



## I. FOR THE SHAREHOLDERS

### Letter of the President of the Management Board



Dear Sir or Madam,

*It is with great pleasure that I present the Report of the Exchange Management Board on the activities of the Warsaw Stock Exchange Group and the consolidated financial statements for 2014.*

*The strength and the dynamic growth of the Polish economy will be a key driver of development of the WSE Group and Poland's capital market in the coming years. According to the forecasts, the Polish economy will be one of the fastest growing economies in the European Union. In view of historically low interest rates and a record-high rate of savings in Poland, this will facilitate the reallocation of assets to the capital market. Combined with the recognisable brand and the strong position of WSE in the region of Central and Eastern Europe, close to a thousand listed companies, a diversified investor base and a professional team of employees, this will help us to effectively unlock our growth potential.*

*The commodity market operated by the Polish Power Exchange is one of the fastest growing segments of our activity. As measured by the volume of trade, PolPX is a leading market in the European Union. The volume of trade in electricity grew further in 2014 (+5.8%) while the liquidity of the gas market was 63%. The growth on the commodity market offset the lower dynamics of the financial market. Turnover on the equity market decreased by 6.7% to PLN 205.4 bn and the volume of trade in derivatives decreased by 24.9% in 2014. There were several reasons for this, including the valuation of Polish stocks at a premium in relation to the global portfolio of emerging market stocks, the pension fund reform, and the military conflict in Ukraine which restrained the interest of international investors in the CEE region.*

*Dynamic changes in the market environment prompted an update of the WSE Group strategy WSE.2020 in Q4 2014. Our main objective is to strengthen the role of WSE as the exchange of first choice for investors and issuers in Central and Eastern Europe. We are implementing a cost effectiveness programme which should provide savings of nearly PLN 20 mn per year as of 2017. We will invest a large part of the savings in the development of the financial market and the commodity market. The extent to which the savings will be reinvested depends on the achievement of our strategic target: to reduce the cost/income ratio from 58.6% in 2013 to less than 50% in 2020. We are working towards a closer integration of the Group including the creation of a shared services centre, reorganisation of the structure and optimisation of our real estate. As a result, we expect the revenues of the Group to grow by 7% CAGR by 2020 and EBITDA to be double that of 2013 at PLN 144.4 mn.*

*In 2014, we decided to focus on organic growth and consequently at this time we are not considering a capital alliance with CEE Stock Exchange Group AG. Following consultations with market participants, we have made other important decisions, including changes to the exchange indices by reinstating WIG20*



*as the leading index, and maintenance of the shorter trading schedule. We have decided to continue listing WIG20 futures with a multiplier of PLN 20 (futures with a multiplier of PLN 10 were delisted in mid-2014).*

*We closed 2014 at a robust net profit of PLN 112.3 mn, representing a decrease of 1.1% year on year. The lower revenue on the financial market (PLN 200.0 mn, -2.6% YoY) was more than offset by the revenue on the commodity market (PLN 114.5 mn, +50.6% YoY). As a result, the total sales revenue increased for another consecutive year (11.9% YoY) to PLN 317.6 mn. Our operating profit also improved: it was PLN 135.4 mn compared to PLN 118.6 mn in 2013. EBITDA increased by 13.7% to PLN 164.1 mn. In view of the strong growth of EBIT and EBITDA, the moderate decrease of the net profit is attributable to the lower profit of associates (PLN 3.7 mn compared to PLN 12.5 mn in 2013).*

*In 2014, as in previous years, we shared our profits with the shareholders. We paid out a dividend of PLN 1.2 per share, representing close to 45% of the consolidated net profit for 2013. While updating the WSE.2020 strategy, we have also made our dividend policy more attractive: the dividend payout ratio should be more than 60% of the profit of the WSE Group adjusted for the share of profit of associates starting with the distribution of the profit of 2014.*

*It is the intention of the Exchange Management Board to recommend to the General Meeting a payout of dividend at PLN 2.40 gross per share from the 2014 net profit (which implies a payout ratio close to 87% and a dividend yield of ca. 5.3% based on the stock price at 2014 YE) and PLN 2.60 gross per share from the 2015 net profit.*

*As important as growing shareholder value is that we conduct our business transparently and in accordance with the highest standards of corporate governance. As a result, WSE remains a participant of the RESPECT index portfolio which groups socially responsible companies. We will continue to pursue this policy in the coming years.*

*Yours faithfully,*

*Paweł Tamborski*