total	**3 345**	**63**	**915**	**887**	**672**	**193**	**884**	**0**	**6 958**

The tables above do not social security contributions paid by the employer. In addition, Members of the Exchange Management Board received no remuneration for their functions on the supervisory authorities of subsidiaries in 2015-2016.

TERMS OF EMPLOYMENT CONTRACTS WITH MEMBERS OF THE EXCHANGE MANAGEMENT BOARD

The current term of office of the Management Board of the Warsaw Stock Exchange started in 2016.

Three Members of the Management Board signed employment agreements for a determined period, i.e., until the end of their mandate. The agreements may be terminated by the Company or the Management

[41] The amounts of bonus – one-off payment represent benefits paid in 2015 and due as at the end of 2015; the amounts of bonus – bonus premium and bonus –phantom shares for 2015 represent provisions.

Board Member with a notice of termination as laid down in the Labour Code or by agreement of the parties.

In its Resolution No. 36/1455/2016 of 23 May 2016, the Exchange Supervisory Board appointed a fourth Member of the Exchange Management Board.

Table 27 Members of the Exchange Management Board, as at 31 December 2016

Member of the Management Board	In office from	In office to	Function
Małgorzata Zaleska	10 February 2016	for a determined period, i.e., until the end of the mandate	President of the Management Board
Paweł Dziekoński	20 April 2016	for a determined period, i.e., until the end of the mandate	Vice-President of the Management Board
Dariusz Kułakowski	25 July 2014	for a determined period, i.e., until the end of the mandate	Member of the Management Board
Michał Cieciórski	29 September 2016	for the term of the function	of the Management Board

In addition to employment agreements, the Exchange Supervisory Board signed non-competition agreements with the Members of the Management Board, which will take effect after the termination of employment for a term of 6 months irrespective of the grounds of termination of the employment agreement. The non-competition agreements may be terminated by the Company within 30 days of termination of the employment agreement.

The duration of agreements with three Management Board Members (Paweł Tamborski, Karol Półtorak, Grzegorz Zawada) was modified in 2016.

Paweł Tamborski resigned as President of the Management Board on 31 December 2015. The agreement was terminated with a three-month notice on 31 March 2016. According to GPW's declaration of termination of the non-competition agreement, after termination of employment, Mr Paweł Tamborski was paid compensation under the non-competition agreement in the amount proportionate to the term of the non-competition agreement.

Mr Paweł Tamborski was paid a discretionary bonus for the bonus year 2014 in 2016 as follows:

- ✓ cash in respect of phantom shares; and
- ✓ the first tranche of the bonus bank.

Karol Półtorak resigned as Vice-President of the Management Board on 16 March 2016. The agreement was terminated by agreement of the parties on 31 March 2016.

Following the termination of the employment agreement, Mr Karol Półtorak was paid a three-month compensation for early termination of the employment agreement.

According to GPW's declaration of termination of the non-competition agreement, after termination of employment, Karol Półtorak was paid compensation under the non-competition agreement in the amount proportionate to the term of the non-competition agreement.

Mr Karol Półtorak was paid a discretionary bonus for the bonus year 2014 in 2016 as follows:

- ✓ cash in respect of phantom shares; and
- ✓ the first tranche of the bonus bank.

Mr Grzegorz Zawada resigned as Vice-President of the Management Board on 23 May 2016. The agreement was terminated by agreement of the parties on 31 May 2016.

Following the termination of the employment agreement, Mr Grzegorz Zawada was paid a three-month compensation for early termination of the employment agreement.

According to GPW's declaration of termination of the non-competition agreement, after termination of employment, Grzegorz Zawada was paid compensation under the non-competition agreement in the amount proportionate to the term of the non-competition agreement.

Mr Grzegorz Zawada was paid a discretionary bonus for the bonus year 2014 in 2016 as follows:

- ✓ cash in respect of phantom shares; and
- ✓ the first tranche of the bonus bank.

In 2016, GPW paid compensation under the non-competition agreement to Mirosław Szczepański, who resigned as Vice-President of the Management Board. The agreement was terminated with a three-month notice on 31 October 2015. After termination of employment, Mirosław Szczepański was entitled to compensation under the non-competition agreement at 100% of his remuneration for a period of three months until January 2016.

Mr Mirosław Szczepański was paid a discretionary bonus for the bonus year 2014 in 2016 as follows:

- ✓ cash in respect of phantom shares; and
- ✓ the first tranche of the bonus bank.

REMUNERATION OF EXCHANGE SUPERVISORY BOARD MEMBERS

According to the Articles of Association, the Exchange Supervisory Board Members receive remuneration in the amount set by the Ordinary General Meeting.

Until 29 November 2016, pursuant to the Resolution of the Company's Ordinary General Meeting of 25 July 2014, the amount of monthly remuneration of the Exchange Supervisory Board members was set as follows:

Chairman of the Exchange Supervisory Board – 2 times the average monthly remuneration in the enterprise sector, net of profit bonuses for the fourth quarter of the previous year, as announced by the President of the Central Statistical Office (GUS);

Deputy Chairman of the Exchange Supervisory Board, Secretary to the Exchange Supervisory Board, Member of the Exchange Supervisory Board – 1.5 times the average monthly remuneration in the enterprise sector, net of profit bonuses for the fourth quarter of the previous year, as announced by the President of the Central Statistical Office (GUS).

According to a resolution of the Extraordinary General Meeting of the Company of 30 November 2016, the amount of monthly remuneration of the Exchange Supervisory Board members was set at 1.5 times the average monthly remuneration in the enterprise sector, net of profit bonuses for the fourth quarter of the previous year, as announced by the President of the Central Statistical Office (GUS).

The amount of remuneration is raised by a percentage of the monthly remuneration as follows:

- ♦ for the Chairman of the Exchange Supervisory Board – 10%,
- ♦ for the Deputy Chairman of the Exchange Supervisory Board – 9%,
- ♦ for the Secretary to the Exchange Supervisory Board – 8%,
- ♦ for Chairmen of Committes f the Exchange Supervisory Bo – 9%.

The additional remuneration is not aggregated.

Table 28 Remuneration of the Supervisory Board members (PLN thousand)

Exchange Supervisory Board Member	Year ended 31 December 2016	Year ended 31 December 2015
Adam Miłosz	79	0
Marek Słomski	78	74
Jarosław Grzywiński	75	0
Jacek Lewandowski	71	74
Ewa Sibrecht-Ośka	68	0
Wojciech Nagel	53	0
Marek Dietl	41	0
Jarosław Dominiak	40	0
Łukasz Hardt	8	0
Wiesław Rozłucki	3	99
Marek Wierzbowski	2	74
Waldemar Maj	2	74
Bogdan Klimaszewski	2	38
Andrzej Ladko	2	38
Dariusz Kacprzyk	0	31
Piotr Piłat	0	37
Wojciech Sawicki[42]	0	0
Łukasz Świerżewski[43]	0	0

Exchange Supervisory Board members have no supervisory or management functions in GPW subsidiaries.

EVALUATION OF THE REMUNERATION POLICY

The Company’s remuneration policy based on an incentive system directly supports the implementation of GPW’s business strategy. The Company’s remuneration system is based on fixed remuneration and variable remuneration under the incentive system. The remuneration system also includes other factors such as recognition, career development and work conditions, which contributes to the Company’s organisational culture and facilitates the implementation of the business strategy.

The remuneration policy differentiates between pay levels depending on the job position, performance and competences. The variable component provides flexibility and aligns the system with the implementation of GPW’s strategy. The incentive system links the Company’s management with the goals of the GPW strategy and cascades the goals to employees, thus supporting GPW’s business.

The extensive system of employee benefits is competitive on the market while ensuring cost efficiency for the Company. As a part of the HR strategy, the remuneration policy consistently helps to recruit, retain and incentivise employees.

III. 13. Changes of Main Management Rules of GPW and the GPW Group

CHANGES IN THE GPW GROUP STRUCTURE

The following changes were implemented in the GPW Group structure in 2016 in line with the company’s business strategy and optimising initiatives:

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[42] Wojciech Sawicki resigned from remuneration

[43] Łukasz Świerżewski resigned from remuneration

- Following a new 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 23.89% as at 30 June 2016. GPW's share in economic and voting rights decreased from 26.33% to 23.30%.
- Following a new share issue without the participation of GPW, GPW's share in Aquis measured by the number of shares decreased to 23.60% as at 30 September 2016. GPW's share in economic and voting rights decreased to 20.79%.

CHANGE OF PERSONS SITTING ON THE AUTHORITIES OF GPW GROUP COMPANIES

The change of GPW's managing persons as well as changes to GPW's organisational structure are described in section *III.10. Exchange Management Board*. The section below outlines changes in other companies participating in the GPW Group as at the end of 2016.

BondSpot S.A.

As at 31 December 2016, the Management Board of BondSpot S.A. consisted of two persons:

- Agnieszka Gontarek – President of the Management Board,
- Piotr Woliński – Vice-President of the Management Board,

Jacek Fotek resigned as President of the Management Board of BondSpot S.A. on 11 April 2016. GPW Managing Director for Development and Member of the Supervisory Board of BondSpot S.A. Izabela Olszewska was delegated to perform the functions of President of the Management Board of BondSpot S.A. Agnieszka Gontarek was appointed to the Management Board of BondSpot S.A. as its President on 6 July 2016.

Towarowa Giełda Energii S.A. (Polish Power Exchange)

As at 31 December 2016, the Management Board of POLPX consisted of two persons:

- Paweł Ostrowski – President of the Management Board,
- Michał Cieciórski – Member of the Supervisory Board delegated to perform the functions of Vice-President of the Management Board

Ireneusz Łazor resigned as President of the Management Board of the Polish Power Exchange on 29 July 2016. Member of the Supervisory Board of the Polish Power Exchange Paweł Dziekoński was delegated to perform the functions of President of the Management Board of the Polish Power Exchange for a period of up to 3 months on 11 August 2016. Mr Michał Tryuk resigned as Vice-President of the Management Board of the Polish Power Exchange on 11 August 2016. Member of the Supervisory Board of the Polish Power Exchange Izabela Olszewska was delegated to perform the functions of President of the Management Board of the Polish Power Exchange on 10 November 2016 r a period of up to 3 months. On 28 November 2016, the Extraordinary General Meeting of the Polish Power Exchange appointed Paweł Ostrowski as President of the Management Board of the Polish Power Exchange. The resolution appointing him to the Management Board as its President took effect upon the delivery of the decision of the Polish Financial Supervision Authority to the Company on 14 December. Maciej Piotrowski resigned as Vice-President of the Management Board of the Polish Power Exchange on 15 December 2016. The Supervisory Board of the Polish Power Exchange delegated Mr Michał Cieciórski, Member of the Supervisory Board of the Polish Power Exchange, to perform the functions of Member of the Management Board of the Polish Power Exchange for a period of up to 3 months on 21 December 2016.

IRGiT S.A.

As at 31 December 2016, the Management Board of IRGiT S.A. consisted of two persons:

- Marek Wodnicki – Deputy Chairman of the Supervisory Board delegated to perform the functions of President of the Management Board,
- Andrzej Kalinowski – Member of the Management Board of IRGiT S.A.

InfoEngine S.A.

Adam Simonowicz was the President of the Management Board in 2016. Krzysztof Ajdukiewicz was delegated to perform the functions of President of the Management Board for a period of up to 3 months on 1 January 2017.

GPW Benchamark S.A.

In 2016, the Management Board of GPW Centrum Usług S.A. consisted of:

- Dariusz Kułakowski – President of the Management Board,
- Iwona Edris – Board Member.

Instytut Analiz i Ratingu S.A.

In 2016, the Management Board consisted of:

- Jan Koleśnik – President of the Management Board

Maja Goettig resigned as President of the Management Board and Błażej Lepczyński resigned as Vice-President of the Management Board on 29 April 2016. The Supervisory Board of the Company delegated Piotr Kajczuk to perform the functions of President of the Management Board for a period of up to 3 months on 29 April 2016. The Supervisory Board of the Company appointed Jan Koleśnik to the Management Board of the Company as its President on 29 July 2016.

IV. CORPORATE SOCIAL RESPONSIBILITY

IV. 1. CSR Strategy of the GPW Group

The Warsaw Stock Exchange and the companies of the GPW Group pursue their business operations in compliance with the highest business standards and taking into account social, ethical and environmental factors.

The GPW Group not only focuses on its core business in a sustainable and responsible way but also fosters responsible behaviour of the participants of its markets.

Since 2013, GPW is a member of the Sustainable Stock Exchanges, a UN initiative of 61 global exchanges which pursue sustainable and responsible business and promote the highest ESG (Environment, Social, Governance) standards on their home markets through initiatives addressed to market participants.

GPW's key initiative in this area was the modification of the Best Practice for GPW Listed Companies, a code of conduct which has for years set the standard for public companies in Poland. Following many months of market consultations and dialogue with the capital market community, an extended and detailed body of new principles was defined to improve the quality of corporate communications with the markets and investors and enhance the transparency and safety of business. The Exchange Supervisory Board approved the new corporate governance code entitled "Best Practice of GPW Listed Companies 2016" which took effect on 1 January 2016. In 2016, the RESPECT Index – the socially responsible company index published by GPW since 2009 – continued to develop, including the tenth survey of ESG compliance by listed companies. The survey results demonstrate that public companies listed on GPW improve their CSR and sustainable development standards year after year. The Warsaw Stock Exchange as a public company has been surveyed for three years now and clearly improved its Governance and Social performance, remaining a member of the index.

This was largely due to the Exchange's CSR (Corporate Social Responsibility) strategy, which was revised in 2015. GPW's initial CSR strategy was developed and implemented in 2013. In 2015, GPW revisited its assumptions and implemented the strategy in all of the GPW Group companies. GPW continued to pursue its CSR strategy in 2016.

The mission of the GPW Group is to support economic growth and build an investment culture by ensuring highest standards and safety of trading in a professional and responsible process. The Group's CSR strategy provides for the implementation of the mission and for building of the Group's value while respecting the interests of the environment of the Group's companies based on dialogue and co-operation with all stakeholder groups.

The business strategy of the Warsaw Stock Exchange Group published in October 2014 provides for the consolidation of initiatives of Group companies on many levels, also beyond their business operations. The Group is working steadily and consistently to harmonise the procedures, policies and standards across its companies in order to create a stronger and more coherent entity which successfully pursues its business on the financial and commodity markets. As a part of the process, the GPW Group has developed and implemented a corporate social responsibility (CSR) strategy.

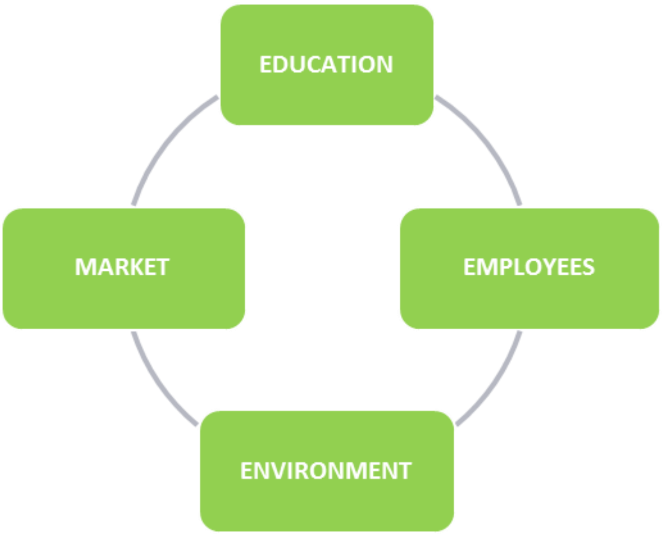
The CSR strategy was developed in the work of a task force including representatives of BondSpot, the Polish Power Exchange as well as GPW managers responsible for GPW's key business areas in terms of ESG factors. As a result, the GPW Group established a CSR Committee to monitor the implementation and further development of the CSR strategy.

Similar to GPW's CSR strategy implemented in 2013, the GPW Group's CSR strategy is based on four main pillars important to the activity of GPW and its subsidiaries as well as their role in the Polish financial and commodity markets:

- education,

- market relations and dialogue,
- responsible human resources policy,
- protection of the natural environment.

Chart 11 Main areas of the GPW Group's CSR strategy



IV. 2. Education

According to the GPW Group's CSR strategy, education is the foundation of the general public's trust in the capital and commodity markets and their institutions. Hence, a key objective of the GPW Group is to foster a culture of investing while raising awareness of the mechanisms of capital and commodity markets in order to encourage Poles to invest their savings and urge companies to raise growth capital on the capital market.

THE GPW FOUNDATION

The Warsaw Stock Exchange and its subsidiaries – the Polish Power Exchange and BondSpot – have for years pursued educational campaigns focused on the capital, commodity and debt markets addressed to school and university students, investors and professionals. To amplify the reach and efficiency of their educational initiatives and to leverage synergies, the GPW Group companies established the GPW Foundation in May 2015.

Knowledgeable investors and other participants of GPW Group markets equipped with the right tools and expertise build market value and credibility while enhancing trust of the general public.

The mission of the GPW Foundation is to develop and adapt the educational offer of the GPW Group including education in financial, commodity and debt markets and broadly understood economics.

The Foundation pursues its mission by organising and implementing school and educational projects for school and university students, investors and professionals active on the financial and commodity markets.

The GPW Foundation's educational initiatives focus on two areas: education of non-professionals for whom the capital market is not a workplace (individual investors, school and university students) and education of professionals active on the GPW Group markets (brokers, issuers, institutional investors, shareholders).

The educational projects and initiatives implemented by the GPW Foundation in 2016 included:

- **Go4Poland – a programme designed to seek talents** among Polish students of foreign universities and to encourage them to work with Polish companies and institutions. Following an evaluation of the first edition completed in 2015, the Foundation initiated the second round of the programme. In H2 2016, efforts were launched to attract partners, sponsors and ambassadors for the project. The timeline of the project was modified based on the opinions of participants. The key part of the programme comprised of workshops, internships and the final conference of the second edition are scheduled for July 2017.

- **School visits to GPW** – an online reservation system put in place on the GPW website in 2015 allows teachers to manage bookings and confirm dates of school visits at their convenience. Visits include a presentation by a Foundation representative as well as a multimedia demo class for school students. As part of the project, around 5,800 school students in 165 groups visited GPW in 2016. The Foundation's online database has registered 265 teachers.

- **Commodity market training:**

  - ✓ Lecture on "REMIT Requirements and Reporting" offered as part of the "REMIT Disclosure and Reporting Obligations" training programme co-hosted by the GPW Foundation and MM Conferences SA, 10.03.2016;

  - ✓ Lecture on "Opportunities to Buy Gas on the Polish Power Exchange in the Context of Gas Market Liberalisation" at the Reczpospolita workshop "Gas Market Purchase Strategies", 17-18.03.2016

  - ✓ Training "Electricity Trade and POLPX Commodity Products" provided at the request of Grupa Zakupowa Biznes sp. z o.o., July 2016.

- **Commodity market training:**

Other training programmes and educational initiatives implemented by the Foundation and GPW in 2016:

- **Product training** – training offered at the GPW premises by the Foundation in partnership with brokers who are Exchange Members, dedicated to existing and prospective investors and other interested parties. The training themes included GPW-listed financial instruments. Seven product training sessions were offered in 2016. In addition, exchange experts presented the exchange and listed instruments at scientific conferences organised by universities across Poland (AGH University of Science and Technology, Wrocław University of Technology, Warsaw School of Economics) and for groups of students visiting GPW. The product training sessions and initiatives addressed to students reached ca. 1,200 participants.

- **Capital Creation Academy** – regular events held several times per year in Poland's biggest cities in partnership with the Association of Individual Investors (SII), where experts share their expertise about the capital markets, listed instruments and techniques of investing. In 2016, the Foundation partnered with one round of the Academy programme which offered six sessions from 12 to 28 April 2016. The main theme of the series was "Pension Savings: Investment with Value". The total number of training participants was around 450 persons.

- **ING Turbo Game** – an educational competition organised in partnership with ING Securities, offering virtual investment of cash in exchange-listed ING Turbo certificates, equities and ETF units. The objective of the competition was to educate investors and to promote exchange-traded structured products. The competition had 5,395 enrolled contestants, of whom 1,700 closed at least one trade during the game.

- **Training series "Your Time, Your Knowledge, Your Investment"** – a national series of 11 training sessions hosted by GPW in partnership with Dom Maklerski PKO BP focusing on the basics of investing in exchange-traded instruments and analysis of conditions on the exchange. Training was offered in the biggest cities of Poland, mainly in regional capitals. Each training session featured a presentation by a GPW expert on "Instruments for All Trends" as well as a presentation of Dom Maklerski PKO BP on the "Analysis of Current Market Conditions". The programme had 872 participants.

- **Exchange School Online Game** – an educational project addressed to senior high school students, available since 2002 in partnership with the Lesław A. Paga Foundation. The Game offers young people a hands-on experience of investing on the exchange, analysing of market conditions, decision-making and team work. The project includes two modules: an investment game on the GPW educational platform GPWTr@der and an e-learning course which covers 11 topics about the exchange, the capital market and listed instruments. The GPW Foundation supported the project's content and budget in 2016. The project brought together 17,424 school students, 6,074 teams, 622 schools, 722 teachers.
- **Modern Business Management Programme** – initiated by the Polish Bank Association, the programme now includes more than 120 universities in Poland. It has a national footprint and reaches thousands of university faculty and students. The programme aspires to raise awareness of the financial market. The GPW Foundation established relations with the programme organisers and participated in the work of its Consultation Board in 2016. As a result, we signed a cooperation agreement and arranged 22 lectures about long-term investing offered by educators of the Exchange School as well as exchange experts. The lectures reached 1,018 students.
- **Training in partnership with Google Polska** – on 10 August 2016, the Foundation and Google Polska hosted a training session for GPW-listed companies in the high-tech sector. Themes covered included management of e-commerce, export campaigns, applications of investor relations online tools, as well as online brand building. The training brought together 40 representatives of companies.
- **Competition for PhD, MA and BA theses with awards from the President of the Warsaw Stock Exchange –** in 2016, GPW opened a new edition of the competition for PhD, MA and BA theses about the capital market with awards from the President of the Warsaw Stock Exchange. The programme encourages graduate and post-graduate students to improve their knowledge about the capital market, its infrastructure institutions and modern financial instruments. The competition is open to authors of theses submitted for a degree in Poland from January to December of the previous calendar year. The winners of the competition were announced on 6 December 2016 at a gala on the GPW Trading Floor.
- **Education in the media –** the Warsaw Stock Exchange engages in education through the mass media. In 2016, in partnership with Poland's most popular daily FAKT, we completed a six-part educational campaign introducing the readers to the vocabulary of the Warsaw Stock Exchange and the capital market. Other educational initiatives in 2016 were offered in the Polska Press regional dailies and the weekly Gość Niedzielny.

EXCHANGE SCHOOL

A flagship educational programme arranged by GPW for many years, the Exchange School includes courses which introduce beginners to investing and cover the following topics: the capital market and the exchange, the rules of investing, company selection and evaluation, impact of the economic environment on the exchange, and management of securities portfolios. The courses are held regularly in Poland's biggest cities in partnership with local higher schools and in Warsaw by the Exchange.

In January 2016, the GPW Foundation became the coordinator of the Exchange School project responsible for its development under a licence. We updated the teaching materials and implemented an Exchange School programme for intermediate participants in 2016. The course "Exchange for Intermediate Users" covers more advanced topics: technical and fundamental analysis, derivatives, Turbo certificates traded on GPW.

The Exchange School was launched in another four universities in 2016, including the University of Łódź, the Warsaw School of Economics, the Marie Curie-Skłodowska University, and the Białystok University of Technology. The project now has 11 participating universities, and two more have expressed interest.

We completed 17 open courses "Basics of Investing on the Exchange" and a pilot course "Exchange for Intermediate Users" in 2016. We also organised two in-house courses at the request of PKO PTE. All the courses had ca. 400 participants.

RESPECT INDEX

The RESPECT Index project is a flagship initiative of the Warsaw Stock Exchange and a part of its educational efforts in support of social responsibility of GPW listed companies and responsible investing in Poland.

The index portfolio includes companies listed on the GPW Main Market which follow the highest standards of corporate governance, disclosures and investor relations taking into account environmental, social and governance (ESG) factors in their business. The companies are audited and the index portfolio is revised once per year in the second half of the year. The index portfolio includes the biggest listed companies participating in the indices WIG20, mWIG40 and sWIG80. The companies are selected in three steps of verification carried out by GPW and the Association of Listed Companies in the areas listed above as well as an audit performed by the project partner since the first edition: Deloitte.

Initiated in 2009 as CEE's first responsible company index, it was the first CSR index in the Polish market and remains a benchmark for listed companies that aspire to serve as a CSR model.

The index requirements take into account the industrial specificity of companies. The survey questionnaire includes questions dedicated to all companies as well as questions for companies which pursue a specific business according to the classification deployed by GPW: Industry, Finance, and Services. The participation of each company in the index is defined on the same terms as for the other GPW indices, taking into account free-float shares, where the weight of the biggest companies is capped at 25% where the number of index participants is under 20 or 10% otherwise.

The RESPECT Index portfolio included between 16 and 25 companies in the ten editions of the survey, last held in the autumn of 2016. The current index portfolio includes 25 companies. The index has evolved since its inception. The requirements for companies have been steadily raised to increasingly accommodate trends typical of mature capital markets, meet stakeholders' requirements, and provide a full picture of the reported ESG factors. The ninth edition of the RESPECT Index project made several modifications to the questionnaire used to classify companies:

- **Social** – integrated reports were added to reporting required to meet the RESPECT Index criteria, enabling companies to rely on reporting standards alternative to the Global Reporting Initiative (GRI);
- **Social** – diversity at the workplace was added to the issues under review;
- **Governance** – amicable resolution of disputes with stakeholders, including contractors and clients, was added to the survey.

The ten editions to date have had 40 participants. This year's edition features four new participants. Eight companies have participated in all of the index editions. They are the market leaders consistently improving on their corporate social responsibility commitments. It should be noted than three-fourths of companies participating in the RESPECT Index prepare non-financial reports, including 90 percent under the GRI standards, of which 50 percent are audited.

The results of the 2016 survey suggest that the companies participating in the RESPECT Index improve their ESG (environmental, social, governance) performance year after year. The average score of companies in the tenth edition of the RESPECT Index project was 68.4 points, combined with a particularly high share of new participants of the index (4 companies). The highest score was more than

80 points (with a maximum of 90 points), similar to the ninth edition. The companies participating in the RESPECT Index actively take systemic measures to adopt the best practice in all ESG areas. This largely improves their perception in the business environment.

The RESPECT Index performance corroborates the fundamental notion of responsible investing whereby investment in companies managed in a sustainable way which respect the environment and the interests of all stakeholders involves lower risk and generates above-average returns. From the first publication of the index on 19 November 2009 to the end of 2016, the RESPECT Index return rate was 54%, compared to return on WIG20 at 32% over the same period.

Figure 51 Performance of the RESPECT Index and WIG [normalised]

EDUCATIONAL INITIATIVES ON THE COMMODITY MARKET

The Polish Power Exchange (POLPX) also pursues educational initiatives addressed to market participants in order to develop and promote transparent trade in products offered by POLPX and to raise the awareness of the benefits of trade on POLPX. Such initiatives are addressed both to market participants and POLPX members.

In 2016, POLPX offered a series of training programmes and examinations for commodity exchange brokers. The programme prepares candidates for exchange brokers who represent exchange members in trading on POLPX markets. Each training ends with an examination. Brokers who pass the exam and get certified are authorised to trade on behalf of exchange members. The series included 22 training sessions and examinations on the Exchange Commodity Market and 2 training sessions and examinations on the Financial Instruments Market. POLPX issued 164 certificates to brokers on both these markets.

In 2016, POLPX continued to work in partnership with universities and organised workshops on the role of energy exchanges and commodity markets. POLPX's flagship initiative is its partnership with the Lesław A. Paga Foundation in the Energy Academy Project designed to create a platform of exchange of expertise between practitioners with long-time experience in the energy industry and beginners who are starting a career in the industry. POLPX also offered workshops under the umbrella of the New Energy Forum in 2016 as a platform of knowledge exchange between the best students participating in student science clubs across Poland and the biggest strategic energy companies. POLPX coorganised conferences and hosted workshops to present the role of commodity exchanges on the electricity and gas market.

In June 2016, POLPX in partnership with the Warsaw Commodity Clearing House (IRGiT) organised the ninth edition of the Trading Forum as a platform for the exchange of opinions and development of new solutions in collaboration with direct participants of the markets operated by POLPX. The three-day event featured discussion panels, presentations and integration activities.

In addition, POLPX arranged the following educational and information initiatives in 2016: a series of training sessions on the POLPX RRM services for OTC trade; a seminar devoted to gas hubs in Western

Europe and the USA; the seminar "Polish Power Exchange: Its Role on the Domestic and European Market, Regulatory Environment, Products and Terms of Participation".

IV. 3. Market Relations and Dialogue

Pursuant to the CSR strategy, the key objectives of the GPW Group include the development of corporate culture and behaviours of capital and commodity market participants in Poland according to high standards of corporate governance and disclosure requirements. This goal is pursued through efforts made in partnership and dialogue with capital and commodity market stakeholders.

BEST PRACTICE AND CORPORATE GOVERNANCE

A key project of the Warsaw Stock Exchange in the area of dialogue and relations with market participants was a modification of the code of Best Practice for GPW Listed Companies to harmonise it with the current market practice and European regulations and to further improve the quality of the corporate governance standards of listed companies.

Since 2002, the Exchange has promoted corporate governance principles through on-going development and promotion of the Best Practice for GPW Listed Companies designed to improve the transparency of listed companies, the protection of shareholder rights and the quality of corporate investor communications. Subsequent amendments of the principles of the code followed modifications of legal regulations, current international trends of corporate governance, as well as changing needs and expectations of market participants.

GPW wanted the new Code of Best Practice to be developed by market participants. The Exchange is its guardian but the Code was drafted by market participants for the market. Hence, GPW expects the shareholders of public companies to commit towards monitoring of compliance with the Code

The Exchange Supervisory Board approved the new corporate governance code entitled "Best Practice of GPW Listed Companies 2016" on 13 October 2015. The new code took effect on 1 January 2016. The Best Practice 2016 was based on the work of experts representing different groups of capital market participants within the GPW Corporate Governance Consultation Committee. The Committee involved the following institutions: the Polish Financial Supervision Authority (KNF), the Association of Individual Investors (SII), the Association of Listed Companies (SEG), the Chamber of Pension Fund Companies, the Polish Institute of Directors. The draft was presented for public consultation with the participation of representatives of issuers and investors among others.

To address comments raised by the recipients of the Best Practice 2016, the new document clarified a number of existing rules and imposed stricter requirements in selected key areas of corporate governance. At the same time, it followed the principle of adequacy by aligning the rules and recommendations with the ability of companies of different sizes to ensure compliance. The document also included issues previously not covered by the corporate governance rules.

To meet issuers' expectations, GPW has drafted a set of Q&As to clarify the recommendations and principles, and developed technological solutions facilitating compliance of companies with the disclosure requirements under the new rules of corporate governance. Educational initiatives in this area were also active in 2016.

NEWCONNECT 2.0 PROJECT

The Exchange took the initiative to improve the quality of corporate governance and standards of issuers on NewConnect by activating the market community. In the NewConnect 2.0 project, GPW appointed a Board of Authorised Advisers to strengthen the responsibility of Authorised Advisers on the NewConnect market. The Board is comprised of 12 members, including nine Authorised Advisers, and they are responsible for defining the directions of development of the Alternative Trading System, drafting the guidelines of activity of Authorised Advisers, and issuing opinions on proposed amendments of laws and regulations governing the organisation of the market. The Board of Authorised Advisers operates as a standing advisory committee to GPW.

In continuation of the initiative, a new segmentation of NewConnect took effect in June 2016. GPW defined the new segmentation of NewConnect in close cooperation with the Board of Authorised Advisers. The new segments NewConnect Focus (NC Focus), NewConnect Base (NC Base) and NewConnect Alert (NC Alert) will help investors to identify companies listed on NewConnect. In the next steps of the NewConnect 2.0 project, a new NewConnect website will be launched and the Best Practice of Companies Listed on NewConnect and the Best Practice of Authorised Advisers will be reformed.

NEW SECTOR CLASSIFICATION OF GPW ISSUERS

The Warsaw Stock Exchange decided to introduce a new sector classification of issuers. The existing sector classification of companies separately on the regulated market and in the alternative trading system will be replaced by a uniform three-level classification of issuers of shares and bonds. The new sector classification of companies ensures a better representation of their business profile and adds new sectors including clothing, cosmetics, games, biotechnology. The new sector classification is accompanied by modifications of sector indices. New indices will be introduced to track the new key sectors.

As a key part of the modification of the sector classification of issuers, GPW opened public consultations with market participants. All companies were individually invited to share their opinions on GPW's proposals. All investors could share their views using a form available on the GPW website. The existing sector classification was implemented in the early years of GPW. Since then, the number of listed companies has grown and many new sectors have emerged that are not covered by the classification; hence, it was necessary to modify the classification and to give the listed companies more visibility. GPW wanted to implement the process in partnership with market participants and so it launched the public consultations.

According to the defined timeline, the public consultations were opened until mid-November. After the consultations, GPW reviewed the feedback and made decisions about the changes.

The new classification of issuers effective as of the beginning of 2017 includes three levels of issuer categories broken down by business profile and client groups: macrosector, sector, and subsector. This will facilitate comparative reviews of issuers. The new classification comprises 38 sectors, including new additions such as e-commerce, clothing and cosmetics, games, leasing and factoring. The biggest number of issuers (45) have been classified in the construction sector, followed by real estate (31) and electrical engineering (30). The change of the sector classification of issuers will affect sector indices as well. The existing indices WIG-developers and WIG-commodities will be replaced by WIG-real estate and WIG-mining. GPW will publish new sector indices in 2017: WIG-medicines, WIG-automotive, and WIG-clothing.

"GPW AMBASSADOR" PROGRAMME

The "GPW Ambassador" Programme was developed following consultations with banks and brokers in 2015. The Programme was implemented in 2016 after a review of feedback from the consultations.

The "GPW Ambassador" Programme promotes the capital market among bank advisers and supports them in sharing knowledge about investing on GPW with their retail clients and other bank officers. The Programme provides GPW Ambassadors with a wide range of educational training opportunities and other tools which facilitate the promotion of the capital market among clients. The Programme is addressed to banking advisers, especially private banking account managers. The Programme offers regular training to participants since October 2016.

DIALOGUE WITH THE STAKEHOLDERS

In addition to irregular dialogue with the stakeholders concerning material business decisions, GPW is also engaged in on-going consultations with market participants within the Consultation Committees established in 2013. The Committees are advisory bodies active in the key areas of GPW's operation. The Committees bring together representatives of the capital market community: investors, issuers, brokers, funds, academics, lawyers, as well as representatives of the Polish Financial Supervision Authority. Consultations with the Committees on the Exchange's business decisions help to develop solutions optimal to all GPW stakeholder groups.

As at the end of 2016, GPW had the following Committees:

- Alternative Trading System Development Committee - Board of Authorised Advisers
- Strategy Committee
- Compliance Committee
- Corporate Governance Committee
- Derivatives Market Committee
- Debt Market Committee
- Equities Market Committee
- GPW Exchange Indices Committee

Two other committees cover the commodity market:

- Gas Market Committee – an advisory body since 2014 assisting the development of solutions creating a friendly environment for the development of trade in natural gas on the exchange. POLPX continued consultations within the Gas Market Committee in 2016. The Committee held two meetings in 2016, each bringing together 20 participants.
- Energy Market Committee – established in 2015, it brings together exchange members and representatives of POLPX and IRGiT. Its responsibilities include giving opinions and tabling proposals for the development of exchange-traded commodities listed on POLPX. The Committee held two consultation meetings in 2016, each bringing together 60 participants.

IV. 4. Responsible Human Resources Policy

With their unique skills and experience, GPW Group employees are an important group of the Group's stakeholders. The organisational culture of the Group is based on engagement, values and effective internal communication as well as investment in continuous employee development.

GPW is a responsible employer and appreciates the trust and engagement of employees, supported by development opportunities in a safe and inspiring work environment.

In 2016, the Company continued initiatives focused on efficient management of HR, payroll, social and bonus processes to address business needs and support the implementation of the Exchange's strategy. In 2016, GPW launched efforts to harmonise the human resources policy across all companies of the Group.

Table 29 Headcount of GPW and the GPW Group as at 31 December

	2016	2015	2014	2013
Number of GPW employees	*187*	*205*	*208*	*205*
Number of GPW Group employees	*339*	*369*	*373*	*347*

GPW RECRUITMENT POLICY

The GPW Group pursues a transparent policy of recruitment, redeployment and termination of employment. GPW's recruitment policy focuses on recruiting top-class specialists for all areas of the Company's operation. The development of human resources and employee competences includes rotation in job positions within GPW and the Group. In recruitment for strategic positions, the Exchange works with professional personnel advisory institutions. The success and reputation of the GPW Group depend not only on the quality of provided services but also the way that we work. Our principles and values ensure compliance of the GPW Group with laws and regulations as well as fair and ethical conduct.

Table 30 GPW personnel structure by gender as at 31 December

	2016	2015	2014	2013
Number of GPW employees	187	205	208	205
- Women	89	97	99	97
- Men	98	108	109	108

In the recruitment process, the GPW Group follows the principles of diversity and combats all forms of discrimination, in particular on grounds of sex, age, disability, race, religion, nationality, political creed, union membership, ethnicity, denomination, sexual orientation, and employment for a determined or undetermined period, full-time or part-time.

Table 31 GPW employee rotation as at 31 December[44]

	2016	2015	2014	2013
GPW employee rotation	20%	15.0%	7.2%	13.3%

GPW employed 22 new persons and terminated employment of 37 persons in 2016. By comparison, GPW employed 27 new persons and terminated employment of 30 persons in 2015.

GPW TRAINING POLICY

Training plays an important role in the process of employee professional development and improvement of qualifications. GPW intensified its training initiatives in 2016, including a programme which launched several training projects for GPW employees, key managers and other employees. As a result, 986.5 man-days of training were provided within 6 training modules to GPW employees in 2016. According to its HR policy, the Exchange co-financed post-graduate courses of employees. In order to improve their professional competences, GPW Group employees participated in market conferences, congresses and seminars. The average number of training days per GPW FTE was 5.27 in 2016.

GPW Group invests in employee development and supports the improvement of employee competences and expertise. It inspires employees' development, creativity and potential of diversity and collaboration.

Table 32 GPW personnel by education, as at 31 December

	2016	2015	2014	2013
Total	187	205	208	205
- Vocational education	0	1	1	1
- Secondary education	19	27	28	29
- University education	168	177	179	175

[44] The turnover ratio is the number of employees whose employment agreements were terminated during the year to the average employment during the year.

GPW had 187 employees at the end of 2016, including 168 employees with university education and 19 employees with secondary education.

GPW INCENTIVE SYSTEM

GPW's HR policy is largely based on employee engagement; hence, the Company attaches special importance to employee incentives. The basic salary offered by GPW is tied to the employee's potential, competences and performance.

According to the Bonus Rules, a bonus system covers all GPW employees other than the Management Board. The objective is to incentivise employees' superior performance based on individual targets. The system includes appraisal of employee attitudes. The appraisal identifies the employee's strengths and areas for improvement.

Every Exchange employee has wide access to fringe benefits including: health care, reimbursement of commuting costs, the Employee Pension Scheme, a canteen system, loans including housing and medical loans, as well as payments from the Company Social Benefits Fund.

GPW CODE OF ETHICS

In addition to improvement of professional qualifications, GPW also takes steps to develop its value-based corporate culture which is unique in awarding and applying employee initiatives that improve the effectiveness of the organisation.

The GPW Employee Code of Ethics came into force in November 2013. It defines the core values applicable to all activities of the Company. The Code of Ethics was amended in 2014. It outlines the principles and values to be followed by all GPW employees; disseminates and promotes a culture of compliance with the law and decision-making based on ethical criteria in the following areas: mutual relations among employees, relations with customers and counterparties, relations with competitors, communication, promotion and advertising; and lays down sanctions for non-compliance. The document has been signed by all GPW employees.

In 2015, pursuant to the GPW Group's CSR strategy, the Company's Code of Ethics was implemented in the companies Polish Power Exchange and BondSpot.

OCCUPATIONAL HEALTH AND SAFETY POLICY

GPW's priorities include a healthy, safe and friendly work environment which supports the development of the professional potential of all Exchange employees. Under its occupational health and safety policy approved in 2014, the Company works to prevent accidents at work, occupational diseases and potential incidents, to continuously improve occupational health and safety and fire protection, to improve employee qualifications, and to integrate their role and engagement in occupational health and safety initiatives. GPW's occupational health and safety policy was integrated into the subsidiaries POLPX and BondSpot in 2015. There were no accidents at work at GPW in 2016.

EMPLOYEE VOLUNTEERING

Employee volunteering is one of the forms of GPW's corporate social responsibility activities. In their volunteering work, Group companies support the youth education and care centre in Franciszków and two family children's' homes in Ruszków. Group employees prepare Christmas gifts every year, regularly collect clothing, and provide the centre with equipment including sports equipment.

GPW Group supports employee's social responsibility and integrates employees around volunteer initiatives.

TRAINEESHIPS AND INTERNSHIP

The Warsaw Stock Exchange puts a strong emphasis on capital market education and learning of young people.

For many years, the Exchange has offered traineeship opportunities to university students. The students major in different disciplines including Economics, Finance, and Marketing. Furthermore, GPW runs a programme addressed to the winners of the Capital Market Leaders Academy organised by the Lesław A. Paga Foundation in partnership with GPW.

AYWNE CHARITY INITIATIVES

The 25th Anniversary Gala of the Warsaw Stock Exchange and the Polish Capital Market held at the National Theatre on 6 October 2016 brought together nearly 500 participants: representatives of the Government and the Parliament, listed companies and investors. The event featured a charity auction. Its proceeds at PLN 162,600 went to the foundation "Dajemy Dzieciom Siłę" to support the creation of Poland's first Children Help Centre providing comprehensive aid to children victims of sexual harassment, physical violence and other serious crimes.

IV. 5. Environmental impact reduction

GPW considers environmental protection to be a fundamental value of a modern and competitive institution active on the European capital market.

Since 2015, pursuant to the new CSR strategy, all GPW Group companies have in place a uniform environmental policy designed to reduce the companies' environmental impact and raise environmental awareness of Group employees. As the companies operate in the financial industry, the main areas of the environmental policy include: waste management and recycling; paper consumption; water consumption; energy consumption; fuel consumption and CO_2 emissions; as well as employee education through internal communications.

Furthermore, in view of its activity and role on the Polish capital and commodity market, the GPW Group may indirectly impact the environment by promoting good behaviour of issuers and investors, for instance through promotion of and education on responsible investing and through the products and services it offers.

WASTE MANAGEMENT AND RECYCLING

According to its Waste Management Procedure, GPW delivers solid waste for treatment by recycling or disposal. Since February 2014, the Company segregates waste. More than a third of waste produced by GPW in 2016 was segregated and recycled. Decommissioned computer hardware is sold to the Company's employees at auctions. One auction was held in 2016 and 66 pieces of hardware were sold.

PAPER CONSUMPTION

GPW has in place an Electronic Document System, operational since 2011, which has largely reduced the consumption of paper within the Exchange. Internal communication work was continued in 2016 in order to promote environmental behaviour of employees. As a result, the Company's paper consumption decreased by ca. 42 percent year on year in 2016.

WATER CONSUMPTION

In 2016, the Exchange continued communications targeting employees and visitors to promote environmental behaviour with regard to water consumption. The Company's water consumption decreased by ca. 1.5 percent year on year in 2016.

ENERGY CONSUMPTION

Centrum Giełdowe has in place advanced environmental solutions which reduce energy consumption. Offices are equipped only with lamps whose energy consumption is lower than that of traditional light bulbs and halogen lamps. The operation of lifts is optimised and the underground car park is heated with air pumped out of offices. GPW's head office is equipped with a Building Management System (BMS) which controls installations within the building and consequently optimises the consumption of heat, power, water, air (ventilators) and ice water for air-conditioning. BMS supports programming of lighting in offices and corridors, which is automatically switched off at 8 p.m. throughout the building. The Company's energy consumption increased by only 3.8 percent at cost year in year in 2016.

FUEL CONSUMPTION AND CO_2 EMISSIONS

GPW's car fleet only includes vehicles which conform to applicable emission standards (EURO-4 or EURO-5). According to legal requirements, GPW pays environmental fees (for business cars). Fuel consumption in the Company was reduced by ca. 35 percent year on year in 2016 (as measured by the cost of fuel consumption by company cars in the corporate fleet).

PRODUCTS AND SERVICES

GPW Group companies offer products and services which indirectly support environmental efforts and impact the attitudes of participants of the markets operated by the Group companies. The RESPECT Index is such a product on the financial market.

In its core business, the Polish Power Exchange maintains a Register of Certificates of Origin and operates trade in property rights which are an integral element of the system of support for producers of electricity from renewable energy sources and in cogeneration.

Furthermore, since November 2014, POLPX operates a Register of Guarantees of Origin. Guarantees of origin of energy are an element of the EU's environmental policy and disclose the type of source and fuel used to generate power. As power itself cannot be labelled, a system has been put in place where documents (guarantees) are generated together with power and expire when delivered to the end consumer. Guarantees of origin of energy from renewable energy sources (RES) are an additional important incentive for the growth of the sector. POLPX's Register of Guarantees of Origin is addressed to producers of energy from renewable energy sources, brokers and all interested parties who need certification of the origin of electricity from renewable energy sources.

In order to expand the business offer and attract new markets and participants, the Management Board of the Polish Power Exchange decided in 2016 that POLPX should perform the functions of the national auction platform for the sale of greenhouse gas emission allowances. To implement the decision, POLPX applied to the Polish Financial Supervision Authority with a request for authorisation as an operator of a CO2 allowances platform. The Polish Financial Supervision Authority unanimously authorised the Polish Power Exchange to operate a CO2 allowances platform on 20 December 2016 provided that the authorised platform is nominated as a national auction platform and entered into the list of auction platforms by the EU institutions. POLPX fulfils the requirements for an auction platform laid down in the Regulation of the Minister of Finance of 14 January 2016 concerning the operation of a regulated market and an auction platform. The authorisation to launch a CO2 auction platform by POLPX is an important step in the development of GPW and good news for Polish companies participating in the EU Emission Trading Scheme (EU ETS) which will have access to auctions organised in Poland and cleared in two currencies: PLN and EUR.

V. FINANCIAL POSITION AND ASSETS

V. 1 Summary of results

The GPW Group generated EBITDA[45] of PLN 183.7 million in 2016, an increase of PLN 3.5 million compared to PLN 180.1 million in 2015.

The GPW Group generated an operating profit of PLN 157.9 million compared to PLN 153.3 million in 2015. The increase of the operating profit by PLN 4.6 million year on year in 2016 was mainly a result of lower operating expenses of the Group, which decreased by PLN 24.2 million or 13.9%. The GPW Group's revenue decreased by 5.2% or PLN 17.0 million. The revenue decreased both on the financial market, by 8.0%, and on the commodity market, by 0.2%. Considering the conditions on the financial market and the commodity market in 2016, the Group maintained a cost discipline as its operating profit increased year on year. It should be noted that the decrease of revenue on the financial market in 2016 was due not only to a lower value of trade, especially on the stock market, but also reductions of fees for market participants offsetting the change of fees for market supervision effective as of 2016.

The net profit of the Group stood at PLN 131.1 million in 2016 compared to PLN 121.5 million in 2015. The increase of the net profit year on year in 2016 was driven by a higher operating profit as well as higher net financial income and expenses which stood at PLN 0.9 million in 2016 compared to a negative PLN 2.2 million in 2015.

GPW's EBITDA[46] stood at PLN 91.1 million in 2016, a decrease of 1.1% compared to PLN 92.1 million in 2015.

GPW generated a separate operating profit of PLN 71.7 million in 2016 compared to PLN 70.6 million in 2015.

GPW's net profit was PLN 116.1 million in 2016 compared to PLN 96.9 million in 2015, an increase of 19.8% or PLN 19.2 million. The increase of the net profit year on year in 2016 was driven by an increase of the operating profit and an increase by PLN 19.1 million of net financial income and expenses. GPW received dividends from subsidiaries and associates of PLN 61.6 million in 2016 compared to PLN 43.1 million in 2015. The income tax in 2016 increased by PLN 1.1 million year on year.

The Polish Power Exchange generated an operating profit of PLN 55.2 million in 2016 compared to PLN 51.1 million in 2015. The net profit of POLPX stood at PLN 52.7 million and PLN 41.6 million, respectively, in the periods under review.

IRGiT generated an operating profit of PLN 31.3 million and a net profit of PLN 26.5 million in 2016.

BondSpot generated an operating profit of PLN 1.3 million in 2016 compared to PLN 2.1 million in 2015. The net profit stood at PLN 1.3 million and PLN 2.2 million, respectively, in the periods under review.

Detailed information on changes in revenues and expenses is presented in the sections below.

[45] GPW Group's operating profit before depreciation and amortisation.
[46] GPW's operating profit before depreciation and amortisation.

Table 33 Consolidated profit and loss account of GPW Group by quarter in 2015 and 2016 and by year in 2014 – 2016

	2016				2015				2016	2015	2014
PLN'000	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
Sales revenue	**81,712**	**73,658**	**74,461**	**81,031**	**83,819**	**78,733**	**77,171**	**88,167**	**310,862**	**327,890**	**317,561**
Financial market	**49,803**	**46,763**	**42,971**	**44,488**	**48,990**	**51,508**	**49,215**	**50,242**	**184,025**	**199,955**	**199,962**
Trading	33,247	30,941	26,561	28,330	33,213	36,221	33,142	34,372	119,079	136,948	137,795
Listing	6,140	5,790	6,129	5,871	6,040	5,683	6,536	6,237	23,930	24,497	23,960
Information services	10,416	10,032	10,281	10,287	9,737	9,604	9,536	9,633	41,016	38,510	38,207
Commodity market	**31,240**	**26,642**	**30,923**	**36,122**	**34,243**	**26,694**	**26,890**	**37,365**	**124,927**	**125,193**	**114,453**
Trading	16,494	13,607	14,119	16,637	17,643	12,757	13,623	18,529	60,857	62,552	60,121
Register of certificates of origin	3,664	5,492	7,797	7,954	5,518	5,535	5,492	7,621	24,907	24,166	22,473
Clearing	11,082	7,543	9,007	11,531	11,083	8,402	7,775	11,215	39,163	38,475	31,859
Other revenue	**669**	**253**	**567**	**421**	**586**	**531**	**1,066**	**560**	**1,910**	**2,743**	**3,146**
Operating expenses	**37,736**	**28,271**	**38,026**	**46,122**	**45,910**	**43,344**	**45,047**	**40,091**	**150,155**	**174,391**	**181,600**
Depreciation and amortisation	6,085	6,797	6,541	6,370	7,013	7,010	6,619	6,195	25,793	26,837	28,769
Salaries	11,835	9,060	15,128	13,837	15,552	14,754	14,920	11,437	49,860	56,662	56,501
Other employee costs	2,770	2,574	2,764	3,192	2,676	2,517	2,958	3,275	11,300	11,426	13,042
Rent and maintenance fees	2,549	2,425	2,250	2,220	2,258	2,296	2,535	2,696	9,444	9,785	10,272
Fees and charges	(11)	(2,123)	501	11,642	5,011	6,256	6,190	6,170	10,009	23,627	22,387
incl. PFSA fees	*45*	*(2,140)*	*3*	*11,213*	*4,605*	*5,914*	*5,812*	*5,717*	*9,121*	*22,047*	*22,040*
External service charges	13,178	8,395	9,456	7,558	11,394	9,313	10,063	8,851	38,587	39,621	41,968
Other operating expenses	1,329	1,143	1,386	1,303	2,006	1,199	1,761	1,467	5,162	6,433	8,662
Other income	979	205	204	348	370	401	338	853	1,736	1,962	1,785
Other expenses	3,583	360	46	564	42	311	1,146	652	4,553	2,151	5,373
Operating profit	**41,372**	**45,232**	**36,593**	**34,693**	**38,237**	**35,479**	**31,316**	**48,277**	**157,890**	**153,310**	**132,373**
Financial income	2,311	3,430	5,246	1,963	1,863	1,997	4,406	1,675	12,950	9,941	10,360
Financial expenses	3,199	2,971	2,928	2,981	3,461	2,619	2,832	3,205	12,079	12,117	12,314
Share of profit of associates	1,236	2,296	1,354	(1,368)	(1,717)	311	(336)	212	3,518	(1,530)	3,745
Profit before income tax	**41,720**	**47,987**	**40,265**	**32,307**	**34,922**	**35,168**	**32,554**	**46,959**	**162,279**	**149,604**	**134,164**
Income tax expense	8,750	8,457	7,147	6,791	7,234	5,598	6,126	9,104	31,145	28,062	26,697
Profit for the period	**32,970**	**39,530**	**33,118**	**25,516**	**27,688**	**29,570**	**26,428**	**37,855**	**131,134**	**121,542**	**107,467**

Source: Consolidated Financial Statements, Company

Note: The quarterly and annual financial data presented in this Report for 2015 and 2014 include corrections due to a change of the VAT policy applicable to certain services provided by the subsidiary POLPX and the required correction of resulting VAT payments for previous years. Details of the change of the VAT policy applicable to services provided by POLPX and the resulting corrections are presented in Note 31 of the Consolidated Financial Statements of the Warsaw Stock Exchange for 2016.

Table 34 Consolidated statement of financial position of GPW Group by quarter in 2014 - 2016

	2016				2015				2014
PLN'000	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	IV kw.
Non-current assets	**597,287**	**584,694**	**579,574**	**577,028**	**580,645**	**569,155**	**572,263**	**571,429**	**572,710**
Property, plant and equipment	119,130	119,554	121,539	122,252	125,229	109,831	112,059	116,559	119,762
Intangible assets	273,815	262,401	258,057	259,870	261,728	263,693	265,565	262,820	261,019
Investment in associates	197,231	196,025	191,412	187,221	188,570	190,346	190,057	188,352	188,104
Deferred tax assets	1,809	1,749	3,041	2,947	-	-	-	-	-
Available-for-sale financial assets	288	288	290	285	282	287	204	202	207
Non-current prepayments	5,014	4,677	5,235	4,453	4,836	4,998	4,378	3,496	3,618
Current assets	**560,561**	**524,879**	**602,030**	**583,701**	**492,454**	**471,632**	**562,231**	**523,684**	**485,156**
Inventories	57	67	73	71	135	145	133	180	120
Corporate income tax receivable	428	300	234	490	369	213	77	2,808	8,378
Trade and other receivables	113,262	100,579	99,965	99,202	131,557	119,374	103,868	130,387	76,301
Available-for-sale financial assets	-	-	-	-	-	10,616	10,573	10,551	10,503
Assets held for sale	-	-	-	-	-	-	807	763	812
Other current assets	-	-	-	3	-	-	-	6	-
Cash and cash equivalents	446,814	423,933	501,758	483,935	360,393	341,284	446,773	378,989	389,042
Total assets	**1,157,848**	**1,109,573**	**1,181,604**	**1,160,729**	**1,073,099**	**1,040,787**	**1,134,494**	**1,095,113**	**1,057,866**
Equity	**745,252**	**712,325**	**672,818**	**738,734**	**713,192**	**686,562**	**657,057**	**732,327**	**694,568**
Share capital	63,865	63,865	63,865	63,865	63,865	63,865	63,865	63,865	63,865
Other reserves	1,184	1,537	1,560	1,481	1,455	1,401	1,465	1,817	1,930
Retained earnings	679,678	646,411	606,896	672,835	647,326	620,355	590,782	665,476	627,657
Non-controlling interests	525	512	497	553	546	941	945	1,169	1,116
Non-current liabilities	**141,198**	**137,504**	**137,632**	**134,571**	**258,930**	**256,317**	**255,314**	**253,552**	**259,423**
Liabilities under bond issue	123,459	123,733	123,669	123,606	243,800	244,424	244,309	244,193	244,078
Employee benefits payable	1,832	2,254	4,686	4,400	4,046	2,453	2,327	2,010	5,562
Finance lease liabilities	32	48	58	72	84	99	113	129	205
Accruals and deferred income	6,200	-	-	-	-	-	-	-	-
Deferred income tax liability	9,675	9,245	6,995	6,493	11,000	9,341	8,565	7,220	9,578
Other liabilities	-	2,224	2,224	-	-	-	-	-	-
Current liabilities	**271,398**	**259,744**	**371,154**	**287,424**	**100,977**	**97,908**	**222,123**	**109,234**	**103,875**
Liabilities under bond issue	122,882	123,002	121,047	122,881	682	1,814	-	1,935	-
Trade payables	6,387	2,841	6,288	6,182	8,597	7,879	19,634	9,974	10,017
Employee benefits payable	8,114	8,872	10,379	7,246	9,457	11,150	9,584	7,632	9,911
Finance lease liabilities	62	61	55	55	55	55	79	186	154
Corporate income tax payable	16,154	11,911	10,920	9,058	2,833	2,463	7,130	2,254	1,250
Accruals and deferred income	7,144	11,630	31,021	38,966	7,263	10,194	18,054	25,368	5,115
Provisions for other liabilities and charges	333	179	649	649	621	1,236	1,282	1,264	1,346
Other current liabilities	110,322	101,248	190,795	102,387	71,469	63,117	166,090	60,395	75,807
Liabilities held for sale	-	-	-	-	-	-	270	226	275
Total equity and liabilities	**1,157,848**	**1,109,573**	**1,181,604**	**1,160,729**	**1,073,099**	**1,040,787**	**1,134,494**	**1,095,113**	**1,057,866**

Source: Consolidated Financial Statements, Company

V. 2 Presentation of the financials

REVENUE

The Group has three revenue-generating segments:

- financial market,
- commodity market,
- other revenues.

Revenues from the financial market include revenues from:

- trading;

- listing;
- information services.

Trading revenue includes fees paid by market participants in respect of:

- transactions on markets of equities and equity-related instruments;
- transactions in derivative financial instruments;
- transactions in debt instruments;
- transactions in other cash market instruments;
- other fees paid by market participants.

Revenues from transactions in equities and equity-related securities are the Group's main source of trading revenues and its main source of sales revenues in general.

Revenues from transactions in derivative financial instruments are the second biggest source of trading revenues on the financial market. Transactions in WIG20 index futures account for the majority of revenues from transactions in derivatives.

Revenues from other fees paid by market participants include mainly fees for services providing access to and use of the trading system.

Revenues from transactions in debt instruments are the third largest source of trading revenues on the financial market. Revenues from transactions in debt instruments are generated by the Catalyst market as well as the Treasury BondSpot Poland market operated by BondSpot S.A., a subsidiary of GPW.

Revenues from transactions in other cash market instruments include fees for trading in structured products, investment certificates, warrants and ETF (Exchange Traded Fund) units.

Listing revenues include two elements:

- one-off fees paid for introduction of shares and other instruments to trading on the exchange;
- periodic listing fees.

Revenues from information services mainly include fees paid by data vendors for real-time market data as well as historical and statistical data. Real-time data fees include fixed annual fees and monthly fees based on the data vendor's number of subscribers and the scope of data feeds used by a subscriber.

Revenues of the Group in the commodity market segment include revenues of POLPX and IRGiT as well as revenues of InfoEngine from its activity as a trade operator, the entity responsible for balancing, and the operation of the OTC commodity platform.

Revenue on the commodity market includes the following:

- trading,
- operation of the Register of Certificates of Origin,
- clearing.

Trading revenue on the commodity market includes:

- revenue from trading in electricity (spot and forward),
- revenue from trading in natural gas (spot and forward),
- revenue from trading in property rights (spot and forward),

- other fees paid by market participants (members).

Other fees paid by market participants include POLPX fees, including revenues from the operation of RRM and revenues from the operation of the OTC commodity platform, as well as revenues of InfoEngine as a trade operator and the entity responsible for balancing.

Revenues of the sub-segment "clearing" include revenues of the company IRGiT, which clears and settles exchange transactions concluded on POLPX, manages the resources of the clearing guarantee system and determines the amount of credits and debits of IRGiT members resulting from their transactions.

The Group's other revenues include revenues of GPW and the POLPX Group, among others, from educational services, office space lease, and sponsorship.

The Group's sales revenues amounted to PLN 310.9 million in 2016, a decrease of 5.2% (PLN 17.0 million) year on year.

The decrease in sales revenues year on year in 2016 was mainly driven by a decrease in revenues from the financial market segment, down by 8.0% (PLN 15.9 million). The decrease of revenues from the financial market was due to a lower value of trade, especially on the stock market, as well as reductions of fees for exchange members introduced as of 1 January 2016 to offset the change of fees for market supervision effective as of 2016. The change of the rules of financing of supervision extended the group of entities required to pay fees to the Polish Financial Supervision Authority. Furthermore, another fee reduction was implemented as of 1 November 2016 both for transaction fees on the stock market and fees for information services. The revenue from the commodity market decreased moderately by PLN 0.3 million or 0.2% year on year in 2016. The decrease in revenues from the commodity market was mainly driven by a decrease of revenues from forward transactions in energy by 38.0% or PLN 4.4 million.

The revenue of POLPX stood at PLN 83.3 million in 2016 compared to PLN 84.2 million in 2015. The revenue of IRGiT was PLN 42.4 million in 2016. The revenue of BondSpot in the periods under review stood at PLN 11.0 million and PLN 11.6 million, respectively.

The revenue of the GPW Group by segment is presented below.

Table 35 Consolidated revenues of GPW Group and revenue structure in 2014 - 2016

PLN'000, %	Year ended 31 December						Change (2016 vs 2015)	Change (%) (2016 vs 2015)
	2016	%	2015	%	2016	%		
Financial market	**184,025**	**59%**	**199,955**	**61%**	**199,962**	**63%**	**(15,930)**	**-8.0%**
Trading revenue	119,079	38%	136,948	42%	137,795	43%	(17,869)	-13.0%
Equities and equity-related instruments	89,520	29%	107,941	33%	105,295	33%	(18,421)	-17.1%
Derivative instruments	12,202	4%	11,578	4%	14,821	5%	624	5.4%
Other fees paid by market participants	6,836	2%	6,383	2%	5,795	2%	453	7.1%
Debt instruments	10,111	3%	10,669	3%	11,621	4%	(558)	-5.2%
Other cash instruments	410	0%	376	0%	263	0%	34	8.9%
Listing revenue	23,930	8%	24,497	7%	23,960	8%	(567)	-2.3%
Listing fees	19,918	6%	19,229	6%	19,049	6%	689	3.6%
Introduction fees, other fees	4,012	1%	5,268	2%	4,911	2%	(1,256)	-23.8%
Information services	41,016	13%	38,510	12%	38,207	12%	2,506	6.5%
Real-time information	38,260	12%	36,069	11%	36,010	11%	2,191	6.1%
Indices and historical and statistical information	2,756	1%	2,441	1%	2,197	1%	315	12.9%
Commodity market	**124,927**	**40%**	**125,193**	**38%**	**114,453**	**36%**	**(266)**	**-0.2%**
Trading revenue	60,857	20%	62,552	19%	60,121	19%	(1,695)	-2.7%
Electricity	10,191	3%	14,390	4%	14,455	5%	(4,199)	-29.2%
Spot	2,976	1%	2,760	1%	2,386	1%	216	7.8%
Forward	7,215	2%	11,630	4%	12,069	4%	(4,415)	-38.0%
Gas	9,235	3%	8,311	3%	7,385	2%	924	11.1%
Spot	2,655	1%	1,601	0%	659	0%	1,054	65.8%
Forward	6,580	2%	6,710	2%	6,726	2%	(130)	-1.9%
Property rights in certificates of origin	32,003	10%	32,369	10%	31,003	10%	(366)	-1.1%
Other fees paid by market participants	9,428	3%	7,481	2%	7,278	2%	1,947	26.0%
Register of certificates of origin	24,907	8%	24,166	7%	22,473	7%	741	3.1%
Clearing	39,163	13%	38,475	12%	31,859	10%	688	1.8%
Other revenue *	**1,910**	**1%**	**2,743**	**1%**	**3,146**	**1%**	**(833)**	**-30.4%**
Total	**310,862**	**100%**	**327,890**	**100%**	**317,561**	**100%**	**(17,028)**	**-5.2%**

Source: Consolidated Financial Statements, Company

The Group earns revenue both from domestic and foreign clients. The table below presents revenue by geographic segment.

Table 36 Consolidated revenues of GPW Group by geographical segment in 2014 - 2016

PLN'000, %	Year ended 31 December						Change (2016 vs 2015)	Change (%) (2016 vs 2015)
	2016	%	2015	%	2014	%		
Revenue from foreign customers	71,917	23%	73,308	22%	66,270	21%	(1,391)	-1.9%
Revenue from local customers	238,945	77%	254,582	78%	251,291	79%	(15,637)	-6.1%
Total	**310,862**	**100%**	**327,890**	**100%**	**317,561**	**100%**	**(17,028)**	**-5.2%**

Source: Consolidated Financial Statements, Company

The average EUR/PLN exchange rate was 4.36 EUR/PLN in 2016, 4.18 EUR/PLN in 2015, and 4.19 EUR/PLN in 2014.

The Group is not dependent on any single client as no client has a share exceeding 10% of the total sales revenue.

FINANCIAL MARKET

TRADING

The revenues of the Group from trading on the financial market stood at PLN 119.1 million in the year ended on 31 December 2016 compared to PLN 136.9 million in 2015.

The share of trading revenue in the total revenue on the financial market was 64.7% in 2016 compared to 68.5% in 2015. The biggest share in trading revenue (85.4%) is that of the revenue on the Main Market, which stood at PLN 101.3 million in 2016 (a decrease of 17.3 million year on year). The remaining share in revenue is that of Treasury BondSpot Poland, NewConnect and Catalyst.

Equities and equity-related instruments

Revenues of the Group from trading in **equities and equity-related instruments** amounted to PLN 89.5 million in 2016 compared to PLN 107.9 million in 2015.

The value of trading in equities on the Main Market decreased by 10.2%, including a decrease of trading on the electronic order book by 6.9% and a decrease of the value of block trades by 41.2%; as a result, the trading revenue decreased by 17.1% year on year in 2016. The decrease in revenue from trading in equities and equity-related instruments was greater that the decrease in the value of trading due to the reductions of transaction fees introduced on 1 January 2016 and in November 2016. In addition, the share of HVP/HVF programme participants, who pay lower fees, in the total value of trading in equities increased (to 10.2%) in 2016.

The reduction of transaction fees in 2016 followed changes to the system of financing of supervision over the capital market. As of 1 January 2016, GPW reduced the transaction fees on trade in shares, rights to shares and ETF units in the part charged on the value of an order up to PLN 100 thousand from 0.033% to 0.029% in order to share savings resulting from changes of fees paid to the Polish Financial Supervision Authority with active market participants. In November 2016, GPW introduced another fee reduction: the fixed fee on an order was reduced from PLN 0.20 to PLN 0.15.

Table 37 Data for the markets in equities and equity-related instruments

	Year ended 31 December			Change (2016 vs 2015)	Change (%) (2016 vs 2015)
	2016	2015	2014		
Financial market, trading revenue: equities and equity-related instruments *(PLN million)*	**89.5**	**107.9**	**105.3**	**(18.4)**	**-17.1%**
Main Market:					
Value of trading (PLN billion)	202.3	225.3	232.9	(23.0)	-10.2%
Volume of trading (billions of shares)	14.0	16.5	19.5	(2.5)	-15.1%
NewConnect:					
Value of trading (PLN billion)	1.4	1.9	1.4	(0.6)	-30.2%
Volume of trading (billions of shares)	3.5	3.8	2.7	(0.3)	-6.8%

Source: Company

Derivatives

Revenues of the Group from transactions in derivatives on the financial market amounted to PLN 12.2 million in 2016 compared to PLN 11.6 million in 2015.

The increase in revenues from transactions in derivatives year on year in 2016 was driven mainly by an increase in the volume of trading in WIG20 futures (by 5.4%). The total volume of trade in futures decreased by 2.8% in 2016, mainly driven by a decrease in the volume of trade in FX futures and options.

Table 38 Data for the derivatives market

	Year ended 31 December			Change (2016 vs 2015)	Change (%) (2016 vs 2015)
	2016	2015	2014		
Financial market, trading revenue: derivatives *(PLN million)*	**12.2**	**11.6**	**14.8**	**0.6**	**5.4%**
Volume of trading in derivatives (millions of contracts):	8.0	8.2	9.5	(0.2)	-2.8%
incl.: Volume of trading in WIG20 futures (millions of contracts)	4.7	4.4	6.0	0.2	5.4%

Source: Company

Other fees paid by market participants

Revenues of the Group from other fees paid by market participants stood at PLN 6.8 million in 2016 compared to PLN 6.4 million in 2015. The fees mainly include fees for access to the trading system (among others, licence fees, connection fees and maintenance fees) as well as fees for use of the system.

Debt instruments

Revenues of the Group from transactions in **debt instruments** stood at PLN 10.1 million in 2016 compared to PLN 10.7 million in 2015. The majority of the Group's revenues (PLN 9.3 million) from the debt instruments segment is generated by Treasury BondSpot Poland (TBSP).

The moderate decrease of the revenues year on year in 2016 was a result of lower revenues on TBSP. The lower revenues were driven by a lower value of transactions in 2016, especially conditional transactions. The total value of transactions on TBSP was PLN 412.8 billion in 2016 compared to PLN 599.4 billion in 2015, representing a decrease of 31.1%. The decrease of the revenue on TBSP was not as marked and stood at 6.1% year on year in 2016. This was because the decrease in the value of trade mainly affected conditional transactions. The value of conditional transactions was PLN 158.3 billion in 2016 compared to PLN 338.7 billion in 2015 (a decrease of 53.3%). The value of cash transactions was PLN 254.5 billion in 2016 compared to PLN 260.7 billion in 2015, a decrease of 2.4%. The value of cash transactions is decisive to the revenue level. In addition, the trading revenue on TBSP is driven among others by the structure of fees on the market and does not reflect directly changes in the value of trading.

The decrease in the value of trade on TBSP was due to lower activity of domestic and foreign investors on the market in Treasury securities in 2016. The activity of participants of the Treasury securities market, especially repo trade, was directly impacted by the introduction of a tax on bank assets effective as of the beginning of February 2016. Given the structure of the tax combined with a large overliquidity of the banking industry, banks were disinterested in repo and sell/buy back transactions so their value in the interbank segment including TBSP dropped considerably. The key events which impacted the international financial markets and indirectly also the local market included the outcome of the UK vote in the referendum on leaving the UE (Brexit) and the outcome of the US Presidential election. The prices of Polish bonds were also driven by local factors including the end of several months of deflation and the resulting increased expectations of a future change in the monetary policy, S&P's downgrade of Poland's credit rating, and plans of future changes in the pension fund system.

The value of trading on Catalyst increased by 12.2% year on year in 2016. Revenues from Catalyst have a small share in the Group's total revenues from transactions in debt instruments.

Table 39 Data for the debt instruments market

	Year ended 31 December			Change (2016 vs 2015)	Change (%) (2016 vs 2015)
	2016	2015	2014		
Financial market, trading revenue: debt instruments *(PLN million)*	**10.1**	**10.7**	**11.6**	**(0.6)**	**-5.2%**
Catalyst:					
Value of trading (PLN billion)	3.1	2.5	3.1	0.6	24.2%
incl.: Value of trading in non-Treasury instruments (PLN billion)	2.1	1.9	2.5	0.2	12.2%
Treasury BondSpot Poland, value of trading:					
Conditional transactions (PLN billion)	158.3	338.7	439.2	(180.4)	-53.3%
Cash transactions (PLN billion)	254.5	260.7	327.5	(6.2)	-2.4%

Source: Company

Other cash market instruments

Revenues from transactions in other cash market instruments amounted to PLN 410 thousand in 2016 compared to PLN 376 thousand in 2015. The revenues include fees for trading in structured products, investment certificates, ETF units and warrants.

LISTING

Listing revenues of the Group on the financial market amounted to PLN 23.9 million in 2016 compared to PLN 24.5 million in 2015.

Revenues from **listing fees** amounted to PLN 19.9 million in 2016 compared to PLN 19.2 million in 2015. The main driver of revenues from listing fees is the number of issuers listed on the GPW markets and their capitalisation at the previous year's end. The revenues from listing fees increased year on year in 2016. A year-on-year decrease in the capitalisation of companies listed on the Main Market at the end of 2015 did not affect the listing fees owing to the structure of changes in capitalisation and the structure of the fees (the annual listing fee is capped at PLN 70 thousand).

Revenues from **fees for introduction and other fees** amounted to PLN 4.0 million in 2016 compared to PLN 5.3 million in 2015. The revenues are driven mainly by the number and value of new listings on the GPW markets.

Listing revenues on the GPW Main Market decreased by 2.8% year on year in 2016 to PLN 19.6 million. The table below presents the key financial and operating figures for the Main Market.

Table 40 Data for the GPW Main Market

	Year ended 31 December			Change (2016 vs 2015)	Change (%) (2016 vs 2015)
	2016	2015	2014		
Main Market					
Listing revenue (PLN million)	**19.6**	**20.2**	**20.1**	**(0.6)**	**-2.8%**
Total capitalisation of listed companies *(PLN billion)*	1,115.7	1,082.9	1,253.0	32.9	3.0%
including: Capitalisation of listed domestic companies	557.1	516.8	591.2	40.3	7.8%
including: Capitalisation of listed foreign companies	558.6	566.1	661.8	(7.5)	-1.3%
Total number of listed companies	487	487	471	-	0.0%
including: Number of listed domestic companies	434	433	420	1	0.2%
including: Number of listed foreign companies	53	54	51	(1)	-1.9%
Value of offerings *(IPO and SPO) (PLN billion)* *	4.9	44.8	4.6	(39.9)	-89.0%
Number of new listings *(in the period)*	19	30	28	(11)	-36.7%
Capitalisation of new listings *(PLN billion)*	5.6	5.2	5.7	0.4	8.3%
Number of delistings	19	14	8	5	35.7%
Capitalisation of delistings** (PLN billion)	7.3	11.1	3.5	(3.9)	-34.8%

** including SPOs of Santander Bank at PLN 33.0 billion in Q1 2015*

*** based on market capitalisation at the time of delisting*

Source: Company

Listing revenues from NewConnect were PLN 2.3 million in 2016 compared to PLN 2.4 million in 2015. The table below presents the key financial and operating figures.

Table 41 Data for NewConnect

	Year ended 31 December			Change (2016 vs 2015)	Change (%) (2016 vs 2015)
	2016	2015	2014		
NewConnect					
Listing revenue *(PLN million)*	**2.3**	**2.4**	**2.5**	**(0.1)**	**-4.8%**
Total capitalisation of listed companies *(PLN billion)*	9.8	8.7	9.1	1.1	13.1%
including: Capitalisation of listed domestic companies	9.5	8.4	8.8	1.1	12.6%
including: Capitalisation of listed foreign companies	0.3	0.2	0.4	0.1	30.5%
Total number of listed companies	406	418	431	(12.0)	-2.9%
including: Number of listed domestic companies	398	408	421	(10.0)	-2.5%
including: Number of listed foreign companies	8	10	10	(2.0)	-20.0%
Value of offerings *(IPO and SPO) (PLN billion)*	0.2	0.4	0.4	(0.2)	-52.1%
Number of new listings *(in the period)*	16	19	22	(3.0)	-15.8%
Capitalisation of new listings *(PLN billion)*	0.5	0.6	0.6	(0.1)	-10.2%
Number of delistings*	30	32	36	(2.0)	-6.3%
Capitalisation of delistings** (PLN billion)	1.3	1.5	3.1	(0.2)	-12.4%

** includes companies which transferred to the Main Market*

*** based on market capitalisation at the time of delisting*

Source: Company

Listing revenues from Catalyst increased year on year in 2016. The increase resulted from an increase in the number of listed instruments: 566 at the end of 2016 compared to 532 at the end of 2015. The table below presents the key financial and operating figures.

Table 42 Data for Catalyst

	Year ended 31 December			Change (2016 vs 2015)	Change (%) (2016 vs 2015)
	2016	2015	2014		
Catalyst					
Listing revenue *(PLN million)*	**2.1**	**2.0**	**1.4**	**0.1**	**5.9%**
Number of issuers	176	192	193	(16)	-8.3%
Number of issued instruments	566	532	517	34	6.4%
including: non-Treasury instruments	525	496	487	29	5.8%
Value of issued instruments *(PLN billion)*	707.4	613.1	544.6	94.3	15.4%
including: non-Treasury instruments	81.8	69.6	64.1	12.2	17.6%

Source: Company

INFORMATION SERVICES

Revenues from information services amounted to PLN 41.0 million in 2016 compared to PLN 38.5 million in 2015. Despite a decrease in the number of data vendors, the number of subscribers did not decrease year on year in 2016. The increase in revenue was driven by an increase of the monthly subscription fee for the best 5 bids/asks paid by institutional subscribers other than exchange members as well as new agreements with clients who use GPW data in automatic trading and other applications (non-display).

Table 43 Data for information services

	Year ended 31 December			Change (2016 vs 2015)	Change (%) (2016 vs 2015)
	2016	2015	2014		
Revenues from information services *(PLN million)*	**41.0**	**38.5**	**38.2**	**2.5**	**6.5%**
Number of data vendors	51	54	58	(3)	-5.6%
Number of subscribers ('000 subscribers)	224.6	221.1	240.3	3.5	1.6%

Source: Company

COMMODITY MARKET

Revenues on the commodity market include mainly the revenues of the POLPX Group.

Revenues of the POLPX Group are driven mainly by the volume of transactions in electricity, natural gas and property rights, the volume of certificates of origin issued and cancelled by members of the Register of Certificates of Origin, as well as revenues from clearing and settlement of transactions in exchange-traded commodities in the clearing sub-segment operated by IRGiT.

Revenues of the GPW Group on the commodity market stood at PLN 124.9 million in 2016 compared to PLN 125.2 million in 2015.

The moderate decrease of revenues on the commodity market year on year in 2016 was mainly driven by a decrease in revenues from forward transactions in electricity and from trade in property rights to certificates of origin.

TRADING

Revenues from trading on the commodity market stood at PLN 60.9 million in 2016, a decrease of PLN 1.7 million compared to PLN 62.6 million in 2015.

Trading revenues of the GPW Group on the commodity market included PLN 3.0 million of revenues from spot transactions in electricity, PLN 7.2 million of revenues from forward transactions in electricity, PLN 2.7 million of revenues from spot transactions in gas, PLN 6.6 million of revenues from forward transactions in gas, PLN 32.0 million of revenues from transactions in property rights in certificates of origin of electricity, and PLN 9.4 million of other fees paid by market participants.

The Group's revenues from trade in electricity amounted to PLN 10.2 million in 2016 compared to PLN 14.4 million in 2015. The total volume of trading on the energy markets operated by POLPX amounted to 126.7 TWh in 2016 compared to 186.7 TWh in 2015. The volume of trade in electricity decreased mainly for forward transactions in view of the high uncertainty on the energy market and a reduction of the obligation to trade in electricity on the regulated market.

The Group's revenues from trade in gas amounted to PLN 9.2 million in 2016 compared to PLN 8.3 million in 2015. The volume of trade in natural gas on POLPX was 114.5 TWh in 2016 compared to 106.9 TWh in 2015. The volume of trade in gas mainly increased for spot transactions.

The Group's revenue from the operation of trading in property rights stood at PLN 32.0 million in 2016 compared to PLN 32.4 million in 2016, a decrease of PLN 0.4 million. The volume of trading in property rights stood at 50.5 TWh in 2016 compared to 59.0 TWh in 2015. The change of revenue from trading in property rights does not correspond directly to the change of trading volumes due to different fees for different types of property rights.

The volume of trade in property rights in green certificates of origin of electricity was 24.0 TWh in 2016 compared to 26.6 TWh in 2015. The revenue from trade in property rights in green certificates of origin of electricity (PMOZE) represented 66.8% and 76.3%, respectively, of the Group's total revenue from trade in property rights in the periods under review. The share of other instruments, in particular red certificates (PMEC) and yellow certificates (PMGM), increased to 12.2% and 11.4%, respectively, of the revenue from trade in property rights in 2016 (9.0% and 9.8%, respectively, in 2015).

Revenues of the Group from other fees paid by commodity market participants amounted to PLN 9.4 million in 2016 compared to PLN 7.5 million in 2015, an increase of 26.0% (PLN 1.9 million). Other fees paid by commodity market participants included fees paid by POLPX market participants and revenues of InfoEngine from the activity of trade operator.

Other fees paid by market participants are driven mainly by revenues from fixed market participation fees, fees for cancellation of transactions, fees for position transfers, fees for trade reporting in the RRM (Registered Reporting Mechanism), fees for access to the system, and fees for management of the resources of the guarantee fund. Other fees paid by market participants depend mainly on the activity of IRGiT Members, in particular the number of transactions, the number of new clients of brokerage houses, and the number of new users accessing the clearing system.

The sharp increase of the Group's revenue from other fees paid by commodity market participants in 2016 was driven by fees for RRM trade reporting services.

Table 44 Data for the commodity market

	Year ended 31 December			Change (2016 vs 2015)	Change (%) (2016 vs 2015)
	2016	2015	2014		
Commodity market - trading revenue (PLN million)	**60.9**	**62.6**	**60.1**	**(1.7)**	**-2.7%**
Volume of trading in electricity					
Spot transactions *(TWh)*	27.6	25.1	23.8	2.5	9.9%
Forward transactions *(TWh)*	99.0	161.6	163.0	(62.5)	-38.7%
Volume of trading in gas					
Spot transactions *(TWh)*	24.6	13.9	6.6	10.7	76.6%
Forward transactions *(TWh)*	89.9	92.9	105.1	(3.1)	-3.3%
Volume of trading in property rights (TGE) (TWh)	50.5	59.0	36.0	-8.5	-14.4%

Source: Company

REGISTER OF CERTIFICATES OF ORIGIN

Revenues from the operation of the **Register of Certificates of Origin** amounted to PLN 24.9 million in 2016 compared to PLN 24.2 million in 2015. Despite a large increase in cancelled property rights (by 92.4%), the revenues increased moderately year on year in 2016 as a result of a decrease in the volume of issued property rights (by 6.1%), which have the biggest impact on revenue due to a higher fee.

Table 45 Data for the Register of Certificates of Origin

	Year ended 31 December			Change (2016 vs 2015)	Change (%) (2016 vs 2015)
	2016	2015	2014		
Commodity market - revenue from operation of the Register of Certificates of Origin of electricity (PLN million)	**24.9**	**24.2**	**22.5**	**0.7**	**3.1%**
Issued property rights *(TWh)*	47.7	50.9	42.2	-3.1	-6.1%
Cancelled property rights *(TWh)*	43.0	22.3	20.6	20.6	92.4%

Source: Company

CLEARING

The Group earns revenue from the **clearing activities** of IRGiT, which is a subsidiary of POLPX. The revenue stood at PLN 39.2 million in 2016 compared to PLN 38.5 million in 2015. The increase in the revenue was driven by increased volumes of trade on the gas market year on year in 2016 as well as promotional reduced fees on the gas market effective until mid-2015.

OTHER REVENUES

The Group's other revenues amounted to PLN 1.9 million in 2016 compared to PLN 2.7 million in 2015. The Group's other revenues include revenues from educational and PR services, office space lease, and sponsorship.

OPERATING EXPENSES

Total operating expenses of the **GPW Group** amounted to PLN 150.2 million in 2016, representing a decrease of 13.9% (PLN 24.2 million) year on year. The cost/income ratio decreased to 48.3% in 2016 from 53.2% in 2015. The decrease of operating expenses was mainly driven by a reduction of fees paid to the Polish Financial Supervision Authority following the change of rules of financing of market supervision as of 1 January 2016. The fees paid by the Group to the Polish Financial Supervision Authority for 2016 stood at PLN 9.1 million, a decrease of 58.6% of PLN 12.9 million. Furthermore, the decrease of operating expenses was driven by a decrease of salaries and other employee costs (a decrease of PLN 6.9 million), other operating expenses (a decrease of PLN 1.3 million), external service charges (a decrease of PLN 1.0 million), depreciation and amortisation (a decrease of PLN 1.0 million), and rent and other maintenance fees (a decrease of PLN 0.3 million).

Separate operating expenses of **GPW** stood at PLN 100.1 million in 2016, representing a decrease of 16.9% (PLN 20.3 million) year on year.

Operating expenses of **POLPX** stood at PLN 28.7 million in 2016 compared to PLN 32.8 million in 2015, representing a decrease of 12.4% (PLN 4.1 million). Operating expenses of IRGiT stood at PLN 11.4 million in 2016. Operating expenses of **BondSpot** in the periods under review stood at PLN 9.7 million and PLN 9.5 million, respectively, representing an increase of 2.2%.

Table 46 Consolidated operating expenses of GPW Group and structure of operating expenses in 2014 - 2016

	Year ended 31 December						Change (2016 vs 2015)	Change (%) (2016 vs 2015)
PLN'000, %	2016	%	2015	%	2014	%		
Depreciation and amortisation	25,793	17%	26,837	15%	28,769	16%	(1,044)	-3.9%
Salaries	49,860	33%	56,662	32%	56,501	31%	(6,802)	-12.0%
Other employee costs	11,300	8%	11,426	7%	13,042	7%	(126)	-1.1%
Rent and other maintenance fees	9,444	6%	9,785	6%	10,272	6%	(341)	-3.5%
Fees and charges	10,009	7%	23,627	14%	22,387	12%	(13,618)	-57.6%
including: PFSA fees	*9,121*	*6%*	*22,047*	*13%*	*22,040*	*12%*	*(12,926)*	*-58.6%*
External service charges	38,587	26%	39,621	23%	41,968	23%	(1,034)	-2.6%
Other operating expenses	5,162	3%	6,433	4%	8,662	5%	(1,271)	-19.8%
Total	**150,155**	**100%**	**174,391**	**100%**	**181,600**	**100%**	**(24,237)**	**-13.9%**

Source: Consolidated Financial Statements, Company

The Group is not dependent on any single supplier or provider as no contractor (other than fees paid to the Polish Financial Supervision Authority) has a share exceeding 10% of the total expenses of the Group.

Depreciation and amortisation

Depreciation and amortisation charges stood at PLN 25.8 million in 2016, representing a decrease of 3.9% (PLN 1.0 million) compared to PLN 26.8 million in 2015. The decrease in depreciation and amortisation charges year on year in 2016 was driven by a decrease of depreciation and amortisation charges in GPW by PLN 2.1 million following the completion of depreciation of some property, plant and equipment as well as appreciation of some intangible assets. At the same time, depreciation and amortisation charges in the POLPX Group increased by PLN 0.9 million following the commissioning of its primary and back-up sites in mod-2015, the commissioning of the OTC RRM system, and the commissioning of the new system X-Stream in IRGiT. Depreciation and amortisation charges of BondSpot also increased by PLN 0.3 million in 2016 as the capital expenditures commissioned in late 2015 relating to the migration of server centres were amortised for the full year.

Salaries and other employee costs

Salaries and other employee costs of the Group amounted to PLN 61.2 million in 2016, representing a decrease of 10.2% (PLN 6.9 million) compared to PLN 68.1 million in 2015.

The decrease of salaries in the GPW Group year on year in 2016 was driven by a decrease of costs by PLN 4.0 million in the POLPX Group, by PLN 1.6 million in GPW, by PLN 0.3 million in BondSpot, by PLN 0.4 million in IAiR, and by PLN 0.1 million in GPW CU; in addition, the salaries in 2015 included the costs of InfoStrefa S.A. (formerly Instytut Rynku Kapitałowego WSE Research S.A.) at PLN 0.6 million.

The decrease of costs in the POLPX Group was mainly driven by a release of provisions for bonuses for 2015 as well as an adjustment of provisions for 2016 totalling PLN 2.8 million and a decrease of gross salaries by PLN 1.3 million year on year on 2016.

The decrease of salaries in BondSpot was driven by a release of provisions for bonuses for 2015. The decrease o salaries in GPW was driven by a decrease of salaries in 2015 by PLN 3.3 million following the release of provisions due to changes of the jubilee award and pension benefit system combined with a decrease of salaries in 2016 due to a release of provisions for bonuses for the Management Board for 2015 at PLN 2.6 million as well as a decrease of gross salaries by PLN 1.5 million.

The headcount of the Group was 331 FTEs as at 31 December 2016. The decrease of the headcount of the Group year on year in 2016 resulted from workforce reductions in GPW and workforce reductions in the other subsidiaries of the GPW Group. The decrease of the headcount of GPW in 2016 was a result of staff restructuring.

Table 47 Employment in GPW Group

# FTEs	As at		
	31 December 2016	**31 December 2015**	**31 December 2014**
GPW	185	201	207
Subsidiaries	146	150	154
Total	**331**	**351**	**361**

Source: Company

Rent and other maintenance fees

Rent and other maintenance fees of the GPW Group amounted to PLN 9.4 million in 2016 compared to PLN 9.8 million in 2015. The decrease of rent was mainly driven by savings following GPW's termination of rental contracts for NewConnect and Catalyst rooms and an archive space in the Centrum Giełdowe building as at the end of May 2015, reducing the cost of rent and maintenance fees.

Fees and charges

Fees and charges stood at PLN 10.0 million in 2016, a decrease of 57.6% (PLN 13.6 million) year on year. The main component of fees and charges of the Group are fees paid to the Polish Financial Supervision Authority, which were largely reduced and stood at PLN 9.1 million for the Group in 2016 as compared to PLN 22.0 million paid for supervision in 2015.

The Act of 12 June 2015 amending the Capital Market Supervision Act and certain other Acts largely extended the list of entities required to finance supervision (by adding, among others, banks, insurers, investment funds, public companies, brokerage houses and foreign investment firms) and changed the amount of contributions of entities. As a result, the cost of fees paid by the GPW Group was reduced significantly in 2016. The Act was signed into law by the President of Poland on 31 July 2015 and promulgated in the Journal of Laws on 31 August 2015. A Regulation of the Minister of Finance effective as of 1 January 2016 determines among others the calculation method as well as the terms and conditions of the payment of fees by relevant entities.

As of 1 January 2016, GPW reduced the transaction fees on trade in shares, rights to shares and ETF units in the part charged on the value of an order up to PLN 100 thousand from 0.033% to 0.029% in order to share savings resulting from changes of fees paid to the Polish Financial Supervision Authority with active market participants. As of 1 November 2016, GPW reduced the fixed fee on an order from PLN 0.20 to PLN 0.15. The reduction of the PFSA fee (by more than one-half year on year in 2016 for the GPW Group) combined with the reduction of trading fees offered by GPW resulted in a proportionate decrease of both revenue and operating expenses of the GPW Group in 2016.

External service charges

External service charges amounted to PLN 38.6 million in 2016 compared to PLN 39.6 million in 2015.

Table 48 Consolidated external service charges of GPW Group and structure of external service charges in 2014 - 2016

	Year ended 31 December						Change	Change (%)
PLN'000, %	**2016**	**%**	**2015**	**%**	**2014**	**%**	**(2016 vs 2015)**	**(2016 vs 2015)**
IT cost:	22,161	57%	20,209	51%	19,378	46%	1,952	9.7%
IT infrastructure maintenance	*12,395*	*32%*	*12,524*	*32%*	*11,755*	*28%*	*(129)*	*-1.0%*
TBSP maintenance service	*1,453*	*4%*	*1,185*	*3%*	*1,139*	*3%*	*268*	*22.6%*
Data transmission lines	*5,924*	*15%*	*5,704*	*14%*	*5,827*	*14%*	*220*	*3.9%*
Software modification	*2,389*	*6%*	*796*	*2%*	*657*	*2%*	*1,593*	*200.2%*
Office and office equipment maintenance:	2,860	7%	2,749	7%	3,695	9%	111	4.0%
Repair and maintenance of installations	*1,038*	*3%*	*938*	*2%*	*1,425*	*3%*	*100*	*10.7%*
Security	*904*	*2%*	*820*	*2%*	*1,137*	*3%*	*84*	*10.3%*
Cleaning	*495*	*1%*	*483*	*1%*	*467*	*1%*	*12*	*2.4%*
Phone and mobile phone services	*423*	*1%*	*508*	*1%*	*667*	*2%*	*(85)*	*-16.7%*
International (energy) market services	*399*	*1%*	*-*	*0%*	*-*	*-*	*399*	*-*
Leasing, rental and maintenance of vehicles	*527*	1%	437	1%	503	1%	90	20.7%
Transportation services	125	0%	195	0%	193	0%	(70)	-35.9%
Promotion, education, market development	5,392	14%	6,155	16%	6,637	16%	(763)	-12.4%
Market liquidity support	583	2%	930	2%	779	2%	(347)	-37.3%
Advisory (including: audit, legal services, business consulting)	3,716	10%	5,474	14%	6,656	16%	(1,758)	-32.1%
Information services	892	2%	823	2%	540	1%	69	8.3%
Training	700	2%	1,147	3%	604	1%	(447)	-39.0%
Mail fees	78	0%	86	0%	71	0%	(8)	-9.0%
Bank fees	135	0%	115	0%	131	0%	20	17.1%
Translation	224	1%	260	1%	275	1%	(36)	-13.9%
Other	795	2%	1,041	3%	2,505	6%	(246)	-23.7%
Total	**38,587**	**100%**	**39,621**	**100%**	**41,968**	**100%**	**(1,034)**	**-2.6%**

Source: Consolidated Financial Statements, Company

The decrease of external service charges year on year was mainly driven by a decrease of the cost of advisory by PLN 1.8 million (by 32.1%), in particular in POLPX, a decrease of the cost of promotion, education and market development by PLN 0.8 million, the cost of employee training by PLN 0.4 million, and the cost of market liquidity support by PLN 0.3 million. At the same time, the cost of software modifications increased by PLN 1.6 million as a result of a one-off recognition of the UTP-D transaction system module contract with Euronext. GPW decided not to implement the module. On 28 June 2016, GPW and NYSE Euronext signed an agreement under which GPW will continue to use the existing version of UTP at least until 2020. After that date, the decision will be made whether to acquire a new system.

Other operating expenses

Other operating expenses amounted to PLN 5.2 million in 2016, including the cost of material and energy consumption at PLN 3.1 million, industry organisation membership fees at PLN 0.6 million, non-life insurance at PLN 0.3 million, perpetual usufruct write-downs at PLN 0.1 million, business travel at PLN 0.8 million, conference participation at PLN 0.1 million, and other costs at PLN 0.1 million.

Other operating expenses amounted to PLN 6.4 million in 2015, including the cost of material and energy consumption at PLN 3.2 million, business travel at PLN 1.4 million, conference participation at PLN 0.3 million.

OTHER INCOME AND EXPENSES

Other income of the Group stood at PLN 1.7 million in 2016 compared to PLN 2.0 million in 2015. Other income includes the annual correction of VAT, medical services reinvoiced for employees, the refund of overpaid tax at source, final clearing of costs of the "Książęca 4" Housing Cooperative, revenue from the distribution of assets of companies in bankruptcy (trade receivables of the Group) as well as revenue from the Polish Power Grid Company (PSE) in the PCR project. It stood at PLN 0.5 million in 2016 due to the recognition over time of the entire such income at PLN 7.0 million. **Other expenses** of the Group stood at PLN 4.6 million compared to PLN 2.2 million in 2015. The increase of other expenses was due to higher donations paid by GPW. In 2016, GPW paid donations of PLN 3.0 million to the Polish National Foundation, PLN 34.4 thousand to the Lesław A. Paga Foundation, PLN 28.5 thousand to the Polish-Chinese Cooperation Forum Association, PLN 27.5 thousand to the GPW Foundation, and PLN 10 thousand to the Youth Entrepreneurship Foundation and Caritas Diecezji Łowickiej each. The donations were lower and stood at PLN 0.7 million in 2015.

FINANCIAL INCOME AND EXPENSES

Financial income of the Group stood at PLN 12.9 million in 2016 compared to PLN 9.9 million in 2015.

Financial income includes mainly interest on bank deposits, financial income on investment in Treasury bonds, as well as positive FX differences. Income from interest on bank deposits was PLN 6.4 million in 2016 and PLN 6.2 million in 2015. The Group held no Treasury bonds in its portfolio in 2016; financial income on investment in Treasury bonds was PLN 0.6 million in 2015. FX differences were negative in 2016 and 2015, shown under financial expenses at PLN 0.2 million and PLN 0.3 million, respectively.

GPW's associate Aquis Exchange Limited completed several new issue shares in 2016 without the participation of GPW. As a result of the transactions, GPW's share in economic and voting rights decreased from 26.33% to 20.31%. As a result of the issue, the net asset value of Aquis increased and GPW recognised gains at PLN 5.8 million shown under financial income.

Financial expenses of the Group stood at PLN 12.1 million in 2016 compared to PLN 12.1 million in 2015. The comparable level of the Group's financial expenses in 2016 was mainly driven by additional recognition of the cost of interest on POLPX's overdue tax debt. The tax debt results from changes of the taxation policy for certain services, effective as of 1 January 2017, and the correction of the related VAT for the period from December 2011 to December 2016. The -largest item of financial expenses is the interest cost under GPW's outstanding bonds at PLN 8.0 million in 2016 compared to PLN 8.4 million in 2015.

In December 2011 and February 2012, GPW issued bonds with a total nominal value of PLN 245.0 million. The bonds are due for redemption on 2 January 2017. The bonds bear interest at a floating rate equal to WIBOR 6M + 1.17%, interest was paid semi-annually.

The cost of the bond offering was PLN 2.2 million, recognised as prepayments and charged to the Company's financial expenses on a straight-line basis from the issue date of the series A bonds (23 December 2011) to the redemption date of the series A and B bonds (2 January 2017). The prepayments reduce the Company's liabilities in respect of the bond issue. The cost of the offering added PLN 0.5 million to the Group's financial expenses in 2016 and PLN 0.8 million in 2015.

The series A and B bonds were partly redeemed in 2015.

On 18 September 2015, GPW announced its intention to buy back series A and B bonds issued by GPW from bond holders for cancellation. On 29 September 2015, the GPW Management Board passed a resolution on the issue of series C unsecured bearer bonds. The bonds were issued on 6 October 2015.

On 6 October 2015, GPW issued 1,250,000 series C bearer bonds in a total nominal amount of PLN 125,000,000. The nominal amount and the issue price was PLN 100 per bond. The series C bonds bear interest at a fixed rate of 3.19% p.a. Interest on the bonds is paid semi-annually. The bonds are due for redemption on 6 October 2022 against the payment of the nominal value to the bond holders. The bonds have been introduced into the alternative trading system on Catalyst.

On 12 October 2015, GPW completed the purchase of its series A and B bonds from bond holders at a price of PLN 101.20 per bond. On 6-12 October 2015, GPW bought back 1,245,163 bonds for a total price of PLN 126,010,495.60. The early redemption of the series A and B bonds was paid for with cash raised by GPW through the issue of series C bonds.

Interest on the bonds is the main contributor to the financial expenses of the Company. The interest rate on the series A and B bonds is 2.94% p.a. in H1 2016 compared to 2.96% in H2 2015. The series C bonds bear interest at a fixed rate of 3.19% p.a.

Following the partial redemption of the series A and B bonds, GPW's outstanding debt under the series A and B bonds was PLN 120,483,799.

As at 31 December 2016, GPW no longer applied hedge accounting. As at 31 December 2015, hedging covered cash flows under the agreement concerning the acquisition of a licence and delivery of a new trading system (UTP-Derivatives). The Company classified the EUR amount maintained for this purpose as a hedging instrument. The FX differences on the carrying value of the amount were recognised, as of 1 January 2012, in equity rather than in financial income and expenses. In 2015, the FX differences in equity were positive at PLN 0.1 million.

However, on 28 June 2016, GPW and NYSE Euronext signed an agreement under which GPW will continue to use the existing version of UTP at least until 2020. After that date, the decision will be made whether to acquire a new system. Consequently, in 2016, GPW discontinued the classification of the dedicated EUR amount as an instrument hedging the risk of cash flows of a future liability.

SHARE OF PROFIT OF ASSOCIATES

The Group's share of profit of associates stood at PLN 3.5 million in 2016 compared to a negative PLN 1.5 million in 2015. The increase was mainly driven by a higher profit of the KDPW Group (PLN 23.8 million) and a lower net loss of Aquis Exchange Limited at PLN 19.0 million in 2016.

Aquis Exchange Limited became an associate upon GPW's acquisition of the second tranche of shares in February 2014. The Group's share of the loss of Aquis Exchange Ltd was PLN 4.5 million in 2016 compared to PLN 6.5 million in 2015.

In H1 2016, Aquis Exchange Limited issued shares at GBP 18.50 per share, which was more than the price paid by GPW (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 26.89% as at 30 June 2016. GPW's share in economic and voting rights decreased from 26.33% to 23.30%. In Q3 2016, Aquis Exchange completed another three new share issues, each at GBP 18.50 per share. As a result, GPW's share in Aquis measured by the number of shares decreased to 23.60% and GPW's share in economic and voting rights decreased to 20.79%. In October 2016, Aquis completed another new share issue at GBP 18.50 per share without the participation of GPW. As a result of Aquis's last share issue in 2016, GPW's share in Aquis measured by the number of shares decreased to 22.99% and GPW's share in economic and voting rights decreased to 20.31%.

The Group's share of the **KDPW Group** profit was PLN 7.7 million in 2016 compared to PLN 4.6 million in 2015.

The share in the net profit of **Centrum Giełdowe** was PLN 0.27 million in 2016 compared to PLN 0.35 million in 2015.

Table 49 Profit / (Loss) of associates

	Year ended 31 December			Change (2016 vs 2015)	Change (%) (2016 vs 2015)
PLN'000	**2016**	**2015**	**2014**		
KDPW S.A. Group	23,829	13,750	30,035	10,079	73.3%
Centrum Giełdowe S.A.	1,100	1,422	1,545	(322)	-22.7%
Aquis Exchange Ltd	(19,004)	(23,093)	(22,165)	4,089	-17.7%
Total	**5,925**	**(7,920)**	**9,415**	**13,845**	**-174.8%**

Source: Consolidated Financial Statements, Company

Table 50 GPW's share of profit / (loss) of associates

	Year ended 31 December			Change (2016 vs 2015)	Change (%) (2016 vs 2015)
PLN'000	**2016**	**2015**	**2014**		
KDPW S.A. Group	7,698	4,584	10,012	3,115	67.9%
Centrum Giełdowe S.A.	273	353	383	(80)	-22.7%
Aquis Exchange Ltd	(4,453)	(6,467)	(6,650)	2,014	-31.1%
Total	**3,518**	**(1,530)**	**3,745**	**5,048**	**-329.9%**

Source: Consolidated Financial Statements, Company

INCOME TAX

Income tax of the Group was PLN 31.1 million in 2016 and PLN 28.1 million in 2015. The **effective income tax rate** in the periods under review was 19.2% and 18.8%, respectively, as compared to the standard Polish corporate income tax rate of 19%.

Income tax **paid** by the Group was PLN 21.1 million in 2016 compared to PLN 17.0 million in 2015. GPW paid income tax in monthly advances in 2016 and based on actual taxable income in 2015. As at the end of 2016, GPW reported a tax payable of PLN 15.6 million, which will be cleared in 2017.

V. 3 Atypical factors and events

Reduction of the GPW Group's costs of supervision over the capital market

The Act of 12 June 2015 amending the Capital Market Supervision Act and certain other Acts largely extended the list of entities required to finance supervision (by adding, among others, banks, insurers, investment funds, public companies, brokerage houses and foreign investment firms) and changes the amount of contributions of entities. As a result, the cost paid by the GPW Group was reduced significantly to PLN 9.1 million in 2016 compared to PLN 22.0 million in 2015. The Act was signed into law by the President of Poland on 31 July 2015 and promulgated in the Journal of Laws on 31 August 2015. A Regulation of the Minister of Finance effective as of 1 January 2016 determines among others the calculation method as well as the terms and conditions of the payment of fees by relevant entities. GPW reduced trading fees on transactions in shares, rights to shares and ETFs in the part of the order value up to PLN 100 thousand from 0.033% to 0.029% as of 1 January 2016, and reduced the fixed fee on an order from PLN 0.30 to PLN 0.25 as of 1 November 2016 in order to share the savings from the change of the structure of PFSA fees with active market participants. The reduction of the PFSA fee combined with the reduction of trading fees offered by GPW resulted in a proportionate decrease of both revenue and operating expenses throughout 2016.

GPW's investment in Aquis Exchange Ltd

In H1 2016, Aquis Exchange Limited issued shares at GBP 18.50 per share, which was more than the price paid by GPW (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 26.89% as at 30 June 2016. GPW's share in economic and voting rights decreased from 26.33% to 23.30%. In Q3 2016, Aquis Exchange completed another three new share issues, each at GBP 18.50 per share. As a result, GPW's share in Aquis measured by the number of shares decreased to 23.60% and GPW's share in economic and voting rights decreased to 20.79%. In October 2016, Aquis completed another new share issue at GBP 18.50 per share without the participation of GPW. As a result of Aquis's last share issue in 2016, GPW's share in Aquis measured by the number of shares decreased to 22.99% and GPW's share in economic and voting rights decreased to 20.31%.

GPW's investment in BondSpot

As at 31 December 2016, the share of GPW in the share capital and in the total number of votes at the General Meeting of BondSpot was 96.98%, stable year on year.

GPW as the organiser of WIBID and WIBOR reference rate fixings

In 2016, GPW decided to take over the functions performed by the Financial Markets Association ACI Polska as the organiser of WIBID and WIBOR reference rate fixings. The decision of GPW to take over the functions of the organiser of reference rate fixings followed a proposal extended by the Association ACI Polska to GPW. ACI Polska decided no longer to perform the functions of the organiser in view of Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds, which takes effect in early 2018. The Regulation defines the three main categories of indices and imposes requirements on the entities which calculate the indices depending on such classification. In view of the Regulation, the Association ACI Polska decided that it would be unable to meet its requirements and approached GPW with a proposal to take over the functions of the organiser of WIBID and WIBOR reference rate fixings. Following an analysis, GPW decided to accept ACI Polska's proposal.

The transition will take place in phases including: starting the organisation of fixings; obtaining the authorisation to perform the functions of administrator; reviewing the rates methodology. In addition to taking over the organisation of reference rate fixings, GPW will also become the calculation agent. The agreement will take effect subject to its approval by the WIBOR Board and the approval of the amendments to the Rules for Fixing WIBID and WIBOR Reference Rates by the banks participating in the fixings.

GPW's decision to take over the organisation of WIBID and WIBOR rate fixings is an important step in its history. While GPW previously focused on trade in capital and commodity market instruments, it now expands to financial market services.

GPW will take over the organisation of reference rate fixings in collaboration with the banks participating in the fixings. This is particularly relevant in view of the role of the banks in the process and the scope of use of reference rates in the banks' business.

GPW will organise WIBID and WIBOR rate fixings via its subsidiary GPW Benchmark S.A., formerly GPW Centrum Usług S.A.

Issue of series D and E bonds

On 13 October 2016, the GPW Management Board passed Resolution No. 1058/2016 to issue 1,200,000 bearer bonds with a nominal value of PLN 100 per bond and a total nominal value of PLN 120.0 million. The decision provided for the issue of two series of bonds: series D bonds with a total nominal value up to PLN 60 million and series E bonds with a total nominal value up to PLN 60 million. The bonds bear interest at a floating rate equal to WIBOR 6M plus a margin. The margin on series D and E bonds is 0.95%. The interest on the bonds is paid semi-annually. The series D and E bonds are due for redemption on 31 January 2022.

The issue of series D and E bonds started in 2016 but the bonds were registered in January 2017. Therefore, no liability under the series D and E bonds was recognised on the books as at the end of December 2016.

V. 4 Group's assets and liabilities structure

The balance-sheet total of the Group was PLN 1.2 billion as at 31 December 2016, an increase of 7.9% compared to PLN 1.1 billion as at 31 December 2015.

ASSETS

The Group's **non-current assets** stood at PLN 597.3 million representing 51% of total assets as at 31 December 2016 compared to PLN 580.6 million or 54% of total assets as at 31 December 2015. The increase of property, plant and equipment as well as intangible assets in the last year was driven by capital expenditures, in particular GPW's investments related to the MiFID II project and the POLPX Group's implementation of a new trading and clearing system.

The Group's **current assets** stood at PLN 560.6 million representing 49% of total assets as at 31 December 2016 compared to PLN 492.5 million or 46% of total assets as at 31 December 2015. The increase in current assets in the last year was driven by a significant increase of cash flows from operating activities.

Table 51 Consolidated statement of financial position of GPW Group at the year's end in 2014 - 2016 (assets)

PLN'000	As at					
	31 December 2016	%	31 December 2015	%	31 December 2014	%
Non-current assets	**597,287**	**51%**	**580,645**	**54%**	**572,710**	**54%**
Property, plant and equipment	119,130	10%	125,229	12%	119,762	11%
Intangible assets	273,815	24%	261,728	24%	261,019	25%
Investment in associates	197,231	17%	188,570	18%	188,104	18%
Deferred tax assets	1,809	0%	-	-	-	0%
Available-for-sale financial assets	288	0%	282	0%	207	0%
Non-current prepayments	5,014	0%	4,836	0%	3,618	0%
Current assets	**560,561**	**49%**	**492,454**	**46%**	**485,156**	**46%**
Inventory	57	0%	135	0%	120	0%
Corporate income tax receivables	428	0%	369	0%	8,378	1%
Trade and other receivables	113,262	10%	131,557	12%	76,301	7%
Available-for-sale financial assets	-	0%	-	0%	10,503	1%
Assets held for sale	-	0%	-	0%	812	0%
Cash and cash equivalents	446,814	39%	360,393	34%	389,042	37%
Total assets	**1,157,848**	**100%**	**1,073,099**	**100%**	**1,057,866**	**100%**

Source: Consolidated Financial Statements, Company

EQUITY AND LIABILITIES

The **equity** of the Group stood at PLN 745.3 million representing 64% of the Group's total equity and liabilities as at 31 December 2016 compared to PLN 713.2 million or 66% of total equity and liabilities as at 31 December 2015.

Non-controlling interests stood at PLN 0.5 million as at 31 December 2016 and as at 31 December 2015.

Non-current liabilities of the Group stood at PLN 141.2 million representing 12% of the Group's total equity and liabilities as at 31 December 2016 compared to PLN 258.9 million or 24% of total equity and liabilities as at 31 December 2015. The main item of the Group's non-current liabilities as at 31 December 2016 were GPW's liabilities under outstanding series C bonds due for redemption on 6 October 2022. In addition, the non-current liabilities as at 31 December 2016 included accruals and deferred income of PLN 6.2 million in relation to PLN 7.0 million of total revenue from POLPX's cooperation with the Polish Power Grid Company (PSE) in the PCR project. The amount of PLN 0.5 million was recognised in other income in 2016. Szczegółowe informacje dotyczące rozliczeń refundacji kosztów od PSE dla TGE zostały przedstawione w Skonsolidowanym sprawozdaniu finansowym GK GPW za 2016 rok w Nocie nr 18.

Current liabilities of the Group stood at PLN 271.4 million representing 23% of the Group's total equity and liabilities as at 31 December 2016 compared to PLN 101.0 million or 9% of total equity and liabilities as at 31 December 2015.

The increase of current liabilities of the Group was driven by:

- ✓ GPW's reclassification of liabilities under issued series A and B bonds from non-current to current liabilities in view of their approaching redemption date of the bonds (2 January 2017);
- ✓ year-on-year increase of income tax payable as at 31 December 2016 due to GPW's selection of the simplified method of payment of monthly income tax advances at 1/12 of the income tax due for 2014; in 2015, GPW did not use the simplified method but paid income tax advances based on the actual taxable income of the period; furthermore, GPW's tax depreciation/amortisation was greater than accounting depreciation/amortisation in 2015;

- ✓ increase in other current liabilities due to an increase of POLPX liabilities following changes of the tax policy for certain services as of 1 January 2017 and the adjustment of the VAT for the period from December 2011 to December 2016. The decision requires the issuance of correction invoices to POLPX's counterparties, requesting them to pay the VAT not previously charged for fees (for the period from December 2011 to December 2016, inclusive) for tax liabilities which are not overdue in the total amount of PLN 69.8 million. At the same time, POLPX will be required to pay to the account of the tax office an amount of the resulting tax debit under correction invoices to be issued to POLPX's counterparties plus interest on the tax debit in the amount of PLN 9.9 million as at 31 December 2016.

Table 52 Consolidated statement of financial position of GPW Group at the year's end in 2014 - 2016 (equity and liabilities)

	As at					
PLN'000	31 December 2016	%	31 December 2015	%	31 December 2014	%
Equity	**745,252**	**64%**	**713,192**	**66%**	**694,568**	**66%**
Share capital	63,865	6%	63,865	6%	63,865	6%
Other reserves	1,184	0%	1,455	0%	1,930	0%
Retained earnings	679,678	59%	647,326	60%	627,657	59%
Non-controlling interests	525	0%	546	0%	1,116	0%
Non-current liabilities	**141,198**	**12%**	**258,930**	**24%**	**259,423**	**25%**
Liabilities under bond issue	123,459	11%	243,800	23%	244,078	23%
Employee benefits payable	1,832	0%	4,046	0%	5,562	1%
Finance lease liabilities	32	0%	84	0%	205	0%
Accruals and deferred income	6,200	1%	-	0%	-	-
Deferred income tax liability	9,675	1%	11,000	1%	9,578	1%
Other liabilities	-	0%	-	-	2,224	-
Current liabilities	**271,398**	**23%**	**100,977**	**9%**	**103,875**	**10%**
Liabilities under bond issue	122,882	11%	682	0%	-	0%
Trade payables	6,387	1%	8,597	1%	10,017	1%
Employee benefits payable	8,114	1%	9,457	1%	9,911	1%
Finance lease liabilities	62	0%	55	0%	154	0%
Deferred income tax liability	16,154	1%	2,833	0%	1,250	0%
Accruals and deferred income	7,144	1%	7,263	1%	5,115	0%
Provisions for other liabilities and charges	333	0%	621	0%	1,346	0%
Other current liabilities	110,322	10%	71,469	7%	75,807	7%
Liabilities held for sale	-	0%	-	0%	275	-
Total equity and liabilities	**1,157,848**	**100%**	**1,073,099**	**100%**	**1,057,866**	**100%**

Source: Consolidated Financial Statements, Company

LIQUIDITY, FINANCIAL ASSETS AND FINANCIAL RISK MANAGEMENT OF THE GROUP

The activities of the Company and the Group are exposed to three types of financial risks: market risk, credit risk, and liquidity risk. Details of how financial risks are identified and managed have been described in the Consolidated Financial Statements.

In 2016, the Company's liquidity risk, which means inability to timely meet its payment obligations, was minor in view of material financial assets held and positive cash flows from operating activities which exceeded the value of existing liabilities. The current liquidity ratio amounted to 2.1 as at 31 December 2016 and 4.9 as at 31 December 2015.

GPW manages financial liquidity in accordance with the "Current Assets Allocation Procedure" adopted by the Management Board. Pursuant to this document, the procedures for investing free cash should be handled in view of the due dates of liabilities so as to minimise the liquidity risk for the parent entity and, at the same time, to maximise its financial income. In practical terms, this means that the Company invests its current assets in bank deposits and the average duration of a financial asset portfolio was around 66 days as at 31 December 2016 and ca. 120 days as at 31 December 2015.

As at 31 December 2016, GPW no longer applied hedge accounting. As at 31 December 2015, hedging covered cash flows under the agreement concerning the acquisition of a licence and delivery of a new trading system (UTP-Derivatives). However, on 28 June 2016, GPW and NYSE Euronext signed an agreement under which GPW will continue to use the existing version of UTP at least until 2020. After that date, the decision will be made whether to acquire a new system. Consequently, in 2016, GPW discontinued the classification of the dedicated EUR amount as an instrument hedging the risk of cash flows of a future liability.

In the opinion of the Management Board, the Company's financial assets and financial risk management process is effective and ensures timely meeting of payment obligations.

No threats have been identified to the Company's liquidity.

The risks inherent in financial instruments held are described in Note 3 to the Separate Financial Statements.

CASH FLOWS

The Group generated positive cash flows from **operating activities** at PLN 205.8 million in 2016 compared to positive cash flows of PLN 93.1 million in 2015.

The cash flows from **investing activities** were negative at PLN 14.5 million in 2016, mainly driven by GPW's investments in the harmonisation of the UTP system with MiFID II. The cash flows from investing activities were negative at PLN 14.6 million in 2015, mainly driven by investments in intangible assets in the POLPX Group

The cash flows from **financing activities** were negative in 2016, mainly due to the payment of dividend by GPW at PLN 99.1 million and interest paid on bonds at PLN 5.8 million. The cash flows from financing activities were negative at PLN 107.2 million in 2015, mainly due to the payment of dividend to the shareholders of GPW at PLN 100.7 million and interest paid on bonds at PLN 6.7 million.

Table 53 Consolidated cash flows of the Group

	Cash flows for the 12-month period ended 31 December		
PLN'000	2016	2015	2014
Cash flows from operating activities	205,814	93,090	161,669
Cash flows from investing activities	(14,456)	(14,631)	(23,146)
Cash flows from financing activities	(104,930)	(107,163)	(60,450)
Net increase / (decrease) in cash	**86,428**	**(28,704)**	**78,073**
Relocation to assets held for sale	*-*	*-*	*(565)*
Impact of change of fx rates on cash balances in foreign currencies	*(7)*	*55*	*29*
Cash and cash equivalents - opening balance	**360,393**	**389,042**	**311,505**
Cash and cash equivalents - closing balance	**446,814**	**360,393**	**389,042**

Source: Consolidated Financial Statements, Company

CAPITAL EXPENDITURE

The Group's total capital expenditure in 2016 amounted to PLN 23.6 million including expenditure for property, plant and equipment at PLN 13.7 million and expenditure for intangible assets at PLN 9.9 million. The Group's total capital expenditure in 2015 amounted to PLN 30.8 million including expenditure for property, plant and equipment at PLN 23.9 million and expenditure for intangible assets at PLN 6.9 million.

The capital expenditure for property, plant and equipment and intangible assets in 2016 included GPW's capital expenditure for maintenance of IT infrastructure and IT equipment preparing GPW to comply with MiFID II and the POLPX Group's intangible assets related to the implementation of a trading and clearing system.

The capital expenditure for property, plant and equipment and intangible assets in 2015 included the POLPX Group's capital expenditure in the acquisition of infrastructure for a new trading and clearing system, participation in the Price Coupling or Regions (PCR) and launch of the LITPOL link.

The value of contracted future investment commitments for property, plant and equipment was PLN 811.0 thousand as at 31 December 2016, including reconstruction of rooms in the GPW building.

The value of contracted future investment commitments for intangible assets was PLN 527.0 thousand as at 31 December 2016, including mainly the implementation of the financial and accounting system's controlling module and the implementation of a document flow system in GPW.

The value of contracted future investment commitments for property, plant and equipment was PLN 1,094 thousand as at 31 December 2015, including mainly reconstruction of rooms in the GPW building.

The value of contracted future investment commitments for intangible assets was PLN 13,884 thousand as at 31 December 2015, including mainly the UTP-Derivatives system, the Electronic Document Flow system, Microsoft product licences, the POLPX Group trading and clearing system, and the AX system in GPW CU.

V. 5 Ratio analysis

DEBT AND FINANCING RATIOS

In the period under review, the debt of the Group posed no threat to its going concern and capacity to meet liabilities on time. The ratio of net debt to EBITDA remained negative, the same as in 2015, due to negative net debt (cash exceeds interest-bearing liabilities), combined with an increase of EBITDA. The debt to equity ratio decreased year on year in 2016 due to an increase in equity. The Group did not raise additional borrowed capital in 2016 but GPW started to issue series D and E bonds. However, the issues were not registered and the debt under the bonds was not recognised until January 2017. On 2 January 2017, series A and B bonds were redeemed, and so the debt remained stable.

LIQUIDITY RATIOS

The current liquidity ratio was 2.1 as at 31 December 2016. The decrease was due to an increase in current liabilities following the reclassification of GPW's liabilities under series A and B bonds to current liabilities (the bonds are due for redemption on 2 January 2017). However, the ratio remained safe.

The coverage ratio of interest costs under the bond issue increased in 2016 year on year mainly due to the Group's higher EBITDA. Consequently, the Group generated cash flows from operating activities which were several times higher than necessary to cover current liabilities under the bond issue.

PROFITABILITY RATIOS

The profitability ratios improved year on year in 2016 driven by lower operating expenses, as reflected in the improving return and cost/income ratios as well as ROE and ROA of the Group.

Table 54 Key financial indicators of GPW Group

		As at / For the 12-month period ended		
		31 December 2016	31 December 2015	31 December 2014
Debt and financing ratios				
Net debt / EBITDA	1), 2)	(1.1)	(0.6)	(1.0)
Debt to equity	3)	33.1%	34.3%	35.2%
Liquidity ratios				
Current liquidity	4)	2.1	4.9	4.7
Coverage of interest on bonds	5)	24.3	23.5	17.0
Return ratios				
EBITDA margin	6)	59.1%	54.9%	50.7%
Operating profit margin	7)	50.8%	46.8%	41.7%
Net profit margin	8)	42.2%	37.1%	33.8%
Cost / income	9)	48.3%	53.2%	57.2%
ROE	10)	18.0%	17.3%	16.1%
ROA	11)	11.8%	11.4%	10.8%

1) Net debt = interest-bearing liabilities less liquid assets of GPW Group (as at balance-sheet date)

2) EBITDA = GPW Group operating profit + depreciation and amortisation (for a period of 12 months; net of the share of profit of associates)

3) Debt to equity = interest-bearing liabilities / equity (as at balance-sheet date)

4) Current liquidity = current assets / current liabilities (as at balance-sheet date)

5) Coverage of interest on bonds = EBITDA / interest on bonds (interest paid and accrued for a period of 12 months)

6) EBITDA margin = EBITDA / GPW Group revenue (for a period of 12 months)

7) Operating profit margin = GPW Group operating profit / GPW Group revenue (for a period of 12 months)

8) Net profit margin = GPW Group net profit / GPW Group revenue (for a period of 12 months)

9) Cost / income = GPW Group operating expenses / GPW Group revenue (for a period of 12 months)

10) ROE = GPW Group net profit (for a period of 12 months) / Average equity at the beginning and at the end of the last 12 month period

11) ROA = GPW Group net profit (for a period of 12 months) / Average total assets at the beginning and at the end of the last 12 month period

Source: Company

V. 6 Other information

CURRENT AND EXPECTED FINANCIAL POSITION

It is expected that the Group will generate material cash flows from operating activities in the coming years; combined with revenues from financial assets, these will cover the Group's operating expenses, capital expenditures and debt service costs.

The Group is not planning to use external financing to an extent greater than as at the date of preparation of this Report. Should any unexpected events occur, which will require financing that could not be provided by the Group, the Group will consider obtaining additional external funds in a manner optimal for the Group's capital expense and structure.

The Group did not publish any financial forecasts for 2016. Consequently, no explanations are provided for the differences between the financial results disclosed in the Annual Report and any previously published forecasts.

INVESTMENTS AND LINKS TO OTHER ENTITIES

GPW has organisational and equity links to the Group subsidiaries and associates. The description of the Group and associates is to be found in section I.1 of this Report.

In 2016, GPW did not make or divest any equity investments in any entities other than related parties. The description of investments in associates and subsidiaries in 2015 is presented in section V.3 of this Report.

Equity links of GPW to the companies from outside the Group as at 31 December 2016 include the investment in InfoStrefa S.A. (formerly Instytut Rynku Kapitałowego WSE Research S.A.) at 19.98 % and the foreign investments in S.C. Sibex - Sibiu Stock Exchange S.A. at 1.3% and INNEX PJSC at 10%.

In addition to the stake in the above mentioned companies, as well as in the Group subsidiaries and associates, GPW's major domestic investments as at 31 December 2016 include bank deposits.

Except for the investment in the Romanian stock exchange S.C. Sibex - Sibiu Stock Exchange S.A., INNEX PJSC and Aquis Exchange Ltd,, the Company has no other foreign investments. All the above investments were financed with own funds of the Company.

Details of the parent entity's investments were disclosed in the Separate Financial Statements of Giełda Papierów Wartościowych w Warszawie S.A. for the years ended 31 December 2016 and 31 December 2015.

Transactions of the Group with related parties are described in the Consolidated Financial Statements of Giełda Papierów Wartościowych w Warszawie S.A. for the years ended 31 December 2016 and 31 December 2015 and in Note 26 to the Separate Financial Statements of Giełda Papierów Wartościowych w Warszawie S.A. for the years ended 31 December 2016 and 31 December 2015.

CREDIT AND LOAN AGREEMENTS SIGNED AND TERMINATED DURING THE FINANCIAL YEAR

The Group signed and terminated no credit and loan agreements in 2016.

LOANS GRANTED IN THE FINANCIAL YEAR

GPW granted no loans other than loans granted to GPW employees under the internal Employee Loan Program in 2016.

In May 2016, POLPX granted a short-term loan of PLN 300 thousand to the subsidiary InfoEngine S.A. to finance its current business. The interest rate on the loan was 2.00% p.a. The loan was granted until 31 March 2017.

GUARANTIES AND SURETIES GRANTED AND ACCEPTED DURING THE FINANCIAL YEAR

The agreement made in April 2014 to issue a performance bond for payment due from the subsidiary InfoEngine S.A. to Polskie Sieci Energetyczne for electricity transactions on the balancing market was in force until 29 February 2016. The liability was capped at PLN 1.0 million.

Na dzień 31 grudnia 2016 r. spółka zależna TGE posiada gwarancję bankową w wysokości 7,8 mln EUR, udzieloną na rzecz NordPool przez jeden z banków, z tytułu rozliczeń pomiędzy TGE SA., a Nord Pool w procesie Marekt Coupling na okres 1 stycznia 2017 r. do 30 czerwca 2017 r.

Ponadto Spółka Grupa nie udzielała i nie otrzymała gwarancji ani poręczeń w 2016 roku.

MATERIAL TRANSACTIONS OF THE ISSUER AND SUBSIDIARIES WITH RELATED PARTIES ON TERMS OTHER THAN AT ARM'S LENGTH IN THE FINANCIAL YEAR

In 2016, GPW and the subsidiaries did not make any significant transactions with related parties on terms other than at arm's length. The transactions with related parties are presented in detail in Note 26 to the Consolidated Financial Statements.

CONTINGENT LIABILITIES AND ASSETS

The Group had no contingent liabilities or assets as at 31 December 2016.

EVENTS AFTER THE BALANCE-SHEET DATE WHICH COULD SIGNIFICANTLY IMPACT THE FUTURE FINANCIAL RESULTS OF THE ISSUER

Changes on the Management Board of the Company

On 16 December 2016, the Exchange Supervisory Board decided to appoint Jacek Fotek as Vice-President of the Exchange Management Board.

On 4 January 2017, the Extraordinary General Meeting of GPW passed a resolution dismissing Małgorzata Zaleska as President of the Management Board of the Warsaw Stock Exchange. The decision is subject to the approval of the Polish Financial Supervision Authority for the change on the Exchange Management Board and its delivery to the Company.

On 4 January 2017, the Extraordinary General Meeting of GPW acting at the request of the State Treasury, a shareholder representing 35.00% of the Company's share capital, passed a resolution appointing Rafał Antczak as President of the Management Board of the Warsaw Stock Exchange. The decision will take effect on the date of delivery of the decision of the Polish Financial Supervision Authority approving the change on the Exchange Management Board to the Company.

The Polish Financial Supervision Authority did not yet approve the changes on the Management Board until the date of approval of this Report.

Issue of series D and E bonds

On 2 January 2017, according to Resolution No. 896/16 of the Management Board of KDPW S.A. dated 29 December 2016, KDPW registered 600,000 series D bearer bonds with a nominal value of PLN 100 per bond, issued under Resolution No. 1058/2016 of the Company's Management Board dated 13 October 2016. The bonds have the ISIN code PLGPW0000074.

On 18 January 2017, according to Resolution No. 31/17 of the Management Board of KDPW S.A. dated 13 January 2017, KDPW registered 600,000 series E bearer bonds with a nominal value of PLN 100 per bond, issued under Resolution No. 1058/2016 of the GPW Management Board dated 13 October 2016. The bonds have the ISIN code PLGPW0000199.

The bonds bear interest at a floating rate equal to WIBOR 6M plus a margin of 0.95 percentage points. The interest on the bonds is paid semi-annually. The bonds are due for redemption on 31 January 2022.

The series D and E bonds have been introduced to trading on the regulated market Catalyst operated by GPW and in the alternative trading system Catalyst operated by BondSpot.

The series D and E bonds were assimilated on 31 January 2017 under the ISIN code PLGPW0000074.

Redemption of series A and B bonds

GPW redeemed series A and B bonds with a nominal value of PLN 120,483,700 on 2 January 2017.

Events in the subsidiary POLPX

The Exchange Management Board was informed on 25 January 2017 about the decision of the POLPX Management Board to change the tax policy regarding certain services as of 1 January 2017 and to correct the relevant VAT payments for the years 2011-2016. The decision requires the issuance of correction invoices to POLPX's counterparties, requesting them to pay the VAT not previously charged for the fees (for the period from December 2011 to December 2016, inclusive) for tax liabilities which are not overdue in the total amount of PLN 69.8 million. At the same time, POLPX will be required to pay to the account of the tax office an amount of the resulting tax debit under correction invoices to be issued to POLPX's counterparties plus interest on the tax debit in the amount of PLN 9.9 million.

As POLPX is required to pay the tax debit and interest within 7-14 days after the submission of the corrected tax returns to the tax office and in view of the expected longer period of payment of liabilities under correction invoices by contractors, GPW is considering to grant a loan to the subsidiary Polish Power Exchange.

There were no other events after the balance-sheet date which could significantly impact the future financial results of the issuer.

VI. FINANCIAL POSITION AND ASSETS OF GPW

VI. 1. Summary of Results

GPW's EBITDA[47] stood at PLN 91.1 million in 2016, a decrease of 1.1% compared to PLN 92.1 million in 2015.

The Company generated a separate operating profit of PLN 71.7 million in 2016 compared to PLN 70.6 million in 2015, an increase of 1.6% (PLN 1.2 million).

The increase of the operating profit year on year in 2016 was mainly a result of lower operating expenses (a decrease of PLN 20.3 million) combined with lower revenue (a decrease of PLN 16.3 million). The decrease of operating expenses resulted from lower fees paid to the Polish Financial Supervision Authority (a decrease of PLN 15.6 million or 74.1%) following the change of the system of financing the cost of market supervision by participants effective as of 2016. In addition, the Company reported lower salaries and other employee costs (a decrease of PLN 1.6 million), depreciation and amortisation charges (a decrease of PLN 2.1 million), rent and other maintenance fees (a decrease of PLN 0.8 million) and other operating expenses (a decrease of PLN 0.6 million).

GPW's net profit was PLN 116.1 million in 2016 compared to PLN 96.9 million in 2015, an increase of 19.8% or PLN 19.2 million. The increase of the net profit year on year in 2016 was driven by an increase of the operating profit and an increase by PLN 19.1 million of net financial income and expenses. GPW received dividends from subsidiaries and associates of PLN 61.6 million in 2016 compared to PLN 43.1 million in 2015. The income tax in 2016 increased by PLN 1.1 million year on year.

Detailed information on changes in revenues and expenses is presented in the sections below.

Table 55 Separate profit and loss account of GPW by quarter in 215 and 2016 and by year in 2014 - 2016

	2016				2015						
PLN'000	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	2016	2015	2014
Sales revenue	**47,629**	**44,608**	**40,885**	**42,331**	**47,317**	**49,618**	**47,275**	**47,571**	**175,454**	**191,781**	**189,996**
Financial market	**46,843**	**44,129**	**40,393**	**41,860**	**46,341**	**48,934**	**46,382**	**47,073**	**173,226**	**188,730**	**187,973**
Trading	30,752	28,504	24,199	25,873	30,745	33,868	30,508	31,441	109,328	126,562	126,472
Listing	5,959	5,589	5,919	5,701	5,859	5,460	6,336	5,996	23,167	23,652	23,297
Information services	10,133	10,037	10,275	10,286	9,737	9,606	9,538	9,635	40,731	38,516	38,204
Other revenue	**786**	**479**	**492**	**471**	**976**	**684**	**893**	**499**	**2,228**	**3,052**	**2,023**
Operating expenses	**26,612**	**18,580**	**25,173**	**29,705**	**29,748**	**30,972**	**31,793**	**27,842**	**100,070**	**120,354**	**130,644**
Depreciation and amortisation	4,201	5,205	5,033	4,901	5,257	5,357	5,388	5,470	19,340	21,472	24,135
Salaries	7,295	4,610	9,056	8,128	8,529	8,486	8,336	5,048	29,089	30,398	33,774
Other employee costs	1,705	1,555	1,815	2,206	1,745	1,686	1,977	2,194	7,281	7,602	9,401
Rent and maintenance fees	1,751	1,520	1,569	1,507	1,623	1,608	1,856	2,021	6,347	7,108	8,327
Fees and charges	182	(954)	220	6,764	4,464	5,892	5,727	5,731	6,212	21,815	20,516
incl.: PFSA fees	*19*	*(1,172)*	*1*	*6,611*	*4,279*	*5,716*	*5,550*	*5,549*	*5,460*	*21,094*	*21,054*
External service charges	10,508	5,767	6,510	5,270	6,880	7,074	7,328	6,364	28,055	27,646	30,292
Other operating expenses	970	877	971	928	1,252	868	1,181	1,013	3,746	4,313	4,200
Other income	428	63	55	135	61	61	124	251	680	497	580
Other expenses	3,416	343	24	547	(85)	(3)	988	444	4,330	1,345	920
Operating profit	**18,029**	**25,748**	**15,743**	**12,214**	**17,715**	**18,710**	**14,618**	**19,537**	**71,734**	**70,579**	**59,012**
Financial income	1,285	60,092	3,550	1,427	1,166	1,220	44,490	1,277	66,354	48,153	21,165
Financial expenses	2,039	2,023	1,994	2,017	2,374	1,959	2,137	2,496	8,073	8,965	17,888
Profit before income tax	**17,276**	**83,817**	**17,299**	**11,624**	**16,507**	**17,972**	**56,971**	**18,318**	**130,015**	**109,768**	**62,289**
Income tax expense	4,049	4,655	2,967	2,258	3,193	3,527	2,744	3,399	13,930	12,863	9,382
Profit for the period	**13,227**	**79,161**	**14,331**	**9,366**	**13,314**	**14,444**	**54,227**	**14,919**	**116,085**	**96,905**	**52,907**

Source: Separate Financial Statements, Company

[47] GPW operating profit before depreciation and amortisation.

Table 56 Separate statement of financial position of GPW by quarter in 2014 - 2016

	2016				2015				2014
PLN'000	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Non-current assets	**472,942**	**463,407**	**467,871**	**468,484**	**472,253**	**472,153**	**476,888**	**479,330**	**480,087**
Property, plant and equipment	101,034	91,303	93,071	93,642	94,773	94,316	96,639	98,552	101,291
Intangible assets	75,918	76,079	78,607	79,451	81,601	82,931	85,013	87,046	85,496
Investment in associates	36,959	36,959	36,959	36,959	36,959	36,959	36,959	36,959	36,959
Investment in subsidiaries	254,985	254,984	254,984	254,985	254,985	253,889	253,889	253,273	252,673
Available-for-sale financial assets	288	287	290	284	282	287	203	202	207
Prepayments	3,758	3,795	3,960	3,163	3,653	3,772	4,185	3,298	3,461
Current assets	**291,788**	**283,451**	**313,659**	**302,561**	**261,770**	**252,543**	**343,473**	**284,911**	**251,636**
Inventories	58	62	68	55	119	119	115	120	114
Corporate income tax receivable	-	-	-	-	-	-	-	2,808	8,378
Trade and other receivables	23,941	24,296	26,376	29,929	26,091	25,167	69,502	27,893	22,569
Available-for-sale financial assets	-	-	-	-	-	10,616	10,573	10,551	10,503
Financial assets held for sale	-	-	-	-	-	-	2,037	2,037	2,037
Other current financial assets	-	-	-	-	-	-	-	100	-
Cash and cash equivalents	267,789	259,094	287,215	272,577	235,560	216,641	261,246	241,402	208,035
Total assets	**764,730**	**746,859**	**781,530**	**771,045**	**734,023**	**724,696**	**820,361**	**764,241**	**731,723**
Equity	**472,102**	**458,849**	**379,687**	**464,254**	**454,881**	**441,445**	**427,042**	**473,540**	**458,769**
Share capital	63,865	63,865	63,865	63,865	63,865	63,865	63,865	63,865	63,865
Other reserves	(114)	(141)	(141)	(297)	(304)	(425)	(384)	(391)	(243)
Retained earnings	408,351	395,124	315,963	400,686	391,320	378,005	363,561	410,067	395,147
Non-current liabilities	**136,794**	**136,199**	**135,545**	**132,563**	**258,242**	**257,680**	**255,435**	**253,611**	**258,601**
Liabilities under bond issue	123,459	123,733	123,669	123,606	243,800	244,424	244,309	244,193	244,078
Employee benefits payable	1,435	1,187	2,828	2,615	2,382	2,248	2,122	1,805	5,357
Deferred income tax liability	9,676	9,055	6,824	6,342	12,060	11,009	9,004	7,612	9,166
Other liabilities	2,224	2,224	2,224	-	-	-	-	-	-
Current liabilities	**155,834**	**151,812**	**266,298**	**174,228**	**20,900**	**25,570**	**137,884**	**37,089**	**14,353**
Liabilities under bond issue	122,882	123,003	121,047	122,881	682	1,814	-	1,935	-
Trade payables	4,297	1,511	5,720	5,333	6,599	5,290	7,250	4,599	3,673
Employee benefits payable	6,490	4,924	6,614	4,400	7,023	6,089	5,459	4,380	7,745
Corporate income tax payable	14,445	11,473	9,547	7,448	1,976	1,412	6,334	-	-
Accruals and deferred income	1,712	9,151	22,231	29,666	1,776	8,543	14,978	21,828	943
Provisions for other liabilities and charges	317	-	-	-	-	-	-	-	-
Other current liabilities	5,691	1,748	101,139	4,501	2,844	2,421	103,863	4,348	1,992
Total equity and liabilities	**764,730**	**746,859**	**781,530**	**771,045**	**734,023**	**724,696**	**820,361**	**764,241**	**731,723**

Source: Separate Financial Statements, Company

VI. 2. Presentation of the Financials

REVENUE

The Company has two revenue-generating segments:

- financial market,
- other revenues.

Revenues from the financial market include revenues from:

- trading;
- listing;
- information services.

Trading revenue includes fees paid by market participants in respect of:

- transactions on markets of equities and equity-related instruments;
- transactions in derivative financial instruments;

- transactions in debt instruments;
- transactions in other cash market instruments;
- other fees paid by market participants.

Revenues from transactions in equities and equity-related securities are the Company's main source of trading revenues and its main source of sales revenues in general.

Revenues from transactions in derivative financial instruments are the second biggest source of trading revenues on the financial market. Transactions in WIG20 index futures account for the majority of revenues from transactions in derivatives.

Revenues from other fees paid by market participants include mainly fees for services providing access to and use of the trading system.

Revenues from transactions in debt instruments are generated by the Catalyst market.

Revenues from transactions in other cash market instruments include fees for trading in structured products, investment certificates, warrants and ETF (Exchange Traded Fund) units.

Listing revenues include two elements:

- one-off fees paid for introduction of shares and other instruments to trading on the exchange;
- periodic listing fees.

Revenues from information services mainly include fees paid by data vendors for real-time market data as well as historical and statistical data. Real-time data fees include fixed annual fees and monthly fees based on the data vendor's number of subscribers and the scope of data feeds used by a subscriber.

The Company's other revenues include revenues, among others, from office space lease and sponsorship.

The Company's sales revenues amounted to PLN 175.5 million in 2016, a decrease of 8.5% (PLN 16.3 million) year on year.

Revenues from trade in equities and equity-related instruments decreased by 17.1% (PLN 18.4 million) year on year in 2016. The decrease in revenues in 2016 was driven by a decrease in turnover on the equity market as well as reduced fees for market participants offsetting the change of fees for market supervision effective as of 2016.

Revenue from trade in derivatives increased by 5.4% (PLN 0.6 million) year on year in 2016 mainly due to a 5.4% increase in the volume of trade in WIG20 futures.

In the annual periods under review, the share of revenue from trade in derivatives in total operating revenue increased from 6.0% in 2015 to 7.0% in 2016 while the share of revenue from trade in equities decreased from 56.3% in 2015 to 51.0% in 2016. The share of the listing revenue increased from 12.0% in 2015 to 13.0% in 2016 and the share of revenue from information services increased from 20% in 2015 to 23% in 2016.

Table 57 Separate revenues of GPW and revenue structure in 2014 - 2016

PLN'000	Year ended 31 December 2016	%	2015	%	2014	%	Change (2016 vs 2015)	Change (%) (2016 vs 2015)
Financial market	**173,226**	**99%**	**188,730**	**98%**	**187,973**	**99%**	**(15,504)**	**-8.2%**
Trading	109,328	62%	126,562	66%	126,472	67%	(17,234)	-13.6%
Equities and equity-related instruments	89,520	51%	107,941	56%	105,295	55%	(18,421)	-17.1%
Derivative instruments	12,202	7%	11,578	6%	14,821	8%	624	5.4%
Other fees paid by market participants	6,835	4%	6,383	3%	5,795	3%	452	7.1%
Debt instruments	361	0%	283	0%	298	0%	78	27.6%
Other cash instruments	410	0%	376	0%	263	0%	34	8.9%
Listing	23,167	13%	23,652	12%	23,297	12%	(485)	-2.0%
Listing fees	19,508	11%	18,862	10%	18,848	10%	646	3.4%
Introduction fees, other fees	3,659	2%	4,790	2%	4,449	2%	(1,131)	-23.6%
Information service	40,731	23%	38,516	20%	38,204	20%	2,215	5.7%
Real-time information	38,070	22%	36,133	19%	35,964	19%	1,937	5.4%
Historical and statistical information and indices	2,661	2%	2,383	1%	2,240	1%	278	11.7%
Other revenue	**2,228**	**1%**	**3,052**	**2%**	**2,023**	**1%**	**(824)**	**-27.0%**
Total	**175,454**	**100%**	**191,781**	**100%**	**189,996**	**100%**	**(16,327)**	**-8.5%**

Source: Separate Financial Statements, Company

The Company earns revenue both from domestic and foreign clients. The table below presents revenue by geographic segment.

Table 58 Separate revenues of GPW by geographic segment in 2014 - 2016

PLN'000	Year ended 31 December 2016	%	2015	%	2014	%	Change (2016 vs 2015)	Change (%) (2016 vs 2015)
Revenue from foreign customers	63,887	36%	62,782	33%	55,236	29%	1,105	1.8%
Revenue from local customers	111,567	64%	128,999	67%	134,760	71%	(17,432)	-13.5%
Total	**175,454**	**100%**	**191,781**	**100%**	**189,996**	**100%**	**(16,327)**	**-8.5%**

Source: Consolidated Financial Statements, Company

The average EUR/PLN exchange rate was 4.36 EUR/PLN in 2016, 4.18 EUR/PLN in 2015, and 4.19 EUR/PLN in 2014.

The Company is not dependent on any single client as no client has a share exceeding 10% of the total sales revenue.

FINANCIAL MARKET

TRADING

The revenues of the Company from trading on the financial market stood at PLN 109.3 million in the year ended on 31 December 2016, compared to PLN 126.6 million in 2015.

The share of trading revenue in the total revenue on the financial market was 62% in 2016 compared to 66% in 2015. The biggest share in trading revenue (92.6%) is that of the revenue on the Main Market, which stood at PLN 101.3 million in 2016 (a decrease of 17.3 million year on year). The remaining share in revenue is that of NewConnect and Catalyst.

Equities and equity-related instruments

Revenues of the Company from trading in **equities and equity-related instruments** amounted to PLN 89.5 million in 2016 compared to PLN 107.9 million in 2015.

The value of trading in equities on the Main Market decreased by 10.2%, including a decrease of trading on the electronic order book by 6.9% and a decrease of the value of block trades by 41.2%; as a result, the trading revenue decreased by 17.1% year on year in 2016. The decrease in revenue from trading in equities and equity-related instruments was greater that the decrease in the value of trading due to the reductions of transaction fees introduced on 1 January 2016 and in November 2016; in addition, the share of HVP/HVF programme participants, who pay lower fees, in the total value of trading in equities increased (to ca. 10%) in 2016.

The reduction of transaction fees in 2016 followed changes to the system of financing of supervision over the capital market. As of 1 January 2016, GPW reduced the transaction fees on trade in shares, rights to shares and ETF units in the part charged on the value of an order up to PLN 100 thousand from 0.033% to 0.029% in order to share savings resulting from changes of fees paid to the Polish Financial Supervision Authority with active market participants. In November 2016, GPW introduced another fee reduction: the fixed fee on an order was reduced from PLN 0.20 to PLN 0.15.

Table 59 Data for the markets in equities and equity-related instruments

	Year ended 31 December			Change (2016 vs 2015)	Change (%) (2016 vs 2015)
	2016	2015	2014		
Financial market, trading revenue: equities and equity-related instruments *(PLN million)*	**89.5**	**107.9**	**105.3**	**(18.4)**	**-17.1%**
Main Market:					
Value of trading *(PLN billion)*	202.3	225.3	232.9	(23.0)	-10.2%
Volume of trading *(billions of shares)*	14.0	16.5	19.5	(2.5)	-15.1%
NewConnect:					
Value of trading *(PLN billion)*	1.4	1.9	1.4	(0.6)	-30.2%
Volume of trading *(billions of shares)*	3.5	3.8	2.3	(0.3)	-6.8%

Source: Company

Derivatives

Revenues of the Company from transactions in **derivatives** on the financial market amounted to PLN 12.2 million in 2016 compared to PLN 11.6 million in 2015.

The increase in revenues from transactions in derivatives year on year in 2016 was driven mainly by an increase in the volume of trading in WIG20 futures (by 5.4%). The total volume of trade in futures decreased by 2.8% in 2016, mainly driven by a decrease in the volume of trade in FX futures and options.

Table 60 Data for the derivatives market

	Year ended 31 December			Change (2016 vs 2015)	Change (%) (2016 vs 2015)
	2016	2015	2014		
Financial market, trading revenue: derivatives *(PLN million)*	**12.2**	**11.6**	**14.8**	**0.6**	**5.4%**
Volume of trading in derivatives *(millions of contracts)*:	8.0	8.2	9.5	(0.2)	-2.8%
incl.: volume of trading in WIG20 futures (millions of contracts)	4.7	4.4	6.0	0.2	5.4%

Source: Company

Other fees paid by market participants

Revenues of the Company from other fees paid by market participants stood at PLN 6.8 million in 2016 compared to PLN 6.4 million in 2015. The fees mainly include fees for access to the trading system (among others, licence fees, connection fees and maintenance fees) as well as fees for use of the system.

Debt instruments

Revenues of the Company from transactions in **debt instruments** stood at PLN 0.4 million in 2016, an increase of 27.6% year on year (PLN 0.1 million in 2015).

The Company's revenues from the debt instruments segment are generated by Catalyst.

Table 61 Data for the debt instruments market

	Year ended 31 December			Change (2016 vs 2015)	Change (%) (2016 vs 2015)
	2016	2015	2014		
Financial market, trading revenue: debt instruments *(PLN million)*	**0.4**	**0.3**	**0.3**	**0.1**	**27.6%**
Catalyst:					
Value of trading *(PLN billion)*	2.4	1.9	2.1	0.5	23.1%
incl.: Value of trading in non-Treasury instruments (PLN billion)	1.4	1.3	1.5	0.1	3.8%

Source: Company

Other cash market instruments

Revenues from transactions in **other cash market instruments** amounted to PLN 410 thousand in 2016 compared to PLN 376 thousand in 2015. The revenues include fees for trading in structured products, investment certificates, ETF units and warrants.

LISTING

Listing revenues of the Company on the financial market amounted to PLN 23.2 million in 2016 compared to PLN 23.7 million in 2015.

Revenues from **listing fees** amounted to PLN 19.5 million in 2016 compared to PLN 18.9 million in 2015. The main driver of revenues from listing fees is the number of issuers listed on the GPW markets and their capitalisation at the year's end.

Revenues from **fees for introduction and other fees** amounted to PLN 3.7 million in 2016 compared to PLN 4.8 million in 2015. The revenues are driven mainly by the number and value of new listings on the GPW markets.

Listing revenues on the GPW Main Market decreased by 2.8% year on year in 2016. The table below presents the key financial and operating figures for the Main Market.

Table 62 Data for the GPW Main Market

	Year ended 31 December			Change (2016 vs 2015)	Change (%) (2016 vs 2015)
	2016	2015	2014		
Main Market					
Listing revenue *(PLN million)*	**19.6**	**20.2**	**20.1**	**(0.6)**	**-2.8%**
Total capitalisation of listed companies *(PLN billion)*	1,115.7	1,082.9	1,253.0	32.9	3.0%
including: Capitalisation of listed domestic companies	557.1	516.8	591.2	40.3	7.8%
including: Capitalisation of listed foreign companies	558.6	566.1	661.8	(7.5)	-1.3%
Total number of listed companies	487	487	471	-	0.0%
including: Number of listed domestic companies	434	433	420	1.0	0.2%
including: Number of listed foreign companies	53	54	51	(1.0)	-1.9%
Value of offerings *(IPO and SPO) (PLN billion) **	4.9	44.8	4.6	(39.9)	-89.0%
Number of new listings *(in the period)*	19	30	28	(11.0)	-36.7%
Capitalisation of new listings *(PLN billion)*	5.6	5.2	5.7	0.4	8.3%
Number of delistings	19	14	8	5.0	35.7%
Capitalisation of delistings** *(PLN billion)*	7.3	11.1	3.5	(3.8)	-34.8%

** SPOs of Santander Bank at PLN 33.0 billion in Q1 2015*

*** based on market capitalisation at the time of delisting*

Source: Company

Listing revenues from NewConnect were PLN 2.3 million in 2016 compared to PLN 2.4 million in 2015. The table below presents the key financial and operating figures.

Table 63 Data for NewConnect

	Year ended 31 December			Change (2016 vs 2015)	Change (%) (2016 vs 2015)
	2016	2015	2014		
NewConnect					
Listing revenue *(PLN million)*	**2.3**	**2.4**	**2.5**	**(0.1)**	**-4.8%**
Total capitalisation of listed companies *(PLN billion)*	9.8	8.7	9.1	1.1	13.1%
including: Capitalisation of listed domestic companies	9.5	8.4	8.8	1.1	12.6%
including: Capitalisation of listed foreign companies	0.3	0.2	0.4	0.1	30.5%
Total number of listed companies	406	418	431	(12)	-2.9%
including: Number of listed domestic companies	398	408	421	(10)	-2.5%
including: Number of listed foreign companies	8	10	10	(2)	-20.0%
Value of offerings *(IPO and SPO) (PLN billion) **	0.2	0.4	0.4	(0.2)	-52.1%
Number of new listings *(in the period)*	16	19	22	(3)	-15.8%
Capitalisation of new listings *(PLN billion)*	0.5	0.6	0.6	(0.1)	-10.2%
Number of delistings	30	32	36	(2)	-6.3%
Capitalisation of delistings** *(PLN billion)*	1.3	1.5	3.1	(0.2)	-12.4%

** includes companies which transferred to the Main Market*

*** based on market capitalisation at the time of delisting*

Source: Company

Listing revenues from Catalyst increased by 18.2% year on year in 2016. The increase resulted from an increase in the number of listed instruments: 505 at the end of 2016 compared to 452 at the end of 2015. The table below presents the key financial and operating figures.

Table 64 Data for Catalyst

	Year ended 31 December			Change (2016 vs 2015)	Change (%) (2016 vs 2015)
	2016	2015	2014		
Catalyst					
Listing revenue *(PLN million)*	**1.3**	**1.1**	**0.7**	**0.2**	**18.2%**
Number of issuers	152	160	163	(8)	-5.0%
Number of issued instruments	505	452	440	53	11.7%
including: non-Treasury instruments	464	416	410	48	11.5%
Value of issued instruments *(PLN billion)*	690.0	594.4	527.7	95.6	16.1%
including: non-Treasury instruments	64.4	50.9	47.2	13.5	26.5%

Source: Company

INFORMATION SERVICES

Revenues from information services amounted to PLN 40.7 million in 2016 compared to PLN 38.5 million in 2015. Despite a decrease in the number of data vendors, the number of subscribers increased. Furthermore, the monthly subscription fee for the best 5 bids/asks paid by institutional subscribers other than exchange members was raised in early 2016 and new agreements were signed with clients who use GPW data in automatic trading and other applications. The monthly fee for the best bid/ask for individual investors was reduced on 1 November 2016.

Table 65 Data for information services

	Year ended 31 December			Change (2016 vs 2015)	Change (%) (2016 vs 2015)
PLN'000	2016	2015	2014		
Revenues from information services *(PLN million)*	**40.7**	**38.5**	**38.2**	**2.2**	**5.7%**
Number of data vendors	51	54	58	(3)	-5.6%
Number of subscribers *('000 subscribers)*	224.6	221.1	240.3	3.5	1.6%

Source: Company

OTHER REVENUES

The Company's other revenues amounted to PLN 2.2 million in 2016 compared to PLN 3.1 million in 2015. The Company's other revenues include revenues from educational and PR services, office space lease, financial and accounting services for GPW Group companies, colocation services, and sponsorship. Revenues from sponsorship and colocation services reported the biggest drop in 2016.

OPERATING EXPENSES

Total operating expenses amounted to PLN 100.1 million in 2016, representing a decrease of 16.9% (PLN 20.3 million) year on year. The cost/income ratio decreased from 62.8% in 2015 to 57.0% in 2016. The decrease of operating expenses was mainly driven by lower fees paid to the Polish Financial Supervision Authority due to the change of the system of financing of market supervision effective as of 1 January 2016. As GPW paid lower fees to the Polish Financial Supervision Authority, its *Fees and charges* decreased by 71.5% or PLN 15.6 million. In addition, the decrease of expenses was driven by lower salaries and other employee costs (a decrease of PLN 1.6 million), depreciation and amortisation charges (a decrease of PLN 2.1 million), rent and other maintenance fees (a decrease of PLN 0.8 million) and other operating expenses (a decrease of PLN 0.6 million).

Table 66 Separate operating expenses of GPW and structure of operating expenses in 2014 - 2016

PLN'000, %	Year ended 31 December 2016	%	2015	%	2014	%	Change (2016 vs 2015)	Change (%) (2016 vs 2015)
Depreciation and amortisation	19,340	19%	21,472	18%	24,135	18%	(2,132)	-9.9%
Salaries	29,089	29%	30,398	25%	33,774	26%	(1,309)	-4.3%
Other employee costs	7,281	7%	7,602	6%	9,401	7%	(321)	-4.2%
Rent and other maintenance fees	6,347	6%	7,108	6%	8,327	6%	(761)	-10.7%
Fees and charges	6,212	6%	21,815	18%	20,516	16%	(15,603)	-71.5%
including PFSA fees	*5,460*	*5%*	*21,094*	*18%*	*21,054*	*16%*	*(15,634)*	*-74.1%*
External service charges	28,055	28%	27,646	23%	30,292	23%	409	1.5%
Other operating expenses	3,746	4%	4,313	4%	4,200	3%	(567)	-13.1%
Total	**100,070**	**100%**	**120,354**	**100%**	**130,644**	**100%**	**(20,285)**	**-16.9%**

Source: Separate Financial Statements, Company

The Company is not dependent on any single supplier or provider as no contractor has a share exceeding 10% of the total expenses of the Company.

Depreciation and amortisation

Depreciation and amortisation charges stood at PLN 19.3 million in 2016, representing a decrease of 9.9% (PLN 2.1 million) compared to PLN 21.5 million in 2015. The decrease in depreciation and amortisation charges year on year in 2016 was driven by the completion of depreciation of some property, plant and equipment as well as intangible assets.

Salaries and other employee costs

Salaries and other employee costs amounted to PLN 36.4 million in 2016, representing a decrease of 4.3% (PLN 1.6 million) compared to PLN 38.0 million in 2015.

The decrease of salaries in 2016 was mainly driven by a decrease of salaries in 2015 by PLN 3.3 million due to released provisions following changes of the jubilee award system and the retirement and disability severance pay system (net of the released provisions, the Company's salaries were higher in 2015) and a decrease of salaries in 2016 following the release of provisions against bonuses for the Management Board for 2015 at PLN 2.6 million, as well as lower gross salaries at PLN 1.5 million.

The headcount of the Company was 185 FTEs as at 31 December 2016 compared to 201 FTEs as at 31 December 2015. The decrease of the headcount of the Company year on year in 2016 resulted from workforce restructuring.

Table 67 Employment in GPW

# FTEs	As at 31 December 2016	31 December 2015	31 December 2014
GPW	185	201	207
Total	**185**	**201**	**207**

Source: Company

Rent and other maintenance fees

Rent and other maintenance fees amounted to PLN 6.3 million in 2016 compared to PLN 7.1 million in 2015, a decrease of 10.7% year on year. The reduction of rent in 2016 followed the termination of rental contracts for NewConnect and Catalyst rooms and an archive space in the Centrum Giełdowe building at the end of May 2015, as well as renegotiation of rental of office space in the Centrum Giełdowe building and related maintenance fees. The savings generated by the changes implemented in 2015 were available throughout 2016.

Fees and charges

Fees and charges stood at PLN 6.2 million in 2016, a decrease of 71.5% (PLN 15.6 million) year on year. The main component of fees and charges of the Company are fees paid to the Polish Financial Supervision Authority, and the terms of payment of the fees changed as of the beginning of 2016.

The Act of 12 June 2015 amending the Capital Market Supervision Act and certain other Acts largely extended the list of entities required to finance supervision (by adding, among others, banks, insurers, investment funds, public companies, brokerage houses and foreign investment firms) and increased the amount of contributions of entities. As a result, the cost of fees paid by GPW was reduced significantly by 74.1% in 2016. The cost of fees paid to the Polish Financial Supervision Authority was PLN 5.5 million in 2016 compared to PLN 21.1 million in 2015.

As of 1 January 2016, GPW reduced the transaction fees on trade in shares, rights to shares and ETF units in the part charged on the value of an order up to PLN 100 thousand from 0.033% to 0.029% in order to share savings resulting from changes of fees paid to the Polish Financial Supervision Authority with active market participants. As of 1 November 2016, GPW reduced the fixed fee on an order from PLN 0.20 to PLN 0.15. The reduction of the PFSA fee combined with the reduction of trading fees offered by GPW resulted in a proportionate decrease of both revenue and operating expenses of GPW throughout 2016.

External service charges

External service charges amounted to PLN 28.1 million in 2016 compared to PLN 27.6 million in 2015.

Table 68 Separate external service charges of GPW and structure of external service charges in 2014 - 2016

	Year ended 31 December						Change (2016 vs 2015)	Change (%) (2016 vs 2015)
PLN'000, %	2016	%	2015	%	2014	%		
IT cost:	15,668	56%	14,275	52%	15,239	50%	1,393	9.8%
IT infrastructure maintenance	9,331	*33%*	9,746	*35%*	9,723	*32%*	*(415)*	*-4.3%*
Data transmission lines	4,508	*16%*	4,416	*16%*	4,908	*16%*	*92*	*2.1%*
Software modification	1,829	*7%*	113	*0%*	608	*2%*	*1,716*	*1521.7%*
Office and office equipment maintenance:	2,244	8%	2,260	8%	2,663	9%	(16)	-0.7%
Repair and maintenance of installations	863	*3%*	875	*3%*	866	*3%*	*(12)*	*-1.4%*
Security	735	*3%*	675	*2%*	993	*3%*	*60*	*9.0%*
Cleaning	370	*1%*	372	*1%*	372	*1%*	*(2)*	*-0.5%*
Phone and mobile phone services	276	*1%*	338	*1%*	433	*1%*	*(62)*	*-18.4%*
Leasing, rental and maintenance of vehicles	135	0%	225	1%	438	1%	(90)	-39.9%
Transportation services	81	0%	100	0%	82	0%	(19)	-18.9%
Promotion, education, market development	4,381	16%	4,298	16%	4,905	16%	84	1.9%
Market liquidity support	564	2%	920	3%	836	3%	(356)	-38.7%
Advisory (including: audit, legal services, business consulting)	2,301	8%	2,633	10%	3,726	12%	(333)	-12.6%
Information services	1,348	5%	1,132	4%	962	3%	216	19.1%
Training	540	2%	823	3%	294	1%	(283)	-34.4%
Mail fees	44	0%	40	0%	46	0%	3	9.0%
Bank fees	48	0%	52	0%	44	0%	(4)	-7.8%
Translation	177	1%	185	1%	225	1%	(8)	-4.3%
Other	524	2%	703	3%	833	3%	(179)	-25.4%
Total	**28,055**	**100%**	**27,646**	**100%**	**30,292**	**100%**	**409**	**1.5%**

Source: Separate Financial Statements, Company

The increase of external service charges by PLN 409 thousand year on year in 2016 was mainly driven by the increase of the cost of software modifications by PLN 1.7 million and a decrease of the following items:

- IT infrastructure maintenance – decrease of PLN 0.4 million,
- market liquidity support – decrease of PLN 0.4 million,
- advisory – decrease of PLN 0.3 million,
- training – decrease of PLN 0.3 million,
- other expenses – decrease of PLN 0.2 million.

The increase of the cost of software modifications by PLN 1.7 million was driven by the cost of delivery of implementation documentation from Euronext in the implementation of MiFID II in the UTP trading system at EUR 370.0 thousand gross (PLN 1,634.3 thousand) in Q4 2016.

Other operating expenses

Other operating expenses decreased by 13.1% or PLN 0.6 million year on year in 2016 and stood at PLN 3.7 million, including the cost of material and energy consumption at PLN 2.4 million, industry organisation membership fees at PLN 0.4 million, non-life insurance at PLN 0.25 million, perpetual usufruct write-downs at PLN 0.1 million, business travel at PLN 0.6 million, conference participation at PLN 35 thousand, and other costs at PLN 8 thousand.

OTHER INCOME AND EXPENSES

Other income of GPW stood at PLN 0.7 million in 2016 compared to PLN 0.5 million in 2015. Other income in 2016 mainly included the release of provisions against interest on tax liabilities for 2011 – 2012 due to corrected tax filings (the cost of interest paid is lower than the provisions), as well as reinvoicing of services for employees.

Other expenses of GPW increased to PLN 4.3 million in 2016 compared to PLN 1.3 million in 2015, mainly as a result of an increase in donations paid. In 2016, GPW donated PLN 3.0 million to the Polish National Foundation, PLN 34.4 thousand to the Lesław Paga Foundation, PLN 28.5 thousand to the Polish-Chinese Cooperation Forum Association, PLN 27.5 thousand to the GPW Foundation, and PLN 10 thousand to the Youth Entrepreneurship Foundation and the Łowicka Diocese Caritas each. Other expenses include losses on sales of property, plant and equipment (PLN 0.35 million), impairment write-downs of receivables (PLN 0.36 million) and provisions against litigation with former employees of the Company (PLN 0.32 million).

Donations amounted to PLN 648 thousand in 2015, including PLN 600 thousand to the GPW Foundation.

FINANCIAL INCOME AND EXPENSES

Financial income of the Company stood at PLN 66.3 million in 2016 compared to PLN 48.2 million in 2015. Financial income includes mainly dividend received from subsidiaries and associates, interest on bank deposits, as well as positive FX differences.

Income from received dividend was PLN 61.6 million in 2016 and PLN 43.1 million in 2015. Income from interest on bank deposits was PLN 4.1 million in 2016 and PLN 4.6 million in 2015. The Company held no Treasury bonds in its portfolio and earned no such income in 2016; financial income on investment in Treasury bonds was PLN 0.6 million in 2015. FX differences were positive at PLN 0.6 million in 2016 and negative in 2015, shown under financial expenses at PLN 0.3 million.

Financial expenses of the Company stood at PLN 8.1 million in 2016 compared to PLN 9.0 million in 2015. The decrease of expenses in 2016 was driven by lower cost of outstanding bonds, which stood at PLN 0.5 million in 2016 compared to PLN 0.8 million in 2015; no negative FX differences in 2016 compared to PLN 0.3 million in 2015; lower interest on tax liabilities at PLN 20.5 thousand in 2016 compared to PLN 187.4 thousand in 2015.

The main financial expense of the Company is the cost of debt under outstanding bonds. The interest cost on debt under bonds was PLN 7.6 million in 2016, stable year on year. The cost was driven by the interest rate on the series A and B bonds at 2.94% in H1 2016 and 2.96% in H2 2016, and the interest rate on series C bonds at 3.19%. The interest rate on the series A and B bonds was 3.22% in H1 2015 and 2.96% in H2 2015.

In December 2011 and February 2012, GPW issued series A and B bonds with a total nominal value of PLN 245.0 million. The bonds were due for redemption on 2 January 2017. The bonds bore interest at a floating rate equal to WIBOR 6M + 1.17%, interest was paid semi-annually.

The series A and B bonds were partly redeemed in 2015.

On 18 September 2015, GPW announced its intention to buy back series A and B bonds issued by GPW from bond holders for cancellation. On 29 September 2015, the GPW Management Board passed a resolution on the issue of series C unsecured bearer bonds. The bonds were issued on 6 October 2015.

On 6 October 2015, GPW issued 1,250,000 series C bearer bonds in a total nominal amount of PLN 125,000,000. The series C bonds bear interest at a fixed rate of 3.19% p.a. Interest on the bonds is paid semi-annually. The bonds are due for redemption on 6 October 2022 against the payment of the nominal value to the bond holders. The bonds have been introduced into the alternative trading system on Catalyst.

On 12 October 2015, GPW completed the purchase of its series A and B bonds from bond holders at a price of PLN 101.20 per bond. On 6-12 October 2015, GPW bought back 1,245,163 bonds for a total price of PLN 126,010,495.60. The early redemption of the series A and B bonds was paid for with cash raised by GPW through the issue of series C bonds.

Following the partial redemption of the series A and B bonds, GPW's outstanding debt under the series A and B bonds was PLN 120,483,799.

INCOME TAX

Income tax of the Company was PLN 13.9 million in 2016 and PLN 12.9 million in 2015. The **effective income tax rate** in the periods under review was 10.7% and 11.7%, respectively, as compared to the standard Polish corporate income tax rate of 19%. The difference between the effective tax rate and the regulatory rate was mainly due to dividends received from subsidiaries and associates, included in profit before tax, which are exempted from taxation. The Company is eligible to use the exemption of taxes on dividends from such companies as it has held an investment at more than 10% for more than two years.

VI. 3. Atypical factors and events

Changes to the system of financing of supervision over the capital market and reduction of GPW's costs

The Act of 12 June 2015 amending the Capital Market Supervision Act and certain other Acts largely extended the list of entities required to finance supervision (by adding, among others, banks, insurers, investment funds, public companies, brokerage houses and foreign investment firms) and increased the amount of contributions of entities. As a result, the cost paid by GPW was reduced significantly to PLN 5.5 million in 2016 compared to PLN 21.1 million in 2015. The Act was signed into law by the President of Poland on 31 July 2015 and promulgated in the Journal of Laws on 31 August 2015. A Regulation of the Minister of Finance effective as of 1 January 2016 determines among others the calculation method as well as the terms and conditions of the payment of fees by relevant entities. GPW reduced trading fees on transactions in shares, rights to shares and ETFs in the part of the order value up to PLN 100 thousand from 0.033% to 0.029% as of 1 January 2016, and reduced the fixed fee on an order from PLN 0.30 to PLN 0.25 as of 1 November 2016 in order to share the savings from the change of the structure of PFSA fees with active market participants. The reduction of the PFSA fee combined with the reduction of trading fees offered by GPW resulted in a proportionate decrease of both revenue and operating expenses throughout 2016.

GPW's investment in Aquis Exchange Ltd

In H1 2016, Aquis Exchange Limited issued shares at GBP 18.50 per share, which was more than the price paid by GPW (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 26.89% as at 30 June 2016. GPW's share in economic and voting rights decreased from 26.33% to 23.30%. In Q3 2016, Aquis Exchange completed another three new share issues, each at GBP 18.50 per share. As a result, GPW's share in Aquis measured by the number of shares decreased to 23.60% and GPW's share in economic and voting rights decreased to 20.79%. In October 2016, Aquis completed another new share issue at GBP 18.50 per share without the participation of GPW. As a result of Aquis's last share issue in 2016, GPW's share in Aquis measured by the number of shares decreased to 22.99% and GPW's share in economic and voting rights decreased to 20.31%.

GPW's investment in BondSpot

As at 31 December 2016, the share of GPW in the share capital and in the total number of votes at the General Meeting of BondSpot was 96.98%, stable year on year.

GPW as the organiser of WIBID and WIBOR reference rate fixings

In 2016, GPW decided to take over the functions performed by the Financial Markets Association ACI Polska as the organiser of WIBID and WIBOR reference rate fixings. The decision of GPW to take over the functions of the organiser of reference rate fixings followed a proposal extended by the Association ACI Polska to GPW. ACI Polska decided no longer to perform the functions of the organiser in view of Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds, which takes effect in early 2018. The Regulation defines the three main categories of indices and imposes requirements on the entities which calculate the indices depending on such classification. In view of the Regulation, the Association ACI Polska decided that it would be unable to meet its requirements and approached GPW with a proposal to take over the functions of the organiser of WIBID and WIBOR reference rate fixings. Following an analysis, GPW decided to accept ACI Polska's proposal.

The transition will take place in phases including: starting the organisation of fixings; obtaining the authorisation to perform the functions of administrator; reviewing the rates methodology. In addition to taking over the organisation of reference rate fixings, GPW will also become the calculation agent. The agreement will take effect subject to its approval by the WIBOR Board and the approval of the amendments to the Rules for Fixing WIBID and WIBOR Reference Rates by the banks participating in the fixings.

GPW's decision to take over the organisation of WIBID and WIBOR rate fixings is an important step in its history. While GPW previously focused on trade in capital and commodity market instruments, it now expands to financial market services.

GPW will take over the organisation of reference rate fixings in collaboration with the banks participating in the fixings. This is particularly relevant in view of the role of the banks in the process and the scope of use of reference rates in the banks' business.

GPW will organise WIBID and WIBOR rate fixings via its subsidiary GPW Benchmark S.A., formerly GPW Centrum Usług S.A.

Issue of series D and E bonds

On 13 October 2016, the GPW Management Board passed Resolution No. 1058/2016 to issue 1,200,000 bearer bonds with a nominal value of PLN 100 per bond and a total nominal value of PLN 120.0 million. The decision provided for the issue of two series of bonds: series D bonds with a total nominal value up to PLN 60 million and series E bonds with a total nominal value up to PLN 60 million. The bonds bear interest at a floating rate equal to WIBOR 6M plus a margin. The margin on series D and E bonds is 0.95%. The interest on the bonds is paid semi-annually. The series D and E bonds are due for redemption on 31 January 2022.

The issue of series D and E bonds started in 2016 but the bonds were registered in January 2017. Therefore, no liability under the series D and E bonds was recognised on the books as at the end of December 2016.

VI. 4. Company's assets and liabilities structure

The balance-sheet total of the Company was PLN 764.7 million as at 31 December 2016, a decrease of 4.2% (PLN 30.7 million) compared to PLN 734.0 million as at 31 December 2015.

ASSETS

The Company's **non-current assets** stood at PLN 472.9 million representing 62% of total assets as at 31 December 2016 compared to PLN 472.3 million or 64% of total assets as at 31 December 2015. The decrease of the share of non-current assets in the Company's balance sheet last year was driven by the increase of current assets.

The Company's **current assets** stood at PLN 291.8 million representing 38% of total assets as at 31 December 2016 compared to PLN 261.8 million or 36% of total assets as at 31 December 2015. The change in current assets last year was driven by an increase of cash generated in operating and investing activities. At the same time, trade and other receivables decreased.

Table 69 Separate statement of financial position of GPW at the year's end in 2014 – 2016 (assets)

	As at					
PLN'000	31 December 2016	%	31 December 2015	%	31 December 2014	%
Non-current assets	**472,942**	**62%**	**472,253**	**64%**	**480,087**	**66%**
Property, plant and equipment	101,034	13%	94,773	13%	101,291	14%
Intangible assets	75,918	10%	81,601	11%	85,496	12%
Investment in associates	36,959	5%	36,959	5%	36,959	5%
Investment in subsidiaries	254,985	33%	254,985	35%	252,673	35%
Available-for-sale financial assets	288	0%	282	0%	207	0%
Prepayments	3,758	0%	3,653	0%	3,461	0%
Current assets	**291,788**	**38%**	**261,770**	**36%**	**251,636**	**34%**
Inventory	58	0%	119	0%	114	0%
Corporate income tax receivables	-	0%	-	0%	8,378	1%
Trade and other receivables	23,941	3%	26,091	4%	22,569	3%
Available-for-sale financial assets	-	0%	-	0%	10,503	1%
Assets held for sale	-	0%	-	0%	2,037	0%
Cash and cash equivalents	267,789	35%	235,560	32%	208,035	28%
Total assets	**764,730**	**100%**	**734,023**	**100%**	**731,723**	**100%**

Source: Separate Financial Statements, Company

EQUITY AND LIABILITIES

The **equity** of the Company stood at PLN 472.1 million representing 62% of the total equity and liabilities as at 31 December 2016 compared to PLN 454.9 million or 62% of total equity and liabilities as at 31 December 2015.

Non-current liabilities of the Company stood at PLN 136.8 million representing 18% of the total equity and liabilities as at 31 December 2016 compared to PLN 258.2 million or 35% of total equity and liabilities as at 31 December 2015. The marked change in non-current liabilities as at 31 December 2016 was driven by the reclassification of some liabilities under outstanding series A and B bonds to current liabilities (maturing within less than 1 year).

Current liabilities of the Company stood at PLN 155.8 million representing 20% of the total equity and liabilities as at 31 December 2016 compared to PLN 20.9 million or 3% of total equity and liabilities as at 31 December 2015. The increase of current liabilities was driven by the reclassification of liabilities under series A and B bonds from non-current liabilities to current liabilities in view of the approaching maturity of the bonds (2 January 2017), an increase of income tax payable, and an increase of other current liabilities. The year-on-year increase of income tax payable as at the end of 2016 was due to GPW's decision to apply the simplified method of payment of monthly income tax advances in 2016 at 1/12 of the tax due for 2014. In 2015, GPW did not use the simplified method but paid income tax advances based on the actual taxable income of the period. Furthermore, GPW's depreciation and amortisation under tax regulations was higher than depreciation and amortisation at the carrying value in 2015. The increase of other current liabilities as at the end of 2016 was due to contracted investment commitments at PLN 4.6 million.

Table 70 Separate statement of financial position of GPW at the year's end in 2014 – 2016 (equity and liabilities)

	As at					
PLN'000	31 December 2016	%	31 December 2015	%	31 December 2014	%
Equity	**472,102**	**62%**	**454,881**	**62%**	**458,769**	**63%**
Share capital	63,865	8%	63,865	9%	63,865	9%
Other reserves	(114)	0%	(304)	0%	(243)	0%
Retained earnings	408,351	53%	391,321	53%	395,147	54%
Non-current liabilities	**136,794**	**18%**	**258,242**	**35%**	**258,601**	**35%**
Liabilities under bond issue	123,459	16%	243,800	33%	244,078	33%
Employee benefits payable	1,435	0%	2,382	0%	5,357	1%
Deferred income tax liability	9,676	1%	12,060	2%	9,166	1%
Other liabilities	2,224	0%	-	-	-	-
Current liabilities	**155,834**	**20%**	**20,900**	**3%**	**14,353**	**2%**
Liabilities under bond issue	122,882	16%	682	0%	-	0%
Trade payables	4,297	1%	6,599	1%	3,673	1%
Employee benefits payable	6,490	1%	7,023	1%	7,745	1%
Corporate income tax payable	14,445	2%	1,976	0%	-	0%
Accruals and deferred income	1,712	0%	1,776	0%	943	0%
Provisions for other liabilities and charges	317	0%	-	0%	-	0%
Other current liabilities	5,691	1%	2,844	0%	1,992	0%
Total equity and liabilities	**764,730**	**100%**	**734,023**	**100%**	**731,723**	**100%**

Source: Separate Financial Statements, Company

LIQUIDITY, FINANCIAL ASSETS AND FINANCIAL RISK MANAGEMENT OF THE COMPANY

The activities of the Company and the Group are exposed to three types of financial risks: market risk, credit risk, and liquidity risk. Details of how financial risks are identified and managed have been described in the Separate Financial Statements.

In 2016, the Company's liquidity risk, which means inability to timely meet its payment obligations, was minor in view of material financial assets held and positive cash flows from operating activities which exceeded the value of existing liabilities. The current liquidity ratio amounted to 12.5 as at 31 December 2015 and decreased to 1.9 as at 31 December 2016 but remained above 1. The decrease of the liquidity ratio was mainly driven by the shorter time to maturity of series A and B bonds (under 1 year), which were reclassified to current liabilities.

GPW manages financial liquidity in accordance with the "Current Assets Allocation Procedure" adopted by the Management Board. Pursuant to this document, the procedures for investing free cash should be handled in view of the due dates of liabilities so as to minimise the liquidity risk for the parent entity and, at the same time, to maximise its financial income. In practical terms, this means that the Company invests its current assets in bank deposits and the average duration of a financial asset portfolio was around 66 days as at 31 December 2016 and around 120 days as at 31 December 2015.

As at 31 December 2016, GPW no longer applied hedge accounting. As at 31 December 2015, hedging covered cash flows under the agreement concerning the acquisition of a licence and delivery of a new trading system (UTP-Derivatives). However, on 28 June 2016, GPW and NYSE Euronext signed an agreement under which GPW will continue to use the existing version of UTP at least until 2020. After that date, the decision will be made whether to acquire additional system functionalities. Consequently, GPW discontinued the classification of the dedicated EUR amount as an instrument hedging the risk of cash flows of a future liability.

In the opinion of the Management Board, the Company's financial assets and financial risk management process is effective and ensures timely meeting of payment obligations.

No threats have been identified to the Company's liquidity.

The risks inherent in financial instruments held are described in Note 3 to the Separate Financial Statements.

CASH FLOWS

The Company generated positive cash flows from **operating activities** at PLN 87.2 million in 2016, an increase compared to positive cash flows of PLN 84.6 million in 2015.

The cash flows from **investing activities** were positive at PLN 49.8 million in 2016, similar to the cash flows generated in 2015 (PLN 49.8 million). The cash flows from investing activities in 2016 were mainly driven by capital expenditures at PLN 16.0 million as well as dividend received at PLN 61.6 million. The cash flows from investing activities in 2015 were mainly driven by capital expenditures at PLN 8.1 million as well as dividend received at PLN 43.1 million.

The cash flows from **financing activities** were negative at PLN 104.8 million in 2016, mainly due to the payment of dividend to the shareholders at PLN 99.0 million and interest paid on the Company's bonds. The cash flows from financing activities were negative in 2015, mainly relating to a payment of dividend to the shareholders of GPW at PLN 100.7 million, interest paid on bonds at PLN 6.7 million, and the replacement of some of GPW's floating-coupon bonds with fixed-coupon bonds.

Table 71 Separate cash flows of GPW

	Cash flows for the 12-month period ended 31 December		
PLN'000	2016	2015	2014
Cash flows from operating activities	87,205	84,609	83,511
Cash flows from investing activities	49,842	49,809	(6,711)
Cash flows from financing activities	(104,808)	(106,944)	(59,734)
Net increase / (decrease) in cash and cash equivalents	**32,239**	**27,473**	**17,065**
Impact of change of fx rates on cash balances in foreign currencies	*(10)*	*51*	*44*
Cash and cash equivalents - opening balance	**235,560**	**208,035**	**190,925**
Cash and cash equivalents - closing balance	**267,789**	**235,560**	**208,035**

Source: Separate Financial Statements, Company

CAPITAL EXPENDITURE

The Company's total capital expenditure in 2016 amounted to PLN 16.0 million including expenditure for property, plant and equipment at PLN 13.1 million and expenditure for intangible assets at PLN 2.8 million. The Company's total capital expenditure in 2015 amounted to PLN 8.1 million including expenditure for property, plant and equipment at PLN 4.8 million and expenditure for intangible assets at PLN 3.3 million.

The capital expenditure for property, plant and equipment in 2016 included maintenance of IT infrastructure and IT hardware necessary to prepare GPW for compliance with the MiFID II requirements. The expenditure is a part of the procurement necessary to comply with MiFID II. The project will continue in 2017.

The capital expenditure for property, plant and equipment in 2015 included IT infrastructure maintenance and optimisation of the use of office space in the Centrum Giełdowe building.

The value of contracted future investment commitments for plant, property and equipment was PLN 811 thousand as at 31 December 2016 including reconstruction of rooms in the GPW building.

The value of contracted future investment commitments for intangible assets was PLN 527.0 thousand as at 31 December 2016 including the implementation of the financial and accounting system's controlling module and the implementation of a document flow system in GPW.

The value of contracted future investment commitments for plant, property and equipment was PLN 1,094 thousand as at 31 December 2015 including mainly reconstruction of rooms in the GPW building.

The value of contracted future investment commitments for intangible assets was PLN 6,512 thousand as at 31 December 2015 including mainly the UTP-Derivatives system, the Electronic Document Flow system and Microsoft product licences.

VI. 5. Ratio analysis

DEBT AND FINANCING RATIOS

In the period under review, the debt of the Company posed no threat to its going concern and capacity to meet liabilities on time. The ratio of net debt to EBITDA decreased year on year in 2016 and was negative as a result of liquid assets exceeding interest-bearing liabilities (net debt below 0). The debt to equity ratio decreased moderately year on year in 2016 due to an increase in equity as at the end of 2016. In addition, although the Company's Management Board passed a resolution to issue series D and E bonds in 2016 and initiated the raising of capital through the new issues, the series D and E bonds were not registered until January 2017; hence, external capital did not include the liabilities under the series D and E bonds as at 31 December 2016. Series A and B bonds were redeemed on 2 January 2017 and the new bonds were issued, which implies that the Company's debt remained unchanged and safe after the balance sheet date.

LIQUIDITY RATIOS

The current liquidity ratio decreased sharply to 1.9 as at 31 December 2016 compared to 12.5 as at 31 December 2015. The decrease was due to an increase in current liabilities following the reclassification of liabilities under series A and B bonds to current liabilities (the bonds are due for redemption on 2 January 2017). However, the ratio remained safe.

The coverage ratio of interest costs under the bond issue remained stable year on year in 2016 at 12.0. Consequently, similar to 2015, the Company generated cash flows from operating activities which were several times higher than necessary to cover current liabilities under the bond issue.

PROFITABILITY RATIOS

The profitability ratios improved year on year in 2016, driven by a strong reduction of operating expenses, as reflected in the improving EBIT return and cost/income ratios as well as return on assets (ROA) and return on equity (ROE) of the Company.

Table 72 Key financial indicators of GPW

		As at / For the 12-month period ended		
		31 December 2016	31 December 2015	31 December 2014
Debt and financing ratios				
Net debt / EBITDA for 12 months	1), 2)	(0.2)	0.1	0.3
Debt to equity	3)	52.2%	53.7%	53.2%
Liquidity ratios				
Current liquidity	4)	1.9	12.5	17.5
Coverage of interest on bonds	5)	12.0	12.0	8.7
Return ratios				
EBITDA	6)	51.9%	48.0%	43.8%
Operating profit margin	7)	40.9%	36.8%	31.1%
Net profit margin	8)	66.2%	50.5%	27.8%
Cost / income	9)	57.0%	62.8%	68.8%
ROE	10)	25.0%	21.2%	11.6%
ROA	11)	15.5%	13.2%	7.3%

1) Net debt = interest-bearing liabilities less liquid assets of GPW (as at balance-sheet date)

2) EBITDA = GPW operating profit + depreciation and amortisation (for a period of 12 months)

3) Debt to equity = interest-bearing liabilities / equity (as at balance-sheet date)

4) Current liquidity = current assets / current liabilities (as at balance-sheet date)

5) Coverage of interest on bonds = EBITDA / interest on bonds (interest paid and accrued for a period of 12 months)

6) EBITDA margin = EBITDA / GPW revenue (for a period of 12 months)

7) Operating profit margin = GPW operating profit / GPW revenue (for a period of 12 months)

8) Net profit margin = GPW net profit / GPW revenue (for a period of 12 months)

9) Cost / income = GPW operating expenses / GPW revenue (for a period of 12 months)

10) ROE = GPW net profit (for a period of 12 months) / Average equity at the beginning and at the end of the last 12 month period

11) ROA = GPW net profit (for a period of 12 months) / Average total assets at the beginning and at the end of the last 12 month period

Source: Company

Glossary

Cogeneration – technological process where electricity and heat are generated simultaneously in a combined heat and power plant; thanks to lower consumption of fuel, cogeneration provides material economic benefits and environmental advantages over separate generation of heat in a traditional heat plant and of electricity in a condensation power plant

Colocation – a service where the exchange provides physical space and allows clients to install hardware and software in direct proximity to the exchange's trading system

ECM – Equity Capital Market, value of equity raised on the financial market by companies and shareholders through sale or issue of shares or warrants in public offers or private placements

EOB – Electronic Order Book, trade excluding block trades

ETF – Exchange Traded Funds, track the performance of an exchange index. Similar to other investment funds, ETFs are regulated under EU Directives and national regulations

ETP – Exchange Traded Products, structured products – financial instruments whose price is linked to the value of a market indicator (the underlying instrument)

FESE – Federation of European Stock Exchanges

Free float – free float shares are shares other than held by shareholders which hold more than 5% each, Treasury shares for cancellation, and registered shares; free float includes all shares held by investment funds, pension funds and asset managers and shares participating in depository receipt issue programmes

GCM – Global Clearing Member

HVF – High Volume Funds, a promotion programme addressed to investment funds actively trading in shares on GPW

HVP – High Volume Provider, a promotion programme addressed to legal entities whose core business is to invest on financial markets only on own account

IPO - Initial Public Offering. In this report, PwC IPO Watch Europe reports and FESE data, IPO means all offerings where a company first raises equity on the capital market, either in a public offering or a private placement

ISV – Independent Software Vendors, providers of client software for exchange members used to trade on the trading platform

MRC – Multi-regional Coupling, European project of operational integration of spot electricity markets

MTF - Multilateral Trading Facility, addressed mainly to institutional investors, offers trade in stocks combined with very short lead times for the execution of orders as well as low trading fees. MTFs are usually operated by investment firms (banks, brokers) or securities exchanges. MTFs offer trade in the same stocks as those listed on other markets and do not provide listings

OTC – Over the Counter, a non-regulated market outside the exchange, where trade in non-standard financial instruments is made directly between counterparties without the mediation of a securities exchange

Post-trade services – depository, clearing and settlement services

REIT – Real Estate Investments Trusts are special companies and funds investing in real estate; they manage a real estate portfolio to earn a fixed income from rent, and pay out most of the earnings to shareholders as dividend

RES – renewable energy sources

SPO – Secondary Public Offering

Velocity - a measure of liquidity of trade in stocks equal to turnover in a period to average capitalisation at the beginning and at the end of the period

WFE – World Federation of Exchanges

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SIGNATURES OF MANAGEMENT BOARD MEMBERS

Małgorzata Zaleska – President of the Management Board	....
Paweł Dziekoński – Vice-President of the Management Board	....
Michał Cieciórski – Vice-President of the Management Board	....
Dariusz Kułakowski – Member of the Management Board	....

Warsaw, 27 February 2017