



RISK FACTORS RELATING TO LAWS AND REGULATIONS



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Risk Factors Relating to Laws and Regulations

The Group operates in a highly regulated industry and regulatory changes may have an adverse effect on the Group's business, financial condition and results of operations

The Group operates primarily in Poland, whose legal system and regulatory environment can be subject to frequent and sometimes significant unanticipated changes and whose laws and regulations may be subject to conflicting official interpretations. The capital market and the commodity instruments market are subject to broad governmental regulation and may be subject to increasing regulatory scrutiny.

It is important for the development of the electricity market that, under the regulations in force as at the date of the preparation of this Report, electricity producers must sell 15% of generated power through a commodity exchange or a market organised by entities which operate regulated markets in Poland. It is also important that those entities which use compensation under the Act on Cost Coverage¹ are required to sell their remaining production of power at bids, through a commodity exchange or a market organised by entities which operate regulated markets in Poland. Amendment of regulations which stipulate these obligations and gradual reduction of the number of entities which use compensation could have an adverse effect on the Group's business, financial condition and results of operations.

The development of trading in property rights in certificates of origin of energy and the operation of the register of certificates of origin by PolPX is largely dependent on the existence and the wording of the Energy Law provisions concerning support for the production of energy from renewable energy sources and cogeneration. The obligation imposed on energy traders to cancel a certain proportion, increased each year, of certificates of origin of energy in relation to energy sold to final consumers (or to pay a "substitution fee") is the driver of the growing trading volume and revenue of PolPX in this segment. Amendment of regulations which stipulate these obligations, including temporary or definitive termination of support for producers of electricity from renewable energy sources and high-efficiency cogeneration, and gradual reduction of the number of entities which use compensation could have an adverse effect on the Group's business, financial condition and results of operations.

It is important for the development of the natural gas market operated by PolPX that regulations require energy companies which trade in gas to sell no less than 55% of natural gas introduced to the distribution network through a commodity exchange or a market organised by entities which operate regulated markets in Poland (target level effective as of 1 January 2015 according to the regulations in force as at the date of preparation of this Report). Amendment of regulations which stipulate these obligations or non-compliance of the main market operators could have an adverse effect on the Group's business, financial condition and results of operations.

EU legislative amendments mainly relate to regulations introduced by the European Commission which impact the organisation of the enterprise as well as the trading in electricity and natural gas operated by PolPX (REMIT, EMIR, MiFID/R, NC CACM). Regulatory amendments could have an adverse effect on the Group and on the present and prospective customers of its services. For instance, amendments could hinder the attractiveness of stock prices or the turnover on the markets organised and operated by the Group or the attractiveness of services provided by the Group. Furthermore, EU regulations are or will be in force in Poland including financial market regulations: MiFID, the Prospectus Directive and the Transparency Directive, and commodity market regulations: REMIT, EMIR, MiFID/R, NC CACM. Amendment or implementation of such regulations could have an adverse effect on the Group's business, financial condition and results of operations.

Changes in tax laws or their official interpretations may materially and adversely affect the Group's business, financial condition and results of operations

Changes to tax laws may have a material impact on the business of the Group. There is a risk that as new regulations are introduced, the Group may have to adjust to such regulations, which may result in significant costs due to additional compliance burdens and costs related to non-compliance. There is a risk that the Group's particular interpretations and applications of current and future Polish tax laws may be challenged. This may result in penalties and fines being imposed on the Group, or a need to revise the practices adopted by the Group's companies.

In Poland, various local tax authorities assert overlapping jurisdiction over the Group, and may issue their own conflicting interpretations regarding tax matters. As a result of applying tax laws, a number of controversies may occur, and the tax laws may not be applied uniformly. In addition, changing interpretations of tax laws as applied by these various tax authorities, long tax liability time limitation periods, and relatively high fees and other

penalties for non-compliance may result in material tax risk.

Changes in the regulations applicable to open-ended pension funds and other developments affecting such funds could reduce the volume of trading activity on WSE

Investments by open-ended pension funds (OFE) in shares of Polish companies listed on the WSE regulated market amounted to PLN 120.5 billion as at 31 December 2013, which represents 40.2% of total free float domestic shares on WSE. Historically, open-ended pension funds have been a significant source of new capital inflows on WSE. The size of capital flows from open-ended pension funds depends on contributions into these funds, payments to beneficiaries, as well as investment decisions of the funds. The operations of open-ended pension funds are significantly influenced by applicable regulatory requirements and the demographics of the Polish population. Changes in fund flows to and from open-ended pension funds or their investment decisions, in particular derived from the amendment to the Pension System Act enacted in December 2013, which requires open-ended pension funds to transfer 51.5% of assets to the Social Security Fund and imposes a ban on investment in debt instruments guaranteed by the State Treasury and a modification of open-ended pension fund investment limits, may result in a reduction of investments in assets traded on the markets organised and operated by the Group, in particular on the Main Market.

The Group faces a number of risks associated with possible changes in regulation related to open-ended pension funds, including payment of contributions to the pension system and asset allocation restrictions. As at the date of preparation of this Report, contributions to open-ended pension funds represent 2.92% of gross salaries, as compared to 2.8% in 2013, 2.3% from 1 May 2011 to 31 December 2012, and 7.3% until 30 April 2011 (between 1 April and 31 July 2014, every existing member of open-ended pension funds may decide whether their pension contributions should still be paid into the fund or only to the Social Security Institution). In addition, as at the date of preparation of this Report, the amended provisions of the Act on Pension Funds require open-ended pension funds to maintain a minimum investment in stocks at 75% of assets by the end of 2014, 55% by the end of 2015, 35% by the end of 2016, and 15% by the end of 2017.

In view of material investment of open-ended pension funds in shares listed on WSE, any further reduction of contributions transferred to open-ended pension funds or limitation on open-ended pension fund assets allowed to be invested in securities issued by companies listed on WSE could adversely and materially impact the level of trading and demand for shares of such companies and result in higher volatility of stocks in open-ended pension fund portfolios.

Current regulations in Poland impose a cap on investment of open-ended pension funds in financial instruments listed on foreign exchanges and not listed on WSE, which limits the opportunities of open-ended pension funds to invest in stocks listed on other exchanges to 10% of their total assets by the end of 2014, 20% in 2015, and 30% in 2016. In previous years, the cap on investment of open-ended pension funds in financial instruments listed on foreign exchanges and not listed on WSE was 5% of their total assets. In 2011, the Court of Justice of the European Union (CJEU) decided that the cap in the Polish law is not compatible with EU legislation: it is discriminatory and not proportionate, which would justify an exception from the free movement of capital. The Act on Open-Ended Pension Funds had to be amended accordingly following the CJEU decision. Reduction of the limitations on investment in financial instruments issued by foreign issuers which are not listed on markets organised and operated by the Group, especially the Main Market, may reduce the investment of open-ended pension funds in instruments listed on WSE. This, in turn, may reduce the level of trading and the supply of financial instruments listed on those markets, which could have an adverse effect on the Group's business, financial condition and results of operations.