

EXTERNAL DRIVERS

MACROECONOMIC CONDITIONS IN 2015

According to preliminary estimates of the Central Statistical Office (GUS), Poland's gross domestic product (GDP) grew by 3.6% in 2015, compared to 3.3% in 2014. The main driver of growth was domestic demand, including household consumptions and investments. Net exports made a minor positive contribution to GDP growth in 2015.

Deflation of consumer prices continued to prevail in Poland in 2015 as a result of external factors including mainly falling commodity prices on the global markets as well as the absence of demand pressure in Poland. Deflation dropped to -0.5% in December 2015 but the CPI remained well below the NBP inflation target of 2.5%.

The Monetary Policy Council (RPP) decided to cut the rates once in 2015 by 50 basis points to 1.5% in March.

The exchange rate of PLN against EUR at the end of 2015 was close to the rate at the beginning of the year; however, PLN depreciated against the US dollar and the Swiss franc. The drivers of the depreciation of the Polish currency included growing risk aversion of investors due to persistent concerns about the Chinese economy. The depreciation of PLN against CHF in early 2015 was due to the decision of the Swiss National Bank to remove the peg on the CHF against the EUR.

In late 2015, the pergence of the monetary policy of the main central banks increased. In December, the Fed increased the rates for the first time since June 2006 while the ECB continued easing by extending the assets purchase programme and reducing the deposit rate. The pergence of the central banks' policies resulted in further deterioration of EUR against USD in 2015.

The commodity prices on the global markets in 2015 continued to fall sharply, including oil prices. The main drivers of price reductions included the high production of oil by many countries, including OPEC, as well as curbed global demand for oil, among others due to the slow-down of the Chinese economy.

IMPACT OF THE OPEN-ENDED PENSION FUND REFORM

The 2014 pension fund reform in which 51.5% of the net assets of pension funds (mainly Treasury bonds) were moved to the Social Security Institution (ZUS) and then cancelled, continued to affect the sentiment of local and international investors on GPW in 2015. In view of on-going debates around pension funds, concerns about further restrictions on their business and the resulting potential risk of a major oversupply of shares curbed the interest of investors in the Polish market and contributed to the reduction of prices of domestic stocks. The appetite of pension funds for GPW listed stocks also decreased due to smaller contributions of fund members and additional options of investing in foreign markets. The value of Polish stocks in pension fund portfolios fell by 10.1% to PLN 106.2 billion in 2015 (source: Polish Financial Supervision Authority, "PFSA").

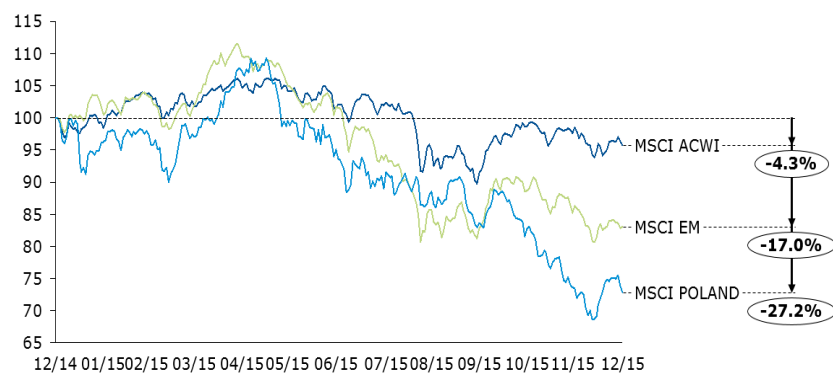
CHANGES IN THE ENVIRONMENT OF GPW LISTED COMPANIES IN MAJOR SECTORS

The Presidential and Parliamentary electoral campaigns in 2015 opened an opportunity for a public debate on the sources of financing of the public budget and on taxation in different sectors of the economy. Announcements of a new tax on banks' assets and a turnover tax for supermarkets strongly affected the valuation of some companies listed on GPW. The valuation of companies in the energy sector was adversely impacted by concerns about potential support for the mining industry. Uncertainty about the dividend policy of State-owned companies affected the perception of such companies by local and international investors.

As a result, the capitalisation of companies decreased sharply. The biggest year-on-year decrease of capitalisation was reported in the banking sector (down by PLN 54.9 billion), the energy industry (down by PLN 22.1 billion), and the insurance sector (down by PLN 12.6 billion).

WEAKER INVESTOR SENTIMENT FOR EMERGING MARKETS

The interest of investors in emerging markets generally declined in 2015, as demonstrated by the strong net outflow of assets from the biggest global emerging markets funds at more than US\$ 62 billion.¹ This was the third consecutive year when the assets of emerging markets funds decreased. As a result, MSCI Emerging Markets² lost 16.96% in 2015, much more than MSCI ACWI, an index representing a broad view of the global stock markets, which was down 4.26%. MSCI Poland, calculated by MSCI Barra for Poland, lost even more: 27.21%.



[1] Source: EPFR Global for 57 global funds

[2] The index reflects the performance of emerging market exchanges (price index provided by MSCI Barra in US\$)

[3] Source: MSCI Barra, price indices, in USD, series Standard, 31.12.2014 = 100 points (Neither MSCI, its affiliates nor any other party involved in the making or compiling of the information makes any express or implied warranties, and MSCI, its affiliates and any other party involved in the making or compiling of the information hereby expressly disclaim all warranties of merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, its affiliates or any other party involved in the making or compiling of the information have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. All MSCI indices are the exclusive property of MSCI and may not be used in any way without the express written permission of MSCI.