TRANSLATION

Ciech S.A. Group

Opinion and Report of the Independent Auditor Financial Year ended 31 December 2012

The opinion contains 2 pages
The supplementary report contains 14 pages
Opinion of the independent auditor
and supplementary report on the audit
of the consolidated financial statements
for the finacial year ended
31 December 2012

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This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of Ciech S.A.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Group, whose parent entity is Ciech S.A. with its registered office in Warsaw, ul. Puławska 182 ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

Management's and Supervisory Board's Responsibility for the Consolidated Financial Statements

Management of the Parent Entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Group's activities. Management of the Parent Entity is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330) ("the Accounting Act"), Management of the Parent Entity and members of the Supervisory Board are required to ensure that the consolidated financial statements and the report on the Group's activities are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act, National Standards on Auditing issued by the National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying consolidated financial statements of Ciech S.A. Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2012 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Group's Activities

As required under the Accounting Act, we report that the report on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259 with amendments) and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyt Sp. z o.o.
Registration No. 458
ul. Chłodna 51
00-867 Warsaw

Signed on the Polish original

....
Zbigniew Libera
Key Certified Auditor
Registration No. 90047
Director

19 April 2013

TRANSLATION

Ciech S.A. Group

Supplementary report on the audit of the consolidated financial statements Financial Year ended 31 December 2012

The supplementary report contains 14 pages
The supplementary report on the audit of the consolidated financial statements for the financial year ended 31 December 2012

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Contents

1.	General	3
1.1	Identification of the Group	3
1.1.1	Name of the Group	3
1.1.2	Registered office of the Parent Company of the Group	3
1.1.3	Registration of the Parent Company in the National Court Register	3
1.1.4.	Management of the Parent Company	3
1.2	Information about companies comprising the Group	3
1.2.1	Companies included in the consolidated financial statements	3
1.2.2	Entities excluded from consolidation	5
1.3	Key Certified Auditor and Audit Firm Information	5
1.3.1	Key Certified Auditor information	5
1.3.2	Audit Firm information	5
1.4	Prior period consolidated financial statements	6
1.5	Audit scope and responsibilities	6
1.6	Information on audits of the financial statements of the consolidated companies	7
1.6.1	Parent Company	7
1.6.2	Other consolidated entities	8
2	Financial analysis of the Group	9
2.1	Summary analysis of the consolidated financial statements	9
2.1.1	Consolidated statement of financial position	9
2.1.1.	Consolidated income statement	10
2.1.2.	Consolidated statement of comprehensive income	11
2.2	Selected financial ratios	12
3	Detailed report	13
3.1	Accounting principles	13
3.2	Basis of preparation of the consolidated financial statements	13
3.3	Method of consolidation	13
3.4	Goodwill arising on consolidation	13
3.5	Consolidation of equity and calculation of non-controlling interest	13
3.6	Consolidation eliminations	14
3.7	Notes to the consolidated financial statements	14
3.8	Report of the Management Board of the Parent Company on the Group's activities	14

1. General

1.1 Identification of the Group

1.1.1 Name of the Group

Ciech S.A. Group

1.1.2 Registered office of the Parent Company of the Group

ul. Puławska 182
02-670 Warsaw

1.1.3 Registration of the Parent Company in the National Court Register

Registration court:	District Court for the Capital City Warsaw in Warsaw, XIII Commercial Department of the National Court Register
Date:	25 May 2001
Registration number:	KRS 0000011687
Share capital as at the end of reporting period:	PLN 263,500,965.00

1.1.4. Management of the Parent Company

The Management Board is responsible for management of the Parent Company.

As at 31 December 2012, the Management Board of the Parent Company was comprised of the following members:

- Dariusz Krawczyk – President of the Management Board,
- Andrzej Kopeć – Member of the Management Board,
- Artur Osuchowski – Member of the Management Board.

According to the resolution of the Extraordinary Shareholders' Meeting dated 26 April 2012 Mr. Ryszard Kunicki was dismissed from the position of the President of the Management Board and Mr. Andrzej Bąbaś and Mr. Rafał Rybkowski were dismissed from the position of Members of the Management Board.

According to the resolution of the Extraordinary Shareholders' Meeting dated 28 May 2012 Mr. Dariusz Krawczyk was appointed to the position of the President of the Management Board and Mr. Andrzej Kopeć was appointed to the position of the Member of the Management Board.

1.2 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2012, the following companies were consolidated by the Group:

Parent Company:

- CIECH S.A.

Subsidiaries consolidated on the full consolidation basis:

- Zakłady Chemiczne „Organika – Sarzyna" S.A.,
- S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A.,
- Janikowskie Zakłady Sodowe JANIKOSODA S.A.,
- „VITROSILICON" S.A.,
- Zakłady Chemiczne „Alwernia" S.A.,
- Przedsiębiorstwo Transportowo – Usługowe TRANSCLEAN Sp. z o.o.,
- Ciech – Polsin Private Limited,
- CIECH FINANCE Sp. z o.o.,
- Przedsiębiorstwo Chemiczne CHEMAN S.A.,
- Ciech Pianki Sp. z o.o.
- Inowrocławskie Zakłady Chemiczne SODA MĄTWY S.A.,
- Soda Polska Ciech Sp. z o.o.,
- TRANSODA Sp. z o.o.,
- Zakłady Chemiczne ZACHEM S.A.,
- BORUTA – Zachem KOLOR Sp. z o.o.,
- Soda Deutschland Ciech GmbH,
- Sodawerk Holding Stassfurt GmbH,
- Sodawerk Stassfurt Verwaltungs GmbH,
- Sodawerk Stassfurt GmbH&Co. KG,
- KWG – Kraftwerksgesellschaft Stassfurt GmbH.
- Ciech Group Financing AB,
- Zachem Epichlorodyna Sp. z o.o.,
- Zachem Energetyka Sp. z o.o.,
- Zachem Park Sp. z o.o.
- Zachem UCR sp. z o.o.
- Kavernengesselschaft Stassfurt GmbH

The following subsidiaries were consolidated for the first time during the year ended 31 December 2012, as a result of the Parent Company acquiring a controlling interest:

- Ciech Group Financing AB – subject to consolidation for the period from 28 August 2012 to 31 December 2012,

The following subsidiaries were consolidated until the date control by the Parent ceased:

- Polfa sp. z o.o. – subject to consolidation for the period from 1 January 2012 to 17 September 2012,

1.2.2 Entities excluded from consolidation

As at 31 December 2012, the following subsidiaries of the Group were not consolidated:

- Chemia.com S.A.,
- Nordiska Unipol AB,
- Polcommerce GmbH,
- Soc-Al. Sp. z o.o.,
- Calanda Polska Sp. z o.o.,
- CIECH AMERICA LATINA LTDA,
- AL. Bau Sp. z o.o.,
- Alwernia Fosforany Sp. z o.o. – not operating yet,
- KPG Kavern_Projekt – Beteilingungsgesesllschaft m.b.H i.L

1.3 Key Certified Auditor and Audit Firm Information

1.3.1 Key Certified Auditor information

Name and surname:	Zbigniew Libera
Registration number:	90047

1.3.2 Audit Firm information

Name:	KPMG Audyt Sp. z o.o.
Address of registered office:	ul. Chłodna 51, 00-867 Warsaw
Registration number:	KRS 0000104753
Registration court:	District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
Share capital:	PLN 125,000
NIP number:	526-10-24-841

KPMG Audyt Sp. z o.o. is entered in the register of audit firms, maintained by the National Council of Certified Auditors, under number 458.

1.4 Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2011 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion.

The consolidated financial statements were approved at the General Meeting of the Parent Entity on 25 June 2012.

The consolidated financial statements were submitted to the Registry Court on 9 July 2012 and were published in Monitor Polski B No. 2273 on 27 September 2012.

1.5 Audit scope and responsibilities

This report was prepared for the General Meeting of Ciech S.A. with its registered office in Warsaw, ul. Puławska 182 and relates to the consolidated financial statements comprising: the consolidated statement of financial position as at 31 December 2012, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

The consolidated financial statements have been audited in accordance with the contract dated 4 June 2012, concluded on the basis of the resolution of the Supervisory Board dated 24 May 2012 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330) ("the Accounting Act"), National Standards on Auditing issued by the National Council of Certified Auditors, and International Standards on Auditing.

We audited the consolidated financial statements at the Group entities during the period from 28 January to 1 February 2013 and from 25 February to 5 March 2013.

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Group's activities.

Our responsibility is to express an opinion and to prepare a supplementary report on the audit of the financial statements.

The Management Board of the Parent Company submitted a statement, dated as at the same date as this report, as to the true and fair presentation of the accompanying consolidated financial statements, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All required statements, explanations and information were provided to us by Management of the Group and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of the Audit Firm.

The Key Certified Auditor and the Audit Firm fulfill the independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and Their Self-Government, Audit Firms and Public Oversight dated 7 May 2009 (Official Journal from 2009, No. 77, item 649 with amendments).

1.6 Information on audits of the financial statements of the consolidated companies

1.6.1 Parent Company

The separate financial statements of the Parent Company for the year ended 31 December 2012 were audited by KPMG Audyt Spółka z o.o., certified auditor number 458, and received an unqualified opinion.

1.6.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Ciech S.A.	KPMG Audyt Sp. z o.o.	31 December 2012	unqualified
Zakłady Chemiczne „Organika - Sarzyna" S.A.	KPMG Audyt Sp. z o.o.	31 December 2012	unqualified
S.C. Uzinele Sodice Govora - Ciech Chemical Group S.A.	KPMG Romania SRL	31 December 2012	unqualified
Janikowskie Zakłady Sodowe JANIKOSODA S.A.	Deloitte Audyt Sp. z o.o.	31 December 2012	unqualified
„VITROSILICON" S.A.	KPMG Audyt Sp. z o.o.	31 December 2012	unqualified
Zakłady Chemiczne „Alwernia" S.A.	KPMG Audyt Sp. z o.o.	31 December 2012	unqualified
Przedsiębiorstwo Transportowo - Usługowe TRANSCLEAN Sp. z o.o.	Audit4 Business Sp. z o.o.	31 December 2012	unqualified
Ciech - Polsin Private Limited	Deloitte & Touche LLP	31 December 2012	unqualified
CIECH FINANCE Sp. z o.o.	not audited	31 December 2012	
Przedsiębiorstwo Chemiczne CHEMAN S.A.	Audit4 Business Sp. z o.o.	31 December 2012	unqualified
Ciech Pianki Sp. z o.o.	KPMG Audyt Sp. z o.o.	31 December 2012	unqualified
Inowrocławskie Zakłady Chemiczne SODA MĄTWY S.A.	KPMG Audyt Sp. z o.o.	31 December 2012	unqualified
Soda Polska Ciech Sp. z o.o.	KPMG Audyt Sp. z o.o.	31 December 2012	unqualified
TRANSODA Sp. z o.o.	Deloitte Audyt Sp. z o.o.	31 December 2012	unqualified
Zakłady Chemiczne ZACHEM S.A.	KPMG Audyt Sp. z o.o.	31 December 2012	pending audit
BORUTA - Zachem KOLOR Sp. z o.o.	Kancelaria Consultingowo-Usługowa FINANCIER w Ciechocinku	31 December 2012	unqualified
ZACHEM UCR Sp. z o.o.	DGA Audyt Spółka z o.o.	31 December 2012	pending audit
Soda Deutschland Ciech GmbH	not audited	31 December 2012	
Sodawerk Holding Stassfurt	not audited	31 December 2012	
Sodawerk Stassurt Verwaltungs GmbH	not audited	31 December 2012	
Sodawerk Stassfurt GmbH&Co. KG	KPMG Wirtschaftsprüfungsgesellschaft AG	31 December 2012	pending audit
KWG - Kraftwerksgesellschaft Stassfurt mbH	KPMG Wirtschaftsprüfungsgesellschaft AG	31 December 2012	pending audit
Zachem Epichlorodyna sp. z o .o.	not audited	31 December 2012	
Zachem Energetyka sp. z o .o.	not audited	31 December 2012	
Zachem Park sp. z o .o.	not audited	31 December 2012	
Ciech Group Financing AB	KPMG Sweden	31 December 2012	unqualified
Kavernengesselschaft Stassfurt mbH	KPMG Wittschaftsprüfer Mr. Ulrich Sommer	31 December 2012	pending audit

2 Financial analysis of the Group

2.1 Summary analysis of the consolidated financial statements

2.1.1 Consolidated statement of financial position

ASSETS	31.12.2012 PLN '000	% of total	31.12.2011 PLN '000 (*)	% of total
Non-current assets				
Property, plant and equipment	2,099,395.0	56.3	2,218,720.0	54.4
Right of perpetual usufruct	57,134.0	1.5	56,278.0	1.4
Intangible assets	129,167.0	3.5	181,121.0	4.4
Investment property	113,018.0	3.0	87,487.0	2.2
Non current receivables	65,534.0	1.8	72,227.0	1.8
Investments in associates and jointly - controlled entities measured	4,971.0	0.1	4,655.0	0.1
Other long-term investments	44,661.0	1.2	40,915.0	1.0
Deferred tax assets	31,884.0	0.9	24,489.0	0.6
Total non-current assets	2,545,764.0	68.3	2,685,892.0	65.9
Current assets				
Inventories	279,126.0	7.5	356,619.0	8.8
Short investments	946.0	-	1,505.0	-
Income tax receivables	4,086.0	0.1	8,800.0	0.2
Trade and other receivables	705,136.0	18.9	819,558.0	20.1
Cash and cash equivalents	81,177.0	2.2	145,805.0	3.6
Non current assets held for sale	111,800.0	3.0	57,017.0	1.4
Total current assets	1,182,271.0	31.7	1,389,304.0	34.1
TOTAL ASSETS	3,728,035.0	100.0	4,075,196.0	100.0

EQUITY AND LIABILITIES	31.12.2012 PLN '000	% of total	31.12.2011 PLN '000 (*)	% of total
Equity				
Share capital	287,614.0	7.7	287,614.0	7.0
Share premium	507,835.0	13.6	508,122.0	12.4
Cash flow hedge	2,722.0	0.1	(8,111.0)	0.1
Other reserve capitals	78,521.0	2.1	78,521.0	1.9
Net currency translation differences (investments in foreign companies)	(9,055.0)	0.2	11,396.0	0.3
Currency translation differences (foreign companies)	(52,967.0)	1.4	(62,796.0)	1.5
Retained earnings	71,330.0	1.9	502,405.0	12.3
Total equity attributable to equity holders of the parent	886,000.0	23.8	1,317,151.0	32.3
Minority interest	(5,812.0)	0.2	(2,020.0)	-
Total equity	880,188.0	23.6	1,315,131.0	32.2
Liabilities				
Liabilities due to loans, borrowings and other debt instruments	1,291,660.0	34.6	190,916.0	4.7
Sale-and-lease-back liabilities	204,231.0	5.5	158,105.0	3.9
Liabilities due to finance sale-and-lease-back	3,235.0	0.1	11,594.0	0.3
Other non- current liabilities	122,213.0	3.3	88,104.0	2.1
Employee benefits	20,560.0	0.5	63,163.0	1.5
Provisions (other long- term)	40,422.0	1.1	52,666.0	1.3
Deferred tax liability	104,170.0	2.8	120,666.0	3.0
Total non-current liabilities	1,786,491.0	47.9	685,214.0	16.8
Overdraft facility	-	-	6,744.0	0.2
Loans, borrowings and other debt instruments	6,543.0	0.2	1,017,663.0	25.0
Liabilities due to finance sale-and-lease-back	48,740.0	1.3	803.0	-
Finace lease liabilities	7,855.0	0.2	12,586.0	0.3
Trade and other liabilities	768,404.0	20.6	955,833.0	23.5
Income tax liabilities	23,749.0	0.6	21,930.0	0.5
Provisions (short-term provisions for employee benefits and other provisions)	172,474.0	4.7	26,221.0	0.6
Liabilities related to assets classified as held for sale	33,591.0	0.9	33,071.0	0.9
Total current liabilities	1,061,356.0	28.5	2,074,851.0	51.0
Total liabilities	2,847,847.0	76.4	2,760,065.0	67.7
TOTAL EQUITY AND LIABILITIES	3,728,035.0	100.0	4,075,196.0	100.0

(*) restated

2.1.1. Consolidated income statement

	1.01.2012 - 31.12.2012 PLN '000	% of total sales	1.01.2011 - 31.12.2011 PLN '000 (*)	% of total sales
CONTINUING OPERATIONS				
Sales revenue	3,386,905	100.0	2,952,752	100.0
Cost of sales	(2,874,173)	84.9	(2,480,285)	84.0
Gross profit/(loss) on sales	512,732	15.1	472,467	16.0
Other operating income	85,181	2.5	104,700	3.5
Selling expenses	(222,146)	6.6	(216,863)	7.3
General and administrative expenses	(154,379)	4.6	(151,499)	5.1
Other operating expenses	(170,119)	5.0	(44,549)	1.5
Results from operating activities	51,269	1.5	164,256	5.6
Financial income	6,641	0.2	38,089	1.3
Financial expenses	(284,632)	8.4	(116,111)	3.9
Net financial expenses	(277,991)	(8.2)	(78,022)	(2.6)
Share of profit of equity accounted investees	801	-	132	-
Profit/(loss) before tax	(225,921)	6.7	86,366	2.9
Income tax expense	10,755	0.3	(7,487)	0.3
Profit/(loss) from continuing operations	(215,166)	6.4	78,879	2.6
DISCONTINUED OPERATIONS				
Loss from discontinued operation (net of income tax)	(222,545)	6.6	(77,378)	2.6
Profit/(loss) for the period	(437,711)	12.9	1,501	-
with:				
Shareholders of the Company	(430,584)	12.7	1,159	-
Non-controlling interest	(7,127)	0.2	342	-
Earnings per share				
Basic earnings per share (PLN)	(8.17)	-	0.02	-
Diluted earnings per share (PLN)	(8.17)	-	0.02	-

(*) restated

2.1.2. Consolidated statement of comprehensive income

	1.01.2012 - 31.12.2012 PLN '000	% of total sales	1.01.2011 - 31.12.2011 PLN '000 (*)	% of total sales
Profit/(loss) for the period	(437,711)	100.0	1,501	100.0
OTHER GROSS COMPREHENSIVE INCOME				
Currency translation differences (foreign operations)	12,727	2.9	(16,056)	1069.7
Cash flow hedge	13,373	3.1	(9,471)	631.0
Net currency translation differences (investments in foreign companies)	(19,852)	4.5	31,955	2128.9
Income tax attributable to other comprehensive income	(3,139)	0.7	1,799	119.9
Other comprehensive income for the period, net of income tax	***3,109***	***0.7***	***8,227***	***548.1***
Total comprehensive income for the period	***(434,602)***	***99.3***	***9,728***	***648.1***
Total comprehensive income attributable to:	(434,602)	99.3	9,728	648.1
Shareholders of the parent company	(430,373)	98.3	12,203	813.0
Non-controlling interest	(4,229)	1.0	(2,475)	164.9

(*) restated

2.2 Selected financial ratios

	2012	2011 (*)
1. Return on sales in continuing operations		
net profit x 100% / net revenues	negative	2.7%
2. Return on equity in continuing operations		
net profit x 100% / equity - net profit	negative	6.4%
3. Debtors turnover		
average trade receivables (gross) x 365 days / net revenues	64 days	78 days
4. Debt ratio		
liabilities x 100% / equity and liabilities	76.4%	67.7%
5. Current ratio		
current assets / current liabilities	1.1	0.7

* restated

- Revenue includes revenue from sales of finished products, merchandise and raw materials.
- Average trade receivables represent the average of trade receivables at the beginning and at the end of the period, with no deduction made for allowances.

3 Detailed report

3.1 Accounting principles

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

Entities included in the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company.

The financial statements of the entities included in the consolidated financial statements were prepared at the end of the same reporting period as the financial statements of the Parent Company.

3.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Ciech S.A. Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements the Decree of the Ministry of Finance dated 25 September 2009 on principles for the preparation of consolidated financial statements of a capital group by companies other than banks and insurance companies (Official Journal from 2009 r., No 169, item 1327).

3.3 Method of consolidation

The method of consolidation is described in note 2.1 of the notes to the consolidated financial statements.

3.4 Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in note 2.6 of the notes to the consolidated financial statements.

3.5 Consolidation of equity and calculation of non-controlling interest

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Company's share in the subsidiaries' equity as at the end of the reporting period to the corresponding positions of the equity of the Parent Company.

Only equity of subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

Non-controlling interests in subsidiaries included in the consolidated financial statements were determined based on the non-controlling interests' share in the subsidiaries' equity as at the end of the reporting period.

3.6 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Ciech S.A. and agreed with information received from the subsidiaries.

3.7 Notes to the consolidated financial statements

All information included in the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information, is, in all material respects, presented correctly and completely. This information should be read in conjunction with the consolidated financial statements.

3.8 Report of the Management Board of the Parent Company on the Group's activities

The report of the Management Board of the Parent Company on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259 with amendments) and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyt Sp. z o.o.
Registration No. 458
ul. Chłodna 51
00-867 Warsaw

Signed on the Polish original

....
Zbigniew Libera
Key Certified Auditor
Registration No. 90047
Director

19 April 2013

We are providing a courtesy English translation of our audited financial statements which were originally written in Polish. We take no responsibility for the accuracy of our translation. For an accurate reading of our audited financial statements, please refer to the Polish language version of our financial statements attached hereto.

GENERAL INFORMATION

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Dear Sirs and Madams,

the last year was for the Ciech group very hard-working and generating many changes. This fact is proved by both the results of economic operations as well as numerous projects, whose completion had a significant effect on further development of the Group. Apart from the programs for improvement in effectiveness and operational restructuring, in 2012 Ciech continued implementation of the plans for ordering the structure of its assets.

We consistently strived for implementation of the assumed targets of increase in commitment in the sodium industry. Our goal is to develop efficient and effective capital group, ensuring its Shareholders with stable profits.

The year 2012 was a period of intensive work. As part of the project for organizing assets of the Group, a contract for sale of Polfa Sp. z o.o. shares was concluded. there were carried out processes aiming at improving effectiveness of operation as well as of company value of the Organika-Sarzyna, Vitrosilicon, Transoda and Transclean. These activites are related to the plans of selling these companies, or their organized parts.
In the second half of year 2012 we decided to cease production of TDI.

Also emphasized should be conducting by Ciech, in November last year, issuance of denominated bonds in Euro, with maturity in 2019 and national bonds with maturity in 2017 with the total value amounting to approximately 1.3 billion PLN. The funds obtained from the emission were allocated, for re-financing bank indebtedness.

Last year, the Ciech Group recorded robust adjusted operating results that were significantly higher than in the same period of 2011. It resulted both from restructuring actions and favorable market conditions. Improvement in the results at the operational level was primarily influenced by a good condition of the soda ash segment. Reliable operating results of the fourth quarter of 2012 constitute a good summary of the whole year, whose results, cleaned of the impact of the events of one-time character, are the highest in several years.

As compared to 2011, improvement was achieved both in prices and the volumes of the sale of soda ash and sodium bicarbonate. At the same time, there was conducted a program for improvement in effectiveness and reduction in costs of production, which was reflected in a significant growth in the operational result. In 2013, the Ciech Group will activate a new line for production of the chemical agent of plant protection products.

The reported results were charged with a number of the events of one-time character, such as write-offs revaluating the value of assets, or set up reserves. Adjusting the value of asset of several business lines in order to reflect their real value was a necessary element of the implemented program of operational restructuring. The major part of write-offs has been presented as early as in the statement for the first half-year 2012. Revaluation write-offs affect the result purely accounting-wise, and in the future periods they reduce the adverse effect of depreciation on the net profit generated by the Ciech Group. The results have also been encumbered with the costs related to re-financing of the operations of the Group and provision of support for the personnel of ZACHEM S.A.

The Net revenue from sales in the period from 1 January to 31 December 2012 reached the value of 4,378 million PLN. Own costs of sales amounted to 3,781 million PLN. The gross profit from sales contributed 597 million PLN. The profit on operating activities is minus 196 million PLN. The Ciech Group completed the reporting year with a net loss in the amount of 438 million PLN.

I am convinced that the new development strategy of the Ciech Group in the future years will contribute to consolidation of its position on the market. On behalf of the Board of Directors and my own, I would like to thank the company's Shareholders and customers for the trust shown to the company that we accept with pride and due respect. We are sure that full determination of actions initiated by the Management Board of the Company will generate measurable benefits and will allow obtaining new shareholders in Poland and abroad.

Yours faithfully,
Dariusz Krawczyk
President of the Management Board

TABLE OF CONTENTS

I. REPORT ON THE CIECH GROUP'S ACTIVITIES IN 2012 6

1 CHARACTERISTICS OF THE CIECH GROUP 11
2 MORE IMPORTANT ACHIEVEMENTS OF THE CIECH GROUP IN 2012 25
3 DESCRIPTION OF FACTORS AND EVENTS, HAVING A SUBSTANTIAL IMPACT ON ACTIVITIES OF THE GROUP 30
4 RISK FACTORS......30
5 OVERVIEW OF THE BASIC ECONOMIC-FINANCIAL VALUES OF CIECH GROUP......42
6 THE CIECH GROUP'S TRADE AND PRODUCTION ACTIVITY......59
6.1 EXPLANATIONS CONCERNING THE SEASONAL AND CYCLICAL NATURE OF CIECH GROUP'S ACTIVITY 59
6.2 INFORMATION ON MAIN PRODUCTS, GOODS AND SERVICES 59
6.3 INFORMATION ON MARKETS, SOURCES OF SUPPLY FOR PRODUCTION MATERIALS, PRODUCTS AND SERVICES......75
7 INVESTMENT ACTIVITIES......77
7.1 INVESTMENTS 77
7.1.1. INVESTMENTS IMPLEMENTED IN 2012......77
7.1.2. INVESTMENTS PLANNED FOR THE NEXT 12 MONTHS 78
7.2 DESCRIPTION OF MAJOR CAPITAL INVESTMENT AND THE METHODS OF THEIR FINANCING......79
7.2.1 CAPITAL INVESTMENTS AND DIVESTMENT IMPLEMENTED IN THE CURRENT REPORTING PERIOD AND THE METHOD OF THEIR FINANCING 79
7.2.2 CAPITAL INVESTMENTS AND DIVESTMENTS PLANNED FOR THE NEXT 12 MONTHS......79
7.3 EVALUATION OF THE ABILITY TO COMPLETE THE INVESTMENT PLANS IN RELATION TO OWNED ASSETS, INCLUDING THE POSSIBLE CHANGES IN THE FINANCING STRUCTURE OF THESE ACTIVITIES. 79
8 MANAGING THE FINANCIAL RESOURCES IN THE CIECH GROUP 80
8.1 INFORMATION REGARDING IMPORTANT FINANCIAL LIABILITIES. 80
8.2 BONDS, CREDITS, LOAN, SURETIES AND GUARANTEES 98
8.3 INFORMATION ABOUT ISSUANCE OF SECURITIES IN CIECH S.A. 100
8.4 FINANCIAL INSTRUMENTS......100
8.5 GOALS AND PRINCIPLES OF FINANCIAL RISK MANAGEMENT IN THE CIECH GROUP 101
9 EXPLANATION OF DIFFERENCES BETWEEN FINANCIAL RESULTS, AND THE PREVIOUSLY PUBLISHED FORECASTS OF RESULTS......101
10 EMPLOYMENT IN CIECH GROUP......101
11 CHANGES IN ORGANIZATION, MANAGEMENT AND FINANCIAL ASSETS OF CIECH GROUP 102
11.1 CHANGES IN BASIC PRINCIPLES OF MANAGING CIECH GROUP......102
11.2 CHANGES IN ORGANIZATIONAL LINKAGES IN CIECH GROUP 103
12 INFORMATION ABOUT PURCHASE OF OWN SHARES OF THE PARENT COMPANY......105
13 DESCRIPTION OF USING RECEIPTS FROM ISSUANCE BY THE ISSUER 105
14 INFORMATION ABOUT THE EXCHANGE RATE OF SHARES OF CIECH S.A. 106
15 PERSPECTIVES FOR DEVELOPMENT OF OPERATIONS OF CIECH GROUP......107
16 CHARACTERISTICS OF EXTERNAL AND INTERNAL FACTORS ESSENTIAL FOR THE DEVELOPMENT OF CIECH GROUP 108
17 EXPECTED FINANCIAL SITUATION OF CIECH GROUP......110
18 STRATEGIC PRIORITIES OF CIECH GROUP......110
19 INFORMATION ABOUT CONCLUDED CONTRACTS, SIGNIFICANT FOR CIECH GROUP (INCLUDING CONTRACTS CONCLUDED BETWEEN SHAREHOLDERS AND INSURANCE AND COOPERATION CONTRACTS)......112
20 INFORMATION ABOUT CONCLUDED CONTRACTS WITH THE ENTITY AUTHORIZED TO AUDIT/REVIEW THE CONSOLIDATED FINANCIAL STATEMENT OF THE CIECH GROUP......112
21 DESCRIPTION OF TRANSACTIONS WITH RELATED ENTITIES 112
22 INFORMATION ON THE ENVIRONMENTAL PROTECTION ISSUES 113
22.1 LEGAL STATUS OF THE USE OF THE ENVIRONMENT......113
22.2 ENVIRONMENTAL PROTECTION COSTS 115
22.3 EMISSIONS TRADING......116
22.4 REACH 117
22.5 ENVIRONMENTAL LIABILITIES......117
23 KEY ACHIEVEMENTS IN RESEARCH AND DEVELOPMENT AT THE CIECH GROUP 117
24 INFORTION ABOUT SIGNIFICANT CONTINGENT IEMS......118
25 INFORMATION CONCERNING AGREEMENTS THAT MAY INFLUENCE CHANGES IN THE PROPORTIONS OF SHARES OWNED BY CURRENT SHAREHOLDERS AND BOND HOLDERS 118
26 INFORMATION CONCERNING THE CONTROL SYSTEM OF EMPLOYEE SHARE PROGRAMS 118
27 REMUNERATION FOR THE BOARD AND THE SUPERVISORY BOARD 118
28 DETERMINATION OF THE TOTAL AMOUNT AND NOMINAL VALUE OF ALL COMPANY SHARES AND OF SHARES AND STOCKS IN RELATED UNITS IN THE POSSESSION OF MANAGEMENT AND SUPERVISORY PERSONS......119
29 DECLARATION ON THE APPLICATION OF CORPORATE GOVERNANCE 119
29.1 APPLICATION OF THE PRINCIPLES OF CORPORATE GOVERNANCE 119
29.2 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN THE PROCESS OF DEVELOPING FINANCIAL REPORTS AND CONSOLIDATED FINANCIAL REPORTS 120

29.3 CIECH S.A. SHAREHOLDERS HOLDING LARGE SHARE PACKAGES. 121
29.4 SHAREHOLDERS POSSESSING SPECIAL CONTROL AUTHORIZATION WITH A DESCRIPTION OF SUCH AUTHORIZATION 121
29.5 RESTRICTIONS CONCERNING THE PERFORMANCE OF THE RIGHT TO VOTE 122
29.6 RESTRICTIONS CONCERNING THE TRANSFER OF OWNERSHIP RIGHTS TO THE ISSUER'S SECURITIES 122
29.7 DESCRIPTION OF AUTHORIZATION FOR MAKING DECISIONS ON THE ISSUE OR REDEMPTION OF SHARES 122
29.8 PRINCIPLES OF CHANGING THE STATUTE OR THE ISSUER'S DEED OF PARTNERSHIP 122
29.9 METHOD OF ACTIVITY OF THE GENERAL MEETING AND ITS PRIMARY AUTHORIZATION WITH A DESCRIPTION OF SHAREHOLDER RIGHTS AND THE METHOD OF THEIR PERFORMANCE 122
29.10 COMPOSITION OF THE MANAGEMENT, SUPERVISORY, AND ADMINISTRATIVE BODIES OF THE ISSUER AND OF THEIR COMMITTEES, AND CHANGES MADE TO IT DURING THE LAST YEAR OF TURNOVER, AS WELL AS A DESCRIPTION OF THE ACTIVITIES OF THESE BODIES. 125
29.11 INFORMATION CONCERNING AGREEMENTS SIGNED BETWEEN THE ISSUER AND PERSONS IN MANAGEMENT POSITIONS, PROVIDING FOR COMPENSATION IN THE EVENT OF THEIR RESIGNATION OR DISMISSAL FROM THEIR POSITION WITHOUT JUST CAUSE OR WHEN THEIR DISMISSAL TAKES PLACE AS A RESULT OF THE ISSUER’S MERGING THROUGH A TAKEOVER 133
30 INFORMATION REQUIRED IN CONNECTION WITH THE ISSUANCE OF FOREIGN BONDS, ACCORDING TO THE OFFERING MEMORANDUM 134

II. THE CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2012 135

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP 143

1 GENERAL INFORMATION 143
2 BASIS FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS 143
2.1 BASIS OF CONSOLIDATION 148
(I) SUBSIDIARIES 148
2.2 FOREIGN CURRENCY 148
2.3 FINANCIAL INSTRUMENTS 149
2.4 PROPERTY, PLANT AND EQUIPMENT 152
2.5 RIGHT OF PERPETUAL USUFRUCT OF LAND 153
2.6 INTANGIBLE ASSETS 153
2.7 ASSOCIATES AND JOINT VENTURES 155
2.8 BORROWING COSTS 155
2.9 INVESTMENT PROPERTY 155
2.10 TRADE AND OTHER RECEIVABLES 155
2.11 INVENTORY 155
2.12 CASH AND CASH EQUIVALENTS 155
2.13 IMPAIRMENT LOSSES 155
2.14 EQUITY 156
2.15 EMPLOYEE BENEFITS 157
2.16 PROVISIONS 158
2.17 TRADE AND OTHER LIABILITIES 158
2.18 CONTINGENT LIABILITIES 158
2.19 REVENUE AND COSTS 158
2.20 TAXES 159
2.21 ESTIMATES ADOPTED IN THE PREPARATION OF THE FINANCIAL STATEMENTS 159
2.22 FOREIGN CURRENCY RECEIVABLES, LIABILITIES AND REVENUE 160
2.23 GOVERNMENT GRANTS 160
2.24 DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE 160
2.25 DETERMINATION OF FAIR VALUES 160
2.26 CARBON DIOXIDE EMISSION RIGHTS 161
3 INFORMATION ABOUT RELATED ENTITIES 163
3.1 LIST OF COMPANIES COVERED BY THE GROUP’S CONSOLIDATED FINANCIAL STATEMENTS 163
4 FINANCIAL FIGURES BY BUSINESS SEGMENT 167
5 SALES REVENUE 176
6 COST OF SALES 176
7 INCOME AND COSTS OTHER THAN SALES REVENUE AND COST OF SALES 176
8 INCOME TAX 179
9 DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR 182
10 EARNINGS PER SHARE 184
11 DIVIDENDS PAID AND PROPOSED 184
12 PROPERTY, PLANT AND EQUIPMENT 185
13 RIGHT OF PERPETUAL USUFRUCT OF LAND 188
14 INTANGIBLE ASSETS 189
15 GOODWILL IMPAIRMENT TESTING 192
16 INVESTMENT PROPERTY 193

17 Non-current receivables 194
18 Investments in associates and jointly-controlled entities measured under the equity method 194
19 Other long-term investments 195
20 Inventory 195
21 Short - term receivables 196
22 Short-term investments 197
23 Cash and cash equivalents 197
24 Notes to consolidated cash flow statement 197
25 Equity 198
26 Non-current liabilities 201
27 Information about significant financial liabilities 201
28 Employee benefits 205
29 Provisions 206
30 Current liabilities 209
31 Finance leases 210
32 Operating lease 211
33 Detailed information about significant impairment allowances and provisions 211
34 Disputed liabilities, claims and contingent positions 213
34.1 Significant disputed liabilities of CIECH Group 213
34.2 Significant disputed receivables of CIECH Group 214
34.3 Other significant claims 214
34.4 Contingent assets and other contingent liabilities including guarantees, sureties and letters of support. 215
34.5 Investment liabilities 217
All obligations under the privatization agreements relating ZACHEM SA, Z. Ch. "Organika - Sarzyna" S.A. and U.S. Govora SA were finally met. 217
35 Information about agreements concluded with the entity authorised to audit the Ciech Group's consolidated financial statement 218
36 Objectives and principles in financial risk management 219
37 Financial instruments 225
38 Derivatives 230
39 Financial instruments assigned for hedge accounting 231
40 Information on transactions with related entities 233
40.1 Transactions with related entities in total 233
40.2 Significant transactions entered into by Companies or subsidiaries with related entities on other than market conditions 235
40.3 Transaction with State Treasury Companies 235
40.4 Description of significant relationships and transactions with related parties 235
40.5 Transactions concluded with key managerial personnel 236
41 Information on events occurring after the balance-sheet day 238
42 Information about significant events from previous years, recognised in the financial statements for the financial years 239
43 Other information that may have a significant impact on the assessment of the Ciech Group's financial and asset situation or its financial result 239
44 Reconciliation of equity presented in the previously published financial statements with the currently presented financial information 239
45 Reconciliation of financial data presented in the consolidated financial statements for the fourth quarter of 2012 and presented now 241
Statement of the Management Board 244

I. REPORT ON THE CIECH GROUP'S ACTIVITIES IN 2012

Overview

Ciech Group is a leading manufacturer of chemicals on the center European market. Since 2005, our shares have been the object of trade on the Stock Exchange in Warsaw. We are the second largest manufacturer of soda ash in Europe (in terms of sales revenues for 2012 as well as the size of production), and at the same time the only domestic manufacturer of this substance in Poland. Soda ash is a chemical agent used primarily in production of glass and detergents as well as in the chemical industry. We are also a leading supplier of soda ash, bicarbonate soda and vacuum salt for the Polish market. The share of those products in the market in 2012 amounted accordingly to 98%, 70 and 70%. We also produce other chemicals used in furniture, automotive, building, food industry as well as in agriculture.

The market of soda ash is attractive due to high margins and market entry barriers as well as, as a result of visible perspectives of growth, especially in the Central and Eastern European markets, where we operate. The period of 2011-2016 is expecting an increase in demand for soda ash in the Central and Eastern Europe at the level of CAGR of approximately 3.5% (source: IHS Chemical). As a result, we have the reasons to claim that in terms of the cost of production we are one of the most attractive manufacturers of soda ash in Europe. We owe this position to a relatively low costs of energy, raw materials and labour as well as the manufacturing possibilities of our plants. The total production capacity of soda ash in our plants exceeds 2.2 million tons annually. We have four production plants: two in Poland, one in Germany and one in Romania. We continuously try to reduce the costs and consumption of the energy used in our technological processes by carrying out tests, introducing innovative solutions and initiatives.

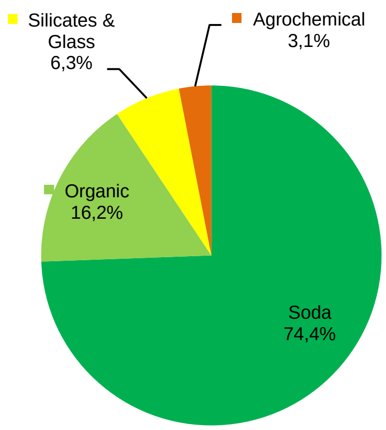
We have built a wide and diverse network of customers operating in different trades. We maintain long-term business relations with key customers, many of which has lasted for several decades. In total, the purchases of our ten largest customers, among which are Owens-Illinois, Saint-Gobain, Pilkington, Procter & Gamble as well as Reckitt-Benckiser, accounted for approximately 34.6% of our sales revenues for 2012. No single he customer brought more than 6% of our sales revenues related to soda ash in 2012. The majority of our customers are the companies from the Central and Eastern Europe as well as Germany. Sales to these countries constitutes about 49.2% and 29.0% of our sales revenues for the period of 2012. We are also open to sales of soda ash to the Scandinavian countries. Sales to these countries amounted to approximately 7.5% of our sales revenues for the period of 2012. The customers in other European countries and in the remaining part of the world constituted approximately 2.2% and 12.1% of our sales revenues for the period of 2012.

The consolidated sales revenue and normalized EBITDA amounted accordingly to 4,377,952 thousand PLN and 423,112 thousand PLN for the year ended on 31 December 2012. The total consolidated sales revenue for 2011 amounted to 4,174,486 thousand PLN, and normalized EBITDA to 327,442 thousand PLN.

Segments of operations

Our main segment of operations is the soda segment. We conduct operations also in three other segments: organic, agrochemical as well as silicates and glass.

The percentage of the revised EBITDA ratio per segment for 01.01-31.12.2012 [(1)]



(1) *Excluding the units, which are not part of one specified segment (i.e. trading companies Ciech Polsin Private Ltd, Cheman S.A, the pharmaceutical company Polfa Sp. z o.o. which was sold in September 2012) and excluding the corporate functions, the "other activities" segment and consolidation adjustments.*

Basic area of operations – soda segment
The Ciech Group is a manufacturer of soda ash, vacuum salt, sodium bicarbonate as well as calcium chloride. Soda ash (both dense and light), is used in the production of glass (panes and glass packaging), production of detergents in the following trades: metallurgical and chemical. The soda segment generated, for 2012, sales revenues in the amount of 1,975,489 thousand PLN (which is 45.1% of total sales revenues), EBITDA in the amount of 271,623 thousand PLN, and normalized EBITDA in the amount of 348,671 thousand PLN, and for 2011, sales revenues in the amount of 1,728,811 thousand PLN, EBITDA in the amount of 314,517 thousand PLN and normalized EBITDA in the amount of 286,137 thousand PLN.

Remaining areas of operation

Organic segment. The Ciech Group is a producer of many organic chemical compounds. In 2012, we produced, among other things, TDI, ECH, polyurethane foam, epoxy resins as well as polyester resins. These products are used in the following industries: furniture, automotive, paint and electronic. We also produce protective agents for plants used in agriculture. The Organic segment generated, for 2012, sales revenues in the amount of 1,690,982 thousand PLN (which is 38.6% of total sales revenues), EBITDA in the amount of minus 152,685 thousand PLN, and normalized EBITDA in the amount of 75,996 thousand PLN, and for 2011, sales revenues in the amount of 1,605,070 thousand PLN, EBITDA in the amount of minus 10,394 thousand PLN and normalized EBITDA in the amount of minus 3,133 thousand PLN.

***Silicates and glass segment*.** The silicates and glass segment sells sulphur and produces glass lanterns to headstone lamps, jars and sodium and potassium silicates, meant for final consumer markets and for the food and chemical industry. The silicates and glass segment generated, for 2012, the sales revenues in the amount of 435,567 thousand PLN (which is 9.9% of total sales revenues), EBITDA in the amount of 19,889 thousand PLN, and normalized EBITDA in the amount of 29,489 thousand PLN and for 2011, sales revenues in the amount of 315,526 thousand PLN, EBITDA in the amount of 27,042 thousand PLN and normalized EBITDA in the amount of 27,524 thousand PLN.

Agrochemical segment. The agrochemical segment produces fertilizers and other chemical compounds used in food industry and agriculture. The agrochemical segment generated, for 2012, the sales revenues in the amount of 236,038 thousand PLN (which is 5.4% of total sales revenues), EBITDA in the amount of minus 30,994 thousand PLN and normalized EBITDA in the amount of 14 316 thousand PLN and for the period of 2011, sales revenues in the amount of 390,208 thousand PLN, EBITDA in the amount of 40,814 thousand PLN and normalized EBITDA in the amount of 49,940 thousand PLN.

We intend to more and more focus our business on the production of soda ash, derivatives of soda and components. We completed our participation in production and sale of TDI. We intend to continue sale of assets in the agrochemical segment as well as in the Silicate and Glass segment. This process was started in 2011, with sales of our main subsidiary – GZNF "FOSFORY" Sp. z o.o.

Our market
The Companies of the Ciech Group are currently operating mainly on the Polish, Central and Northern European market of soda ash that we now deem attractive due to close geographical distance between us and the end users, lower costs of production as compared to other European manufacturers of soda ash and growing demand detectable on these markets. The most important characteristics of the soda ash market have been presented below.

Soda ash is a key raw material for several large final markets. The soda ash is one of the most important raw materials for production of glass (in particular panes and glass packaging), soap, detergents and chemical compounds. It is used to a different extent to control the level of pH, in order to reduce the temperature of melting as well as for deodorization. About 60% of soda ash produced in Europe (including CIS is used in the production of glass (in approximately 32% for the production of glass packaging, in approximately 22% for the production of panes and in approximately 6% for the production of other glass goods) (source: IHS Chemical). The key final recipients of glass packaging are food, beverage, pharmaceutical and cosmetic industries. On the other hand, the building and automotive industries are the largest recipients of panes. The soda ash is also an important component of soap and chemical detergents as well as chemical compounds, which is 9% and 5% of rated demand in the Central and Eastern Europe in 2012 (source: IHS Chemical). Other significant possibility of using soda include production of paper and pulp as well as water treatment (soda ash in combination with lime creates a simple and inexpensive water softener). Global consumption of soda in 2012 amounted to 53 million tons, and the volume of the European soda ash market (including CIS) was estimated to more than 11 million tons, of which 6.2 million tons were used in the Western Europe and 1.4 million tons reached the domestic market of the Central Europe (source: IHS Chemical).

There are no economically profitable substitutes of soda ash applicable for key markets. There are currently no economically profitable substitutes of soda ash applicable for the key markets, including the market of glass goods as well as production of soap and detergents*.* Use of alternative materials in the production of glass goods may lead to increase in production costs as a result of increased energy consumption, or may directly increase the costs of raw materials, since the alternative materials are more expensive than soda ash (source: World Soda Ash Conference, 2010). The market of soap and detergents is dependent on soda ash to a similar degree. The chemical substitutes of soda ash are unstable, risky in use and too hazardous to use in the domestic conditions.

The market of Central and Eastern Europe benefits from the fast and stable growth. Consumption of soda ash in the Central and Eastern Europe is still large as a result of the support of local final markets, in particular glass industry. It is expected that this growth will maintain in the period from 2012 to 2016. Demand for soda ash in the Central and Eastern Europe is supposed to increase at the level of CAGR by about 3.5%, propelled by the increased expected growth in the demand for glass at the CAGR level of approximately 4-5%, as well as for soap and detergents at the CAGR level[1] by approximately 2-3% for the same period (source: IHS Chemical). The growth indicators of the expected demand for glass goods in the Central and Eastern Europe include building new buildings as well as existence of architectonic trends aiming at increased use of glass in construction, introduction of legal regulations related to promotion of use of triple glazing and solar panels as well as increased consumption of glass packages on the consumer markets. The growth is also expected in the case of production of soap and detergents as well as chemical compounds; particularly in the Central and Eastern Europe, which involves the expected further clear increase of GDP in those countries.

The soda manufacturers of soda ash benefit from logistic barriers of entering the market for new participants. Production of soda ash remains the object of local operations, because of high transport costs with regard to the sale prices. The location of the plant is of critical importance since, generally, transport of soda ash at a distance exceeding 500 kilometers, in particular by land, is unprofitable. For this reason, the majority of companies delivers soda ash only in the radius of 300 to 500 km from the plant. In 2011, approximately 83% of rated demand for soda ash was satisfied by the European production, and approximately 79% of the production of soda ash was intended to the European markets. In addition, the prices of soda ash in the Eastern Europe, in particular in Poland, are usually lower than the prices in other European countries due to lower costs of production. It results in the fact that sales of soda ash in the Central and Eastern Europe is attractive less for a foreign manufacturer, taking also into account its high costs of transport on long distances. Our opinion is that the listed factors provide strong logistic entry barrier for potential competitors. There have been announcements of significant increase in production capacities of soda ash in Turkey on the basis of a natural raw material – trona, however, the Turkish export seems to be limited to the European coastal markets, where soda ash may be transported by sea. In addition, the natural soda ash (as opposed to synthetic one) may not be applied in a number of complex industrial processes, requiring high quality of soda (achieved only in production with a synthetic method).
For this reason, it is also not expected for our present operations to be endangered by the increased activities of Turkey.

The costs of energy constitute an important part of overall costs of manufacturing soda, which is competitive advantage of the manufacturers using backward integration and/or having access to the energy generated at low cost. The production process of synthetic soda ash requires high power outlays. The costs of electric power and heat reach even 60% of the total costs of production. Therefore, the access to the integrated energy source may constitute a significant advantage. The manufacturers of soda ash usually use backward integration by running own heat and power stations.

Strengths
The following strengths determine the success of the Ciech Group:

We are on a leading position in the market. We are the second largest manufacturer of soda ash in Europe (except for Russia) in terms of sales revenue and the size of production for 2012, and, at the same time, the only domestic manufacturer of soda in Poland and in Romania. We are also a leading supplier of soda ash, bicarbonate soda and vacuum salt for the Polish market. Our market participation in 2012 was subsequently 98%, 70% and 70%. On the European market of soda ash, we are the largest manufacturer after Solvay S.A. (Solvay), with annual production capacity equal to approximately 2.2 million tons (for comparison, Solvay manufactures about 5.1 million tons annually). We are a cost leader in the production of soda ash that its leading position in the market owes to large-scale production, experience and long-term relations with customers.

We are a cost leader among the manufacturers of soda ash in Europe. We believe that our production costs will remain low, as compared with other European manufacturers of soda ash, thanks to a relatively low costs of energy, raw materials, work and scale of our production. Our Polish and Romanian plants can be found in the

[1] *CAGR - Compound Annual Growth Rate*

lower quartile of costs taking into account all manufacturers of soda ash in the Western and Central Europe. Since expenditures on energy are one of the most important costs of the production of soda ash, we have taken steps to limit the production outlays on energy. In Poland, we have two own heat and power stations that fully satisfy the power needs of our production plants in Inowrocław and Janikowo. It ensures access to stable power deliveries at the costs lower than the cost of purchase of power from intermediaries. Currently, we are in the course of a modernization process of our power plants to increase their efficiency. Reduction in the cost of energy for January 2012 in our German plant in Strassfurt was possible as a result of lease of the power plant from which we previously purchased electric energy. In the area of Germany there are also our quarries and salt mines, supplying production plants in limestone and brine, which raw materials are necessary to produce synthetic soda ash. In addition, the labour costs in Poland are generally lower as compared to the countries of the Western Europe, which is also our advantage over competitors. The above advantages make us a strong player on the Polish and Center European market as well as on the markets of eastern regions of the Western Europe. We are also a significant supplier of soda ash to the Scandinavian countries (approximately 45% of market participation in 2012), where local suppliers are not operating. Our opinion is that the lower costs of production result in our product being more attractive in economic terms than the soda ash acquired from other manufacturers from the Western Europe. In addition, our large production plants are operating at high use of production capacity, which allows distributing the fixed costs on the large volume of production. The size and scope of our manufacturing operations enables deriving benefits of the scale from purchasing, production, distribution, marketing, research and development and of using best practices in our production plants.

We created a regional platform of operations and efficient distribution network. In the area of soda operations, we have four production plants located in the Central and Eastern Europe. We take benefits from the location near our key markets. Our sites in Poland and Romania support the domestic and Eastern Europe markets, and the plants in Germany provide production for the Center European markets. The plants are located exactly, where there are sales markets for our products, near suppliers and customers. Since the transportation costs of soda ash are high, locating a plant close to the customer is a significant advantage and creates barrier of entering to the market for its potential new participants. In addition, since the glass industry is the largest final market for soda ash, high number of glass production plants, located in the radius of 500 km from our plants ensures us sound base of customers. Several manufacturers of glass, such as Euroglass, Pilkington and Nordglass, recently announced increasing or have already increased production capacities in the Central and Eastern Europe. In addition, we have a great distribution network including specification of particular products and markets. Over the years, we had gained reliable logistic experience. We operate in the field of transportation of almost 20 various chemical product groups (from chemical substances classified as hazardous in accordance with the international conventions – including yellow phosphorus, HCL, sulphuric acid, sulphur, lye, chlorine, phosphoric acid, epoxy resins, phenol and allyl chloride – to the packed materials), to at least 100 various countries from all over the world. We sell a significant part of our products directly to final recipients. Approximately 81% of the production of soda ash and 44% of the production of bicarbonate soda in Poland reaches a final recipient directly. This allows us to maintain direct relations with our customers and avoid using intermediaries and sustaining the costs of commission, which results in maintenance of the margin at a constant level.

We maintain long-term relationships with customers. We have built a wide and diverse network of customers operating in different trades. We maintain long-term relations with our key customers of which many has already lasted for several decades. Our customers include, among others, Owens-Illinois, Saint-Gobain, Pilkington, Procter & Gamble as well as Reckitt-Benckiser. A key issue, important for our customers in the soda segment is, in particular, reliability of deliveries. For the majority of our Polish customers, we are the main supplier. On the Western European market, we are usually one of two suppliers due to use of a strategy of two sources of deliveries by our European customers. The quality of a product is very important due to the application of soda ash and of its derivatives in the glass, food, feed and pharmaceutical industry. On the other hand, the price constitutes an element of competitiveness. Fulfillment of expectations, reliability of deliveries, high quality of products, flexible principles of cooperation and timely implementation of orders enhance our image and reputation as well as guarantee further long-term cooperation with our customers.

We have experienced managerial personnel as well as qualified and motivated employees. We have experienced managerial personnel, consisting of experienced professionals. Three persons, occupying positions at the highest managerial level, have approximately 12 years of management experience. The recently appointed Chief Executive Officer, Dariusz Krawczyk, has significant experience in management of companies of the chemical industry sector. Mr. Krawczyk joined us in 2012. Before that, he was for seven years a general director of Synthos S.A.- a large Polish manufacturer of synthetic rubber. During his term of office, the Synthos company's shares increased from 0.51 PLN (as of 13 November 2005), to 4.85 PLN (as of 13 May 2011), which means growth by 851%. The Financial Board Member (CEO), Mr. Andrzej Kopeć, in the years 2009 -2012 was a member of the Management Board of Zakłady Azotowe Puławy S.A., the third largest chemical company in Poland and earlier, in the years 2003-2006 a member of the Board of Directors of BGŻ S.A., in the period of 2006-2009, a member of the Board of Directors of DZ Bank Polska S.A. The Board Member, Mr. Artur Osuchowski, is responsible for successful integration of the soda segment as well as for restructuring our plant of production of soda in Romania. In addition, in the 4th quarter of 2012, we strengthened our managerial structure by centralization and integration of basic business activities at the level of the Group as well as increase in the level of efficiency, control and liability in our organization. Our managing personnel is leading a team of committed, qualified and motivated employees, consisting of 5.509 people (state as of 31 Dec 2012).

Strategy
The key components in the Ciech Group's strategy:

Focus on the operations of basic sectors and strengthening the management structure. We intend to more and more focus our business on the production of soda ash, derivatives of soda and components. The market of soda ash is attractive because of large margins and logistic barriers of entrance as well as due to visible growth in perspectives, especially in the Central and Eastern European markets, where we operate. To optimize the structure and increase profitability, we conduct the process of reduction in our beyond-basic business as well as we sell or, by making focused investments, improve profitability of unprofitable assets within the basic areas of operations. In April 2011 we finalized sale of one of our major companies in the agrochemical segment – Fosfory. In addition, in the autumn of 2012 we concluded the Contract of Sales and Transfer of TDI Assets with BASF. As a consequence of occurrence of the aforementioned events, we intend to terminate the previously conducted formula of operations of the company ZACHEM S.A. and dispose of or eliminate the unnecessary part of its assets. We conduct a continuous evaluation of our business and do not exclude cessation of further beyond-basic business operations, in particular in the agrochemical segments as well as in the silicates and glass segment. In addition, we conduct the actions aimed at improvement in profitability by focus on the products with high charge of the margin, such as vacuum soda and deepening of specialization of production plants in terms of production and the technology used. As a result of this process, we expect that our activities will become more integrated and optimized. We will still focus on centralization and integration of basic functions of activities, such as sales, marketing, supply and distribution at the level of the group, in order to provide more efficient human capital and financial use and increase in flexibility to changing needs of the customer and the requirements of the market. Thanks to the conducted restructuring, we intend to become an effective company of the sector of the production of soda ash, specializing in the products with high charge of the margin.

Maintenance of a leading position in Poland and Europe. We are decided to maintain the leading position on the Polish market and the second place in terms of production of soda ash in Europe, in particular with regard to the production of soda ash in the Central and Eastern Europe. We intend to continue investing in structures and production processes with the aim of further reduction in operating costs. We also intend to still provide our customers with security of supply, high quality products and personalized service. We will still focus on local and regional markets, because they are less sensitive to fluctuations of market cycles and present attractive growth perspectives as well as on these market segments, where we can maintain strong and competitive position.

Growth in operational efficiency and specialization. We are planning still improvement in efficiency of our business, especially in relation to production and product distribution in the basic areas of business operations. In the soda segment, the expenditures on energy are large share in the production costs. We have introduced improvements in order to improve power effectiveness in our production plants with return use of heat. We also intend still to reduce costs of energy in the production of soda ash and its derivatives by modernization of the heat and power station in Inowrocław and Janikowo (Poland). We believe that it will allow our Polish plants to stay in the lower quartile of manufacturing costs of soda ash in Europe. We are also convinced that the mentioned initiatives, designed to reduce in the costs of energy, will help maintaining permanent leading position in Poland and in the other European countries.

Adaptation of our offer to the products with high charge of margin on the flexible final markets. We also intend to adjust our offer to the products with high charge of the margin, such as bicarbonate soda, present on the important, developing final markets. The margins imposed on bicarbonate soda are higher than these imposed on soda ash due to higher average of the sale prices (connected with rapidly growing demand and specialized application). The market of bicarbonate soda is also resistant to shrinkage of economy due to its extensive use in the food industry. We expect that the demand for bicarbonate soda will keep on growing at the CAGR level of 5-6% in the years 2010 until 2015 (a forecast on the basis of an independent external report). The growth will be largely propelled by increased demand, reported by the industry of production of soap and detergents as well as chemical industry, in connection with using bicarbonate soda in the process of desulfurization there. We estimate that the annual growth index in the average consumption (on final markets) of bicarbonate soda will be approximately 3-4% in Poland and 2% in Europe within the next five years (source: estimates of the management based on World Soda Ash Conference). We believe that increase in our impact in the bicarbonate soda trade will let us achieve growth in revenues from sales of products with higher margins than the basic sales of soda ash. As a result, we intend to devote 70–100 Kt of our current production capacity of soda ash to produce bicarbonate soda until 2015.

Improvement of cash flow generation and maintenance of stable capital structure. Maintenance of the ability to generate cash flows is a significant goal in management of the Group's operations. The Group aims to maximize generated cash flows through optimization of use assets and resources, taking advantage of its competitive position and maintaining discipline with regard to capital expenditure. The Group generated positive

cash flow from operations in two of the last three years, in spite of the restructuring process and sustaining costs related to performed divestments and repositioning to focus on the core business. Cash flow generation remains our priority and we expect improving ouor financial standing, after the end of restructuring and focus of business on the segments, which are a strategic priority for us.
The refinancing transaction conducted in the 4th quarter of 2012, was an important step for stabilization of cash flows in the field of financing the Ciech Group, allowing the Group to gain benefit of a long-term and more stable capital structure. As a result of refinancing of existing bank loans with long-term debt instruments, currently, cash flows are not encumbered by mandatory debt service, which allows greater flexibility in management of funds and spending them on development of core areas of business.

Continuation of geographic diversification of sales of our basic markets and segments. Since 2007, we have searched for diversification of our sales, introducing our products to unsaturated international markets (such as Sweden and Finland), and broadening our presence on the European markets. Our sales outside of Poland increased from 62.9% in 2011 to 65.1% in 2012. We intend to focus on our leading market positions and our capacity for production of soda ash at a full cost that, in our opinion, is lower than at other European manufacturers of soda ash with the purpose of further increasing of our range on particular European markets. We believe that our current initiatives in the scope of cost savings and improvement in productivity will support our ability to geographic diversification of our sales for the coming years, especially for the products that enable us to generate high margins on the dynamically developing final markets. We intend to achieve greater diversification with simultaneous focus on our national operations, maintaining market positions and boosting offer of our products for customers.

Maintaining environmental protection, occupational health and safety standards. All companies of the Ciech Group aim at minimization of the environmental impact through effective consumption of raw materials and energy, reduction in emission of pollutants into the air, water and soil, reasonable waste management as well as the use of solutions improving operational safety of technological systems. An expression of care for the environment is a wide range of environmentally friendly investment projects implemented each year, which lead to measurable effects in the form of restricting the emission of pollutants and visible improvement in the condition of the environment in the vicinity of the production plants. The most important pro-ecological investment in the Ciech Group is modernization of the heat and power station in Janikowo due to which we aim at meeting more and more rigorous emission standards, limitation in emission of SO_2 and dust to the atmosphere. Thanks to this investment, we will increase the power efficiency and will be able to reduce the coal consumption in the soda ash production process.
We intend to continue research and implementation of new technologies, thereby minimizing our effect on the environment, aiming to improve power effectiveness and boosting safety in the Companies of the Ciech Group.

1 Characteristics of the Ciech Group

Our history and development
Our company was established in 1945 as a state plant "Centrala Importowo-Eksportowa Chemikalii i Aparatury Chemicznej". Initially, it was a sales company exporting soda ash, carbide and zinc white. At the beginning of 1960s the company received its new name "Centrala Handlu Zagranicznego Ciech", in which "Ciech" was short from "Centrala Importowo-Eksportowa Chemikaliów"
In 1960s and 1970s we started to export nitrogen fertilizers, cosmetics and pharmaceutical products as well as paints and varnishes, in 1976 we exported almost 95% of all Polish products of chemical substances. In the 1980s and 1990s (to 1989), we had monopoly for export of chemicals in Poland. In 1995 we took over the majority package of the domestic manufacturer of fertilizers, company GZNF Fosfory Sp. z o.o., converting into a trade-production group.
In 1995 we became a joint stock company called "Ciech S.A." In 2000 our group included already eight known manufacturers of chemicals (e.g. Soda MĄTWY S.A. and JANIKOSODA S.A.), 9 foreign companies and 8 representatives involved in trade and distribution.
In 2005 we submitted the first public bid, introducing its shares to Warsaw Stock Exchange. Under the first public offer we have acquired 192 million PLN that we invested in further development. The two purchases of Polish plants of organic chemistry made in 2006, Z. Ch. " Organika-Sarzyna" S.A. and ZACHEM S.A. and a plant soda type products US Govora in Romania doubled the size of our group. Continuing the development, in 2007 we bought Sodawerk Stassfurt, the german manufacturer of soda ash and sodium bicarbonate. In 2011, we have issued preemptive rights of shares obtaining 441,6 million PLN.

Our segments of Business and Products
We operate in four segments of production: soda, organic, silicates and glass and agrochemical. Our products meet the needs of other branches of the industry, including glass, furniture, chemical, agrochemical, trade/distribution, detergents, plastics, food, painting and varnishes, building, car and consumer goods – and are used in agriculture. Our main categories of products, their application and our segments of business are the following:

Structure and scope of activity of the Ciech Group in 2012

	Soda Segment	Organic Segment	Silicates & Glass Segment	Agrochemical Segment
Products	Soda ash , sodium bicarbonate , vacuum salt ,calcium chloride, electricity	TDI, ECH, polyurethane foams, epoxy resins , poliester resins , plant protection chemicals	Glass lanterns and jars , sodium and potassium silicates , sulphur	Phosphoric compounds , compound fertilisers
Customers	Glass, detergent and food industries , households	Agriculture ,furniture, automotive, construction and paints industries	Construction, detergent and paint industries, households	Agriculture, food industry
Markets	European, domestic	Global, european, domestic	European, domestic	European, domestic

Soda segment

We produce and sell soda ash, vacuum salt, sodium bicarbonate, calcium chloride and other derivatives of soda used mostly in glass, food industry and in the production of detergents. We also sell electric energy produced in the heat and power stations leased in Stassfurt in Germany and in the power plant that we have in Janikowo in Poland. We are the second in terms of share in the European market of soda ash (counting the income and quantity of goods for 2012) and the only domestic manufacturer of soda ash in Poland.

Our soda segment demonstrated sales revenue equal to 1,728,811 thousand PLN, EBITDA equal to 314,517 thousand PLN and normalised EBITDA 286,137 thousand PLN completed as of 31 December 2011. In 2012, the soda segment generated the revenues from sales at the level of 1,975,489 thousand PLN (which comprised 45.1% of our total sales revenues), EBITDA at the level of 271,623 thousand PLN and normalised EBITDA at the level of 348,671 thousand PLN.

Main Products

Our soda segment includes the following products:

Soda ash (sodium carbonate – $_2CO_3$ >) is the sodium salt of carbon acid in the form of white powder. It is one of the most basic industrial chemical substances, having a wide range of applications. In particular, Soda ash is a key raw material in glass manufacturing used for the reduction in melting of sand remelted to glass to improve workability of glass products. As a result, the demand for Soda ash has been strongly bound with the demand for glazing and glass packaging. The soda ash is also applied in the industry of cleaning agents where it constitutes an important ingredient in manufacturing soap, detergents and other cleaning compounds of high alkalinity. Additionally, Soda ash is used in chemical industry, in the production of mineral fertilizers, inorganic soda salts such as phosphates, chromians, sulfates, sodium silicates and organic sodium salts as well as colorants and pigments, such as ultramarine.

We produce two kinds of synthetic Soda ash – heavy and light. The heavy and light Soda ash differ only in physical properties, such as general density or shape and the size of molecules. In the industrial process, light soda is used for the production of heavy soda and sodium bicarbonate as well as in the process of cleaning brine.

Sodium bicarbonate ($NaHCO_3$) is a white solid body in the form of powder, well-known also as sodium dicarbonate. Sodium hydrogencarbonate is widely used, for example in the food industry, where it is one of the major components of baking powder as well as serves as an absorber of odours. It is also a component of drugs and an element of medical procedures in the pharmaceutical industry. Additionally, it is used in manufacturing food for animals to neutralize acids, in chemical industry in manufacturing of colorants and explosive materials and as a basic ingredient in extinguishers, the ingredient of detergents and of washing powders, finally as an ingredient of creams or tooth pastes in the cosmetic industry.

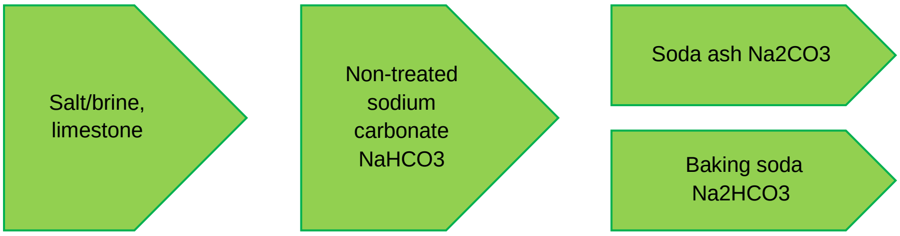
Vacuum salt (NaCl) is a crystalline sodium chloride produced as industrial wet or dry vacuum salt. It is produced by re-crystallization of cleaned brine. The vacuum salt is used in chemical industry in the process of electrolysis. It is also applied in the production of cleaning agents as the ingredient of detergents and colorants as well as for

water softening in the industry and on the consumer markets. In addition, the vacuum salt is used in food industry, for baking and in processing fruit, vegetables and meat.
Calcium chloride ($CaCl_2$) is a calcium salt of hydrogen chloride. The main application of calcium chloride is to protect and preserve roads. Calcium chloride is also used in the construction industry as an ingredient of mortar, helping its binding in minus temperatures.
Apart from the calcium chloride, we produce other derivatives of soda and by-products such as mixes of salt, waste salt, chalk and hopcalite.

Customers
We have built a wide and rich base of customers in different branches of industry, including glass (glazing and glass packaging), detergents, chemical and food. Our 10 major customers of soda ash is responsible for approximately 35% of our income sales of the soda segment for the last 12 months. Approximately 33% of our production (quantitatively) of soda ash in the last 12 months was addressed to Poland, 28% to Germany, 4% to Romania, 9% to Czech Republic, 7% to the Nordic countries, 7% to other countries in Europe and 12% to the rest of the world. Owing to the costs related to transportation of soda ash at long distances, our customers are most often located near our production plants (in Poland, Germany and Romania). Europe, in particular the Central and Eastern Europe is an important sale market for us.
We have built permanent relations with our key customers, some of them lasting for the whole decades. The key for our customers, in particular in the segment of soda, is our reliability in deliveries of soda ash. We are the main supplier of soda for the most of our customers in Poland. On the Western European market, we are most often one of the two suppliers, according to the strategy of diversification of suppliers, applied by our customers. Care for the quality is also very important in connection with using soda ash and derivatives of soda in manufacturing of glass, animal food, food and pharmaceutics, while the price is an element of competitiveness. soda ash and sodium hydrogencarbonate are most often sold on the basis of annual contracts. The quantity is fixed annually, whereas the prices may change quarterly.

Production
We produce soda ash and derivatives of soda using the process of soda ash, popularly known as the Solvay method, a commonly adopted method of producing synthetic soda ash. The Solvay method includes a continuous process in which lime is used for production of carbon dioxide that reacts with ammonia dissolved in saline.

Simplified description of the process of the Solvay method is presented below:



To produce soda ash salt is dissolved in water until obtaining a saturated solution of salt or brine, by pumping water into salt. Saline is purified of soluble calcium and magnesium salts in a softening station of water. The cleaned saline is then introduced to the ferrous "absorption towers", with which it drips meeting ammonia fumes. The dissolving ammonia produces heat. Since the temperature must be sufficiently low so as to maintain ammonia in the solution, the saline saturated with ammonia is cooled down in the middle of the tower and again before sending to a similar (tower carbonization), where the compressed carbon dioxide from smoking lime (burned with coke or anthracite), is pumped to the fluid. The process is repeated in the carbonization tower with the use of carbon dioxide. The generated sodium hydrogencarbonate is filtered from a solution of ammonium chloride. The process returns later to a distiller of lime in order to regenerate more ammonia. Sodium hydrogencarbonate is heated in calciner, and the created sodium carbonate moves to a cooling device. The process requires large quantities of energy in order to calcine sodium bicarbonate and calcium and to generate the steam necessary to recover ammonia.

Soda ash is a direct product of the process of the Solvay method and it is cleaned before being sold to customers. The vacuum salt is generated in the process of evaporating brine obtained by dissolution of deposits of salt. Calcium chloride is waste from the Solvay method.
We produce soda ash and derivatives of soda in our plants in Inowrocław and Janikowo in Poland, in Romania and in Germany.

Raw materials and energy for production
The most important raw materials necessary for manufacturing soda and its derivatives are minerals and chemical compounds: lime, saline, ammonia, coke and anthracite. The energy sources are electric power, steam

and natural gas and coal used for production of electric energy and steam. Consumption of raw materials and power in the soda segment is approximately 40% of the total costs of raw materials and power in 2012, of which energy (coal, natural gas, electric energy and steam), is 67% of the costs of raw materials and power in the soda segment. Particularly important is coal, whose cost is approximately 20% of total cost of raw materials and energy used in this segment.

The raw materials that are used for production of soda and derivatives of soda are delivered from the nearby sources by road, railway transport, and pipelines. The exception is production plant in Stassfurt in Germany with its own limestone quarry and source of brine (this quarry is managed by a separate independent entity). The majority of our demand for raw materials to produce soda and derivatives of soda is satisfied with relatively few sources. In particular, we carry out purchases of limestone and brine – two basic raw materials for production of soda with the Solvay method – from single, local suppliers. Our contracts for delivery of brine and limestone are long-term, and some of them cover the period of even 25 years. The long-term contracts for delivery of raw materials are common in the sector of soda production, which according to us is a benefit in the form of stable source of supply. In Poland, our contracts for lime and saline stipulate determination of volumes of supplies for a given quarter (in case of limestone), and for a given year (in case of brine). The price of limestone and brine in Poland are subject to indexing by the inflation rate. In Romania, the prices of limestone and brine are subject to annual indexation, whose level is agreed upon by way of negotiations with the supplier, based on the inflation rate. All main raw materials for our plant in Govora in Romania are obtained from independent, single suppliers. In Romania, the prices of limestone and brine are subject to indexation, based on the inflation rate. The production of synthetic soda and its derivatives is a highly energy-consuming process. In Poland, we are the owner of the heat and power stations that satisfied nearly all our needs with regard to thermal energy necessary to produce soda for both our plants in Inowrocław and Janikowo. Our heat and power stations are located near the production plants. The heat and power station in Inowrocław produces water steam in the amount of 310 t/h. The heat and power station in Janikowo produces water steam in the amount of 360 t/h. Both combined heat and power plants are heated with coal. These units provide our group with stable deliveries of heat and electric power. The cost of manufacturing electric power in both combined heat and power plants is lower than purchase of energy from independent suppliers. We believe that such a solution gives the competitive advantage over other producers of soda in Europe thanks to lower costs of production. The majority of coal consumed by our heat and power stations is supplied by a local supplier on the basis of three-year contract with constant price for the annual volume of supplies. Apart from electric power and steam generated in our both units, we buy ca. 10% of electric power from one supplier selected in the tender procedure for purchase of electric energy, on the basis of an annual contract.

In Germany, we lease a combined heat and power plant in Stassfurt in the neighbourhood of our plant (SDC Power Plant). The SDC Power Plant fired with earth gas with total power of 134 MWe. The SDC heat and power station produces water steam in the amount of 240 t/h. It produces both heat and electric energy. Almost the whole heat energy manufactured in the combined heat and power plant is used for the needs of the production of soda. In addition, we use about 15% of electric power generated by the SDC power plant for the needs of the production of soda, and we sell the surplus on the power market. The lease contract of this heat and power station was concluded in January 2012 and includes purchase option of this unit by us in the period from December 2014 with a purchase price of 42,4 million EUR and sales option, which gives an owner the right to demand purchase of this unit from us in the period starting from December 2015 with the purchase price equal to 37,5 million EUR. The lease payment will be 13 million EUR per year plus VAT. In the period before December 2011, we purchased heat and electric power from the same heat and power station. The natural gas necessary to power supply the heat and power station bought is on the basis of a long-term contract in which the price of raw material depends on the oil prices and gas market.

The electric energy for our a plant US GovoraS.A. in Romania is supplied by the supplier selected in the tender procedure for purchase of electric energy on the basis of an annual contract, on the other hand the heat power in the form of steam – from the local manufacturer of heat, whose shareholder is the State Treasury. The manufacturer of heat is also a shareholder in US Govora. The heat is delivered on the basis of a long-term contract that is subject to annual negotiations with regard to key terms&conditions.

Competition
Our competitive position in the production of soda ash and derivatives of soda is particularly strong on the markets, where we have production plants. Since normally transport of soda to far distances makes its sales unprofitable, the production-sales activities related to this product is of regional character, and the majority of plants supplies the customers located not further than at the distances of few hundred kilometers. We believe that this factor, in combination with our leading position on the market, constitutes a logistic barrier for entering this market to potential competitors and reinforces our participation in this market. Our soda production is located in Poland, Germany and Romania. We compete with the greatest producers of soda ash in Europe i.e. Solvay, Bashkhim Group, Sisecam and Tata. We are the second, with regard to size, player in this segment of the market in Europe when it comes to the amount of sales revenue in 2012 and the only domestic manufacturer of soda in Poland. We are also a leading supplier on the domestic, Polish market of soda ash, bicarbonate soda and vacuum salt, with shares in the market of these products in the amount accordingly: 98%, 70% and 70%

(according to the data for 2012). On the European market of soda ash, we are the largest manufacturer after Solvay, and the potential of our annual production reaches the level of approximately 2.2 million tons. For comparison, production in the plants of Solvay is approx. 5.1 million tons/year and TATA, Sisecam or Novacarb have production capacities at the level, respectively: 1.0 million; 0.6 million and 0.6 million tons annually. Our participation in production capacities of soda ash in Europe is approx. 17%.

We believe that our production costs are low as compared to the competitors on the soda market in Europe, which is the effect relatively low costs of energy, raw materials as well as labour. Our low costs of production let us keep the position of a strong player in the eastern areas of the Western Europe and the role of a leading manufacturer for the Scandinavian countries.

In the past decade, in Europe and in the neighbouring countries as well as in the world, we created new production capacities in the field of manufacturing soda. Further investing in soda manufacturing sites aiming at increasing production capacity was announced particularly in Turkey and USA, with regard to production of natural soda and in China where there are located most producers of synthetic soda, who utilize the Hou method (ammonium chloride, which is used as fertilizer in cultivation of rice and cotton, it is a by-product in this method).

Organic segment

In 2012, we produced and sold many chemicals arising on the basis of organic compounds: TDI, ECH, polyurethane foam, epoxy resins, polyester resins and other products of organic chemistry, including hydrochloric acid – used in the furniture building, car industry, in production of varnishes, in the construction and the electronic industry. We produce and sell plant pesticides (also known as cereals protection agents), for agriculture, used for the purpose of increasing the efficiency of crops and extension of their durability. In 2012, we were the only domestic manufacturer of TDI, ECH, epoxy resins and the largest manufacturer of plant pesticides with regard to the quantity and value of sales in 2012.

The organic segment achieved revenues from sales at the level of 1,605,070 thousand PLN, EBITDA in the amount of minus 10,394 thousand PLN, and normalised EBITDA amounted to minus 3,133 thousand PLN for the period ended on 31 December 2011. In 2012, the organic segment achieved sales revenues in the amount of 1,690,982 thousand PLN, which constituted 36.8% of the total sales revenue, EBITDA amounted to minus 152,685 thousand PLN and normalised EBITDA to 75,996 thousand PLN.

Products

Our organic segment produces or produced by December 2012 (in case of TDI and ECH), the following products:
TDI (toluene diisocyanate), is a colorless flammable, volatile, toxic liquid with a characteristic smell comparable to chloroform. TDI is used first of all in the production of flexible foams. It is also an important material for production of varnishes, adhesives and binders.
ECH (epichlorohydrin), is liquid with highly reactive chemical composition. This is a temporary chemical product with a wide range of applications in manufacturing epoxy resin. It is used for production of elastomers polyamines, agents for cleaning water, agents delaying smoking (fire retardants), synthetic glycerol as well as various derivatives of glycine.
Epoxy resins are strong chemical-resistant, stiff materials that harden at the room temperature. Epoxy resins are used in production of paints and varnishes as well as adhesives (for metals, glass, ceramics as well as thermally hardened plastics). In the construction industry, epoxy resins are used for self-levelling mixes, cement, putties, binding substances, protective coatings as well as finishing coat for walls. They are also used in the electronic industry, primarily in production of insulation. We produce epoxy resins in liquid as well as saturated form as well as as hardeners for unsaturated resins as well as hardeners for unsaturated polyester resins.
Polyester resins is a group of resins with a wide range of applications that are usually cheaper than epoxy resins. Polyester resins are used, among others, for production of pipes, bumpers, windowsills, swimming pools, septic tanks. We produce polyester resins in the modified, saturated and non-saturated form as well as as hardeners for unsaturated polyester resins.
Polyurethane foams are foams that are fire resistant. The vast majority of polyurethane foams is generated for the purposes of the furniture industry (for production of mattresses as well as furniture coverings), and for the car industry (for production of seats as well as bumpers). A small part of this type of production of foams is used in the household appliances industry as well as the shoe-making industry. We offer our customers foams with standard and high flexibility of as well as the individually created products of those materials.
Plant pesticides include herbicides, insect- and fungi-killing agents (fungicides) as well as seed treatment used in agriculture to restrict damages made by insects, weeds, fungi and other pests. These agents are intended to increase crops and extend their durability. Apart from plant pesticides, we deliver chemical agents as well as materials for production of plant pesticides.

Customers

Our customers, served by an organic segment are mainly plants of furniture, car, building, chemical (paints and varnishes) industry as well as the agricultural sector. We deliver our products both to small and large customers worldwide. Approximately 35% of our customers is in Europe (not including the Polish market), 45% in Poland

(domestic market), and 20% in other parts of the world (Asia, Africa as well as America). We should emphasize the fact that a substantial part of our production of organic agents is sold to the customers in Poland
We also sell those types of products to Hungary, France, Germany as well as to other countries. The prices of products such as TDI as well as ECH were by December 2012 an important element of competition in this sector.

Production
Production of polyurethane foams as well as epoxy resins is vertically integrated. By December 2012 we produced TDI, ECH and we produce polyester resins from the basic, non-processed raw materials. TDI as well as ECH produced by us, were sold to the customer or constituted material for production of polyurethane (TDI), or epoxy resins (ECH) in our plants. We consumed about 10% of the TDI manufactured for the internal purposes in the production of polyurethane foams and approximately 40% of ECH created by us in production of epoxy resins. The remaining purchased quantity was sold to the customers from outside of the Ciech Group. TDI, ECH were and polyurethane foams are still produced in our plants located in Bydgoszcz (TDI as well as ECH were produced by our subsidiary ZACHEM S.A., and polyurethane foams by another company from the group i.e. Pianki).

Raw materials as well as energy for production
The most important raw materials used in the production of TDI is TDA (a key ingredient manufactured of toluene as well as mixes of nitric acid and sulphuric acid that is subject to hydrogenation) as well as phosgene. The basic components used in the production of ECH are propylene and chlorine. The raw materials used in the production of epoxy resins is BPA as well as ECH, whereas phthalic acid, acid anhydrides, styrene as well as ethylene glycol (MEG), or propylene glycol (MPG) are used for production of resins. The electric energy, steam as well as heat are sources of energy used in this segment of operations. The raw materials as well as energy used for production of our products, under the organic segment constituted in 2012 the largest group (approximately 52%) of all costs of raw materials in 2012. TDA, BPA, styrene as well as polyhydric alcohols accounted for approximately 40% of the costs of raw materials in the organic segment. These raw materials either were or are delivered by land (wheeled or railway transport) as well as sea. Purchase of raw materials and other materials is conducted directly from our suppliers.

Products of organic chemistry used in the production of epoxy and polyester resins as well as foams are normally bought at many suppliers, from the chemical sector in Europe and their price ranges depending on the situation on the market.
The contracts for supplies of other chemicals used for production in the organic segment are binding normally throughout a year or 2, at the prices largely depending on the prices of quotations of raw materials on the markets.
We strive to limit the price risk via the monitoring of costs and use, when possible, price formulas that take account of the cost factors. Deliveries of propylene are sometimes insufficient because in Poland, we have only one supplier of propylene with limited production capacities, and thus as demanded from time to time we buy propylene from the refinery in Germany. The quantities of the most organic chemicals agents that we use for production are relatively small as compared to the entire production of our suppliers.

Nearly whole ECH needed for production of epoxy resins at our plant in Nowa Sarzyna was in 2012 generated by our different plant in Bydgoszcz. In 2012, we purchased ECH for production of epoxy resins from large suppliers under the spot transactions.

The production of TDI and ECH required large amounts of energy. First of all, we used electric and steam power in production of epoxy and polyester resins as well as foams, which energy is produced by the nearby combined heat and power plant, being a private property, under long-term contracts with the prices approved by the Power Industry Regulation Office (URE). We also buy electric energy from the supplier selected in the tender procedure on the basis of annual contracts based on the market prices.

Competition
By the end of 2012 we remained the only domestic manufacturer of TDI, ECH in Poland, as well as one of very few TDI manufacturers in Europe. In Europe our major competitors in 2012 were BASF, BorsodChem, Bayer as well as Perstorp. In manufacturing ECH (used for production of epoxy resins), we had expected growth and development of innovative production technologies based on renewable and low-cost raw materials glycerine, which was supposed to constitute an important factor with regard to competitiveness in manufacturing ECH in the years to come. In the world scale, only several companies implemented this type of technology on the industrial scale, which significantly raised their competitive position.
Currently we are the only domestic manufacturer of epoxy resins as well as the second largest manufacturer of epoxy resins in the Central and Eastern Europe with regard to quantity of production. In Europe, our major competitors are Momentive, Huntsman as well as Dow Chemical.

We are also the largest, Polish manufacturer of plant pesticides, as well as polyester resins (when it comes to the value and quantity of sales, according to the data for 2012). We compete with large companies on the world markets. Most of our competitors'in the organic segment are the concerns with world range and large production capacities. Our major competitors are: DOW, AgroScience, Nufarm and Makhteshim.

Silicates and glass segment
One of the companies of the Ciech Group produces and sells glass jars, lanterns, sodium metasilicate as well as potassium metasilicate that are used in the food, chemical industry, in the industry producing detergents as well as on the market of end users. We are number one among the manufacturers of glass lanterns in Poland and number two among the manufacturers of sodium metasilicate (according to sales revenues and sales volume for 2012). CIECH S.A. trades also in sulphur, which is extracted in a large mine of sulphur in Grzybowo in Poland and which is exported to foreign markets, especially to the countries of Northern Africa, such as Morocco.
Our silicates and glass segment generated the sales revenue of 315,526 thousand PLN, EBITDA 27,042 thousand PLN and normalized EBITDA in the amount of 27,524 thousand PLN for the year ending on 31 December 2011. In 2012, the silicates and glass segment generated the sales revenue of 435,567 thousand PLN (constituting 10% of the total sales revenue), EBITDA in the amount of 19,889 thousand PLN, and normalized EBITDA 29,489 thousand PLN.

Products
The main product in the segment of silicates and glass are glass lanterns, jars, sodium metasilicate as well as potassium metasilicate. The glass lanterns are used as covers for candles in garden decorations. The market of glass lanterns in Poland is very energetic owing to the tradition of visiting graves of the deceased, especially on the All Saints holiday. Glass jars are sold to the companies dealing with processing food and sodium metasilicate and potassium metasilicate (that have various applications e.g. manufacturing of detergents, tyres and other final products), are sold in the solid (block), or liquid form. Silicates are characterized by high chemical purity.

Customers
The customers of the silicates and glass segment are mainly manufacturers of food, detergents, and chemical companies as well as the consumption market. We supply small and large customers throughout Europe. The majority of our sale takes place on the Polish market.

Production
The products in the form of silicates and glass are produced at the sites in Iłowa, Pobiedziska and Żary in Poland.

Raw materials and energy
The main raw materials used for production of goods of the silicates and glass segment are soda ash, glass sand, soda lye as well as potassium carbonate. In the production process there are also used earth gas and electric power. The raw materials as well as energy are delivered by many suppliers by road, railway transport as well as pipeline. The production plants located in Inowrocław and Janikowo in Poland meet any requirements of the production of soda ash used in production plants in the segment of silicates and glass. The raw materials as well as energy necessary in the production process in the segment of silicates and glass constitute approximately 2% of all costs of raw materials and energy in the period of the last twelve months, where soda was approximately 46% of all costs of the segment.

Competition
Our main competitors with regard to the industry related to silicate and glass are plants Sława Kielce producing glass lanterns, Zakłady chemiczne (Chemical Plants) Rudniki in the field of manufacturing sodium silicate, Cognis in the field of manufacturing potassium silicate as well as Owens Illinois producing glass jars.

Agrochemical segment
Our agrochemical segment produces and sells phosphorus compounds, fertilizers and other chemical products used in the food, chemical industry, and in agriculture.
The agrochemical segment generated the revenue from the sales at the level of 390,208 thousand PLN, EBITDA in the amount of 40,814 thousand PLN and normalized EBITDA 49,940 thousand PLN for the year ending on 31 December. In 2012, the agrochemical segment generated the sales revenue of 236,038 thousand PLN (being 5.4% of the total of sales revenue), EBITDA in the amount of minus 30,994 thousand PLN, and normalized EBITDA 14,316 thousand PLN.

Products
The main products in the agrochemical segment are phosphorus compounds (such as phosphoric acid) as well as fertilizers. We are producing phosphoric acid and specialized fertilizers such as hydrated magnesium sulphate, magnesium nitrate as well as calcium nitrate. We are also producing other inorganic products such as sodium threepolyphosphate (acceptable technical and approved for contact with food), disodium pyrophosphate, tetra-sodium pyrophosphate as well as Almina S), chromium compounds (such as chromium sulfate – megapyr as well as green chromium oxide).

Customers
The customers of the segment are manufacturers of food, detergents, and the chemical companies as well as tanyards. The majority of our sale takes place on the Polish market.

Production
Fertilizers are produced as a result of chemical reactions of various components. The pulp obtained as a result of chemical reactions is then subjected to mechanical treatment. The products in the agrochemical segment manufactured in Poland in the production plant in Alwernia.

Raw materials and energy
The main raw materials necessary in the agrochemical segment are phosphorus, phosphoric acid, sodium dichromian as well as soda. Another important component in the production process is the electric energy. The raw materials as well as energy necessary are delivered by road, railway transport, and pipeline by the limited number of suppliers. The raw materials as well as energy necessary in the production process in the agrochemical segment constitute about 5% of all costs of raw materials and energy in the period of the last twelve months, where yellow phosphorus was approximately 76% of all costs of this segment.

Competition
Our main competitor in the agrochemical segment is Fosfa.

Sales, prices and marketing
The Ciech Group sells its products to the customers in Poland as well as in Europe. The sales is carried out by sales teams. We have experienced marketing teams as well as sales teams dedicated to individual product segments. The greater part of our sales reaches directly to final recipients. Approximately 81% of soda ash and 44% of bicarbonate soda that we produce in Poland is sold directly to final recipients. This allows maintaining close contacts with customers as well as elimination of intermediaries and the costs of commission associated with this, which has a positive influence on our margin. The teams of customer service located in Poland, Romania and Germany pursue the tasks related to deliveries from local factories to recipients.

Our marketing strategy is created by a team of specialists and the effects of their activities are implemented by particular product segments. The marketing team is responsible in particular for analysis of the market, competition, monitoring of the customer satisfaction level, promotion etc.
Our policy of shaping prices is intended to use the opportunities related to increasing margin. The prices are shaped mainly by the relation between demand and supply as well as the costs of raw materials. The prices of soda ash determined in the contracts with the customers are most often agreed for the whole year in advance. In this way, any changes of prices of raw materials during the year affect the level of margin. In the industry related to soda ash, the price shaping policy is an element of competitiveness. The prices in contracts for the products from the organic segment are agreed in shorter intervals of time and reflect the market prices. The majority of contracts includes clauses concerning the minimum or maximum quantities.

Our production plants
In our Group there are now 10 operating production plants (after closing production in ZACHEM S.A in December 2012). Four out of them (two in Poland, one in Germany and one in Romania) are organized around the production of soda ash as well as soda derivatives. Our largest plants that can be found in Poland, in Inowrocław and Janikowo, are responsible for production of a considerable quantity of soda ash. The other six production plants located in Poland deals with product manufacturing in the segments such as organic, silicates and glass as well as agrochemical.

The table below presents characteristics of production plants and main products manufactured in each plant as of preparing this statement:

Production plant	Surface (ha)	Segment	Main products	Production capacity (kiloton/year)	Degree of use of production capacity (2012)	Ownership/ Lease (1)
Inowrocław, Poland	241,6	Soda	Heavy and light soda ash, sodium hydrogencarbonate, calcium chloride as well as mixes of salt	600	89%	Ownership
Janikowo, Poland	312,1	Soda	Heavy and light soda ash, sodium hydrogencarbonate, vacuum salt including dry kitchen salt and salt pellets	600	100%	Ownership
Stassfurt, Germany	649,7	Soda	Heavy and light soda ash, sodium hydrogencarbonate,	580	97%	Ownership / Lease of the power plant
Govora, Romania	279,8	Soda	Soda ash and water glass	430	100%	Ownership

Production plant	Surface (ha)	Segment	Main products	Production capacity (kiloton/year)	Degree of use of production capacity (2012)	Ownership/ Lease (1)
Nowa Sarzyna, Poland	599,9	Organic	Epoxy resins, hardeners for resins, polyester resins, phenoplasts, chemical compounds for casting, hardeners and plant pesticides	78 in full, including 30 (epoxy resins); 27.5 (polyester resins); 22.5 (plant pesticides),	73% (epoxy resins); 89% (polyester resins); 47% (plant pesticides),	Ownership
Bydgoszcz, Poland	8.5	Organic	Polyurethane foams	25	92%	Ownership
Iłowa, Poland	32.6	Silicates and glass	Glass lanterns,jars, potassium metasilicate, potassium water glass	79	78%	Ownership
Pobiedziska, Poland	1.7	Silicates and glass	Glass jars,lanterns	20	114%	Ownership
Żary, Poland	5.2	Silicates and glass	Sodium and potassium metasilicate	68	101%	Ownership
Alwernia, Poland	49.3	Agrochemical	Phosphorus and chromium compounds, agricultural and gardening fertilizers (phosphoric acid; technical sodium threediphosphate, fertilizers),	150	25%	Ownership

(1) The production plant in Bydgoszcz being property of our subsidiary ZACHEM S.A., in which we have 97.44% of main capital was stopped in December 2012.

Our total annual production capacity is approximately 2,630 kiloton and this includes accordingly segments of soda, organic, silicates and glass as well as agrochemical with the ability to produce at the level, accordingly of 2,210 kiloton, 160 kiloton, 167 kiloton and 150 kiloton which is accordingly 81%, 8%, 6% and 5% of the total annual production capacity. Each production plants is a large facility, where there are production areas, loading zones, inspection rooms, administrative section as well as railway and road infrastructure.

We use an integrated production system in manufacturing our products, especially when it comes to the products from the soda and the organic segment. In the soda segment, we use own stations generating energy as well as heat necessary for manufacturing soda ash at the sites located in Poland, in Inowrocław and in Janikowo. It allows us to significantly reduce the costs of raw materials as well as energy. In the organic segment, our production plant in Nowa Sarzyna in Poland, used ECH manufactured in Bydgoszcz to produce epoxy resins.

Each plant producing soda ash is organized and equipped so that it could operate as an independent unit, searching for necessary raw materials and supplying customers in its region. In the soda segment we have a transport company, which delivers products to customers via wheel and rail transport. Part of the organic segment is a transport company, which delivers chemical products via road transport. Our total costs related to logistics are approximately 7% of the sales revenues at general average cost of transport of approximately 100 PLN/Mt. Our production plants are strategically located in the already existing chemical complexes which favourably affects delivery of raw materials and transport of approximately 3,301 kiloton of the product annually to customers via road, railway, sea transport and pipelines. Dangerous chemical products are delivered to the customer predominantly in large quantities by means of car tankers, vehicle cisterns, ISO tanks as well as ship tankers.

Several our production plants has different quality management certificates, and our plants in Inowrocław and Janikowo meet standards of the System of Hazards and Critical Control Points (the HACCP), management system related to safety of production of food, which is implemented by conducting analyses and control of biological, chemical and physical hazards starting from the stage of manufacturing raw materials through the process of supply, handling until the stage of production, distribution and consumption of the final product.
Our plants are maintained in due condition, are modernized and protected in order to ensure maximum efficiency.

Intellectual property
We have rich portfolio of granted patents and registered trade marks. Protection of property of the methods of manufacturing, devices and other technology and inventions is important from the perspective of our business. As of preparation of the statement of the Companies of the Ciech Group were, in addition, the owner of the following reserved trademarks: Sól Kujawska in the soda segment; Izocyn, Epidian, Chwastox, Buranit, Antivol and Polimal in the organic segment; Claro Glass in the silicates and glass segment. We also provide a license or sublicense to intellectual property rights to third parties.
Owing to an extensive nature and the special character of intellectual property rights and of our business it is not planned that loss of single intellectual property right (other than defined trademarks whose protection we intend to continue), could significantly adversely impact our business, financial situation and results. We also do not believe that significantly adversely impact our business, financial situation or results had the lapse of protection of parts or of all intellectual property rights which should be expected within the next few years.

We have no knowledge about threatening, planned or pending proceedings initiated against us under the infringement of third party rights or infringement of our rights by third parties which, in the case of adjudication would significantly adversely impact our business, financial situation or results.

Insurance
We have insurance policies, concluded with international and local insurers, providing us with coverage (with some restrictions with regard to the entities and substantive scope), in respect of certain operational risks, including damage to the property, business interruption insurance, third party liability insurance, product liability, cargo insurance, insurance of rolling stock railway and vehicles, directors and officers liability insurance and insurance of receivables. Types and amounts of insurances purchased by the Group are consistent with the customary practices in chemical industry and are adequate to the operations carried out by the Group.

According to the situation as at 31 December 2012 Ciech Group comprised 42 business entities, including:

- the parent company CIECH S.A,
- 34 subsidiaries, of which:
    - 22 national subsidiaries,
    - 12 foreign subsidiaries,
- 5 national affiliates,
- 1 foreign affiliate,
- 1 jointly controlled foreign entity.

The Ciech Group includes dependent units and affiliated directly i.e. such, for which a dominant entity is CIECH S.A. as well as dependent and affiliated indirectly for which the parent company are units Directly dependent from CIECH S.A.

When preparing the consolidated financial statement for 2012 the following companies were covered with consolidation:

Full consolidation method:

- **CIECH S.A. – parent company**
- Zakłady Chemiczne "Organika – Sarzyna" S.A.,
- S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A.,
- Janikowskie Zakłady Sodowe JANIKOSODA Spółka Akcyjna,
- „VITROSILICON" Spółka Akcyjna,
- Zakłady Chemiczne „Alwernia" Spółka Akcyjna,
- Przedsiębiorstwo Transportowo – Usługowe TRANSCLEAN Spółka z ograniczoną odpowiedzialnością,
- Ciech – Polsin Private Limited,
- CIECH FINANCE Spółka z ograniczoną odpowiedzialnością,
- Przedsiębiorstwo Chemiczne CHEMAN Spółka Akcyjna (since 26 February 2013 change of company to Ciech Trading S.A.),
- Ciech Pianki Spółka z ograniczoną odpowiedzialnością,
- Ciech Group Financing AB.

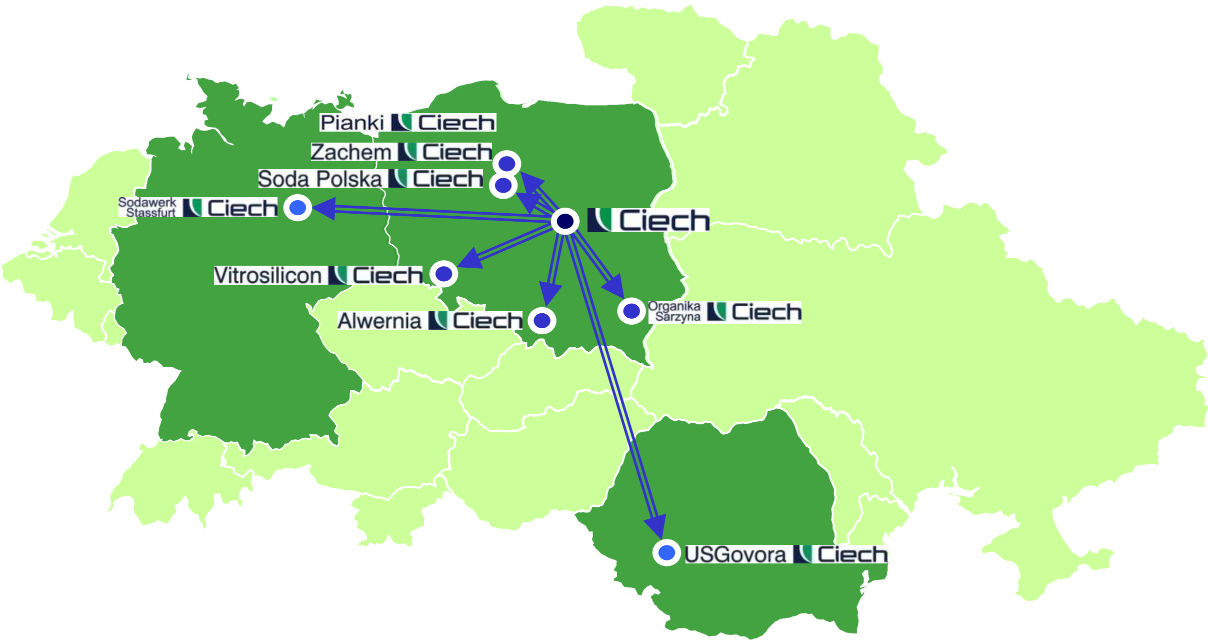
Consolidated financial statement includes also three capital groups of a lower level:

- **SODA MĄTWY Group:**
    - **Inowrocławskie Zakłady Chemiczne SODA MĄTWY Spółka Akcyjna – parent entity**
    - Soda Polska Ciech Spółka Akcyjna,
    - TRANSODA Spółka z ograniczoną odpowiedzialnością.
- **ZACHEM Group:**
    - **Zakłady Chemiczne ZACHEM Spółka Akcyjna – parent entity**
    - BORUTA – Zachem KOLOR Spółka z ograniczoną odpowiedzialnością,
    - ZACHEM UCR Spółka z ograniczoną odpowiedzialnością – unit evaluated by the equity method.

- **Soda Deutschland Ciech Group**
    - **Soda Deutschland Ciech Group GmbH – parent entity**
    - Sodawerk Holding Stassfurt GmbH,
    - Sodawerk Stassfurt Verwaltungs GmbH,
    - Sodawerk Stassfurt GmbH&Co. KG,
    - KWG – Kraftwerksgesellschaft Stassfurt mbH,
    - Kavernengesellschaft Stassfurt mbH - unit evaluated by the equity method.

Parent entity CIECH S.A. does not have branches.

Key Companies of the Ciech Group with geographic breakdown



Source: Ciech S.A.

Information on key companies of the Ciech Group

SODA SEGMENT

The most important products manufactured within **the Soda Segment** include: dense and light soda ash (the Ciech Group is the only domestic manufacturer of soda in Poland), vacuum salt, bicarbonate soda and calcium chloride. The products of this segment are sold mainly by the dominant entity CIECH S.A. Production of the soda segment goods manufactured by the Ciech Group is implemented in Soda Polska Ciech S.A, Romanian company S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. and in German company Sodawerk Stassfurt GmbH&Co. KG.

Characteristics of key production companies running operations under the soda segment:

- **Soda Polska Ciech S.A. (SODA MĄTWY Group),** – the largest domestic manufacturer of soda ash with two production plants, located in Inowrocław and Janikowo. Key products of the company, apart from soda ash, dense and light, are vacuum salt (trademark Sól Kujawska), bicarbonate soda and calcium chloride. Production of soda ash oscillates around the size of 1200 tt/year. The plant has the following certificates: ISO 9001: 2000, ISO 14001: 2004, GMP+ B2. The plant also applies the HACCP principles.

- **S.C.Uzinele Sodice Govora – Ciech Chemical Group S.A.** – is a Romanian manufacturer of soda ash, water glass, soda glaze and soda derivatives goods.

• **SodawerkStassfurt GmbH&Co. KG (Group Soda Deutschland Ciech Group),** – German manufacturer of soda ash and bicarbonate soda based in Stassfurt. For 127 years Sodawerk has been involved in production of soda ash under the use of sources of limestone and stone salt. Takeover of the plant by CIECH S.A. took place in 2007 and a year later a new system was started for the production of dense soda. The company has the following certificates: ISO 9001, ISO 14001, Kosher, GMP.

ORGANIC SEGMENT
Organic segment are mainly products produced by Z. Ch. "Organika-Sarzyna" S.A.: epoxy resins, polyester resins and plant pesticides and also by company Ciech Pianki Sp. z o.o. - PUR foams and the following manufactured by December 2012 by the ZACHEM Group: TDI, ECH, sodium hydroxide, hydrochloric acid and plastics – PVC. The organic segment also includes commercial goods bought and sold by CIECH S.A., first of all soda lye of high purity and PVC. The greater part of sales of products of the organic segment, including: TDI, hydrochloric acid, soda lye and epoxy resins, is (or was) implemented by CIECH S.A. on its own account, on the other hand the sales of ECH outside the Ciech Group and the purchases of strategic raw materials are made under agency contracts. The Ciech Group is a supplier of many products of organic chemicals for the domestic industry. The Group was the only domestic manufacturer of TDI and epichlorohydrin (ECH) in Poland, the Group is moreover, only manufacturer of epoxy resins. The production of TDI was ceased in December 2012.

Characteristics of key production companies running operations under the organic segment:

• **ZACHEM S.A. (ZACHEM Group)** – in 2012 the company offered a number of semi-finished products and chemical products, both organic as well as inorganic, designed for chemical, car, building, furniture, textile, leather, cellulose-paper, power industry and the sector of cables production. A key product was toulene diisocyanate (TDI), The Company has a certificate of the integrated system for management of quality, occupational health and safety and environment meeting the requirements of standards ISO 9001: 2001, PN -N-18001-2004, PN -EN ISO 14001-2005. Since 2000, it has also had an integrated system of management support SAP R/3.

• **Ciech Pianki Sp. z o.o.** – the company deals with production and sales of PUR foam, focusing the operating activities mainly on the Central-Eastern European markets, and its main recipient is the furniture market. The foams produced by it can be divided into 5 basic groups: light foams, standard foams, highly-flexible foams, non-flammable standard foams, highly-flexible non-flammable foams. Apart from the blocks, they also have in their offer the goods cut of blocks: boards, profiles, sets, cut blocks, bonellas, rolled slabs.

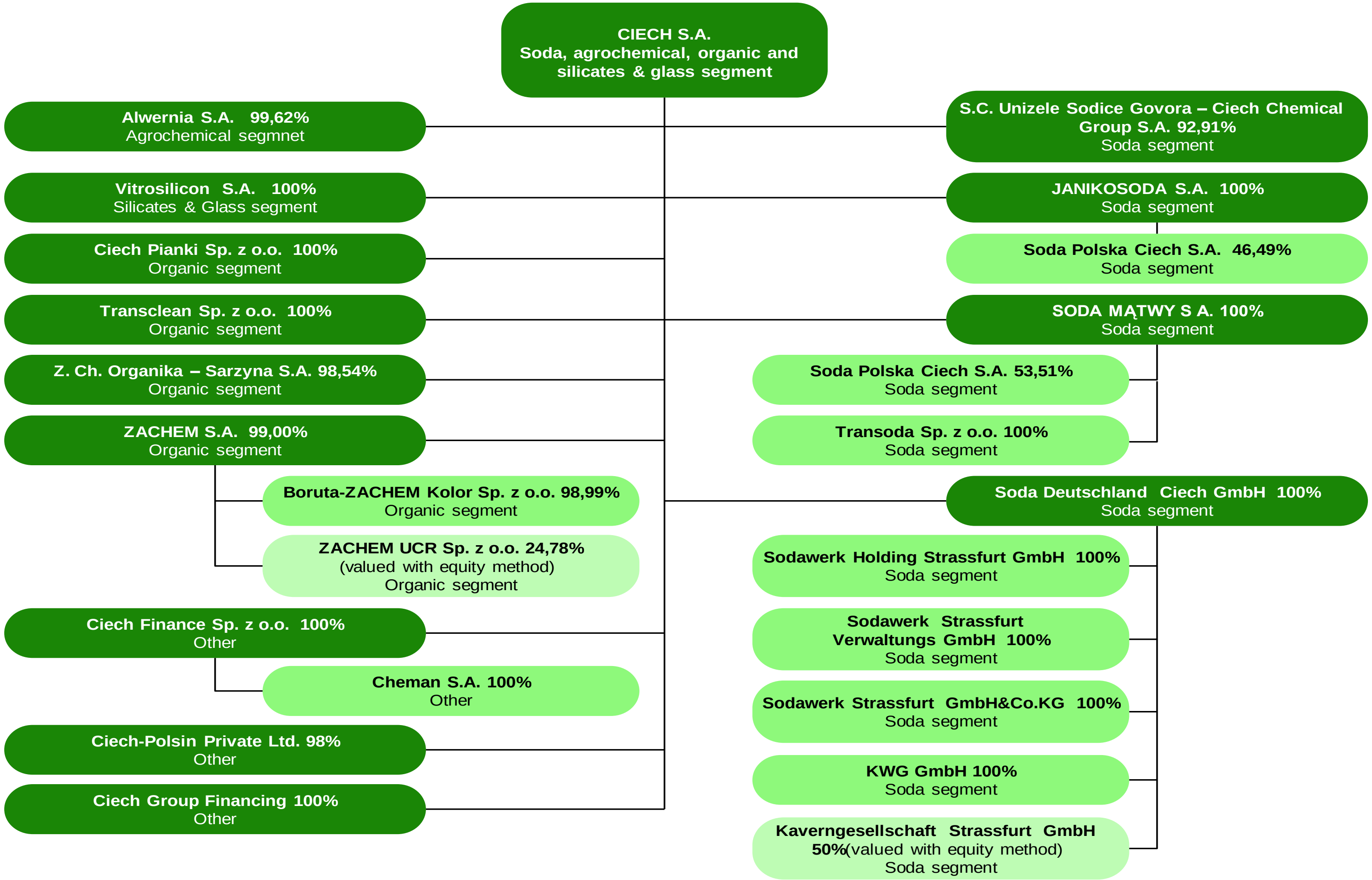
• **Z. Ch. "Organika-Sarzyna S.A.** – produces plant pesticides (herbicides, fungicides, insecticides, seed treatment), epoxy resins as well as polyester resins. Full assortment of production includes over one thousand positions and their varieties, in various chemical forms, utility forms, packages, according to the target market and application. The most famous trademarks of the company include Epidian, Chwastox and Polimal. The basic production activity is supplemented by the actions involving service-conduct of formulation of goods, preparation or distribution, which may be carried out for the benefit of business partners on the basis of own production base, personnel potential and distribution network. The Plants have the following certificates of quality management ISO 9001, ISO 14001 and the OHS system compliant with standard PN -N-18001.

Agrochemical segment delivers a complete commodity offer with regard to chemicals for agriculture. This segment contains the fertilizers manufactured by the company Alwernia S.A., it includes raw materials for production of fertilizers, delivered to Alwernia. The Group directs their goods mainly to agricultural producers. Within this segment, there is carried out trade in fertilizers and raw materials for fertilizers for the benefit of other entities, not being a part of the Ciech Group.

Alwernia S.A. – manufacturer of chromium compounds, phosphorus compounds and sulfates. The Company is the only manufacturer of phosphorus compounds and chromium compounds in Poland. It also produces agricultural and gardening fertilizers. The products of Alwernia S.A. are applied, above all, in production of washing agents, tanning industry, food and meat industry, in production of paints and varnishes as well as gardening and agriculture.
On 31 January 2013, Ciech S.A. and Alwernia Invest Sp. z o.o. signed a preliminary contract of sale of 2 277 431 shares constituting 99.62% of the share capital of the subsidiary CIECH S.A, Alwernia S.A. The preliminary contract for sales of shares is conditional.

The silicates and glass segment covers, above all, the products of the company VITROSILICON S.A. as well as of other manufacturers, exported under the commercial operations conducted by CIECH S.A., such as glass and soda glaze. Due to organizational reasons, this segment also includes trade in other goods, mainly in sulphur. Within the Group there are produced products of glass, which include glass packaging (lanterns and jars) as well as construction glass (glass hollow bricks).The goods made of glass are utilized in construction, food and for production of headstone lamps.

VITROSILICON S.A. – manufacturer of goods originating from glass melting and chemical products. The Company produces glass packaging: jars, lanterns, headstone lamps, glassy silicates of sodium and potassium, sodium and potassium water glass. VITROSILICON S.A. has three production plants: in Iłowa, where the company of the Board of Directors is located and where glass water and glass packaging is produced; in Żary, where the production of glassy sodium and potassium silicates takes place; and in Pobiedziska near Poznań, where glass packaging is produced. Currently, the plant located in Pobiedziska and the production line of glass hollow blocks in Iłowa are meant for sales.



The Ciech Group structure as at 31 December 2012

2 More important achievements of the Ciech Group in 2012

The most important events in the Ciech Group

- On 24 September 2012, Ciech S.A. and its subsidiary company, ZACHEM S.A., concluded, with BASF Polska Sp. z o.o. and BASF SE, a conditional contract for sales and transfer of TDI assets for BASF Polska Sp. z o.o., including: the list of customers, commercial contracts concerning sales of TDI, right of intellectual property to the TDI products and technology and know-how associated with the production of TDI. The value of the transaction amounted to 43 million EUR (ca. 178.6 million PLN according to the average exchange rate of the National Bank of Poland (NBP) as of 24 September 2012). The sales transaction's closure was conditioned on the fulfillment of the terms in the form of obtaining necessary approvals and consents. Meeting the conditions related to the activities of Ciech S.A. and ZACHEM S.A. was supposed to take place until 31 December 2012, on the other hand, a suspending condition in the form of consents of relevant antimonopoly bodies (competition protection) until 28 February 2013. Owing to the prolonging waiting for a decision of one of the competent antimonopoly authorities, the parties to the above contract concluded an annex on 27 February 2013, with which they extended the term for fulfillment of the conditions until 31 March 2013. CIECH S.A., however, received confirmation of granting the said consent by the authority for competition protection already on the next day i.e. 28 February 2013. In this way all conditions suspending the contract materialised. In connection with the above, on 11 March 2013, the Parties agreed in the contract the activities of closure of transactions, by entering into the closing certificate – confirming transfer to BASF Polska Sp. z o.o., on 11 March 2013, the rights which are the object of the contract. On 11 March 2013 also a payment was made of the price as provided in the contract to the Issuer and ZACHEM S.A. The contract for sales and transfer of TDI assets includes a non-competition clause, on the basis of which CIECH S.A. has undertaken to not to involve neither indirectly or directly in preparation, introduction to the market, sale and processing of TDI for the benefit of a third party worldwide for three years after the date of closing the transaction. The non-competition ban also includes the companies of the Ciech Group., The Ciech Group stopped operations in the production and sale of TDI.
- Analysis of merger methods conducted on the basis of a decision of the Board of Directors of CIECH S.A. of February 21, 2012 for: JANIKOSODA S.A. and SODA MĄTWY S.A. with CIECH S.A. indicated the possibility to apply more optimum merger method, from the point of view of the involved companies, than specified in the previously adopted merger plan. Following the above, the Board of Directors of CIECH S.A. adopted on August 27, 2012 a resolution on approval of the Division Plan and Statements justifying divisions of SODA MĄTWY S.A. and JANIKOSODA S.A.

  The division was conducted pursuant to Article 529 § 1 item 4 of the Code of Commercial Companies, by transfer to CIECH S.A. (being the acquiring company) part of assets of JANIKOSODA S.A. and part of assets of SODA MĄTWY S.A. (the divided companies) in the form of an organized part of business – Soda Branch (division by a spin-off).

  In connection with beginning of the division of JANIKOSODA S.A. and SODA MĄTWY S.A. on the terms specified in the Plan of Division of SODA MĄTWY S.A., and in the Plan of Division of JANIKOSODA S.A., respectively, the Board of Directors of CIECH S.A. withdrew from merger of CIECH S.A. with SODA MĄTWY S.A. and JANIKOSODA S.A., on the basis of:

  - ✓ the plan of merger of CIECH S.A, SODA MĄTWY S.A. and JANIKOSODA S.A., agreed by the Boards of Directors of: CIECH S.A., SODA MĄTWY S.A. and JANIKOSODA S.A. and adopted on August 29,2011,
  - ✓ resolutions of the Extraordinary General Meetings of CIECH S.A., SODA MĄTWY S.A. and JANIKOSODA S.A. on merger of CIECH S.A., SODA MĄTWY S.A. and JANIKOSODA S.A.

  These plans were announced in the Court and Commercial Gazzette (Polish official journal) no. 172/2012 (4037) of September 5, 2012 under item 11803 for SODA MĄTWY S.A. and under item 11805 for JANIKOSODA S.A. The information was transferred in the current reports No. 31 of August 28, 2012 and No. 36 and 37 of September 21, 2012. The plans were approved by the Extraordinary General Meeting of CIECH S.A. on November 27, 2012.

  The next step was court registration of reduction in share capital of JANIKOSODA S.A. and SODA MĄTWY S.A. and division by a spin-off. On January 21, 2013, the District Court 13th Commercial Division registered reduction in share capital of JANIKOSODA S.A. On January 25, 2013 reduction in share capital of SODA MĄTWY S.A. was registered and this day became the date on which division by a spin-off of JANIKOSODA S.A. and SODA MĄTWY S.A. was entered in the National Court Register, and thereby this day is a day of spin-off of soda branches and their merger with CIECH S.A. Division by a spin-off was carried out pursuant to Article 529 § 1 item 4 of the Code of Commercial Companies, by transferring part of assets of the divided companies, i.e. SODA MĄTWY S.A. and JANIKOSODA S.A., to CIECH S.A. as the acquiring company. At the same time, on that day increase in share capital of CIECH S.A. was registered, by two registered shares issued to the minority shareholder JANIKOSODA S.A. and SODA MĄTWY S.A. for 1 share of JANIKOSODA S.A. and 1 share of SODA MĄTWY S.A. cancelled as a result of division by a spin-off.

  At the time of settlement conducted in 2013, deferred tax asset was established in the amount of ca. PLN 63 million. The asset will be recognized in the financial statement for 2013.
- On November 28, 2012, Ciech Group Financing AB (publ) issued secured bonds in the amount of EUR 245 000 thousand. Bonds were offered and sold in accordance with Rule 144A and Regulation S of the U.S. Securities Act.

On December 5, 2012, CIECH S.A. issued secured bonds to the bearer under the Polish law, denominated in zloty:

- ✓ 01 series bonds with total nominal value of PLN 160 000 thousand with option enabling CIECH S.A. to conduct early buyout of bonds prior to their due date, i.e. after 18 and 42 months from the date of issuance, with due date of December 5, 2017
- ✓ 02 series bonds with total nominal value of PLN 160 000 thousand without option of early buyout by CIECH S.A with due date of December 5, 2017.

On December 6, 2012, CIECH S.A. issued unsecured W series registered bonds under the Polish law, denominated in euro, with due date of November 29, 2019, which were taken up by Ciech Group Financing AB (publ). The funds from the issuance were allocated, for instance, for:

- ✓ repayment of credits granted, among others, to CIECH S.A. on the basis of the credit facility contract of February 10, 2011,
- ✓ repayment of credits granted to Sodawerk Stassfurt GmbH & Co. KG and Sodawerk Holding Stassfurt GmbH in accordance with the creadit facility contract of January 23, 2008.

Detailed information on issuances of bonds is presented in the section I.8 and II.27.

- Bonds denominated in EUR with due date in 2019, issued by subsidiary of CIECH S.A., Ciech Group Financing AB (publ), were approved to trading on the Stock Exchange in Luxembourg. The date of first quotation of the Bonds was December 19, 2012.
- According to the resolution of the Board of Directors of BondSpot S.A. of December 21, 2012, 01 and 02 series bonds of CIECH S.A. of the issuance of which CIECH S.A. informed in the current report No. 62/2012 of December 5, 2012, were introduced to the alternative trading system on Catalyst.

Soda segment:

- Before February 1, 2012, Sodawerk Staßfurt fulfilled all the conditions precedent of the contract of December 16, 2011 concerning lease of the combined heat and power plant, concluded between Sodawerk Staßfurt GmbH&Co.KG and KWG-Kraftwerksgesellschaft Staßfurt mbH and Vasa Kraftwerke-Pool GmbH&Co. KG mentioned in the current report No. 74/2011. The conditions precedent of the contract included:
  - ✓ obtaining consent of the federal antitrust authority to concluding agreements covered by the notarial deed,
  - ✓ obtaining corporate consent of VASA shareholders,
  - ✓ issuing letters of awareness by CIECH S.A., concerning payment of lease installments starting from January 2012, and concerning amounts due of VASA under the currently binding contract for energy supply for November and December 2011 as well as the agreed payment of EUR 3 million as of March 31, 2012 (payment term was prolonged until May 2, 2012, i.e. 3 months from the date of fulfillment of the conditions precedent. On May 2, 2012, the Company repaid EUR 500 thousand and negotiated with VASA additional extension of payment of the amount of EUR 2.5 million until August 20, 2012. The liability was repaid within the time limit),
  - ✓ Unicredit Bank AG releasing securities on the contracts being taken over from VASA by KWG and SWS.

On the basis of the lease contract, KWG (indirect subsidiary of CIECH S.A) started, on January 1, 2012, managing the combined heat and power plant on its own account, which applies in particular to gas purchases, sales of electric energy and repair policy. The planned effect of signing the contract is improved profitability of the Soda Deutschland Ciech Group. Annual improvement at the level of EBITDA by ca. EUR 15 million annually, and cash savings of ca. PLN 3 million for the year 2012. Depreciation is nearly EUR 5 million annually. The lease payment amounts to EUR 13 million net annually and is payable in twelve monthly equal installments, at the end of the month, of which ca. EUR 5 million annually is entered into financial costs. As a result of the contract, a single effect on the result was reported (in the amount of EUR 5.4 million) connected with updating book value of the combined heat and power plant. In connection with the lease of the combined heat and power plant, it was necessary to renegotiate the credit facility contract between Soda Deutschland Ciech and Commerzbank mentioned in the current report of the Issuer No. 75/2011.

Organic segment:

- On October 1, 2012, the contracts of loans granted by CIECH S.A. to subsidiary ZACHEM S.A., mentioned in the current reports No.: 62/2010 of October 28, 2010 and 30/2011 of April 28, 2011, were terminated. At the same time, CIECH S.A. accepted an offer of taking up 23 000 000 B series shares, issued under private subscription by ZACHEM S.A. at nominal price of PLN 10 per share and covering the increased capital by offseting liabilities of CIECH S.A. under loans granted to ZACHEM S.A. in the amount of PLN 230,000 thousand from liability of ZACHEM S.A. under due payment for a new issuance shares in the amount of PLN 230,000 thousand. Recapitalization of ZACHEM S.A. was part of the restructuring program of this company.
- On October 12, 2012, ZACHEM S.A., subsidiary of CIECH S.A., submitted a termination notice concerning the amine (TDA) supply contract concluded with Air Products Chemical Europe B.V. and Air Products LLC (both companies are further called: "Air Products"), of which CIECH S.A. informed in the current reports No. 63/2007 and 4/2010, and called Air Products to remove the breach of the contract within 60 calendar days from the date of receipt of the termination notice. The reason for termination of the supply contract was the breach of significant contractual obligations by Air ProductsAmine was used for the production of TDI.

The contract was terminated on December 12, 2012, i.e. after 60 calendar days from the date when Air Products received from ZACHEM S.A. the termination notice, due to Air Products' failure to remove breaches of the contract.

- On December 14, 2012, CIECH S.A. was informed by ZACHEM S.A. that the amine (TDA) supply contract with Air Products had expired.
- Air Products filed against ZACHEM S.A. the application for security of cash claims in the amount of USD 98 609 thousand (PLN 306 033 thousand at the average exchange rate of the National Bank of Poland of December 17, 2012), which would result from allegedly unjustified termination of the amine (TDA) supply contract, of which CIECH S.A informed in the current reports No. 40/2012 and No. 68/2012. The application of Air Products for security was dismissed in full by decision of the Regional Court in Bydgoszcz 8th Commercial Division on November 27, 2012, case ref. no. VIII GCo 79/12, owing to the failure of Air Products to prove claims, which had to be protected. Then, the Court of Appeal in Gdańsk V Civil Division, by decision of February 11, 2013, case ref no. I ACz 21/13, dismissed the complaint of Air Products against the said decision of the court of first instance. Therefore, the proceedings to secure claims were legally terminated with the rejection to grant security.
- On January 7, 2013, ZACHEM S.A., subsidiary of CIECH S.A, was informed by the International Chamber of Commerce in Paris of Air Products' initiation of the arbitration proceedings against ZACHEM S.A. The arbitration lawsuit includes the claim for payment of the amount of USD 98 609 thousand and payment of damages in the amount unspecified in the lawsuit. Air Products derives the claims pursued in the arbitration proceedings from allegedly unjustified and unlawful termination by ZACHEM S.A. of the amine (TDA) supply contract. CIECH S.A. considers the arbitration lawsuit unjustified. In the opinion of CIECH S.A. Air Products is not entitled to any cash claims it seeks from ZACHEM S.A., as the amine (TDA) supply contract was effectively terminated by ZACHEM S.A. and was terminated in accordance with the provisions thereof. The reason for termination was, among others, Air Products' discontinuation to supply amine (TDA) from the factory in Pasadena, actual transfer of TDA supply obligation to Bayer and Air Products' failure to ensure the possibility of further execution of amine (TDA) supplies in accordance with the Contract.
- On March 15, 2013, ZACHEM S.A. sent to the International Chamber of Commerce in Paris a reply to the lawsuit of Air Products along with a statement of counter-claim of ZACHEM S.A. against Air Products (of which the Issuer informed in the current report No. 13/2012 of March 16, 2013). In reply to the lawsuit and in the statement of counter-claim ZACHEM S.A. challenged the statements of Air Products concerning alleged breach of the amine supply contract by ZACHEM S.A. and reported own claims for damages towards Air Products.
- On October 30, 2012, CIECH S.A. and the State Treasury signed annex no. 5 to the Contract for sale of shares in ZACHEM S.A. of March 29, 2006 (further: "the Privatization Contract"), and the Issuer informed on its conclusion in the current report No. 27/2006. On the basis of the Privatization Contract, CIECH S.A was obliged to implement the so-called guaranteed investments in ZACHEM S.A. in the amount of PLN 176 120 thousand. The implementation of the guaranteed investments was completed on June 30, 2012, and the value guaranteed investments completed on this day amounted to PLN 176 130 thousand. Signing annex no. 5 enabled final settlement of the fulfillment by CIECH S.A of all obligations resulting from the Privatization Contract, including implementation of the guaranteed investments in ZACHEM S.A. On the basis of annex no. 5 to the Privatization Contract, CIECH S.A was obliged, among others, to: increase share capital of ZACHEM S.A. by the amount of PLN 230,000 thousand, by taking up by new issuance shares in the increased share capital of ZACHEM S.A. (CIECH S.A. informed on increase in share capital of ZACHEM S.A.in the current report No. 38/2012). An integral part of annex no. 5 to the Privatization Contract of ZACHEM is the agreement between CIECH S.A. and ZACHEM on October 11, 2012. In this agreement, CIECH S.A undertook to finance employee liabilities towards employees of ZACHEM S.A. to the maximum amount of PLN 33,600 thousand and to finance removal of environmental damages on the properties owned or controlled by ZACHEM S.A., to the maximum amount of PLN 29,300 thousand if within 12 months of the submission of the buyer's final statement ZACHEM goes bankrupt, gets liquidated or dissolved and it is impossible to satisfy these liabilities in part or in full by ZACHEM or from its property in the course of bankruptcy or liquidation proceedings.On November 2, 2012, CIECH S.A submitted "Final Statement of the Buyer for the Period from December 20,2006 to October 31, 2012 on the Fulfillment of Obligations Resulting from the Contract for Sale of Shares in ZACHEM S.A. of March 29, 2006", i.e. of the Privatization Contract, of which CIECH S.A informed in the current report No. 27/2006. The Final Statement of the Buyer with regard to the fulfillment of financial obligations was prepared for the period from December 20, 2006 to June 30,2012, while with regard to other obligations resulting from the Privatization Contract, for the period from December 20, 2006 until October 31, 2012, i.e.as of the last day of the month of fulfilling the last obligations resulting from the Privatization Contract. The Final Statement of the Buyer was accompanied by a report of the Chartered Auditor who had verified compliance of the statements contained in the Final Statement of the Buyer in terms of the criteria resulting from the Privatization Contract with the actual condition. Submission of the Final Statement of the Buyer was equivalent to the Completion of the Privatization Contract. The State Treasury did not exercise the right to control the Final Statement of the Buyer that was vested in it in the period of 3 months from the date of its submission. The completion of the Privatization Contract meant, at the same time, that it was not required to obtain consent of the State Treasury, represented by the Minister of the Treasury, to closing the transaction which was being conducted under the Contract for Sale and Transfer of Assets of TDI, of the conclusion of which CIECH S.A informed in the current report No. 41/2012.

- On January 25, 2013, CIECH S.A., via the District Court for Warsaw Śródmieście in Warsaw, received the lawsuit of Air Products LLC, concerning the case brought against CIECH S.A before the United States District Court for the Eastern District of Pennsylvania. Requests of the lawsuit include, first of all:
  - ✓ recognition of liability of CIECH S.A towards Air Products LCC for claims specified in the lawsuit,
  - ✓ adjudication for Air Products LLC of damages for losses proved in the course of the proceedings in the amount exceeding USD 75 thousand,
  - ✓ adjudication for Air Products LLC of punitive damages for deliberate and otherwise unpardonable conduct of the Issuer.

  From the copy of the lawsuit served to CIECH S.A it results that Air Products LLC derives its requests from statements concerning alleged deceptive actions of CIECH S.A. in order to persuade Air Products LLC to make price concessions under the supply contract concluded between Air Products LLC and Air Products Chemical Europe B.V. with subsidiary of CIECH S.A, ZACHEM S.A., and alleged forbidden interference of CIECH S.A. in contractual relations between Air Products LLC and ZACHEM S.A. Air Products LLC claims that sustained on this account damage in the amount of USD 16 million (the equivalent of PLN 49,9 million at the exchange rate of the National Bank of Poland of January 25, 2013) in the form of price concessions, and damage in the form of profit loss in the amount no smaller than USD 98 million (the equivalent of PLN 305,6 million at the exchange rate of the National Bank of Poland of January 25, 2013).

  CIECH S.A considers the claims of Air Products LLC as completely groundless. In the opinion of CIECH S.A, Air Products LLC aims in this way to obtain unjustified benefits in connection with termination of the amine (TDA) supply contract concluded by Air Products LLC and Air Products Chemical Europe B.V. with ZACHEM S.A. This contract was terminated effectively by ZACHEM S.A. through the fault of Air Products companies, being the reason for its termination, among others, Air Products' discontinuation to supply amine (TDA) from the factory in Pasadena, actual transfer of the TDA supply obligation to Bayer and Air Products' failure to ensure the possibility of further execution of amine (TDA) supplies in accordance with the Contract. CIECH S.A did not commit any prohibited act presented in the lawsuit by Air Products LLC, in particular it did not carry out any unlawful actions with regard to actual circumstances and business relations to which the lawsuit relates. Moreover, CIECH S.A considers that in this case it is not under jurisdiction of the American court, owing to insufficient relations of CIECH S.A. with the territory of the United States of America.

Agrochemical segment:

- On January 31, 2013, CIECH S.A. and Alwernia Invest Sp. z o.o signed a preliminary contract for sale of 2 277 431 shares constituting 99.62% of share capital of subsidiary of CIECH S.A, Alwernia S.A. The preliminary contract for sale of shares is a conditional contract and depends, among others, on obtaining consent of UOKiK and repayment of loans granted by CIECH S.A to Alwernia S.A., amount to ca. PLN 14,2 million. The selling price of the Company's shares was determined at USD 13,4 million. Part of the price is payable in interest-bearing installments.

Corporate Center:

- On January 19, 2012, the Extraordinary General Meeting of CIECH S.A. dismissed from the Supervisory Board of CIECH S.A. the following of its members:
  - ✓ Mr. Jacek Goszczyński,
  - ✓ Mr. Krzysztof Salwach.

  In addition, the Extraordinary General Meeting of CIECH S.A. appointed on January 19, 2012 to the Supervisory Board of CIECH S.A.:
  - ✓ Mr. Dariusz Krawczyk,
  - ✓ Mr. Mariusz Obszyński.
- On April 26, 2012, the Extraordinary General Meeting of CIECH S.A. appointed to the Supervisory Board of CIECH S.A.:
  - ✓ Mr. Zygmunt Kwiatkowski,
  - ✓ Mr. Maciej Lipiec.

  In addition, the Extraordinary General Meeting of CIECH S.A. dismissed on 26, April 2012 from the Board of Directors of CIECH S.A.:
  - ✓ Mr. Ryszard Kunicki – President of the Board of Directors,
  - ✓ Mr. Andrzej Bąbaś – Member of the Board of Directors,
  - ✓ Mr. Rafał Rybkowski – Member of the Board of Directors.

  On April 27, 2012, the Supervisory Board of CIECH S.A. adopted a resolution on delegating members of the Supervisory Board: Mr. Dariusz Krawczyk to temporary performance of functions of President of the Board of Directors of CIECH S.A. until the time when the General Meeting supplements the makeup of the Board of Directors of the Company to the minimum number specified in the Articles of Association of CIECH S.A., however, for a period no longer than three months, and Mr. Maciej Lipiec to temporary performance of functions of Member of the Board of Directors of CIECH S.A. until the time when the General Meeting supplements makeup of the Board of Directors of the Company to the minimum amount specified in the Articles of Association of CIECH S.A., however, for a period no longer than three months.
- On May 28, 2012, the Extraordinary General Meeting of CIECH S.A. appointed to the Board of Directors of CIECH S.A.:

  - ✓ Mr. Dariusz Krawczyk – to the position of President of the Board of Directors of CIECH S.A.
  - ✓ Mr. Andrzej Kopieć – to the position of Member of the Board of Directors of CIECH S.A.
- On May 28, 2012, Mr. Dariusz Krawczyk resigned from the position of Member of the Supervisory Board of CIECH S.A., in connection with taking the position of President of the Board of Directors of CIECH S.A.
- On May 24, 2012, the Supervisory Board of CIECH S.A. adopted a resolution on selecting KPMG Audyt Sp. z o.o. based in Warsaw, ul. Chłodna 57, entered to the list of entities authorized to audit financial statements under no. 458, kept by the National Chamber of Chartered Auditors, as the Chartered Auditor to carry out audit of the Financial Statement of CIECH S.A. for the year 2012 and of the Consolidated Financial Statement of the Ciech Group for the year 2012. The Supervisory Board authorized the Board of Directors of CIECH S.A. to conclude a contract with KPMG Audyt Sp. z o.o. KPMG Audyt Sp. z o.o. provided services of auditing financial statements of CIECH S.A. and the Ciech Group for the year 2011. Previously, CIECH S.A. and KPMG Audyt Sp. z o.o. cooperated in 2008. The scope of services included advisory with regard to consolidation and presentation of economic transactions, in accordance with IFRS.
- On May 30, 2012, CIECH S.A. terminated the conditional contract for sale of shares in POLFA Sp. z o.o. concluded with Invest Pharma Sp. z o.o., seated in Warsaw on July 15, 2011. The reason for termination by CIECH S.A. of the contract was Invest Pharma's failure to fulfill the condition of establishing security of funds for payment of the Selling Price and failure to confirm the fact of securing this amount.
- On June 29, 2012, CIECH S.A. signed the conditional contract for sale of shares in POLFA Sp. z o.o., concluded with BM Medical S.A. The transaction closing required fulfillment of the following conditions:
  - ✓ CIECH S.A. obtaining from the Consortium of Banks a document confirming termination of POLFA Sp. z o.o. from the Credit Facility Contract.
  - ✓ BM Medical S.A. securing funds for payment of the Selling Price and confirming the fact of securing this amount.
  - ✓ CIECH S.A. obtaining a bank certificate confirming opening in that bank deposits in the amount of loans and submitting an order of irrevocable blocking funds in the amounts of loans.
  - ✓ BM Medical S.A. submitting valid certificates stating that POLFA Sp. z o.o. is not in arrears with payment of taxes and premiums and other statutory charges.

  On September 17, 2012, the transaction was finalized.
- On August 29, 2012 the Extraordinary General Meeting of CIECH S.A. was held, whose agenda included, among others:
  - ✓ Presentation of the application to the Board of Directors of CIECH S.A. concerning issuance of national secured bonds to the bearer to the maximum amount of PLN 500,000 thousand.
  - ✓ Presentation of the application to the Board of Directors of CIECH S.A. concerning issuance of foreign secured bonds to the bearer to the maximum amount of EUR 300,000 thousand.
  - ✓ Presentation of the application to the Board of Directors of CIECH S.A. concerning changes in the Articles of Association of CIECH S.A.
  - ✓ Adoption of a resolution on issuance of secured bonds to the bearer:
    - to the maximum amount of PLN 500 000 thousand (national bonds),
    - to the maximum amount of EUR 300 000 thousand (foreign obligations).
  - ✓ Adoption of a resolution on changes in the Articles of Association of CIECH S.A. and authorization of the Supervisory Board of CIECH S.A. to determine the uniform text of the changed Articles of Association of CIECH S.A.

  All the resolutions included in the agenda were adopted. The detailed information was transferred in the current report No. 32 of August 29,2012.
- On October 15, 2012, CIECH S.A. concluded an annex as well as a credit changing and standardizing the credit facility contract concluded by CIECH S.A. on February 10, 2011 with Bank DnB NORD Poland S.A., Bank Handlowy in Warsaw S.A., Bank Millennium S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., ING Śląski S.A. and Powszechna Kasa Oszczędności Bank Polski S.A., described in the current report No. 12/2011. The above annex and the changing and standardizing contract introduced the following key changes to the above credit facility contract:
  - ✓ extension of the final date of repayment of credits to January 31, 2017,
  - ✓ change in the schedule repayment of capital installments of fixed term credits,
  - ✓ change in the mechanism of calculating level of margin on granted levels,
  - ✓ change in provisions concerning the levels of financial ratios, the maintenance of which is the obligation of CIECH S.A.: (i) replacing past debt service cover ratio (DSCR) with unified ratio, and (ii) change in levels of net financial leverage ratio,
  - ✓ introduction of an obligation concerning the annual limits of investment outlays by CIECH S.A. and significant of the Ciech Group; and
  - ✓ cancellation of involvement under the investment credit granted by the European Bank for Reconstruction and Development, connected with expiration of any rights and obligations of the European Bank for Reconstruction and Development resulting from the above contract facility contract.

  Credits made available under the credit facility contract of February 10, 2011 were completely repaid on December 6, 2012 with funds from issuance of bonds carried out by the Company.
- On December 6, 2012, CIECH S.A. carried out early buyout for the purpose of cancellation of unsecured A series bonds issued by CIECH S.A. in December 2007. On November 23, 2012, CIECH S.A. submitted to all

A series bond holders an offer of early buyout of the existing Bonds with total face value of PLN 300,000 thousand. The buyout of the Existing Bonds by CIECH S.A. took place on December 6, 2012, when CIECH S.A. paid purchase price for the Existing Bonds, which, according to the offer of purchase of the Existing Bonds, was to take place within 2 business days from the date of settlement in the National Securities Deposit S.A. of 01 and 02 series secured bonds to the bearer, issued by CIECH S.A. in the amount of PLN 320,000 thousand, whose issuance took place on December 5, 2012, but in any case no later than until December 7, 2012. CIECH, under early buyout of A series bonds purchased 2 850 Existing Bonds with total nominal value amounting to PLN 285,000 thousand at the price equal to their nominal value, i.e. amounting to PLN 100 thousand per each Existing Bond plus charged and unpaid interest until the date preceding the Day of Buyout of the Existing Bonds (i.e. until December 5, 2012 inclusively). Along with early buyout, CIECH S.A. started the procedure of cancellation of A series bonds. CIECH S.A. purchased the Existing Bonds before the date of their buyout, which was fixed, in accordance with the terms of issuance of the Existing Bonds, at December 14, 2012, in order to optimize financial costs of the Ciech Group. Other A series bonds, whose holders did not give consent to selling before the due date, with total nominal value amounting to PLN 15,000 thousand, were bought and cancelled on the due date of A series bonds, i.e. on December 14, 2012.

3 Description of factors and events, having a substantial impact on activities of the Group

Positive factors

- Persisting growth in the dynamics of sales of the national chemical industry in 2012 as compared to the same period in the previous year (according to fixed prices; by 7.0% for chemicals and chemical products and by 0.2% for rubber and plastic products).
- Persisting prices of soda ash on European markets at a higher level as compared to the level of 2011 (by 7% - 8% for Western Europe).
- Persisting high level of market prices of sulfur on the global scale.

Negative factors

- Reduction in demand on the European market of soda ash as compared to the previous year.
- Persisting high prices of oil resulting in increase or pressure of suppliers on increase in prices of raw materials for the organic industry.
- Low level of market prices of epoxy resins and epichlorohydrin as compared to the previous year.
- Deterioration of the economic situation in the national furniture industry.
- Recession in economies of many European Union member countries.
- Appreciation of the Polish currency which does not foster profitability of exports of the Ciech Group

4 Risk factors

Risks associated with the object of activities and industry branches

Economic recession and continuous slowdown of the world and European economy and related problems of the credit and financial markets can affect adversely our activities.
Activities of the Ciech Group are based to a significant extent on sales of products from the chemical industry, used as raw materials and semi-finished products in a wide range of industries: glass industry, household chemistry, furniture industry, automotive industry, construction industry, food production industry, pharmaceutical industry, chemical industry and consumer goods. Demand for products of our customers is dependent on general economic conditions and other factors, including situation on automotive, control and packaging market, demand, costs of labor and energy, fluctuations in exchange rates, interest rates and other factors beyond our control. As a result, volume and profitability of our sales depend on the aforementioned variables as well as economic situation in Poland, Europe, and in the world. The recent economic recession on the target markets and geographical areas where we still conduct sales of our products, especially in the glass, construction and automotive industry in Europe, significantly decreased demand for our products, therefore decreased our trade turnover. As a result of the said recession, demand for our products decreased from the highest level from the year 2007 and the beginning of 2008 to the level lower at the end of the year 2008 and 2009.

Despite the fact that demand for some of our products increased in 2010 and 2011 (against crisis in the Eurozone) we cannot ensure that further deterioration of the economic situation in this zone will not affect adversely our trade turnover. In 2012, we could notice stagnation on our major product markets (slowdown in growth rate or small demand falls). One of significant problems for our recipients are persisting difficulties related to getting credits to finance current activities.

In addition, part of our recipients use credits to ensure relevant financing of their activities. In the case of long-term deterioration of the economic situation in the world our recipients can experience adverse impact on their own activities, financial shortages or difficulties in raising funds for conducting activities. As a result, present or

prospective recipients may delay or resign from the plans of purchase of our products and may not be able or may not intend to fulfill their obligations on time and even at all. A significant change to worse in the financial standing of our recipient may result in our reduction or break-up of commercial relations with this recipient, force us to assume a greater credit risk owing to receivables from the recipient or reduce our ability to obtain those receivables, which may significantly affect our financial standing. Furthermore, our suppliers may also experience similar conditions, which may affect fulfillment of their obligations towards us.
We cannot ensure that events having negative impact on the industries and markets of our activities, such as slowdown in the Polish, European and world economy, growth in interest rates, adverse exchange rates or other factors will not take place. Every significant slowdown in activities of our recipients as well as slowdown in the Polish, European or world economic situation may result in reduced demand for our products and affect negatively our activities, standing and financial results.

The soda segment and the organic segment are cyclic and changes in demand and prices may have adverse impact on our operating margin and cash flows.
Turnover of the Ciech Group is related mainly to sales of products of the soda and organic industry, whose prices are always cyclical and sensitive to changes in supply and demand ratio, availability and price of raw materials, general economic conditions and other factors beyond our control. These industries are characterized by the cycles of increased demand, during which high operating profits and margins are obtained, after which periods of excessive supply follow, resulting from significantly increased production which then result in reduction in operating profits and margins.

Demand for soda ash decreased from the highest level in 2008 to much lower in the future years. The reason for fall in demand was reduced demand of the glass industry (in particular to the extent of flat glass) that was reaction to the general economic slowdown. Because of falling demand on many local markets, oversupply of soda ash was recorded, which resulted in temporary reduction in average selling prices of soda ash. The resulting warehouse surplus of soda ash in Europe made many manufacturers using soda ash withhold new orders and use in 2009 collected inventory. Starting from 2010, demand for soda ash has been growing every year and production of soda ash started return to the previous level. After 16% slope in demand in 2009, the Western European market experienced in 2011 growth by about 3.5 and fall by 2.8% in 2012. (source: IHS Chemical).

The markets of some of our other products, including epoxy resins used mainly in construction and production of paints and varnishes shown similar trends, also oscillating between the periods of increased demand with growth in prices and margins and reduced demand, resulting in oversupply and reduction in prices and margins. Demand for epoxy resins is strictly connected with demand for final products in paint, construction, electronic industries, which, in turn, depends on the general economic situation. Decrease in demand for these products will mean reduction in demand for epoxy resins and may have adverse impact on our activities, standing and financial results.

Similarly, the cyclic character may affect prices of our products and affect adversely our operating margins and cash flows. This, in turn, may have adverse impact on our activities, standing and financial results.

Activities of the Group may be affected adversely by fluctuation in prices of raw materials and fuel, our inability to maintain or replace key suppliers, unexpected shortages in supplies and interference in the supply chain.
Profit of the Group depends to a large extent on prices we are able to obtain for our products and prices of production and power raw materials necessary for manufacturing of particular products. Production and power raw materials necessary to generate products in the soda segment, from which we obtained 45.4% our revenue for the year 2012 are: coal, natural gas, electric energy and steam, limestone, brine, ammonia, blast-furnace coke and anthracite. Coal was approximately 8% of our expenditures on raw materials and energy in the year 2012. Main production and power raw materials necessary to generate products in the organic segment, from which we obtained 41% of our revenue for the year 2012, are: toluenodiamine (TDA), Bisphenol A (BPA), steam and heat energy, propylene, styrene, toluene, electric energy, phthalic anhydride, chlorine. TDA was approximately 12% of our expenditures on raw materials and energy in the year 2012.
Prices of many of raw materials we purchase from external suppliers are cyclical and variable and are significant part of our operating costs. Availability and prices of these raw materials are subject to factors that are beyond our control, such as situation on the market, global economic prospects, production capacities on markets, limited production of suppliers, fluctuations in prices of oil and other goods, infrastructure breakdowns, political conditions, atmospheric conditions, legal regulations. etc.

The price of natural gas we use for production of electric energy and steam in our plant in Germany and which is approximately 31% of our expenditures on raw materials and energy in the soda segment for the year 2012 is highly variable. Additionally, price of coal we use for production of electric energy and steam in our plants in Janikowo and Inowrocław, and which is approximately of 20% of our expenditures on raw materials and energy in the soda segment for 2012, is also variable. Currently, we do not use commodity derivatives to hedge against the risk of change in price of raw materials, but we conclude short and long-term contracts with suppliers of those products. For this reason, we are not hedged against changes in prices. Additionally, raw materials we use may be unachievable in the future in proper amount with maintenance of optimum commercial terms.

Oil price fluctuations can also affect transport costs related to supply of our products to recipients.

The increase in costs of raw material and/or their supply, or increase in costs of transport related to supply of our products we cannot absorb by raising price for recipient, which affects operating costs and liquidity and may have adverse impact on cash flows, activities and financial results of the Group. In particular, our contracts with recipients of soda ash are usually concluded for a period of one year and our possibilities of transferring increases in prices of production and power raw materials to recipients involve delay, if they come into effect at all. Additionally, contracts with suppliers of raw materials in our organic segment are based usually on market prices. We cannot assure that we will be able immediately, if at all, to increase price of products, or that we will be able to transfer the whole increase in price of raw materials to recipients.

Furthermore, some of our contracts with suppliers, especially in the organic segment, are short-term. We also cooperate with some suppliers with whom we are not bound by a written contract, therefore, this cooperation can be terminated immediately by any party. In the event of termination or insufficiency of contracts with suppliers or when we are unable to provide supplies of necessary raw materials or purchase them at optimal price, our activities, standing and financial results will be deteriorated.

Interrupted activities related to the lack of key raw materials can significantly affect our profitability. If one of our suppliers experiences significant interference in production or is not able to fulfill its obligations resulting from the contracts concluded, we can be forced to pay higher price in order to obtain necessary raw materials, but increase in prices of our products without compensation from the supplier could be impossible. Delays in supplies of key raw materials may cause delays in production completion.

Problems in activities of our suppliers and/or impossibility to obtain timely supplies of key raw materials with acceptable quality or significant increases in prices of such raw materials that cannot be covered by increase in price may result in delay in production, increase in costs and reduction in quantity of products supplied by us, which may expose us to increased operating costs, have adverse impact on our relations with customers, activities, standing and financial results.

Supplies of some raw materials are executed by a limited number of suppliers, which may result in interrupted supplies and cause delays or additional costs, if suppliers do not supply goods within the designated time limit or if their product does not fulfill quality requirements. Furthermore, we are exposed to the risks resulting from long-term contracts.

Production activities of companies from the group require relevant and timely supplies of raw materials. When possible, we try to diversify supplies by using many entities. However, for some necessary raw materials we have only a limited number of suppliers. For example, the majority of limestone and brine – two basic raw materials for the production of soda ash by using the Solvay method – are purchased locally from single suppliers. Soda ash production plants are to be placed in a direct neighborhood of suppliers of limestone and brine due to high costs of transport of these raw materials in relation to their price. For our plant in Romania, the majority of key raw materials are purchased from single suppliers. Additionally, we obtained TDA, one of the major raw materials for the production of TDI, during the major part of the year 2012, in whole from one supplier. In addition, some of our production plants, especially the ones producing soda ash, are located in the areas where a number of suppliers in economically profitable range is limited.

Any disorders or delays in supplies of raw materials from a given supplier or its loss combined with the inability to find right alternative may force us to limit production. In 2012 this risk materialised in supply of TDA. We can also bear additional costs and/or delays during searching for substitutes and be unable to supply product corresponding to the order on time or within the production budget. Each of these events may have adverse impact on our activities, standing and financial results.

Additionally, part of our raw materials, as limestone, brine or energy, are purchased under long-term contracts, of which some have been included for a period of 25 years. In spite of the fact that key terms of our contracts with suppliers, such as price and quality, are flexible and can be modified under certain conditions to reflect better present economic conditions, there is no confidence that this flexibility will be sufficient to adjust contracts to current economic conditions in an acceptable manner, which may have adverse impact on our activities, standing and financial results.

We may also have to face growing competition, which may have adverse impact on our activities, standing and financial results.

Growing competition of present and new domestic and foreign manufacturers may emerge in major industries and markets of our activities. Competition in the chemical industry is dependent on the dynamics of local market and differs significantly, depending on a specific product and its applications. Additionally, competition in our segment of the market depends on many factors, including, not limited to: demand, prices of products, supply reliability, relevant production capacities, customer service quality, product quality and access to potential substitutes. We cannot guarantee that we will be able to compete effectively with the present and future competition. Increased competition or entrance of new entities to the market may significantly affect adversely our activities, standing and financial results.

In the past decade, both in Europe, neighboring countries and in the world, new capacities of soda ash production were generated. Also investments were announced in soda ash production plants to increase production possibilities, in particular in Turkey, USA and China. The implementation of these or similar investments increasing production capacities of suppliers of soda ash in Europe and in the world involves the risk of presence of periodical excessive supply of this product and price drops, which may reduce our market share and affect adversely our activities, standing and financial results.

Some of our international competitors may use more advanced technology and manage better their processes, as well as they can increase their production capacities, launching more competitive product. Additionally, our competitors on some markets may use raw material supplies or production plants located closer to a given market, which gives them competitive advantage with regard to costs and distance from customer. Also new market entities may emerge, in particular on the market of polyurethane foams that is characterized by lower technological and capital entry barriers than remaining products of our organic segment.

We are subject to very strict regulations, which may generate significant costs related to the provision of compliance with the obligations resulting from the regulations on environmental protection, OHS, applicable to our activities.

Activities of the Group are subject to the relevant legal requirements concerning environmental protection, OHS. These requirements regulate our operating activities, together with: (i) storage, use and management of hazardous substances and waste; (ii) taking water and discharging sewage; (iii) emission of pollutants to the atmosphere; (iv) human health and safety; (v) cleaning and reclamation of contaminated areas and (vi) sales and use of products produced by us. Many of our technological activities and related with energy production require permits to use the environment, including integrated permits. Such permits are subject to changes and updating by competent administrative authorities. Actual or alleged breach of the requirements resulting from environmental protection and OHS law or permits can lead to restricted or suspended activities of plants, substantial civil or penal sanctions, as well as direct liability and/or joint and several liability. For example, throughout the last few years, we spent approximately PLN 200 million zloty on the modernization of assets related to the power engineering in our plant in Janikowo, and reduction in air pollutants to the acceptable levels. These actions allowed only partial reduction in the amount of potential fines for over-standard emission of pollutants from the Combined Heat and Power Plant Janikowo in the years 2011-2012. In addition, emission of pollutants in the Combined Heat and Power Plant in Inowrocław has also exceeded and may keep on exceeding acceptable levels, which may result in imposing fines. As a different example, we should indicate drainage of sewage in our plant US Govora in Romania that exceeded acceptable limits and therefore competent authorities imposed on us fines with total value of approximately PLN 1.2 million RON. Despite the fact that so far we have managed to pay a part of these fines, there is no confidence that the courts will consider the mentioned fines as final or we will successfully avoid payment of the rest of the already imposed fines. Moreover, we cannot ensure that we will be able to fulfill acceptable concentrations of pollutants in sewage drained by us, as specified in the water use permit. Additionally, at the end of 2012, we started the process of closing post-soda waste landfill in the plant US Govora with the use of post-soda sludge from current production that will take over ten years. The solution of the issue of the possibility of further post-soda waste storage in the US Govora without the need to shutdown the landfill will depend on the position of the Romanian authorities.

Every year, we sustain substantial capital and operating expenses to achieve compliance with current and future environmental protection and OHS requirements. In addition, we can observe a persistent tendency to sharpen environmental protection and OHS requirements.

Among other environmental protection requirements, we expect that our activities will be affected by new legal requirements under the Directive establishing a scheme for greenhouse gas allowance trading within the European Union (EU ETS Directive) as well as industrial emissions directive (IED).

Our activities involve emission of greenhouse gases like carbon dioxide and is regulated by EU ETS. The EU ETS members cannot exceed emission allowances (EUA) at the end of each settlement period. One EUA unit corresponds to the right to emit 1 ton of CO_2 equivalent. Systems which have insufficient quantity of rights to cover their emissions must purchase them on the carbon market: primary (auctions) or secondary market. For the exceeded limit of acceptable allowances fines are imposed.

From 2013, critical changes in the community Emissions Trading Scheme will become effective and they will consist, among others, in (i) expanded scope of the scheme to cover new kinds of activities, (ii) gradual reduction in the limit of allowances to 2020 (iii) replacing the current scheme of national plans of emission allowances allocation with one limit of allowances for the whole EU, (iv) pursuit to full auction system of selling allowances at the place of the current scheme of unpaid allocation distribution, (v) the lack of free allowances for electric energy manufacturers, (vi) allocation of free allowances on the basis of uniform ratios prepared by the European Commission.

In consequence of changes in legal regulations, the soda production process in all our subsidiaries was incorporated into the EU ETS starting from from 2013. Changes in the ETS operation will affect significantly

operation of companies covered by the scheme, owing to a considerable amount of costs for purchase of missing CO_2 emission allowances. On the basis of the forecasted prices of CO_2 emission allowances on the free market in March 2013, we estimate that we will spend approximately EUR 5 million annually starting from 2013 to EUR 6.5 million annually in 2017 for purchase of of emission. Apart from direct costs related to the purchase of CO_2 emission allowances, we should expect growth in energy price as a result of implementation of the energy and climate policy adopted by the EU, which applies also to electric energy manufacturers. It can have adverse impact on operating results and standing of the Ciech Group.
Additionally, as of January 1, 2016, IED (Industrial Emissions Directive) will introduce more stringent emission standards for sulfur dioxide ($SO_{2)}$, nitrogen oxides (NOx) and dust from large combustion plants (LCP). The National Transitional Plan (PPK) sent to the European Commission for approval assumes extened time limit for adjustment of our LCP systems in Inowrocław and Janikowo, at the latest until January 1, 2019. The European Commission, until the end of 2013, will have the time to approve PPK. In consequence of these new provisions, we will be obliged to sustain investments in our LCP systems in Inowrocław and Janikowo. We estimate that, due to amendments to IED (Industrial Emissions Directive), after approving PPK by EC, we will have to spend additionally PLN 97.2 million until the end of 2015 to comply with environmental laws.
In addition, part of our plants have a long history of industrial and warehouse activities, together with landfill activities. In connection with the nature of activities conducted by the Ciech Group, on some grounds of the Group there are active sources of ground and water contamination. The Group bears regular operating costs and creates provisions related to reclamation of contaminated grounds and treatment of underground waters. Some of our plants became the object of proceedings related to historical contamination of ground, resulting in performance of reclamation works of the ground and water environment in agreement with competent authorities. Specified regulations of the environmental law and court decisions impose liability on present and past owners, operators of systems for contamination of the ground in such plants, regardless of the cause of negligence or awareness of contamination. Additionally, apart from presently conducted reclamation activities, we may be obliged to test and eliminate contamination at such places. We can also be liable for testing and removal of pollutants in the areas covered by our activities. A discovery of the previously unknown pollution or imposing of new obligations to test and eliminate contamination in our plants may involve the need to incur substantial additional costs. We can be obliged to create or increase permanently provisions for such liabilities. If we fail to foresee aptly the time of sustaining such costs, impact on our activities, results on operating activities or financial standing in each period of sustaining such costs may be significant.
In the Polish legal system competent authorities can oblige the entity operating a system to establish security of claims in connection with the risk environmental damage. Securities may have a form of deposit, bank guarantee, insurance guarantee or insurance policy.

In addition, in spite of the fact that we monitor exposure of our employees, community, neighbors and others to the risk associated with production or sales of our products, we cannot exclude future health claims reported by our employees or other people, including users of our products (or their relatives) resulting from past, present or future events. In connection with the contaminated areas as well as our general activities, governmental authorities or private persons and other third parties have submitted and may submit claims concerning damages under alleged bodily injuries or damages to property as a result of contamination with hazardous substances or exposure caused by our activities, plants or products. Our insurance may be unable to cover such claims.

The environmental protection law may also affect demand for our products. For example, there is a risk of reduced demand for soda ash from the glass packaging industry as a result of regulations in the EU preferring the use of cullet as raw material in the glass process production. Introduction of such regulations by customers of the glass industry may decrease average selling prices of soda ash.

Compliance with more and more stringent legal requirements related to testing, evaluation, registration and analysis of our products may make us sustain substantial additional costs or reduce or eliminate availability and/or merchantability of some raw materials used in the production of our products.
The Ciech Group has to comply with a wide scope of regulations concerning testing, production, designation and analysis of safety of our products or products of our suppliers. In some countries, together with member states of the European Union, such types of control and legal restrictions have become more stringent. We expect this trend to continue.

Our products and raw materials are in particular regulated by many laws concerning the environment and industrial hygiene, concerning registration and analysis of safety of substances contained in them. The regulation of the European Union on registration, evaluation, authorization and restriction of chemicals (Regulation (EC) no. 1907/2006), ("REACH") imposes on the whole chemical industry substantial obligations concerning testing, evaluation and registration of chemical substances produced or imported from non-EU member countries. In 2008, we pre-registered 705 substances in the REACH system.
In accordance with the REACH regulation, the Group companies that market substances in the quantity above 1 ton/year have registered or intend to register these substances on specified dates, which will allow them to continue activities in the current scope. So far, 33 high tonnage substances have been registered (including 9 substances ZACHEM). In the second stage, namely until May 31, 2013, it is planned to register 8 substances with

tonnage range of 100-1000 Mg/year. In the third stage, namely until May 31,2018 – 46 substances will be registered, marketed in the quantity of 1-100 Mg/year.
Implementation of the REACH requirements is expensive and time-consuming and results in increased manufacturing costs and reduced operating margins on chemical products. Currently, we estimate that our expenses on achievement of compliance with REACH will amount to approximately PLN 6.7 million in the years 2013-2018. Every delay in full registration of substances in accordance with legal requirements can lead to imposing fines or ban on marketing our products containing these substances in the EU.

In connection with the REACH regulation or the new EU regulation concerning classification, labeling and packaging (Regulation (EC) no. 1272/2008) ("CLP Regulation"), some substances in raw materials or products may be classified as of adverse impact on the environment, users of our products or our employees. Their production can be subjected to authorization in the European Chemicals Agency (ECHA) or completely restricted.

Any such rights or regulations which may be adopted in the future can affect adversely availability and/or merchantability of raw materials we use of and/or our products, lead to restriction or ban on purchasing or selling them or oblige us to sustain increasing costs of fulfillment of the requirements concerning registration, labeling and use of products. Furthermore, since some of our products are sold on markets on which proper classification is very important for the legal regime applicable to such substances, it cannot be excluded that our classification will be called into question or challenged. Any such factors may have adverse impact on our activities, results on operating activities or financial standing.

We can encounter difficulties, delays or unexpected costs in selling our assets not associated with our basic activities.
We intend to focus our activities on the production of soda ash, soda derivatives and side products. In order to optimize our structure and improve profitability, we assess on a regular basis our activities and, depending on the finally adopted development scenario, we expect disposal of activities not associated with basic activities in the organic segment, agrochemical segment and in the segment of silicates and glass, if we receive attractive offers.
In the case of some of such disposals, relevant permits or other consents may be required. We cannot assure that we will be able to obtain the required permits in the required time or at all. We can also be subject to fines for the benefit of prospective buyers in the case of delays in obtaining such permits. Moreover, we can bear contingent liabilities in connection with any security we will provide to the buyers in connection with such disposal of our assets. Additionally, we can encounter administrative and legal obstacles at disposal of activities not associated with basic activities; this process may thus be longer than expected and we can bear unexpected expenses in connection with termination of such activities. Although we believe that disposal of our activities not associated with basic activities will not have significant impact on our profitability in the long run, there is no confidence to this fact and to the fact that we will be able to generate substantial income on our other activities.

In the context of hypothetical liquidation of our subsidiary ZACHEM S.A. we cannot be fully protected from liabilities related to such liquidation
ZACHEM S.A. terminated its core production in December 2012. Should it turn out in the future that the income from sale or liquidation of all assets of ZACHEM S.A. is insufficient to cover the company's liabilities, ZACHEM S.A. will be obliged, in accordance with the Polish law, to file for bankruptcy. We believe that in the context of a hypothetical liquidation procedure or a hypothetical bankruptcy procedure, CIECH S.A. as the mother company would not be liable for the liabilities of ZACHEM S.A., because the Polish law does not provide grounds for liability of the mother company or of an affiliate of the company announcing bankruptcy with regard to the liabilities of such bankrupt company. However, there is no certainty that in the event of the hypothetical bankruptcy of the company we would not be liable to make determine payments in connection with the guarantees provided. We may be liable for payments under certain circumstances where we guaranteed a liability ZACHEM S.A.. For example, under Annex 5 to the Privatization Agreement we guaranteed that for the period of 12 months from submitting the report confirming fulfillment of our liabilities under the ZACHEM S.A. Privatization Agreement we would finance determined liabilities of ZACHEM S.A. to its employees (in the amount up to PLN 33.6m) and the liabilities related to recultivation of the environment (particularly with regard to recultivation of polluted soil in the amount up to PLN 29.3m) in the scope in which in the event of the hypothetical liquidation or bankruptcy of ZACHEM S.A. the company's assets would not suffice to cover such employee or environment liabilities. Moreover, we guarantees certain liabilities and representations and assurances of ZACHEM S.A. under the TDI Assets Purchase and Transfer Agreement with BASF up to the total amount of EUR 10.0m for the period of two to four years starting from the transaction date.

In the event of the hypothetical bankruptcy of Zachem, we should take into account the risk resulting from the bankruptcy law which stipulate that paid legal acts of the bankrupt performer within six months before the date of filing for bankruptcy with affiliated companies are ineffective with regard to the bankrupt's assets (even if such transactions were concluded on commercial conditions that would have been negotiated by independent parties and on market conditions). For example, we purchased certain raw materials for ZACHEM S.A., and purchased from ZACHEM S.A. ready products. At present in connection with discontinuation of TDI production by Zachem there are no such transactions between CIECH S.A. and ZACHEM S.A..

Moreover, the regulations of the Polish Civil Code allow creditors (including trade creditors) of a subsidiary to use legal means against third parties in the case of Paulian claims. If in such case the court decides that any action had been taken knowingly by one of the entities to the detriment of its creditors and as a result of that this entity had become insolvent or insolvent in a greater extent, and a third entity had benefited from that, under determined conditions described in the Polish Civil Code such entity may be obliged to return to the relevant creditor the above mentioned benefits.

In the event that a court or other authority would find us liable in circumstances referred to above, this may have a material adverse effect on our business, results of operations or financial condition of CIECH S.A.
Apart from that we granted to the ZACHEM Group an intra-group loan in the amount of PLN 85.8m (including accrued interest in the amount of PLN 0.7m), as of 31 December 2012. The intra-group balances of commercial and other payables to the ZACHEM Group amount to PLN 53.7m and commercial and other payables from the ZACHEM Group amount to PLN 6.4m.
In February 2013 CIECH S.A. redeemed all outstanding loans granted to ZACHEM S.A. in the amount of PLN 85,109 thousand and interest in the amount of PLN 1,218 thousand

Moreover, ZACHEM S.A. was party to the agreement on amine supplies (TDA) terminated by ZACHEM S.A. on 12 October 2012 on grounds of discontinuation, in breach of the agreement, of the amine (TDA) production by its supplies in the production plant in Pasada. Effectiveness of the termination was questioned by the other party – Air Products, in connection with which an arbitration procedure is now in progress. In accordance with the Polish law, we are convinced that in the context of the hypothetical liquidation procedure any liabilities in connection with this agreement would be unsecured liability of ZACHEM S.A. and not of CIECH S.A. The liquidator would satisfy any such claims on pro rata basis among ZACHEM S.A. creditors, in accordance with the statutory priority of claims.

We may not be able to obtain the funds required to purchase the thermoelectric power station in Stassfurt upon the exercise of the owner's right to require us to purchase the facility starting in December 2015.
In Germany, the Ciech Group leases a thermoelectric power station located near our production facility in Stassfurt, Germany, which produces both heat and electricity. We use substantially all of the heat produced at the SDC Power Plant for our soda ash production. We use approximately 15% of the electricity generated at the SDC Power Plant for our soda ash production and sell the remainder to the city of Stassfurt.
The lease agreement for the thermoelectric power station (the "SDC Power Plant Agreement") contains a put option that gives the owner the right to have us purchase the facility starting in December 2015 at a purchase price of €37.5 million. We cannot assure that we would have sufficient funds available to purchase the facility upon the exercise of the owner's put option or that we will be able to obtain third party financing. Pursuant to the terms of the SDC Power Plant Agreement, failure to purchase the facility will result in the termination of the lease agreement. As a result, we may be unable to procure our electricity and heat requirements for our production facility in Stassfurt.

Force majeure and dangerous character of our chemical products may have adverse impact on our activities. In addition, our production plants are object of significant operating threats and may be subject to standstills.
Production activities of the Ciech Group Companies can be interrupted in consequence of various dangers and risk factors, which are beyond our control, such as environmental hazards, strikes and some disasters, including fires, weather events, serious breakdowns of equipment, natural disasters, terrorist attacks and other accidents or events that may result in cessation the operations. Any damages to our facilities, including our IT systems, causing short-term interruptions in the operation of facilities and distribution and logistics services for the time of repair or for other reasons may have considerable, unfavorable impact on our activities, operating results and financial standing. Our suppliers are exposed to similar risk factors. Events caused by force majeure, according to with the provisions in our supply contracts, may disrupt our production or increase us costs incurred by us, or both. Interruptions or increase in costs may have considerable, unfavorable impact on our activities and operating results.
In our chemical plants we use, manage, process, manufacture, store, transport and remove considerable amounts of chemical, hazardous raw materials as well as liquid and solid waste. Some of this waste it is highly dangerous and may have harmful action as a result of improper handling or unsatisfactory removal. Accidents involving these substances that are often subjected to high pressure and temperatures during the process of production, storage and transport may cause major damages to facilities, the environment and human health as well as interruptions, limitations or delays in production. Any damages or injuries to people, equipment or property, or any other interruptions of production or distribution can result in a significant reduction in operating income and a significant increase in costs related to replacement or repair and protection of our assets, which may have significant, unfavorable impact on our activities, operating results and financial standing. It may cause also legal consequences, such as breach of statutory requirements and/or lawsuits concerning bodily injuries, damage or depletion of property and similar claims.

If we manage to provide effective internal control system, we can be unable to monitor or manage our company effectively.
Effective internal controls are required to provide reliable financial reports for effective monitoring of operations and actions of our subsidiaries. If our control structure has significant defects, we can be unable to monitor or manage effectively our business, which may damage our interests and reputation. We cannot have confidence that these significant defects are not present and that all shortages of internal controls have been found. Failure to find any shortages may have considerable, unfavorable impact on our interests, results on operating activities and financial standing.

If our patents and other intellectual property rights do not protect our products to relevant degree, we can lose part of the market for our competitors and be unable to conduct our activities profitably.
We use a combination of patents, trade secrets, copyrights and trademarks for the purpose of obtaining and protecting our intellectual property rights with regard to our products and processes of their development, production and sale.

We use unpatented, developed on our own know-how, trade secrets, processes and other internal information and we use various methods for the purpose of their protection, including confidentiality contract, contracts for assignment of rights to inventions and ownership information, contracts with employees, independent sales agents, distributors, consultants, universities and research units who are our partners. However, these contracts may be affected. Government agencies or other national or provincial legislative authorities may require disclosure of such information so that we could obtain consent to selling a given product. Agency or legislative authority may also disclose such information on its own initiative, if it decides that any information is not confidential corporate or trade information. Trade secrets, know-how and other unpatented ownership technologies may also be disclosed otherwise or developed independently by our competitors.

In addition, we also have patents and patent applications protecting many of our components and products. During our activities, we file also applications (patent applications) for granting other patents for cases we regard relevant. However, these precautions guarantee only limited protection and would not protect, for example, against disclosure or independent development by competition of information being our property. We cannot ensure that our existing or future patents will let us obtain appropriate protection or competitive advantage and that future patent applications will guarantee obtaining patents or that our patents will not be "evaded", cancelled or their implementation will be impossible. In addition, our ownership right concerning intellectual property may be challenged, which would have considerable, unfavorable impact on our interests and operating results. In some cases, legal disputes concerning intellectual property may be used for obtaining competitive advantage. We were in the past and we may be in the future defendant in court cases concerning patents and other intellectual property rights. If third party initiates proceedings against us, we can bear substantial costs related to defense. We cannot guarantee that such proceedings will be settled in our favor. In the case of settlement of such a dispute to our disadvantage, we can be forced to pay significant amounts, and test, production or sale of one or more of our technologies or products would be forbidden.

Any proceedings before the national patent authority and/or government authority for trademarks or in court may be completed with unfavorable decisions with regard to the priority rights to our inventions and limiting the scope or cancellation of patent claims with regard to already granted patents or examined patents. In the case of such proceedings we may also incur substantial costs. In addition, some countries where our products are or can be sold may not protect our products and intellectual property to the same extent as in Europe, or at all. In some countries we may also not be able to protect our rights concerning trade secrets, trademarks and our own unpatented technology.

Loss of our main management, technical and other personnel, or the impossibility to obtain such management, technical or other personnel, may affect our interests.
The nature of our company, operations and our activities and development plans requires hiring personnel, having high qualifications in different domains of functioning of the Group. Ability to maintain a competitive position and implementation of our business strategy depends largely on the quality and the experience of our personnel. Loss of competences important for the Ciech group or impossibility to obtain them as a result of external recruitment may have a considerable, unfavourable effect on our interests, the results of operating activities and the financial condition. Competition with the personnel with appropriate experience is an element of permanently conducted policy, with regard to the unique character of operations of the Group and relatively high costs of acquiring new employees with comparable qualifications.
Our ability to recruit, keep and continuously improve management, technical, administrative and operational personnel are an element of risk management strategy , minimizing in this way the hazard of loss of employees who are significant from the point of view of interests of the Ciech Group. We have not concluded life insurance policy for any members of the management, nor do we intend to purchase such a policy in the nearest future.

Our operations may be dependent upon work outages or other personnel disputes.

Before the date of 31 December 2012, Ciech Group employed 5 509 (including companies' boards) permanent and temporary employees. About one third of employees in Germany and Poland, and most employees in Romania, are members of trade unions. In countries where we operate, we respect and abide by the employee rights resulting from social contracts concluded and other legal regulations (in Germany, for example employees are represented by the work council that must approve changes in conditions of employment, including wages and benefits).

From June to September 2012, terminations of collective arrangements were delivered to employees of CIECH S.A, Soda Polska Ciech S.A., ZACHEM S.A., Alwernia S.A. and Vitrosilicon S.A. Most corporate collective arrangements were effectively terminated until the end of December 2012, while for some of them (of CIECH S.A, Soda Polska Ciech S.A.) the termination deadline elapsed in the first decade of January 2013. Negotiations were initiated as to new corporate collective arrangements. In January 2013 new collective arrangements were concluded for a number of companies from the Ciech Group. The negotiated systems were adjusted to the economic realities and business plans of the Group taking account of connetcting additional benefits (bonuses) with results of implemented operational goals of the Group. The need for resignation from the previous, quite extensive payroll components and continuation of restructuring processes may generate discrepancies between boards of companies and union organisations, resulting in disputes or protests. The occurrence of such phenomena may affect our interests, results of operations and the financial condition. Despite the fact that in the period until 31 December 2012, there were no important employee disputes or work outages, there is no guarantee that employee disputes or stoppages at work will not appear in the future.

Fluctuations in currency exchange rates may have an adverse impact on our business, financial condition and cash flows.

Consolidated financial results of the Group are reported in PLN. The global character of our operations makes us exposed to foreign exchange risk as a result of potential mismatch between currencies in which sales, purchases and costs are settled, as a result of transactions entered into by our subsidiaries (which may be conducted in a different currency than their functional currency) and as a result of the effect of recalculation of our reported results, cash flows and balance-sheet items.

In consequence of running business in jurisdictions having functional currency other than zloty, we are susceptible to exchange rate risk associated with rtranslation of one currency to another. The items of revenues and expenses are converted based on foreign exchange rates from the transaction date, and financial assets and liabilities are converted based on foreign exchange rates from the reporting date. We are also exposed to transaction risk of foreign exchange rate when a subsidiary commences transactions in a different currency than its functional currency..

As a result of foreign exchange exposure to purchase of raw materials, sales revenue, loans granted and received, as well as cash kept in foreign currencies, we were and we expect to still be exposed to fluctuations in currency exchange rates that may have a substantial effect on our operating results, financial assets and liabilities, as well as cash flow in zlotys. Fluctuations in foreign exchange rates may also significantly affect comparability of operating results between the periods.

Our main source of exposure to currency risk is EUR and USD. Our estimated exposure to currency risk in Euro (excluding SDC Group) was 213,9 million EUR, 321,4 million EUR, 272,7 million EUR and 5,1 million EUR, respectively as at 31 December 2009, 2010 and 2011 and 31 December 2012.

In 2012, we did not use hedging contracts to hedge currency risk. We aim to achieve natural hedging of our foreign exchange exposure, including matching of cash flows in a given currency resulting from sales and purchases, as well as strategic denomination of our indebtedness in some currencies, in order to adjust it to the planned exposure to currency risk in our operating activities.

We are exposed to loss of value of receivables in the case of the lack of payment by contractors.

We are exposed to operational credit risk that is associated with a risk of the lack of repayment of receivables by our commercial contractors and other debtors. Financial difficulties experienced by contractors, including bankruptcy, restructuring and liquidation, or potential weakening of situation in the trade, increase this risk. As at 31 December 2012, approximately 19% of our commercial liabilities were held by our 10 largest (according to sales revenues) customers. Because of the concentration of our customer base, substantial amounts can remain due from a single customer at any time. Lack of repayment of amounts due to us by a customer may have a considerable, unfavourable effect on our business, operational results and the financial condition. Payment terms granted to contractors range from 30 to 90 days. Despite adopting by us the procedures and the policy designed to minimize the credit risk, such as receiveables insurance, monitoring credit risk and assigning credit limits to customers, the mentioned procedures and policy may not be adequate and may not protect the Group against a risk of the lack of payment by contractors.

Fluctuations in interest rates may have an adverse impact on our financial difficulties.

We are exposed to interest rate risk, resulting from dependence of the costs of financing of part of our indebtedness denominated in PLN to the level of market interest rates. Interest on New Domestic Bonds (with face value of 320 million PLN) and revolving loans available under the Revolving Credit Facility (with the maximum value of 100 million PLN), depend on the variable WIBOR rate. Our indebtedness denominated in PLN in 2012 was not hedged. We are exposed to change in the level of market interest rates. The increased level of market interest rates would increase the cost of our indebtedness and unfavourably influence our business and financial condition.

We are subject to dispute proceedings, including antitrust proceedings that could damage our interests in the case of issuing an unfavourable ruling.
We are exposed to the inherent business risk concerning vulnerability to various types of claims and legal proceedings. We were involved in various legal proceedings, claims and investigations that last now or were completed over the past three years. According to the accounting policy concerning such events, we create provisions in connection with such proceedings in the cases when there is a significant probability that costs will be incurred, and their amount can be reasonably estimated. We cannot state confidently that there will be no growth with regard to the pending matters or that any future legal suits, claims, proceedings and investigations will not be significant. In addition, we can, in the future, be a party in the legal proceedings, concerning, among others intellectual property, liability of the manufacturer, bodily injuries, product guarantees, environmental or ani-monopoly claims and contain settlements with regard to legal proceedings and claims, which can have a considerable, unfavourable effect on our results of operation in any period.
In connection with our dominant position on some markets, our operations are occasionally subjected to scrutiny by authorities for competition, the President of the Office for Protection of Competition and Consumers (UOKiK) in Poland and the European Commission. On 31 December 2007 UOKiK introduced antitrust proceedings referring to the alleged abuse of our dominant market position on the market of table salt. On 19 May 2009, we were informed by UOKiK that proceedings was discontinued. We can, however, become the subject of antitrust proceedings in the future. The decision that any of our activities had effect in the form of restriction in competition in the context of antitrust proceedings, may affect the possibility to conduct our business and/or determine a cash fines, which effects may have a considerable, unfavorable impact on our interests, operation results or financial situation.

Our interests, reputation and products may be affected by claims concerning liability of the manufacturer, complaints or unfavourable publicity with regard to our products.
Our products take account of an inherent elements of the risk of bodily injuries which may occur in consequence of manipulating by unauthorized third parties or as a result of pollution or degeneration of a product, including the presence of external dirt, chemicals, substances or other chemical agents or deposits during various phases of the process of preparation, production, transport and storage. We cannot guarantee that our product will not cause in the future any diseases or injuries, nor that we will not be the object of claims or legal proceedings related to such issues. Although we have customary insurance concerning responsibility towards any third parties and guarantee of the manufacturer, in the case of putting forth the claim concerning the manufacturer's guarantee or responsibility towards any third parties against us, we cannot guarantee that we will be able to effectively put forth an insurance claim in accordance with our company policy or that the funds obtained from the claim will be sufficient to cover caused real damage.
We can be be forced to withdraw our products from some jurisdictions, in the case of default by these products on relevant quality or safety standards. We cannot guarantee that as a result, claims will not be put forth against us concerning the liability of the manufacturer. A decision unfavorable for us, in the case concerning liability of the manufacturer may have a significant, unfavorable impact on our interests and results of operations. In addition, we can be forced to increase our debt or redirect resources from other investment projects to satisfy any such claims. In addition, unfavourable publicity with regard to our products may have a significant impact on future sales, which may have a considerable, unfavorable effect on the profitability of our actions.

Our insurance policies may not protect, or not protect us completely, from some disturbances related to the conduct of business, global conflicts or and inherent hazards related to our operations and products.
We have insurance policies, concluded with international and local insurers, providing us with coverage (with some restrictions with regard to the entities and substantive scope), from selected operational risks, including damage to the property, business interruption insurance, third party liability insurance, product liability, cargo insurance, insurance of rolling stock railway and vehicles, directors and officers liability insurance and insurance of receivables.
Despite the fact that we believe that the types and the amounts insurance that we have now are consistent with the customary practices in our segments of chemical industry and are adequate to the activity carried out by us, our insurance is exclusive of all potential risks associated with our scope of activity or other risks for which we can be responsible. For example, our insurance policies may not protect, or not protect us completely, from natural disasters, some disturbances related to the conduct of business, global conflicts or and inherent dangers related to our operations and products. In addition, our policies are subject to standard deductibles, exclusions and limitations, which can affect our possibility of filing claims. As a result, we cannot ensure that our insurance accordingly protects us from all risks or that the insurance amounts are sufficient to prevent all significant losses.

We may not have a valid legal title to some of our real estate.
Some documents and/or necessary additional confirmations, proving the legal title for some of our properties, including part of the area of US Govora in Romania, plants, buildings and systems may be lost. In addition, some of our subsidiaries, including Soda Polska Ciech S.A., use some real estate whose legal status may be unclear or questioned. Because, as a matter of principle, purchasing real estate by us has not benefited from the warranty of

public faith, land and mortgage registers and we cannot exclude the lack of documents confirming or supporting the legal title in relation to a part of real estate owned by us, we cannot present ensuring in connection with property and legal condition, potential defects of the legal title or restrictions concerning sales, which can affect our rights with regard to all real estate. In this regard we can be also the object of possible third party claims, which may have a considerable, unfavourable effect on our interests, operations and financial situation.

Weather conditions may have effect on our sales revenue.
Bad weather conditions can decrease sales of products intended for plant protection (in the organic segment). Sales of plant pesticides and agrochemical products depends on weather conditions, because harvests of crops and decisions with regard to planting vegetation vary depending on whether vegetation season is exceptionally wet or dry. Bad weather conditions can cause smaller harvest, and thereby smaller demand for our products. Weather conditions may have a delayed effect on the results of operations, since we sell products to distributors who may have excessive stock, or buy raw materials from suppliers having reduced deliveries, after bad vegetation period, resulting in a lower number of orders for the next period. For example, harsh weather conditions (low temperatures) in Poland and their effect on crops decreased the demand and the quantities of orders for plant pesticides in 2012 as compared to 2011. Similarly, in the soda segment, sale of calcium chloride and mixes of chlorine and salt that are used mostly in winter for maintenance of roads, depends on weather conditions. During mild winters, demand for deicing products drops, our revenues from sales of calcium chloride and related products can be lower than expected, as it happened during the period winter period of 2011/2012.

Our tax burdens may increase as a result of current and future tax inspections and potential changes in binding tax regulations, and frequent changes in Polish regulations may have an adverse impact on the results of our business as well as financial situation.
At calculation of our liabilities under income tax and all other tax liabilities we follow assessment of situation and we make decisions the basis of our best knowledge. Although we believe that the our tax estimates are reasonable, many factors may decrease their accuracy. Furthermore, the Polish tax system is known for its instability. Tax regulations are many times corrected, often to the disadvantage of taxpayers. Additionally, the instability of the Polish tax system results not only from changes in the law, but also from reliance on the interpretations of tax regulations issued by treasury authorities and rulings announced by courts. Issued interpretations and court sentences are not consistent and may be the object of potential corrections or changes. Another element influencing the lack of stability in the tax law is the need to implement changes as a result of adjusting domestic legislation to the new regulations of the European Union.
We can be the object of inspections conducted by tax bodies, during which these bodies may disagree with our approach concerning tax qualification of some important items, including past and future events, and consequently, they may oblige us to re-calculate and potentially increase our tax liability. Additionally, in case of finding any inconsistency or interpretation of tax regulations different than ours, interest and fines may be imposed on us.
Frequent changes in tax regulations had and may have, in the future, a negative impact on our business, financial condition, operational results and development prospects. Furthermore, lack of stability in Polish tax regulations may hinder our ability to effectively plan the future and implement our business plan according to the assumptions. In addition, changes in the existing law can also increase our real tax rate, and increase in tax burden may have a significant, negative influence on further development of the Group.

Risks related to our indebtedness

Our debt service obligations may have a significant, unfavourable effect on our business, operational results, financial condition or our ability to repay debt.
We have significant debt service obligations. As at 31 December 2012, we had roughly 1 560.4 million PLN of debt, including financial lease contracts and power plant leases. We expect that our debt service obligations will exist in the foreseeable future. Debt service obligations may have important consequences, including, but not limiting to:
- difficulty in satisfying our debt obligations;
- increase in our vulnerability to and reduction in flexibility in response to, the deterioration of the situation in our industry or generally unfavourable economic and industrial conditions;
- limitation of our capacity to obtain additional funding in order to finance working capital, investment outlays, development of operations, acquisitions and other corporate goals, as well as increased costs of future borrowings;
- the need for spending a considerable part of generated cash flows from operations on repayment of debt and interest, which means limitation in availability of funds for the purposes of financing of our operational activities, development of products, investment outlays and other corporate goals;
- restriction in our flexibility in response to, as well as planning in respect of changes in our industry and environment in which we operate, as well as
- locating us at a competitive disadvantage compared to our competitors who may not be as leveraged.

These factors may have a considerable, unfavourable effect on our possibility to satisfy our debt service obligations.

Furthermore, our indebtedness in connection with the Revolving Credit Facility, as well as Domestic Bonds, bears interest according to the variable rate, on the basis of the Warsaw Interbank Offer Rate ("WIBOR") plus margin and some mandatory costs. Fluctuations in WIBOR or emergence of market disturbances can increase our total interest burden and may have a considerable, unfavourable effect on our possibility to settle our liabilities related to debt.

We require a considerable quantity of cash to service our debt and sustain our operational activities. Ability to generate sufficient quantity of cash depends on many factors being beyond our control.

Our ability to make scheduled payments on and to refinance our debt, as well as to finance working capital and investment outlays, depend on our future operational activities and ability to generate sufficient quantity of cash. To some extent, it depends on the success of our business strategy and on general economic, financial, competitive, commercial and statutory factors, related to regulations and others, many of which are beyond our control.

We cannot guarantee that cash flows generated by our Group from operating activities will be sufficiently high, that forecasts concerning implementation of savings, increase in revenue and operational improvements will be accomplished, nor that the amount of debt and capital financing attainable by the Group in the future will be sufficient so as to provide us with the possibility of timely debt repayment or funding our other needs with regard to liquidity.

If our future cash flows from operating activities and other capital resources prove insufficient in order to timely repay our liabilities or to satisfy our needs related to liquidity, we may have to:

- limit or postpone our business actions and capital expenses;
- sell the assets;
- obtain additional debt financing or financing with equity; or
- restructure or refinance all or part of our debt within the designated time frame or before the purchase date.

There is no guarantee that we will be able to accomplish the above-mentioned possibilities within the designated time frame or on satisfactory terms, if it is possible at all. Each case of default by us on the obligation to make timely payments under the Bonds would probably result in lowering our credit rating, which would also adversely affect our ability to further incur debts. Furthermore, the conditions of our debt, also under the Bonds, the New Domestic Bonds and the Revolving Credit Facility, as well as any future debt can limit our ability to use any of the above-mentioned possibilities. In addition, any possibilities of refinancing our debt would be available on the basis of higher interest cost and involve the need to comply with more restrictive covenants, which in consequence could further restrict our business and deteriorate the financial situation and the results of operations of our Group. There is no guarantee that any assets whose sale would be necessary might be sold or that in the event of their sales, the date of such sale and the amount of receipts from such sale would be acceptable.

In spite of the present level of debt, CIECH S.A. and its subsidiaries may still be able to incur significant amounts of additional debt. The above would additionally increase the risk related to a significant use of financial leverage by our company.

CIECH S.A., as well as its subsidiaries have, and may have, the possibility to incur in the future significant amounts of additional debt. The Indenture, the New Domestic Bonds, the Revolving Credit Facility, as well as contracts governing other existing debts do not prohibit completely, nor will they prohibit us or our subsidiaries to do this in the future. The Revolving Credit Facility envisages access to the revolving credit loans, under which we have the possibility to periodically incur debts. Furthermore, the Indenture, as well as Revolving Credit Facility will not prevent us from incurring other liabilities which are not debt. Any possible increase in the present level of debt of our company, as well as our subsidiaries by the amount of a new debt would cause further growth in risks connected with the debt, which risk currently relates both to CIECH S.A.and our subsidiaries.

Ciech Group is subject to restrictive debt covenants, which can limit our ability to finance future operations and capital needs, and to pursue business opportunities and activities.

The Indenture determining conditions of bonds issuance limits, among others, our ability to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions, with respect to the shares of such entity;
- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to, and on the transfer of, assets to such entity;
- sell, lease or transfer certain assets, including stock of restricted subsidiaries;
- engage in certain transactions with affiliates;
- consolidate or merge with other entities; and
- impair the security interest for the benefit of the holders of the Bonds.

All the above limitations are subject to important exceptions and qualifications. Despite the aforementioned exceptions and qualifications, the covenants could limit our ability to finance future operations and capital needs of our company and our ability to pursue business opportunities and activities that may be in the best interest of the company.

The terms of the Revolving Credit Facility concluded by us obligate us also to maintain a specific level of the financial leverage ratio, and the terms of remaining indebtedness, which is permitted under the Indenture to be borrowed in the future, may require us to keep similar values of financial ratios, meeting of the requirements of specified financial tests and compliance with other conditions applied customarily with regard to comparable sources of financing. The capacity of our company to meet conditions concerning financial ratios may be subject to the unfavorable influence of events being beyond our control; thus, we cannot guarantee that we will be able to meet the above requirements with regard to the abovementioned ratios. Breaching, by us, such conditions of financial contracts and the impossibility to remedy, by us, any effects of this breach or our failure to obtain a waiver from the obligation of repairing that breach from our creditors, would mean our default on the obligations resulting from such a a contract, which could cause a default of other contracts for financing, including the Indenture and cause the creditors to terminate financing made available on the basis of such contracts for financing and declare all amounts owed to them due and payable. There is no guarantee that the value of our assets will be sufficient for full repayment of the above indebtedness and our other indebtedness.

Our ability to to continue operations depends on our future operational results and the ability to generate cash.
We expect that cash flows of our Group will be adequate to meet our financial needs. However, there is no guarantee that the Group will generate sufficient cash flows from operations, nor that the available amount of future indebtedness will be sufficient so as to ensure for us the possibility of servicing and timely repayment of the debt, finance other needs related to requirements capital or any operational losses, or to continue as a going concern. If our future cash flows from operating activities and other capital resources prove insufficient for timely repayment of our liabilities or satisfying the needs related to liquidity, we may have to: limit or postpone our business actions and capital expenditures; sell the assets; obtain additional debt financing or equity financing; restructure or refinance all or part of our indebtedness, within or before the maturity date; or resign from opportunities such as e.g. acquisition of other companies.
The type, the date and the terms of each of the above possibilities depend on our cash demand and conditions prevailing on financial markets. We cannot guarantee that any future sources of financing will be available to us in the specified time, nor can we ensure the justified character of conditions binding with regard to any future sources of financing. There is no guarantee that our present expectations as to the amount of cash flows from operating activities (which will depend on many future factors and conditions, many of which are beyond our control) will be accurate. Such forecasts of cash flows are only estimates concerning future events, while the actual events will probably differ from the present estimates (this difference may be significant). We cannot guarantee that any additional sources of financing will be available to us on reasonable commercial terms, if they are available at all.

5 Overview of the basic economic-financial values of Ciech Group

Key factors having effect on our results from operating activities:
Results from operating activities are shaped by a number of factors having effect on the soda ash industry and the chemical industry in general, including economic conditions, prices of raw materials and energy, balance of demand and supply for products of the Ciech Group on the global and regional scale, legislation and initiatives with regard to environmental protection. Results from operating activities are formed also by factors specific for the structure and operating activities of the group. Below, there is a review of key factors that shaped the historical results from operating activities of the group, and such, which, according to the expectations, will influence consolidated results from operating activities in future settlement periods. Sales revenue and gross profit on sales in the Soda segment increased according to the level of 1,975,489 thousand PLN and 324,049 thousand PLN for the year 2012 from the level of 1,728,811 thousand PLN and 303,167 thousand PLN for the year 2011. EBITDA reduced to the level of 271,623 thousand PLN for the year 2012 from the level of 314,517 thousand PLN for the year 2011. Starting from the second half of 2010, production of soda showed signs of stimulation. With regard to 2012, the comprehensive demand for soda ash in Western Europe remained below the levels from 2009, but this demand grew every year starting from 2009, above all, under the effect of the glass industry. After the decrease in consumption by 16% in 2009 as compared to 2008, the western-European market of soda ash experienced growth by about 4.0% in 2011 as compared to 2010. Other segments where we operate, experienced another stimulation; it applies also to the segment of organic products – sales revenue increased in it by 5.4% in 2012 as compared to 2011.
The balance between supply and demand and use of production capacities has strong influence on the achieved margins in soda ash industry and in chemical industry. in a situation when the demand for the company's products gets close to the existing supply, there is an increase in use of production capacity and a typical phenomenon is growth in prices and margins. Historically (and in compliance with the above description), this connection is cyclic as a result of factors such as general economic conditions having effect on the strength or weakness of demand.
The western-European balance between supply of soda ash, and the demand for soda ash reflected in lower use of production capacities, had only a limited impact on the prices of soda ash in Poland and central and eastern Europe, since the local markets of soda ash are protected thanks to their distance from competitive sources and relatively high logistic costs. Production of soda ash remains activity of local importance in connection with high transport costs, in relation to sale prices. Additionally, in relation to the developed production environment, central

and eastern Europe countries, in particular Poland, have a greater potential with regard to a higher level of demand in segments of end users of soda ash, in particular, in connection with the expected growth in the sector of: glass and car industry, and forecasts of increase in demand in central and eastern Europe, which is supposed to be approximately 3% as compared to 2% in the western Europe.

Over the last decades, the markets of soda ash in central and eastern Europe remained relatively stronger, than in the western Europe. Between the years 2002 and 2011, consumption of soda ash in central and eastern Europe was growing annually approximately by 1% (CAGR), mainly as a result of economic growth in the region and the advantage with regard to costs. For the period from 2011 to 2016, consumption of soda ash in central and eastern Europe, according to expectations, is to increase at the level of the average annual return rate, amounting to 3.5%, with the addition that the growth in using by glass industry as the end user would be approximately 4.5%, and, by the soap and approximately of 2.3% for the same period (source: IHS Chemical).

Organic segment, not being of crucial nature, was under the strongest influence of these trends. EBITDA in this segment decreased from the level of minus 10,394 thousand PLN to the level of minus 152,685 thousand PLN. A significant effect on the level of EBITDA of organic segment was also attributed to one-off events, i.e. establishment of write-downs on the value of assets and provisions.
There was also a decrease in EBITDA in our Soda segment from the level of 314,517 thousand PLN for the year 2011 to the level of 271,623 thousand PLN for the year 2012.
All the above factors have influenced the results from operating activities and margins, which resulted in a decrease in our EBITDA level from 340,824 thousand PLN in 2011 up to 40,334 thousand PLN for the year 2012.

Fluctuations of prices of raw materials and energy
The raw materials and energy constituted in 2012 a significant component of operating costs of our business. Primary raw materials which we use include: power resources, used in the production of soda ash (coal, natural gas, electric energy and steam) and chemical substances of organic origin, obtained by means of processing oil and used in our organic segment (epichlorohydrin, BPA, styrene and until December 2012 TDA).
In connection with the fact that the cost of energy is one of the most important costs in the production of soda ash, actions were taken with regard to more effective management of our costs of energy contribution. In January 2012, in Germany, a lease contract was concluded for the heat and power station (SDC Power Plant) from which we previously purchased electric energy, used at our plant for soda ash production in Stassfurt. We use essentially all heat and approximately 15% of electric power, produced in SDC Power Plant, for the entire soda ash production. The remaining electric energy produced in SDC Power Plant, is sold on the energy market. Additionally, Soda Polska Ciech S.A. has two own heat and power stations that deliver thermal and electric energy, satisfying all needs in connection with the demand for energy for the purposes of soda ash production of our both production systems: in Inowrocław and Janikowo. In spite of that, we remain under the effect of fluctuations of prices of natural gas and coal used in the process of heat generation in these systems (accordingly in Group SDC and Soda Polska Ciech S.A.). We also purchase a part of electric power that we use at our soda production plant in US Govora in Romania from the supplier, being a third party. Except for our production system in Stassfurt (Germany), which has its of source of limestone and brine, received from own quarries (which are managed by a third party), most raw materials for the needs of production of soda ash and soda derivatives are purchased from a relatively limited number of sources.

In the organic segment, prices of power and organic chemical substances have a tendency to instability. For instance, chemical substances used in production of organic chemical substances, are connected with the general trends in oil prices which have experienced a significant increase, since 2009 and may significantly grow in the future. Provided that the contracts are concluded ensuring delivery of power resources required by us, the contract prices for power resources are variable in connection with market conditions and may be subject to significant fluctuations. We do not apply currently commodity derivatives to secure ourselves against the price risk with regard to raw materials, but we conclude short-and long-term contracts for purchase with suppliers of those products.

Dynamics of prices of power resources and organic chemical substances may have influence on our production costs in segments of soda and of organic products, and thus have effect on earned margins and prices. On the whole, the prices of such raw materials as: toluene, BPA, styrene, polyols and crude oil show the growth trend since 2009. The Ciech Group, just like other manufacturers in chemical industry, takes actions designed to transfer changes in costs of raw materials and energy reducing the price of the end product for the purpose of preserving appropriate margins. The degree to which the Group (and our competitors) is able to do this depends on comprehensive levels, balance of demand and supply in a given period of time and a possibility exists that transfer of prices to customers will be possible only with a delay. In particular, our contracts with customers with regard to soda ash are normally concluded for year periods. However, in situations in which we expect growth, we are able to transfer the expected growth to a customer.

Any changes in the prices of raw materials and energy have direct impact on the levels of the working capital. On the whole, price increases lead to growth in our requirements with regard to the working capital, and drops lead to a decrease in our requirements with regard to the working capital.

Efficiency Improvement and Cost Savings Initiatives
Since 2009 we have continued to optimize our manufacturing network and supply chain operations through the implementation of several efficiency improvement and cost reduction programs. A formal plan was approved in 2010 which envisions two phases—(i) divestments and (ii) optimization of operations. The total amount of proceeds which we have obtained from our planned disposals were PLN 0,2 million, PLN 182,5 million, PLN 96,4 million and PLN 6,5 million for years 2009-2012 respectively. The optimization of operations to drive cost savings and develop efficiency improvement projects includes modernization and rationalization of our product and raw materials portfolio in order to improve profitability and increase production, streamlining the supply chain and decreasing administrative and distribution fixed costs related to expenses. For example, at US Govora, optimization of operations has included investments to improve operation rates, reduce energy consumption and decrease fixed costs. We believe these efforts have contributed to the current positive EBITDA trends at this facility. Cost savings initiatives and optimization efforts during the periods under review were executed within our manufacturing operations. These initiatives, included (i) the sale of shares in Zakłady Azotowe w Tarnowie-Mościcach S.A., Polskie Towarzystwo Ubezpieczeń S.A., GZNF "Fosfory" Sp. z o.o., Polfa Sp. z o.o., Ciech Service sp. z o.o. and Daltrade Ltd. and (ii) the reorganization and streamlining of our management and purchasing functions and operations. Key efficiency improvement projects currently underway or remaining for completion include the modernization of Janikowo power plant, the completion of the construction of a MCPA and MCPP-P production plant. Both these projects were completed in 2012. In 2013, we expect production efficiency projects to cost approximately PLN 11,8 million (which includes approximately PLN 3,1 million in EU grants). These costs are part of our capital expenditure budget.

Continuation of sales of non-crucial companies
We focus on our key areas of operations, in particular on production of soda ash, derivatives of soda and salt. In order to optimize our structure and increase our profitability, we conduct the process of disinvestment of our non-basic companies and we withdraw from assets not yielding the anticipated results or we introduce restructuring actions improving effectiveness to them. In April 2011, we finalized sales of one of our key agro-chemical companies, GZNF "Fosfory" Sp. z o.o. for the price of 106,7 million PLN. At the end of 2012 we started the process of cessation of main directions of operations via our subsidiary ZACHEM S.A., which essentially dealt with production and sales of TDI and ECH. On 24 September 2012, CIECH S.A. and ZACHEM S.A. entered into conditional Contract for Sales and Transfer of TDI Assets. The contract subject were intangible assets associated with production of TDI, including the lists of customers, our business contacts as to TDI, contracts for delivery of TDI, intellectual property rights to products and technology of TDI as well as to know-how related to TDI. The purchase price was fixed at the level of 43 million EUR (of which CIECH S.A. received 33 million EUR, and ZACHEM S.A. received 10 million EUR). Transaction closing took place in March 2013.
Zachem generated sales revenue of PLN 806,898 thousand (accounting for 18.4% of our total revenues), EBITDA of PLN minus 202,469 thousand and Adjusted EBITDA of PLN minus 7,127 thousnad for the year 2012. The book value of Zachem's assets as at December 31, 2012 was PLN 474 742 thousand.

For the year 2012, Zachem's capital expenditure was PLN 57 932 thousandWe are continuously evaluating our businesses and may engage in further divestments of non-core businesses, including Organika-Sarzyna (sales revenue of PLN 635,022 thousand, EBITDA of PLN 17,955 thausand, Adjusted EBITDA of PLN 51,321 thousand and capital expenditure of PLN 84,817 thausand for year 2012), Alwernia S.A. (sales revenue of PLN 188,045 thousand, EBITDA of PLN minus 33,425 thousand, Adjusted EBITDA of PLN 11,885 thousand and capital expenditure of PLN 6,594 thousand for the year 2012), Vitrosilicon S.A. (sales revenue of PLN 160,329 thousand, EBITDA of PLN 11,658 thousand, Adjusted EBITDA of PLN 20,947 thousand and capital expenditure of PLN 11,692 thousand for the year 2012), Ciech Pianki Sp. z o.o. (sales revenue of PLN 205,692 thousand, EBITDA of PLN 8,198 thousand, Adjusted EBITDA of PLN 8,234 thousand and capital expenditure of PLN 2,366 thousand for the year 2012) and Transclean Sp. z o.o. (sales revenue of PLN 47,558 thousand, EBITDA of PLN 2,873 thousand , Adjusted EBITDA of PLN 2,806 thousand and capital expenditure of PLN 654 thousnad for the year 2012) which are businesses in our Organic, Agrochemical, Glass & Silicates and other operations segments.

On January 31, 2013, CIECH S.A. and Alwernia Invest Sp. z o.o signed a preliminary contract for sale of 2 277 431 shares constituting 99.62% of share capital of subsidiary of CIECH S.A, Alwernia S.A. The preliminary contract for sale of shares is a conditional contract and depends, among others, on obtaining consent of UOKiK and repayment of loans granted by CIECH S.A to Alwernia S.A., amount to ca. PLN 14,2 million. The selling price of the Company's shares was determined at USD 13,4 million (i.e. PLN 41,4 million as at December 31, 2012). Part of the price is payable in interest-bearing installments. Alwernia Invest Sp. z o.o. is a special purpose vehicle that belongs to KERMAS Group (international producer and distributor of chemicals).

Normalized EBITDA is EBITDA excluding costs and revenue that, in the opinion of the Board of Directors of CIECH S.A.are the most important non-repeated and atypical items. Our opinion that normalized EBITDA is an appropriate criterion for the purposes of measurement and evaluation of frequently observed signs of operating efficiency of the Group. According to this view, this information was disclosed in the present Report to enable more complete and comprehensive analysis of results of our operating activities. Other companies can calculate normalized EBITDA in a manner different than ours. Normalized EBITDA is not a measure of efficiency of the financial situation as defined by IFRS and consequently is subject to tests by the auditor, while it should be considered as a measure of liquidity or an alternative for the result from operating activities or the net result or any other measure of efficiency fixed in accordance with IFRS.

Macro-economic conditions
Poland is our largest individual market, representing 35% of our income for the year, ended on 31 December 2012. The largest domestic end users of our products include chemical industry, plastics industry, glass industry, furniture industry and agriculture. Development trends in these sectors of economy depend on the economic situation of Poland. After a significant acceleration in the Polish economic growth in the years 2010-2011 (during which the annual GDP growth was 4%), economic increase in Poland experienced a slowdown down to 2% of the gross domestic product in 2012 (source: National Statistical Office (GUS)). Taking into account strong correlation between macro-economic conditions and chemical industry, a similar growth trend is expected in the Polish soda ash industry.

Apart from of Poland, an important pillar of a part of our business is sale of chemical products in other European countries. Volume and profitability of their sales are dependent upon macro-economic conditions in Europe and globally.According to the estimations of the International Monetary Fund, the global GDP increased in 2012 only by 3.2% as compared to 3.9 and 5.1% accordingly in the years 2011 and 2010. In the light of world economy, only the Euro experienced negative result, where in 2012 the decrease in GDP could reach – 0.4%.Forecasts for 2013 year indicate a small improvement in the economic situation as compared to the previous year.
The International Monetary Fund envisages acceleration of the growth rate of the global GDP up to 3.5% and in the case of the European Union – positive dynamics of GDP in the range of 0.2% (According to the European Commission 0.4%).
After substantial increases in the chemical production volume in 2010 (globally by 10% according to the American Chemical Chamber – ACC; in the EU also by 10% according to the European Council of Chemical Industry – CEFIC) in 2011 there was a clear reduction in the pace of this development (according to 3.5 and 1.3%). ACC assesses that a after small growth in the world's production of chemicals by 1.2% in 2012, in 2013 dynamics will accelerate up to 3.6%. On the other hand, in the European Union for 2012 CEFIC estimated a decrease in chemical production by 2% as compared to the previous year. For 2013, small growth is expected in the range of 0.5%.

Exchange rate fluctuations
The results of the Ciech Group's operations are influenced by the exchange risk associated with currency translation and transaction risk. A significant part of our turnover and operating costs is incurred (or related to) the euro and the US dollar. In all business segments, the prices of certain products and certain raw material costs are determined in euro and US dollars. During 2012, euro sales revenues amounted to approximately 458.5 million, and US dollar sales revenues amounted to approximately 197,7 million. The presentation currency of the consolidated financial statement is the Polish zloty, and the business performance will be influenced by the relevant strength of the zloty against other currencies, including the euro and the US dollar. For example, our export sales are settled mainly in euros. The euro exchange rate influences the profitability of our export, because a significant part thereof goes to Member States of the European Union. A strong euro results in higher export profitability. The exchange rate of the euro against the zloty affects our sales profitability. If the zloty strengthens against the euro, export profitability will fall. In 2012 we did not use hedge contracts to hedge currency risk. We aim to obtain natural hedging against exchange rate exposure whichincludes matching of flows in a given currency arising from sales and purchases, and strategic denomination of our debt in euros in order to adjust it to the anticipated exchange rate risk exposure in our operations.

Environmental considerations and OH&S
The results of the Ciech Group's operations are also influenced by regulations regarding environmental protection and general considerations in the field of environmental protection and OH&S. We incurred, and expect to continue incurring, significant fixed capital costs to ensure compliance with current and future rules and regulations regarding environmental protection and OH&S. We can also be required to bear the costs of removing damages, closing installations and modernising our manufacturing plants and other facilities.
Over the next several years, in line with our expectations, the Ciech Group's Companies will feel the impact of new regulatory requirements for environmental protection arising under, among others, the IED and EU ETS. We operate in a field that is highly regulated and can incur significant costs to ensure compliance with or performance of an obligation based on environmental laws, occupational health and safety, and legislation applicable to our business. Adapting to increasing legislative demands can result in significant additional costs for the Group.

Summary consolidated financial statements and other information

The individual items in the statement of financial position, income statement and cash flows statement presented below have been converted into euro at the exchange rate of the Polish National Bank for the euro on the last day of December. This course is 1,00 zł = 0.2446 euro (1 euro = 4.0882 zł).

Selected data from the consolidated income statement:

CONSOLIDATED INCOME STATEMENT OF THE CIECH GROUP *PLN '000*	01.01-31.12.2012	01.01-31.12.2011	01.01-31.12.2012 EUR '000
Sales revenues	4 377 952	4 174 486	1 070 875
Cost of sales	(3 781 457)	(3 613 807)	(924 969)
Gross profit/loss on sales	**596 495**	**560 679**	**145 906**
Other operating income	131 291	117 022	32 115
Selling costs	(276 375)	(276 019)	(67 603)
General and administrative expenses	(202 416)	(213 596)	(49 512)
Other operating expenses	(445 338) (2)	(69 371)	(108 933)
Operating profit/loss	**(196 343)**	**118 715**	**(48 027)**
Financial income	10 096	33 490	2 470
Financial expenses	(271 684)	(143 621)	(66 456)
Net financial income/expenses	**(261 588)**	**(110 131)**	**(63 986)**
Share of profit of equity-accounted investees	744	46	182
Profit/loss before tax	**(457 187)**	**8 630**	**(111 831)**
Income tax	22 139	4 586	5 415
Net profit/loss	**(435 048)**	**13 216**	**(106 416)**
Profit/loss on disposal of discontinued operations	(2 663)	(11 715)	(651)
Net profit/loss for the financial year	**(437 711)**	**1 501**	**(107 067)**
Profit/loss on discontinued operations (3)	*(222 545)*	*(77 378)*	*(54 436)*

Selected data from the consolidated statement of financial position:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CIECH GROUP	31.12.2012	31.12.2011	31.12.2012 EUR '000
PLN '000			
ASSETS			
Property, plant and equipment	2 099 395	2 218 720	513 525
Right of perpetual usufruct	57 134	56 278	13 975
Intangible assets, including:	129 167	181 121	31 595
- goodwill	*60 455*	*64 149*	*14 788*
Investment property	113 018	87 487	27 645
Non-current receivables	65 534	72 227	16 030
Investments in associates and jointly-controlled entities measured under the equity method	4 971	4 655	1 216
Other long-term investments	44 661	40 915	10 924
Deferred income tax assets	31 884	24 489	7 799
Total non-current assets	**2 545 764**	**2 685 892**	**622 709**
Inventory	279 126	356 619	68 276
Short-term investments	946	1 505	231
Income tax receivables	4 086	8 800	999
Trade and other receivables	705 136	819 558	172 481
Cash and cash equivalents	81 177	145 805	19 856
Non-current assets held for sale	111 800	57 017	27 347
Total current assets	**1 182 271**	**1 389 304**	**289 190**
Total assets	**3 728 035**	**4 075 196**	**911 899**
EQUITY AND LIABILITIES			
Total equity	**880 188**	**1 315 131**	**215 299**
Liabilities due to loans, borrowings and other debt instruments	1291 660	190 916	315 948
Liabilities due to finance sale-and-lease-back	204 231	158 105	49 956
Finance lease liabilities	3 235	11 594	791
Other non-current liabilities	122 213	88 104	29 894
Employee benefits	20 560	63 163	5 029

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CIECH GROUP	**31.12.2012**	**31.12.2011**	**31.12.2012** EUR '000
Provisions (other long-term)	40 422	52 666	9 887
Deferred tax liability	104 170	120 666	25 481
Total non-current liabilities	**1 786 491**	**685 214**	**436 986**
Overdraft facility	-	6 744	-
Loans, borrowings and other debt instruments	6 543	1 017 663	1 600
Liabilities due to finance sale-and-lease-back	48 740	803	11 922
Finance lease liabilities	7 855	12 586	1 921
Trade and other liabilities	768 404	955 833	187 957
Income tax liabilities	23 749	21 930	5 809
Provisions (short-term provisions for employee benefits and other provisions)	172 474	26 221	42 188
Liabilities related to assets classified as held for sale	33 591	33 071	8 217
Total current liabilities	**1 061 356**	**2 074 851**	**259 614**
Total liabilities	**2 847 847**	**2 760 065**	**696 600**
Total equity and liabilities	**3 728 035**	**4 075 196**	**911 899**

Selected data from the consolidated cash flows statement:

PLN '000	**31.12.2012**	**31.12.2011**	**31.12.2012** EUR '000
Net cash from/(used in) operating activities	97 956	(27 370)	23 961
Net cash from/(used in) investment activities	(287 054)	(55 626)	(70 215)
Net cash from/(used in) financial activities	131 920	19 301	32 268
Total net cash flows	(57 178)	(63 695)	(13 986)

Other selected financial data:

PLN '000	**01.01.-31.12.2012**	**01.01.-31.12.2011**
EBITDA (4)	40 334	340 824
Normalized EBITDA (5)	423 112	327 442
Capital expenditures	300 417	287 519
Cash interest expense	103 628	93 667
Cash and cash equivalents	81 177	145 805
Total debt	1 560 440	1 407 152
Net debt	1 479 264	1 261 347
Net debt/ Normalized EBITDA	x 3,5	x 3,9
Normalized EBITDA / cash interest expense	x 4,1	x 3,5
Soda segment sales volumes (kts)	2 596	2 584
Soda ash sales price (PLN/t)	767	696,5

(1) Other operating costs include write-downs on assets, provisions for fringe benefits and other provisions, costs of overcapacity and costs of disposal of tangible fixed assets.

(2) This amount is mainly due to write-downs of tangible fixed assets and created provisions, mainly in the ZACHEM Group in connection with the cessation of TDI and ECH production (the write-offs and provisions amounted to PLN 213,377 thousand).

(3) The net profit/loss from discontinued operations is made up of the results of companies that were sold or are held for sale in accordance with IFRS 5. These are (i) the Fosfory Group and Daltrade Plc in 2011; (ii) Polfa Sp. z o.o. in 2011 and the first three quarters of 2012, (iii) and net results achieved from the sale of these companies, (iv) the ZACHEM Group and Alwernia S.A. in 2011 and 2012.

(4) EBITDA is the net profit/loss for a financial year, plus income tax, plus a share in the net profit of subordinate entities valuated using the equity method, plus costs/financial revenues, plus profits/losses from the sale of a discontinued operation plus amortisation. EBITDA is not a ratio of liquidity or business performance calculated in accordance with IFRS. EBITDA should be viewed as a supplement, not as a substitute for our business performance presented in accordance with IFRS. We believe that EBITDA is a useful ratio of our ability to incur and cover debt and can aid our analysts, investors and other persons evaluating us. EBITDA and similar ratios are used by different companies for different purposes and are often calculated in a manner adapted to the conditions in which these companies exist. Care needs to be exercised when comparing EBITDA with the EBITDA of other companies. The reconciliation of operating profit from EBITDA for the indicated periods is as follows:

PLN '000	31.12.2012	31.12.2011	31.12.2012 EUR '000
Net profit/loss	(437 711)	1 501	(107 067)
Income tax	22 139	4 586	5 415
Share of profit of equity-accounted investees	744	46	182
Financial expenses	(271 684)	(143 621)	(66 456)
Financial income	10 096	33 490	2 470
Profit/loss on disposal of discontinued operations	(2 663)	(11 715)	(651)
Amortization	236 677	222 109	57 893
EBITDA	**40 334**	**340 824**	**9 866**

(5) *Normalised EBITDA is another additional ratio of business performance. Normalised EBITDA is EBITDA adjusted for costs/revenues that were classified by management as one-off in nature. We believe that normalised EBITDA is an important ratio when estimating and measuring the Group's recurring business performance. Other companies may calculate normalised EBITDA in a manner different to ours. Normalised EBITDA is not a measure of financial performance under IFRS and is therefore not audited. It should not be used as a ratio of liquidity or as an alternative to operating profit or net profit for a year, or as another measure of results calculated in accordance with IFRS. The table below contains a reconciliation of EBITDA to normalised EBITDA for the indicated periods:*

PLN '000	01.01.-31.12.2012	01.01.-31.12.2011	01.01.-31.12.2012 EUR '000
EBITDA (a)	40 334	340 824	9 866
One-offs, including:	(382 778)	13 382	(93 630)
Impairment of fixed assets (tangible and intangible assets, investment property) (b)	(234 180)	(2 355)	(57 282)
Cash items (c)	(1 027)	8 529	(251)
Non-cah items (without impairment) (d)	(147 571)	7 208	(36 097)
Normalized EBITDA	**423 112**	**327 442**	**103 496**

(a) EBITDA contains revenues from the sale of blowholes formed during the process of exploitation of brine, used for storage of natural gas or other substances requiring isolation. These revenues are included in EBITDA and are not eliminated from it as one-off events. The revenues from the blowholes were as follows: PLN 6,419 thousand for 2012 and PLN 40,370 thousand for 2011.

(b) Impairment losses are associated with the creation/release of the Ciech Group's asset-value write-downs. In 2012 the Group created impairment losses of tangible fixed assets and intangible assets mainly in the ZACHEM Group (the assets used to produce TDI and ECH were written down by PLN 213,377thousand)

(c) Cash items include profit/loss from the sale of tangible fixed assets, profit from the sale of rights to greenhouse gas emission and other items (including costs of restructuring and costs associated with discontinued operations).

(d) Non-cash items include: fair value measurement of investment properties, measurement of obligations for sale-and-leaseback (Lease Agreement for the CHP plant in SDC), the costs of investments placed on hold, environmental provisions, provisions for liabilities and expected losses, costs of overcapacity, costs of liquidation of inventory and tangible fixed assets and other items (including extraordinary costs and other provisions).

(6) *Capita expenditures are expenditures for the acquisition of tangible fixed assets, intangible assets and investment properties as per the consolidated cash flow statement.*

(7) *Interest paid is actual expenditure for the repayment of interest on debt as per the consolidated cash flow statement.*

Below is the EBITDA table and normalised EBITDA, divided up into segments:

EBITDA *PLN '000*	01.01.-31.12.2012	01.01.-31.12.2011	01.01.-31.12.2012 EUR '000
Soda segment	271 623	314 517	66 441
Organic segment	(152 685)	(10 394)	(37 348)
Agrochemical segment	(30 994)	40 814	(7 581)
Silicates & Glass segment	19 889	27 042	4 865
Other	(67 499)	(31 155)	(16 513)
Total	**40 334**	**340 824**	**9 864**

Normalized EBITDA *PLN '000*	01.01.-31.12.2012	01.01.-31.12.2011	01.01.-31.12.2012 EUR '000
Soda segment	348 671	286 137	85 287
Organic segment	75 996	(3 133)	18 588
Agrochemical segment	14 316	49 940	3 502

Normalized EBITDA *PLN '000*	**01.01.-31.12.2012**	**01.01.-31.12.2011**	**01.01.-31.12.2012** EUR '000
Silicates & Glass segment	29 489	27 524	7 213
Other	(45 360)	(33 026)	(11 095)
Total	**423 112**	**327 442**	**103 495**

During 2012 the Ciech Group achieved a net result of PLN minus 437,711 thousand, the balance sheet total amounted to PLN 3,728,035 thousand, and the net balance of cash fell by PLN 57,178 thousand.

The following table presents selected financial data along with key financial indicators for 2012 and 2011.

PLN '000	**01.01.-31.12.2012**	*including discontinued operations*	**01.01.-31.12.2011**	*including discontinued operations*	**Change 2012/2011**
Sales revenues	**4 377 952**	***991 047***	**4 174 486**	***1 221 734***	**4,9%**
Cost of sales	(3 781 457)	*(907 284)*	(3 613 807)	*(1 133 522)*	4,6%
Gross profit/loss on sales	596 495	*83 763*	560 679	*88 212*	6,4%
Selling costs	(276 375)	*(54 229)*	(276 019)	*(59 156)*	0,1%
General and administrative expenses	(202 416)	*(48 037)*	(213 596)	*(62 097)*	(5,2%)
Other operating income / expenses	(314 047)	*(229 109)*	47 651	*(12 500)*	-
Operating profit/loss	**(196 343)**	***(247 612)***	**118 715**	***(45 541)***	-
Net financial income/expenses	(261 588)	*16 403*	(110 131)	*(32 109)*	**(137,5%)**
Share of profit of equity-accounted investees	744	*(57)*	46	*(86)*	1 517,4%
Income tax	22 139	*11 384*	4 586	*12 073*	-
Profit/loss on disposal of discontinued operations	(2 663)	*(2 663)*	(11 715)	*(11 715)*	77,3%
Net profit/loss	**(437 711)**	***(222 545)***	**1 501**	***(77 378)***	**-**
Net profit/loss attributed to non-controlling interest	(7 127)	*(2 538)*	342	*(2 639)*	-
Net profit/loss attributable to shareholders of the parent company	**(430 584)**	***(220 007)***	**1 159**	***(74 739)***	**-**
EBITDA	40 334	*(216 631)*	340 824	*(3 450)*	(88,2%)
*Normalized EBITDA **	*423 112*	*x*	*327 442*	*x*	*29,2%*

**Excluding one-off events, the more-important of which are described in item II.33.*

PLN '000	**31.12.2012**	**31.12.2011**	**Change 2012/2011**
Total assets	**3 728 035**	**4 075 196**	**(8,5%)**
Total non-current assets	2 545 764	2 685 892	(5,2%)
Total current assets, including:	1 182 271	1 389 304	(14,9%)
-inventory	*279 126*	*356 619*	*(21,7%)*
- current receivables	*709 222*	*828 358*	*(14,4%)*
- cash and cash equivalents	*81 177*	*145 805*	*(44,3%)*
- short-term investments	*946*	*1 505*	*(37,1%)*
- non-current assets held for sale	*111 800*	*57 017*	*96,1%*
Total equity	**880 188**	**1 315 131**	**(33,1%)**
Equity attributable to shareholders of the parent	886 000	1 317 151	(32,7%)
Non-controlling interest	(5 812)	(2 020)	187,7%
Total non-current liabilities	1 786 491	685 214	160,7%
Total current liabilities	1 061 356	2 074 851	(48,8%)

PLN '000	**01.01.-31.12.2012**	**01.01.-31.12.2011**	**Change 2012/2011**
Net cash from/(used in) operating activities	97 956	(27 370)	-
Net cash from/(used in) investment activities	(287 054)	(55 626)	416%
Net cash from/(used in) financial activities	131 920	19 301	583,5%
Total net cash flows	**(57 178)**	**(63 695)**	(10,2%)
including, free cash flows	***(189 098)***	***(82 996)***	127,8%

PLN '000	**31.12.2012**	**31.12.2011**	**Change 2012/2011**
Earnings per share (in PLN):	**(8,17)**	**0,02**	**(8,19) p.p.**
Net return	(10,0%)	0,04%	(10,04) p.p.
EBIT %	(4,5%)	2,8%	(7,3) p.p.
EBITDA %	0,9%	8,2%	(7,3) p.p.
Normalized EBITDA %*	9,7%	7,8%	1,9 p.p

**Excluding one-off events, the more-important of which are described in item II.33.*
Source: CIECH S.A.

Principles of ratio calculation:
***net profit/share** – net profit/weighted average number of ordinary shares outstanding in the given period (in accordance with definition IAS 33 'Earnings per share')*
***net return** – net profit for the given period/net revenues from the sale of products, services, goods and materials for the given period,*
***EBIT%** – operating profit for the given period/net revenues from the sale of products, services, goods and materials for the given period*
***EBITDA%** – (operating profit + amortisation for the given period/net revenues from the sale of products, services, goods and materials for the given period*

Sales revenues

The total sales revenues for the year ended 31 December 2012 amounted to PLN 4,377,952 thousand, which was an increase of PLN 203,466 thousand (i.e. of 4.9%) compared to the amount of PLN 4,174,486 thousand of sales revenues for the year ended 31 December 2011.

The following had a positive impact on the presented results:

- Continued growth in domestic chemical industry sales in 2012 compared to the same period in the previous year (according to constant prices; by 7.0% for chemicals and chemical products and by 0.2% for the manufacture of rubber and plastics).
- Soda ash prices on European markets maintained at a higher level than that in 2011 (by 7%-8% for Western Europe).
- Sulphur market prices maintained at a high global level.
- The signing an agreement for the lease of the CHP plant by Companies of Soda Deutschland Ciech Group with Vasa Kraftwerke-Pool GmbH&Co. KG.

The following had a negative impact on the presented results:

- A decrease in the domestic sales of construction and assembly production of minus 1% during the 12 months of 2012 compared to the same period in the previous year (the chemical industry produces many raw materials and intermediate products for this production).
- A fall in the price of electricity and an increase in gas prices in Germany, which impacts the cost of production of soda ash in the Soda Deutschland Group.
- Weakened demand on the European soda ash market compared to the previous year (a slight fall in Western Europe, in particular from manufacturers of flat glass, the closure of several glass factories).
- Continuing high crude oil prices resulting in high raw material prices for the organic industry and not conducive to improving returns of The Ciech Group's organic segment.
- Low level of market prices for epoxy resins and epichlorohydrin compared to the previous year (in Western Europe this was over 10 per cent).
- Downturn of the economic situation in the domestic furniture industry (compared to the previous year) – the main recipient of polyurethane foams and (indirectly) TDI.

The Ciech Group's operations focus on four business segments: soda, organic, agrochemical, and silicates and glass. Together these segments account for 97% of the Group's sales revenues. The revenue structure broken down by segments did not change compared to the same period last year. The largest share of the revenue for 2012 was the sale of products in the soda segment. This is a result of both higher volumes, and the sale prices of soda ash.

Sales revenues – business segments

PLN '000	**2012**	**2011**	**change**	**change %**	**% of total revenues in 2012**	**% of total revenues in 2011**
Soda Segment, including:	**1 975 489**	**1 728 811**	**246 678**	**14,3%**	**45,1%**	**41,4%**
Dense soda ash	1 094 632	968 764	125 868	13,0%	25,0%	23,2%
Light soda ash	344 044	313 147	30 897	9,9%	7,9%	7,5%
Salt	151 582	147 016	4 566	3,1%	3,5%	3,5%
Baking soda	119 769	108 245	11 524	10,6%	2,7%	2,6%
Calcium chloride	21 139	34 124	(12 985)	(38,1%)	0,5%	0,8%
Other	194 386	110 133	84 253	76,5%	4,4%	2,6%
Revenues from inter-segment transactions	49 937	47 382	2 555	5,4%	1,1%	1,1%
Organic segment, including:	**1 690 982**	**1 605 070**	**85 912**	**5,4%**	**38,6%**	**38,4%**
TDI	553 868	426 975	126 893	29,7%	12,7%	10,2%
Resins	467 515	469 007	(1 492)	(0,3%)	10,7%	11,2%
Polyurethane foams	202 986	208 159	(5 173)	(2,5%)	4,6%	5,0%
Plant protection chemicals	176 225	129 123	47 102	36,5%	4,0%	3,1%
Plastics	42 154	64 975	(22 821)	(35,1%)	1,0%	1,6%
ECH	57 435	89 722	(32 287)	(36,0%)	1,3%	2,1%
Other	157 879	160 526	(2 647)	(1,6%)	3,6%	3,8%
Revenues from inter-segment transactions	32 920	56 583	(23 663)	(41,8%)	0,8%	1,4%
Agrochemical segment, including:	**236 038**	**390 208**	**(154 170)**	**(39,5%)**	**5,4%**	**9,3%**
Fertilisers	71 095	158 939	(87 844)	(55,3%)	1,6%	3,8%
Phosphorus compounds	142 393	148 538	(6 145)	(4,1%)	3,3%	3,6%
Chromium compounds	11 706	16 402	(4 696)	(28,6%)	0,3%	0,4%
Other	4 047	54 874	(50 827)	(92,6%)	0,1%	1,3%
Revenues from inter-segment transactions	6 797	11 455	(4 658)	(40,7%)	0,2%	0,3%
Silicates and Glass segment, including:	**435 567**	**315 526**	**120 041**	**38,0%**	**9,9%**	**7,6%**
Sulphur	263 202	150 561	112 641	74,8%	6,0%	3,6%
Glass blocks and packaging	89 556	87 900	1 656	1,9%	2,0%	2,1%
Sodium silicate in lumps	53 775	52 007	1 768	3,4%	1,2%	1,2%
Sodium water glass	21 522	17 157	4 365	25,4%	0,5%	0,4%
Other	7 504	7 827	(323)	(4,1%)	0,2%	0,2%
Revenues from inter-segment transactions	8	74	(66)	(89,2%)	0,0%	0,0%
Other operations segment [(2)]	**140 958**	**252 030**	**(111 072)**	**(44,1%)**	**3,2%**	**6,0%**
Revenues from third parties	129 538	250 365	(120 827)	(48,3%)	3,0%	6,0%
Revenues from inter-segment transactions	11 420	1 665	9 755	585,9%	0,3%	0,0%
Consolidation adjustments	**(101 082)**	**(117 159)**	16 077	(13,7%)	(2,3%)	(2,8%)
Total, including:	**4 377 952**	**4 174 486**	**203 466**	**4,9%**	**100,0%**	**100,0%**
Discontinued operations [(3)]	***991 047***	***1 221 734***	***(230 687)***	***(18,9%)***	***22,6%***	***29,3%***

Source: CIECH S.A.

(1) Other products include revenues from the sale of electricity generated at the CHP plant in Janikowo (Poland), as well as from the sale of electricity produced at the waste incineration plant in Strassfurt (Germany).

(2) The other operations segment includes a pharmaceutical company (POLFA Sp. z o.o.) which was sold in September 2012, and commercial companies (CiechPolsin Private Ltd, Cheman S.A.).

(3) The revenues from discontinued operations are made up of the results of companies that were sold or are classified as a discontinued operation in accordance with IFRS 5. These are (i) the Fosfory Group and Daltrade Plc in 2011; (ii) Polfa Sp. z o.o. in 2011 and the first three quarters of 2012, (iii) and net results achieved from the sale of these companies, (iv) the ZACHEM Group and Alwernia S.A. in 2011 and 2012.

Sales in the soda segment

Sales in the soda segment for the year ended 31 December 2012 amounted to PLN 1,975,489 thousand, which is an increase of PLN 246,678 thousand (14.3%) compared to PLN 1,728,811 thousand of sales revenues for the year ended 31 December 2011. Soda sales increased primarily due to an increase in demand for soda ash on the Central and Eastern European markets and in Nordic countries. This increase was partially offset by lower-than-projected sales of calcium chloride (an ingredient of anti-ice) due to the mild temperatures throughout most of winter. In addition, as a result of the agreement for the lease of the CHP plant in Germany, the accounting treatment changed and from the beginning of 2012 revenues from the sales of electricity have been included as sales revenues (financial leasing).

Sales in the organic segment

Sales in the organic segment for the year ended 31 December 2012 amounted to PLN 1,690,982 thousand, which is an increase of PLN 85,912 thousand (i.e. of 5.4%) compared to PLN 1,605,070 thousand of sales revenues for the year ended 31 December 2011. The increase in sales in the organic segment is a result of (i) higher TDI prices (ii) favourable relationship between demand and supply and an increase in the prices of epoxy resins, which is the result of higher raw material prices (iii) growing demand and higher production volumes of plant protection chemicals (an increase in demand from farmers).

Sales in the agrochemical segment

Sales in the agrochemical segment for the year ended 31 December 2012 amounted to PLN 236,038 thousand, which is an increase of PLN 154,170 thousand (i.e. of 39.5%) compared to PLN 390,208 thousand of sales revenues for the year ended 31 December 2011. Sales in the agrochemical segment decreased primarily due to the sale of our shares in GZNF 'FOSFORY' Sp. z o.o. (involved in the production and sale of fertilisers), which came into effect in April 2011. This decrease was also caused by deterioration of the phosphoric acid market conditions.

Sales in the silicates and glass segment

Sales in the silicates and glass segment for the year ended 31 December 2012 amounted to PLN 435,567 thousand, which is an increase of PLN 120,041 thousand (i.e. of 38%) compared to PLN 315,526 thousand of sales revenues for the year ended 31 December 2011. Sales in the silicates and glass segment increased primarily due to increased sulphur sales.

Cost of sales

The cost of sales for the year ended 31 December 2012 amounted to PLN 3,781,457 thousand, which is an increase of PLN 167,650 thousand (4.6%) compared to PLN 3,613,807 thousand of cost of sales for the year ended 31 December 2011. This increase was largely due to the significant increase in the prices of raw materials in the organic segment, in particular of crude oil, and was also the result of the change of the accounting treatment as a result of the signed lease agreement for the CHP plant in Germany. The increase in the cost of sales was partially offset by the fall in the price of anthracite, which is the raw material used in soda ash production.

The table below presents gross profit on sales broken down by business segments:

PLN '000	**01.01.-31.12.2012**	**01.01.-31.12.2011**	**01.01.-31.12.2012** EUR '000
Soda segment	324 049	303 167	79 264
Organic segment	163 383	86 424	39 965
Agrochemical segment	25 338	78 048	6 198
Silicates & Glass segment	69 726	67 435	17 055
Other (1)	13 999	25 605	3 424
Gross profit/loss on sales	**596 495**	**560 679**	**145 906**

(1) The 'Other' item includes other activities, corporate functions and consolidation adjustments.

Soda segment

The gross profit from sales in the soda segment for the year ended 31 December 2012 amounted to PLN 324,049 thousand compared to PLN 303,167 thousand for the year ended 31 December 2011. The increase in gross profit was primarily due to the signed lease agreement for the CHP plant in Germany, and was offset by write-downs of energy performance certificates and a declining margin on the sale of electricity in the SDC Group.

Organic segment

The gross profit from sales in the organic segment for the year ended 31 December 2012 amounted to PLN 163,383 thousand compared to PLN 86,424 thousand for the year ended 31 December 2011. The main reason for the increase was higher margins and higher TDI sales volumes, which were partially offset by the increase in raw material prices.

Agrochemical segment
The gross profit from sales in the agrochemical segment for the year ended 31 December 2012 amounted to PLN 25,338 thousand compared to PLN 78,048 thousand for the year ended 31 December 2011. The main reason for the fall was the sale of the Fosfory Group in 2011 (a decrease in the composition of the Group) and decreased margins and phosphorus fertiliser prices due to lower market demand for these products.

Silicates and glass segment
The gross profit from sales in the silicates and glass segment for the year ended 31 December 2012 amounted to PLN 69,726 thousand compared to PLN 67,435 thousand for the year ended 31 December 2011.

In light of the above, the consolidated gross profit from the Ciech Group's sales for the year ended 31 December 2012 amounted to PLN 596,495 thousand compared to PLN 560,679 thousand for the year ended 31 December 2011.

Other operating revenues
Other operating revenues primarily include revenues from the execution of construction contracts, the sale of caverns and the release of write-downs of receivables and other assets. Other operating revenues for the year ended 31 December 2012 amounted to PLN 131,291 thousand, which is an increase of PLN 14,269 thousand (i.e. of 12,2%) compared to PLN 117,022 thousand for the year ended 31 December 2011. The increase in other operating revenues was primarily due to the positive fair value measurement of investment properties and the release of a part of the provisions and write-downs in the Group's Companies.

Sales costs
The sales costs for the year ended 31 December 2012 amounted to PLN 276,375 thousand, which means that remained at the same level as in 2011 (PLN 276,019 thousand). The sales costs constituted 6.3% of sales revenues for 2012 (compared to 6.6% for 2011).

Administrative expenses
The administrative expenses for the year ended 31 December 2012 amounted to PLN 202,416 thousand, which is a fall of PLN 11,180 thousand (i.e. of 5.2%) compared to PLN 213,596 thousand for the year ended 31 December 2011. The fall in the overheads was primarily due to the sale of our shares in GZNF 'FOSFORY' Sp. z o.o. and the reduction of administrative expenses in most of the group's companies.

Other operating costs
Other operating costs primarily include asset-value write-downs, provisions for fringe benefits and other provisions, costs of overcapacity, costs of disposal of tangible fixed assets and extraordinary events. Other operating costs for the year ended 31 December 2012 amounted to PLN 445,338 thousand, which is an increase of PLN 375,967 thousand (i.e.of 541,9%) compared to PLN 69,371 thousand for the year ended 31 December 2011. Such a significant increase in other operating costs was primarily due to the creation of write-downs of tangible fixed assets and intangible assets in the Ciech Group's companies, and in particular in the ZACHEM Group in connection with the cessation of TDI and ECH production. In addition, provisions were created for severance payments for laid-off employees, and for onerous contracts.

Financial results achieved in different types of activities

PLN '000	**01.01.-31.12.2012**	**01.01.-31.12.2011**	**Change 2012/2011**
1. **Operating profit/loss**	(196 343)	118 715	-
2. **Net financial income/expenses**	(261 588)	(110 131)	(137,5%)
3. Share of profit of equity-accounted investees	744	46	1 517,4%
4. Income tax	22 139	4 586	-
5. Profit/loss on disposal of discontinued operations	(2 663)	(11 715)	77,3%
6. Net profit/loss (1+2+3+4+5)	**(437 711)**	**1 501**	**-**
7. Net profit/loss attributed to non-controlling interest	(7 127)	342	-
8. Net profit/loss attributable to shareholders of the parent company **(6-7)**	**(430 584)**	**1 159**	**-**

Source: CIECH S.A.

Profit/loss on operating activities
Operating loss on operating activities for the year ended 31 December 2012 amounted to PLN 196,343 thousand, which is a fall of PLN 315,058 thousand (i.e. of 265.4%) compared to a profit of PLN 118,715 thousand for the year ended 31 December 2011. This fall was primarily due to the increase of other operating costs.

EBITDA
EBITDA for the year ended 31 December 2012 amounted to PLN 40,334 thousand, which is a fall of PLN 300,490 thousand (i.e.of 88.2%) compared to PLN 340,824 thousand for the year ended 31 December 2011. The fall in EBITDA was primarily due to the significant increase of other operating costs (asset-value write-downs and created provisions).
The EBIT profit ratio was -4.5% at the end of 2012 (2.8% in the previous year), and the EBITDA profit ratio was 0.9% (8.2% in the previous year). The EBIT profit ratio excluding one-off events was 4.3% at the end of 2012 (2.5% in the previous year) and the EBITDA profit ratio excluding one-off events was 9.7% (7.8% in the previous year).

Financial revenues
Financial revenues consist mainly of interest from deposits, unrealised gains from derivatives and positive foreign exchange differences. The financial revenues for the year ended 31 December 2012 amounted to PLN 10,096 thousand, which is a fall of PLN 23,394 thousand (i.e. of 69.9%) compared to PLN 33,490 thousand for the year ended 31 December 2011. The fall in financial revenues is due to the lower balance of interest on funds held in deposits and bank accounts in 2012.

Financial costs
The financial costs consist mainly of interest from loans and obligations. Other financial costs for the year ended 31 December 2012 amounted to PLN 271,684 thousand, which is an increase of PLN 128,063 thousand (i.e. of 89.2%) compared to PLN 143,621 thousand for the year ended 31 December 2011. Financial activities were negatively impacted by: continued significant costs of servicing external debt, including interest on loans and bonds and financial leasing, which is associated with a high level of external debt, and a negative balance of foreign exchange differences. In addition, as a result of the contract concluded between companies of the Soda Deutschland Ciech Group and VASA Kraftwerke – Pool GmbH&Co regarding the lease of the CHP plant, a one-off effect on the SDC Group's result associated with updating the book value of the CHP plant in the amount of PLN 22,713 thousand (after including deferred tax the impact on the net result was minus PLN 16,285 thousand) was observed.

Income tax
The positive effect of income tax on the net result for 2012 amounted to PLN 22,139 thousand and was higher than the effect on the net result for 2011, which was higher by PLN 17,553 thousand. The effective tax rate for each year for years ended 31 December 2012 and 2011 was 5% and 53% respectively.

Net result
The consolidated net result for 2012 was minus PLN 437,711 thousand, of which minus PLN 430,584 thousand consisted of the parent shareholder's net result. This result was influenced by the operating loss primarily associated with introduced asset-value write-downs and created provisions in the Ciech Group's Companies. In addition, the result from financial operations is also negative, and the greatest negative impact was from the cost of servicing external debt: interest and fees on loans, borrowings and bonds.

Assets
At the end of 2012 the Group's fixed assets amounted to PLN 2,545,764 thousand. Compared to the situation as at 31 December 2011, the value of fixed assets decreased by PLN 140,127 thousand, which is associated with the introduction of write-offs of depreciation of tangible fixed assets in the Ciech Group. On the other hand, the Group's Companies continue planned investment processes, which is reflected by the level of investment expenditure in tangible fixed assets, which amounted to approximately PLN 300 million.
The Group's current assets amounted to PLN 1,182,271 thousand as at 31 December 2012. The following items dominated in the structure of current assets: trade and other receivables constituting 60% and inventory constituting 24% of overall current assets. Compared to the situation as at the end of December 2011 the value of current assets decreased by PLN 207,033 thousand. The decrease is related to the sale in the third quarter of 2012 of the POLFA Sp. z o.o. company whose data were presented under assets held for sale, negative cash-flow balance during 2012 and a decrease in inventory and trade receivables.

Liabilities
The Ciech Group's liabilities (non-current and current) as at 31 December 2012 amounted to PLN 2,847,847 thousand, which is an increase compared to the situation as at the end of December 2011 of PLN 87,783 thousand (i.e. of 3.2%). The debt ratio (current and non-current liabilities/total assets) was 76.4% as at 31 December 2012 (67.7% at the end of December 2011). The consolidated net debt of the Group calculated as the sum of non-current and current liabilities due to loans, borrowings and other debt instruments (bonds + financial leasing + liabilities due to derivatives + sale-and-leaseback liability of the SDC Group's CHP plant) decreased by cash and cash equivalents amounted to PLN 1,479,264 thousand as at 31 December 2012 and increased compared to the situation as at the end of December 2011 by PLN 217,916 thousand.
A significant change was observed in the debt structure: in connection with the issue of long-term domestic and foreign bonds, whose date of maturity falls in 2017 and 2019 respectively, and the repayment of the current

liability for loans and bonds, the liquidity ratio increased from 0.67 as at the end of 2011 to 1.11 as at the end of 2012.

Liquidity and capital resources

Capital resources
The sources of liquidity include cash flows generated from our operational activities, funds from the sale of assets, funds from EU grants for capital expenditure, funds available pursuant to the Revolving Credit Agreement and cash on the balance sheet. The Group also uses factoring contracts in Poland and Germany.

Current debt instruments
Our current sources of debt financing consist mainly of issued Bonds, New National Bonds, Open-end Credit and leasing debt (including sale-and-leaseback of the CHP plant).

Capitalisation
The table below presents some actual data regarding the Company's consolidated capitalisation as at 31 December 2012.

PLN '000	**31.12.2012**	**31.12.2011**	**31.12.2012** EUR '000	**31.12.2011** EUR '000
Cash and cash equivalents	**81 177**	**145 805**	**19 856**	**33 011**
Long-term debt, including current portion:				
Credits and loans (1)	410	914 489	100	207 048
Domestic bonds (2)	316 836	300 835	77 500	68 112
Foreign bonds (3)	980 958	-	239 949	-
Financial leases and derivative liabilities	11 090	35 549	2 713	8 049
Power plant lease (4)	**251 146**	**156 280**	**61 432**	**35 383**
Total debt	**1 560 440**	**1 407 152**	**381 694**	**318 592**
Non-controlling interests	(5 812)	(2 020)	(1 422)	(457)
Equity attributable to the Parent Guarantor's shareholders	886 000	1 317 151	216 722	298 214
Total equity	**880 188**	**1 315 131**	**215 300**	**297 757**
Total capitalization	**2 440 628**	**2 722 283**	**596 994**	**616 349**

(1) Loan from unconsolidated subsidiary Polcommerce GmbH.
(2) Nominal value in the amount of PLN 320 million, less the arrangement fee.
(3) Nominal value in the amount of EUR 245 million, less the arrangement fee.
(4) Amount of the purchase obligation arising under the Agreement for the lease of SDC's CHP plant.

Cash flows
The amount of net cash flows in 2012 was negative and amounted to PLN 57,178 thousand. Compared to the same period in the previous year, the Group generated flows higher by PLN 6,517 thousand.

Net cash from operating activities
The net cash from operating activities for the year ended 31 December 2012 amounted to PLN 97,956 thousand compared to the net cash from operating activities in the amount of minus PLN 27,370 thousand for the year ended 31 December 2011. This increase was primarily a result of changes in working capital.

Net cash from investment activities
Net cash from investment activities for the year ended 31 December 2012 amounted to minus PLN 287,054 thousand compared to the net cash from investment activities amounting to minus PLN 55,626 thousand for the year ended 31 December 2011. The decrease in net cash from investment activities was primarily a result of the inflows of cash from the sale of GZNF 'FOSFORY' Sp. z o.o. which occurred in 2011, and also the purchase of intangible assets and tangible fixed assets in the Soda Mątwy Group, ZACHEM Group and Z. Ch. 'OrganikaSarzyna' S.A. in connection with ongoing development projects.

Net cash from financial activities
The net cash from financial activities for the year ended 31 December 2012 amounted to PLN 131,920 thousand compared to the net cash from financial activities in the amount of PLN 19,301 thousand for the year ended 31 December 2011. This increase was primarily due to higher cash inflows generated in the refinancing process (higher inflows from the issuance of national and foreign bonds than expenses for the repayment of credit debt) in 2012 than in 2011.

We believe that cash flows from operating activities together with other capital resources will be sufficient to finance the requirements of the Group in terms of working capital, anticipated capital expenditures and timely repayment of debt, however there is a risk that this will not be the case. Our ability to generate cash depends on future business performance, which in turn depends to some extent on general economic and financial conditions, the market, competition, legislation and other factors beyond our control.

Profitability in 2012

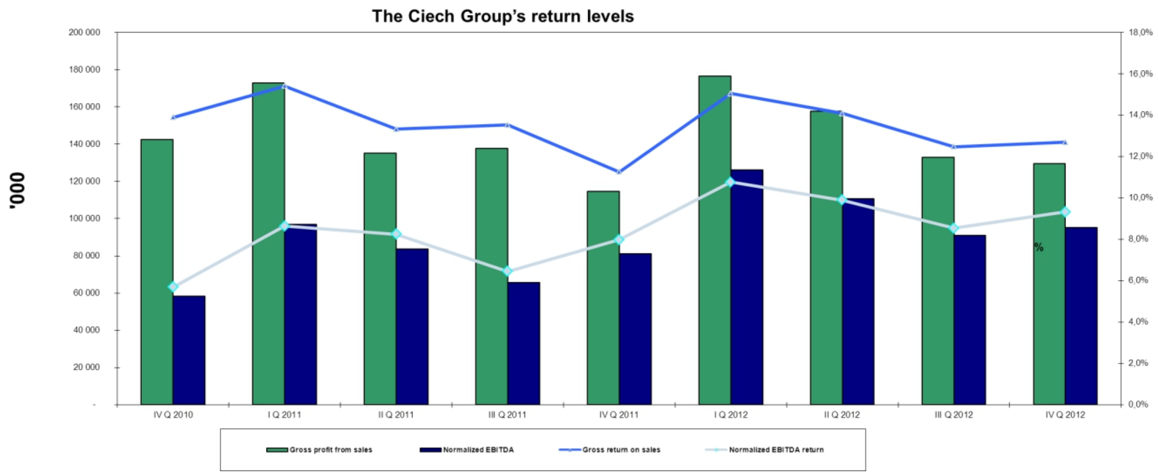
Sales return ratios in 2012 for the Ciech Group were at a higher level compared to the results achieved in 2011. In the soda segment the positive effects of the increase in soda ash prices continue to be seen, and the organic segment is also showing an upward trend in prices of main products. However, operating returns are negative due to the introduction of impairment write-offs for tangible fixed assets at the level of other operating activities.

The Ciech Group's return ratios

	01.01.-31.12.2012	01.01.-31.12.2011
Gross return on sales	13,6%	13,4%
Return on sales	2,7%	1,7%
Operating profit margin	(4,5%)	2,8%
EBITDA %	0,9%	8,2%
Normalized operating profit margin*	4,3%	2,5%
Normalized EBITDA %*	9,7%	7,8%
Net return on sales (ROS)	(10,0%)	0,04%
Return on assets (ROA)	(11,7%)	0,04%
Return on equity (ROE)	(49,7%)	0,1%

**Excluding one-off events, the more-important of which are described in item II.33*

Principles of ratio calculation:
gross return on sales *– gross profit from sales for a given period/net revenues from sales of products, services, goods and materials,*
return on sales *– sales profit for a given period/net revenues from sales of products, services, goods and materials,*
operating profit margin *– operating profit for a given period/net revenues from sales of products, services, goods and materials,*
net return on sales (ROS) *– net sales profit for a given period/net revenues from sales of products, services, goods and materials,*
return on assets (ROA) – *net profit/total assets at the end of a given period,*
return on equity (ROE) – *net profit/total equity at the end of a given period.*



Normalized EBITDA level – excluding one-off events reported in individual quarters
Source: CIECH S.A.

Liquidity of the Group and working capital

Liquidity ratios as at the end of 2012 improved significantly compared to the level as at the end of 2011. The current ratio calculated as the ratio of total current assets to total current liabilities amounted to 1.11 as at 31 December 2012 (at the end of 2011 it was 0.67), while the quick ratio amounted to 0.85 (at the end of 2011 it was 0.51). This is due to changes in the financing structure (repayment of short-term debt, incurring of long-term debt from the issuance of bonds).

The Ciech Group's liquidity ratios

	31.12.2012	31.12.2011
Current ratio	1,11	0,67
Quick ratio	0,85	0,51

Principles of ratio calculation:
current ratio *– the ratio of current assets to the current liabilities at the end of a given period; measures a company's ability to cover current liabilities using current assets.*
quick ratio *– the ratio of current assets less inventory to current liabilities at the end of a given period; measures a company's ability to use its near cash assets to retire its current liabilities immediately.*

Ability to generate cash flows

	31.12.2012	31.12.2011
Financial surplus (net profit + depreciation)	(201 034)	223 610
Other adjustments to net income	363 193	(72 595)
Adjusted financial surplus	**162 159**	**151 015**
Change in working capital	**(64 203)**	**(178 385)**
Cash from operating activities	97 956	(27 370)
Cash from investing activities	(287 054)	(55 626)
Free cash flow	**(189 098)**	**(82 996)**

In 2012 the Ciech Group generated negative free cash flows, i.e. it was unable to finance its investment expenditure with cash flows created within its operating and divestment activities. The adjust financial surplus did not reach the required level for contributing to the development of positive free cash flows.

Working capital, defined as the difference between current assets and current liabilities adjusted by relevant balance sheet items (cash and short-term loans), as at the end of December 2012 amounted to PLN 53,191 thousand, which is a fall of PLN 157,438 thousand compared to that at the end of 2011.

The Ciech Group's working capital

	31.12.2012	31.12.2011
1. Current assets , including:	**1 182 271**	**1 389 304**
Inventory	*279 126*	*356 619*
Trade receivables	*499 616*	*543 839*
2. Cash and cash equivalents and Short-term investments	82 123	147 310
3. Adjusted current assets (1-2)	**1 100 148**	**1 241 994**
4. Current liabilities , including:	1 061 356	2 074 851
Trade liabilities	*521 662*	*588 780*
5. Short-term credits and other current financial liabilities*	14 399	1 043 486
6. Adjusted current liabilities (4-5)	**1 046 957**	**1 031 365**
7. Working capital including short-term credits(1-4)	**120 915**	**(685 547)**
8. Working capital (3-6)	**53 191**	**210 629**

***** *Other current financial liabilities include current financial lease liabilities + current liabilities on derivatives*

The Company defines working capital as the difference between current assets and current liabilities, adjusted by relevant balance sheet items (cash and short-term loans).

Trade working capital is understood as the difference between current assets (trade receivables plus inventory) and trade liabilities. Recorded levels of working capital and trade working capital vary due to a number of factors such as the impact of raw material prices and sales prices, the volatility of working capital related to trade operations (high-value transactions, such as operations involving sulphur trade, can cause fluctuations of working capital), production downtime and repair works, changes in key suppliers' payment terms, foreign exchange rates, the company's decisions regarding inventory maintenance, the operational level, and the seasonal nature of operations involving plant protection chemicals.

Despite a lack of strong seasonal trends, requirements of working capital were characterised by volatility, with a peak value of PLN 311,7 million, and a fall of PLN 249,7 million, recorded in the period between 31 December 2011 and 31 December 2012. The Company's requirements regarding working capital for trade purposes for the period from 2009 to 2012 can be described as highly volatile, with the peak value as high as PLN 459,2 million in March 2010 and the lowest value at PLN 223,5 million in December 2010. These fluctuations are primarily due to large amounts of receivables accumulated from some of our subsidiaries at the end of 2010, caused by difficult market conditions. At Soda Deutschland and US Govora S.A., these receivables were settled towards the end of 2011. Favourable price conditions and payment terms under an agreement for the supply of raw materials for the organic segment were no longer valid after 30 June 2012. This had a negative effect on the level of working capital and cash between 1 July 2012 and now. As at 31 December 2012, the Group recorded a fall in trade working capital of PLN 54,6 million to PLN 257,1 million from PLN 311,7 million as at 31 December 2011, primarily as a result of a decrease in trade receivables.

In the past the Group financed demand for working capital from available cash, cash revenues and through active management of working capital. In order to ensure adequate financial liquidity in terms of working capital requirements, the Group's Companies have the opportunity to incur open-end credit. The Group assumes that the cash flows from operations, together with cash provisions and Open-end credit, will be sufficient to fund working capital requirements, anticipated capital expenditures and timely debt servicing, but this is not certain.

Working capital and trade working capital requirements are characterised by moderate seasonality. To some extent seasonal requirements of working capital and trade working capital may also apply to the Organic Segment, in particular as regards operations involving plant protection chemicals, with the value of peak working capital and trade working capital requirements recorded at the beginning of the year and a fall recorded in the second half of the year. This situation is the result of the plant protection product sales cycle, where the majority of sales transactions occur in the first and second quarters of the year (i.e. before the growing season), while receivables are usually reduced in the third and fourth quarters, after the end of the season. Plant protection chemicals accounted for approximately 3.2% of sales revenues recorded by the Company during the last 12 months.

Indebtedness

The current high level of indebtedness is due to the issuance in the fourth quarter of 2012 of national and foreign bonds, which is described in detail below in note II.27.

The debt ratio increased from 67.7% to 76.4%. At the same time, primarily due to the introduction of write-offs of depreciation of tangible fixed assets in the Ciech Group's Companies, the relative level of net debt (net financial liabilities incurred in relation to the EBITDA result) changed significantly compared to the situation in December 2011.

The Ciech Group's debt ratios

	31.12.2012	31.12.2011
Debt ration	76,4%	67,7%
Long term debt ratio	47,9%	16,8%
Debt to equity ratio	323,5%	209,9%
Equity to assets ratio	23,6%	32,3%
Net debt / EBITDA*	36,7	3,7
Net debt/ normalized EBITDA **	3,5	3,9

**The high value of the ratio as at 31 December 2012 is primarily related to the introduction of write-offs of depreciation of tangible fixed assets*
***Excluding one-off events, the more-important of which are described in item II.33.*

Principles of ratio calculation:
***debt ratio** – the ratio of current and non-current liabilities to total assets; measures the share of external funds in financing a company's activity.*
***Long-term debt ratio** – the ratio of non-current liabilities to total assets; measures the share of non-current liabilities in financing a company's activity.*
***debt to equity ratio** – the ratio of total liabilities to equity.*
***equity to assets ratio** – the ratio of equity to total assets; measures the share of equity in financing a company's activity.*
***Net debt** – liabilities on incurred loans and borrowings (plus overdraft) and other debt instruments (financial lease + liabilities on derivatives) less cash and cash equivalents.*

Contractual obligations

Following is a summary of the Company's long-term debt in terms of contractual obligations and the Company's trade and contractual obligations based on maturity dates (according to the situation as at 31 December 2012).

	Total	less than 6 months	6-12 months	1-3 years	3-5 years	over 5 years
				(million PLN)		
Foreign bonds(1)	1 001 609	-	-	-	-	1 001 609
Domestic bonds(2)	320 000	-	-	-	320 000	-
Credits and loans(3)	410	410	-	-	-	-
Other financial liabilities:(4)	**581 646**	**505 890**	**15 314**	**60 442**	-	-

	Total	less than 6 months	6-12 months	1-3 years	3-5 years	over 5 years
Trade liabilities(4)	521 662	466 117	15 314	40 231	-	-
Debt assignment(5)	28 861	8 650	-	20 211	-	-
Factoring(6)	31 123	31 123	-	-	-	-
Financial leasing and other liabilities	**11 090**	**4 919**	**2 936**	**2 844**	**391**	-
Lease of the CHP plant(7)	**251 146**	**23 515**	**24 329**	**203 302**	-	-
Total financial obligations	**2 165 901**	**534 734**	**42 580**	**266 587**	**320 391**	**1 001 609**

(1) Nominal value in the amount of EUR 245 million.
(2) Nominal value in the amount of PLN 320 million.
(3) Loan from unconsolidated subsidiary Polcommerce GmbH.
(4) Amount of liabilities as at 31 December 2012.
(5) Amount of liabilities to CET Govora S.A.
(6) Amount of liabilities from debt factoring transactions in PLN and EUR made by CIECH S.A.
(7) Amount of the purchase liabilities arising under the Agreement for the Lease of SDC's CHP Plant.

6 The Ciech Group's trade and production activity

6.1 Explanations concerning the seasonal and cyclical nature of Ciech Group's activity

Seasonality associated with periodic demand and supply fluctuations has little impact on the Ciech Group's general sales trends. Products clearly influenced by seasonality are plant protection chemicals, artificial fertilisers and raw materials for the production of fertilisers. Most plant protection chemicals are used in the first half of the year, during the period of intensive plant growth, when approximately 90% of the total sales of these products occur. Similarly, the concentration of fertiliser sales occurs at the turn of the first and second quarters, and in the third quarter of a year. This is due to increased field fertilisation in spring and autumn. Furthermore, in the soda segment, a seasonal relationship between the sales volume of some products and the course of winter can be observed. For calcium chloride and other products (anti-ice, salt and chloride mix, waste salt), a mild winter directly translates into decreased sales, while the influence on the sales of salt is indirect. For other products, the Group's revenues and financial results are not influenced by any significant seasonal fluctuations during the business year. Because of this, seasonality plays a relatively small role in the Group's overall sales.

6.2 Information on main products, goods and services

Characteristics of the main industries and markets of Ciech Group

Soda ash

Soda ash (a trade name for sodium carbonate) is a white powder produced artificially or refined from natural substances such as trona, a mineral containing over 70% of sodium carbonate. Soda ash is indispensible for several end markets, including production of glass, soap, detergents and various chemicals. The chemical qualities of soda ash make it useful for regulating pH levels, lowering the melting point of glass and absorbing odors. Related products include sodium bicarbonate (bicarbonate soda) and vacuum salt, used in food production and for other chemical and industrial purposes.

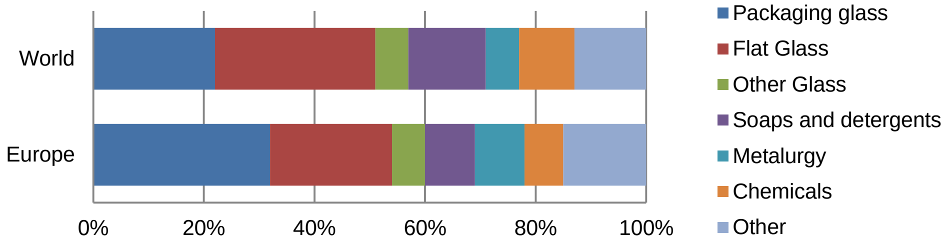
There are two different methods of soda ash production, the natural and the synthetic. The natural production amounted to about 25% of the global production in 2012; it is the most common in the United States, responsible for about 80% of the global production of natural soda ash. Outside the USA, trona is also produced in Turkey, China, Kenya and Botswana. The synthetic production amounted to about 75% of the global production in 2012 and is usually located near the production places of the final products.
The synthetic production of soda ash is done by either Solvay or Hou method. Ciech Group uses the widely accepted Solvay method, which amounted to 45-47% global production of soda ash in 2012. The Solvay method involves precipitation of sodium bicarbonate through treatment of ammoniated brine with carbon dioxide created by burning of limestone with coke. Sodium bicarbonate is then filtered, dried and calcinated into sodium carbonate (soda ash). A byproduct, filtered ammonium chloride is then alkalized with slaked lime, after which the ammonia is distilled and returned to the beginning of the process. The calcium chloride created in this process is considered industrial waste and usually subject to utilization. The process requires large amounts of energy, both for calcination of the limestone and the sodium bicarbonate, and for creation of steam required for ammonia recovery. The Hou process, which is used only in China, is a modified version of the Solvay method, which creates ammonium chloride as a byproduct (it is used mainly as a fertilizer in rice and cotton farming).

End markets for soda ash

The glass industry is the biggest market for soda ash, amounting to about 70% of the Western and Central Europe soda ash market; its demand is expected to keep dominating. The glass industry can be divided into several segments, including container glass, flat glass, glass fiber, and several minor branches such as dishes or light bulbs. In Europe, the biggest end market segment for glass industry is packaging glass segment. The key end users of glass containers are food, drink, pharmaceutical and cosmetic industries. The second most important segment is flat glass, used in making windows, car windows as well as furniture and other elements in building and automobile industry.

In Europe (including CIS) the most important uses are: production of glass (mostly packaging and flat glass), soap, detergents and chemicals. Glass represents about 60% end uses (packaging glass: 32%, flat glass: 22%, other: 6%), while soap, detergents and chemicals make up another 16% (source: IHS Chemical). In Central Europe production of glass, soap, detergents and chemicals in 2012 represented 65%, 19% and 5% of end uses respectively.

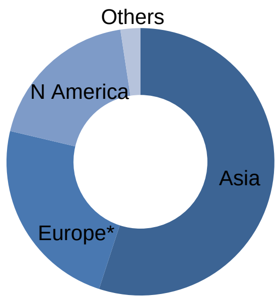
The structure of soda ash usage



Source: own compilation based on data from IHS Chemical

In Europe much more soda ash is used for production of glass and chemicals compared to global trends, but about 50% less is used for soaps, detergents and other branches of industry.

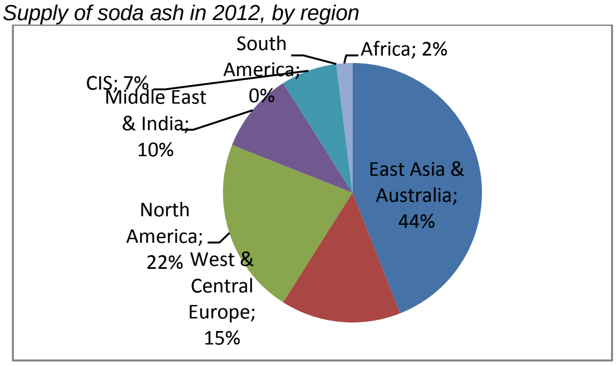
Production capacities of soda ash in the world by region



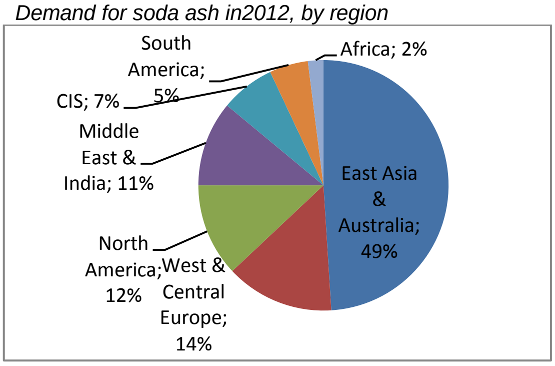
* Europe including Russia, Ukraine and Turkey

Source: own compilation based on data from IHS Chemical

Supply of soda ash in 2012, by region

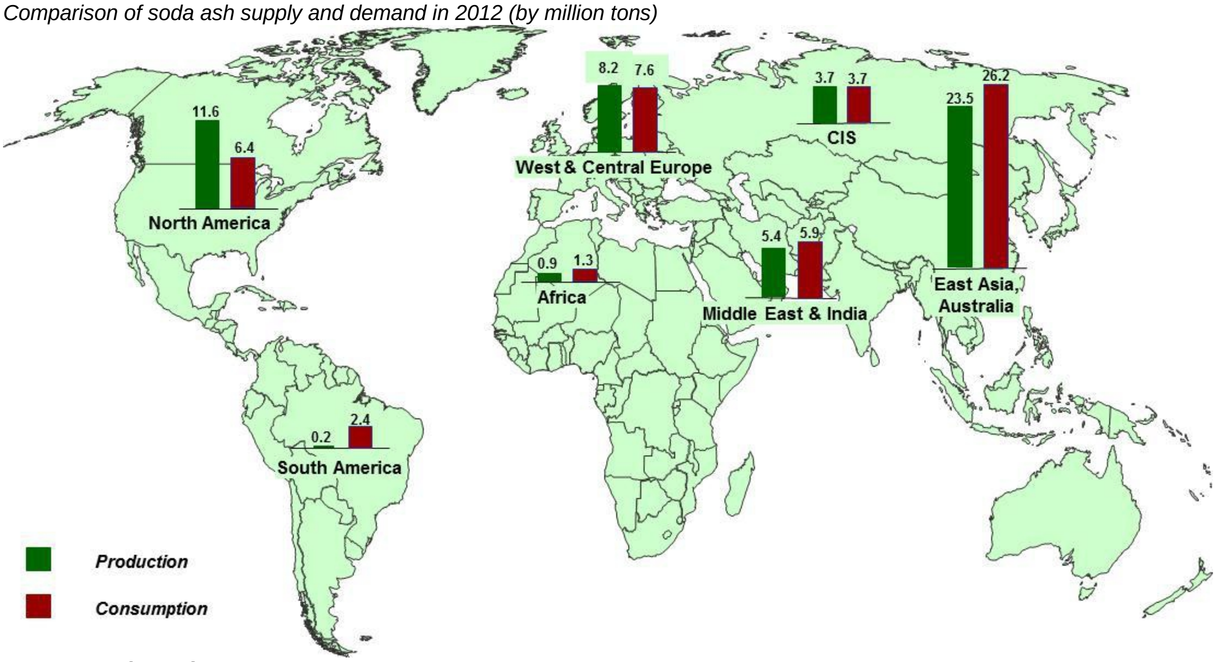


Demand for soda ash in2012, by region



Source: own compilation based on data from IHS Chemical

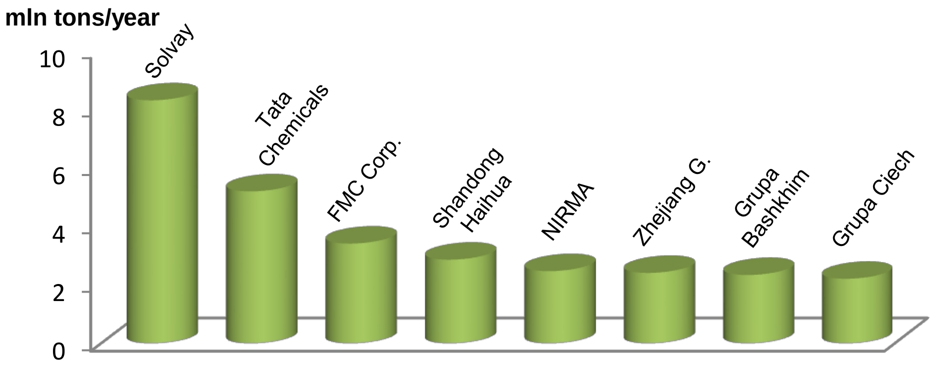
Comparison of soda ash supply and demand in 2012 (by million tons)



Source: IHS Chemical

Based on the data of IHS Chemical we assess that the global capacities of soda ash was about 65-66 million tons, and the global production and usage in 2012 reached 53 million tons, which makes 80-82% use of the global capacities, of which over half took place in Asia. The remaining potential was almost evenly spread between Europe and North America, which possessed comparable production power. The biggest producers of soda ash in the world, each with production capacities of over 2.5 million tons per year are four companies: Solvay, Tata Chemicals, FMC and Shandong Haihua. These companies possess almost 30% of the global production capabilities.

Biggest producers of soda ash in the world, by production capacities

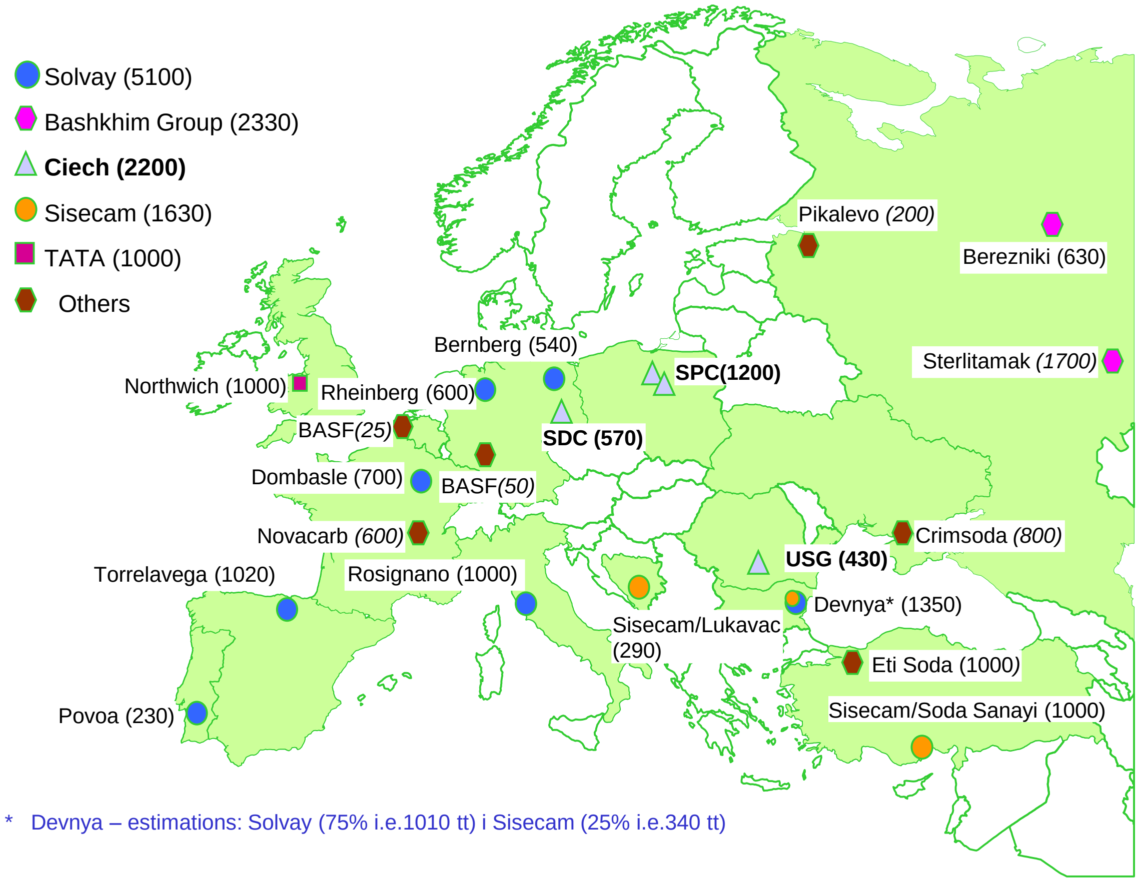


Source*: own compilation based on data from IHS Chemical*

It is expected that in the following years the biggest increase of production capacities will be in China, even up to 9 million tons by 2016. The Chinese market has the fastest rate of development of soda industry but also the biggest disintegration of soda ash producers. Turkey is also expected to increase its production potential based on its natural resource – trona. After the first trona-based production facility in this country started in the years 2009-2011, an increase of production power by another 3 million tons per year is expected in the years 2015-17.

The main soda ash market for Ciech Group is Europe, especially Poland. The biggest producer in the region is Solvay company, which owns factories in 7 locations around Europe and has production capacities of about 5 million tons. The second position in the European market is occupied by Ciech Group with production capacities of 2.2 million tons. We are the only producer of soda ash in Poland and the combined production capacities of the factories in Inowrocław and Janikowo reach 1.2 million tons. The other two factories of the Group, which are located in Germany and Romania have productive potential of 0.57 and 0.43 million tons per year respectively. The Group's share of the soda ash market in Poland is nearly 100%, in Europe about 15% and in the global market – about 4%. Another group with productive potential similar to that of Ciech Group is Bashkhim Group (Russia) with factories: Soda Sterlitamak and Berezniki Soda Plant.

Competitors of Ciech Group in soda ash market In Europe and Turkey in 2012.
(production capacities in thousand tons / year)

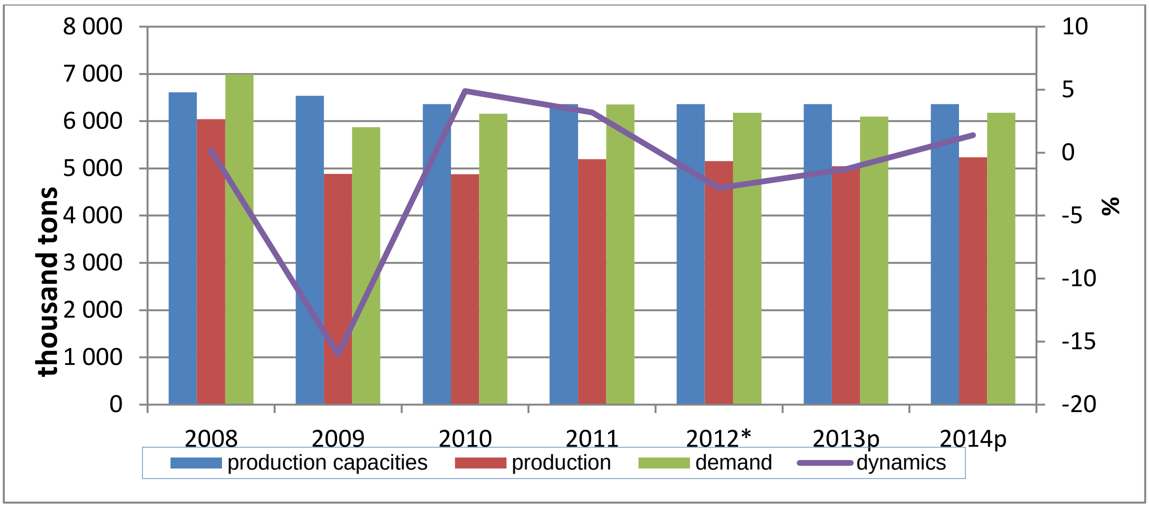


Source: own compilation based on data from IHS Chemical and others

European soda ash market is estimated at about 11 million tons, of which about 6.2 million tons fall on Western Europe. European soda ash market, as well as the Polish market are mature markets with no rapid changes, their yearly growth rates rarely exceeding several percent. One exception was year 2009, when the global economic crisis had a serious impact on the demand on soda ash markets, due to economically sensitive end markets. After a drop of several percent in consumption in 2009, the years 2010 – 2011 brought a significant improvement thanks to a several percent increase in demand. Unfortunately, another slowdown of economic growth in Europe brought by the public finance crisis resulted in stagnation on the European soda ash market in 2012. In Western Europe there was actually a decrease of demand by about 3% caused by a crisis in building industry and closing of several glassworks in the region.

A chart presented below illustrates the changes that have occurred in Western Europe soda ash market regarding production potential, production and consumption in the recent years as well as forecasts for the years 2013-2014.

Soda ash balance in Western Europe



*Source: own compilation based on data from IHS Chemical; * assessments*

The structure of soda ash usage hasn't changed much for many years. The demand for soda ash depends mostly on the demand for flat and packaging glass. About 30% of soda ash is used for production of glass containers: bottles, jars and other containers used in food, pharmaceutical and cosmetics industries. In 2012 European glass packaging industry showed the greatest resistance to the crisis affecting the soda ash market. In Western Europe that segment had a slight increase of about 0.3% in soda ash usage, despite the general decrease of about 3%. In the following years that segment should keep showing a stable increase in demand. In case of Poland, a continued increase in glass containers usage powered by the development of consumer markets is expected. The average usage of packaging glass per person (30 kg) in Poland is lower than in the countries of Western Europe (between 45 and 60 kg), which shows a big potential for this market.
In the long run however, the increase of demand for soda ash among packaging glass producers may be reduced due to use of recycled glass. It is estimated that currently in Poland over 40% glass is recycled. According to the EU directives, the recycling of packaging glass in Poland must reach 60% by 2014. In most countries, cullet is only used for production of coloured glass.
Among the buyers of flat glass there are also building and automobile industry. Since both are vulnerable to shifts in economy, the demand for soda ash fluctuates.
The biggest end market for flat glass is building industry, currently suffering from stagnation due to the economic crisis. While the short term perspectives for building industry may seem threatened, in the long run Poland and the Central and Eastern Europe are still markets with large potential when compared to Western Europe.
Another important buyer of flat glass, the production of which requires soda ash, is the automobile industry. In the last couple of years, Europe has been the biggest producer of cars in the world with about 24% share in the market according to the ACEA organization. In the European Union after the crisis of 2008-2009 the next years showed a dynamic increase in production of cars. Unfortunately in 2012 the European automobile industry suffered another decrease. Despite the general uncertainty on the automobile market it is estimated that in Poland and Central and Easter Europe the demand for cars will be increasing. Poland is a country in which there are only 450 cars per 1000 people, much less than in more developed countries (13% less than in Germany, 26% less than in Italy).

On the European soda ash market a noticeable improvement can be expected as late as 2014. In Western Europe, after a decrease in usage of about 3% in 2012, a smaller decrease or stagnation is possible in 2013. Generally, a slightly better situation can be expected in Eastern and Central Europe, however in this region it may be quite varied. For example, in 2012 the demand for soda ash in Ukraine probably decreased by as much as 1/5, while in Russia there was an increase of several percent.
In the long term perspective, the soda ash market should show a marked increase through the year; globally by 4% and in Europe by about 1.5%-3%.

Production potential for natural soda ash
It is expected that the production capacities of soda ash will be increased in Turkey and the USA. ETI Soda, an important Turkish producer of natural soda ash with a production potential of 1 million tons a year in 2012 (according to an independent report by a third party), has announced expanding its production capabilities by 0.5 million tons per year from 2015 as well as development of a new source with a potential of another 2.5 million tons per year; its production planned to start in the years 2016-2017. We are expecting that the production capability will be increased gradually. We are expecting that the development of this potential will be visible mostly in Southern Europe, not in Central or Eastern Europe. The prices of soda ash in Southern and Western Europe are about 20$ higher that those in Central and Eastern Europe, which gives ETI a chance to generate

greater profit. Because of the relatively low transportation costs, the Turkish natural soda ash is competitive in terms of price in the Mediterranean area, whereas the cost of transportation to Poland exceeds the benefits of using natural soda ash, making the local producers largely unaffected by Turkish export. ETI Soda is in a good position to service the developing markets in MENA and Asia areas, attractive thank to large increase of production and low costs of transportation from Turkey. We think that the growing Turkish export to Eastern Europe will not significantly affect the wider European market. Although the South European producers will have problems competing with the cheap export of ETI Soda, historically that market would react with closing down the least profitable factories rather than lowering of prices. Good examples of such behavior are the recent closings of Delfizijl (Holland), Ocna Mures (Romania) and Lisichansk (Ukraine), which created an environment for increasing import of natural soda ash.

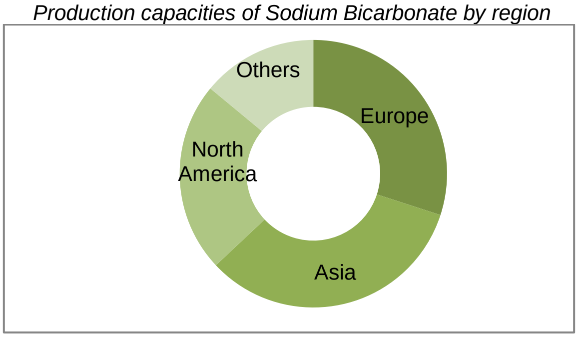
Sodium bicarbonate

Sodium bicarbonate is used mainly in production of animal fodder (as an acidity regulator) food (as an ingredient of baking powder, sparkling drinks and others), pharmaceuticals, detergents and cosmetics, and for purifying exhaust fumes. In the chemical industry it is used for production of explosives and pigments as well as a basic component of fire extinguishers. The sodium bicarbonate is divided into the segments of low, high and very high quality sodium bicarbonate. The high quality segment covers food and pharmaceutical industries. Very high quality is required for medical purposes – in hemodialysis.

In Europe sodium bicarbonate is used mostly in production of fodder (40% of total usage). About 1/5 of the produced bicarbonate is used in production of cosmetics and pharmaceuticals. About 15% of sodium bicarbonate goes into production of food and about as much is used for purification of exhaust fumes. 7% of sodium bicarbonate is used by detergent industry. In the following years, due to growing demands of environment protection, a major increase is expected in usage of sodium bicarbonate for fumes desulfurization.

Global production capacities for sodium bicarbonate are estimated at about 3.9 million tons per year. Europe and Asia (with Australia) are responsible for over 60% of these capacities (each region for about 30%). Northern America controls about ¼ of these capacities.

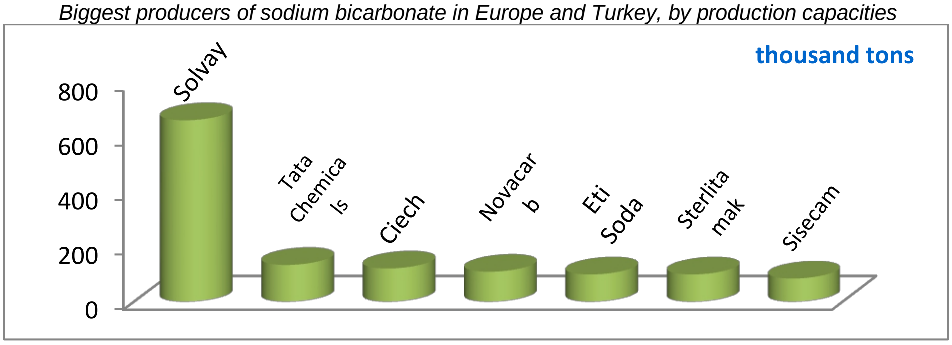
Production capacities of Sodium Bicarbonate by region



Source: own compilation based on data from Roskill and from companies

The target market for Ciech Group for sodium bicarbonate is the local market and the foreign markets, especially Western Europe. The share of the sodium bicarbonate market covered by Ciech Group oscillates between about 14-15% in Europe and 4% globally. Sodium bicarbonate is produced in two soda factories belonging to the Group: in Inowrocław and in Stassfurt, in which the production capacities reach 70 and 52 thousand tones respectively. Soda Polska Ciech S.A. is the only producer of sodium bicarbonate in Poland, covering about 70% of the market. On the German market, it covers about 20%.

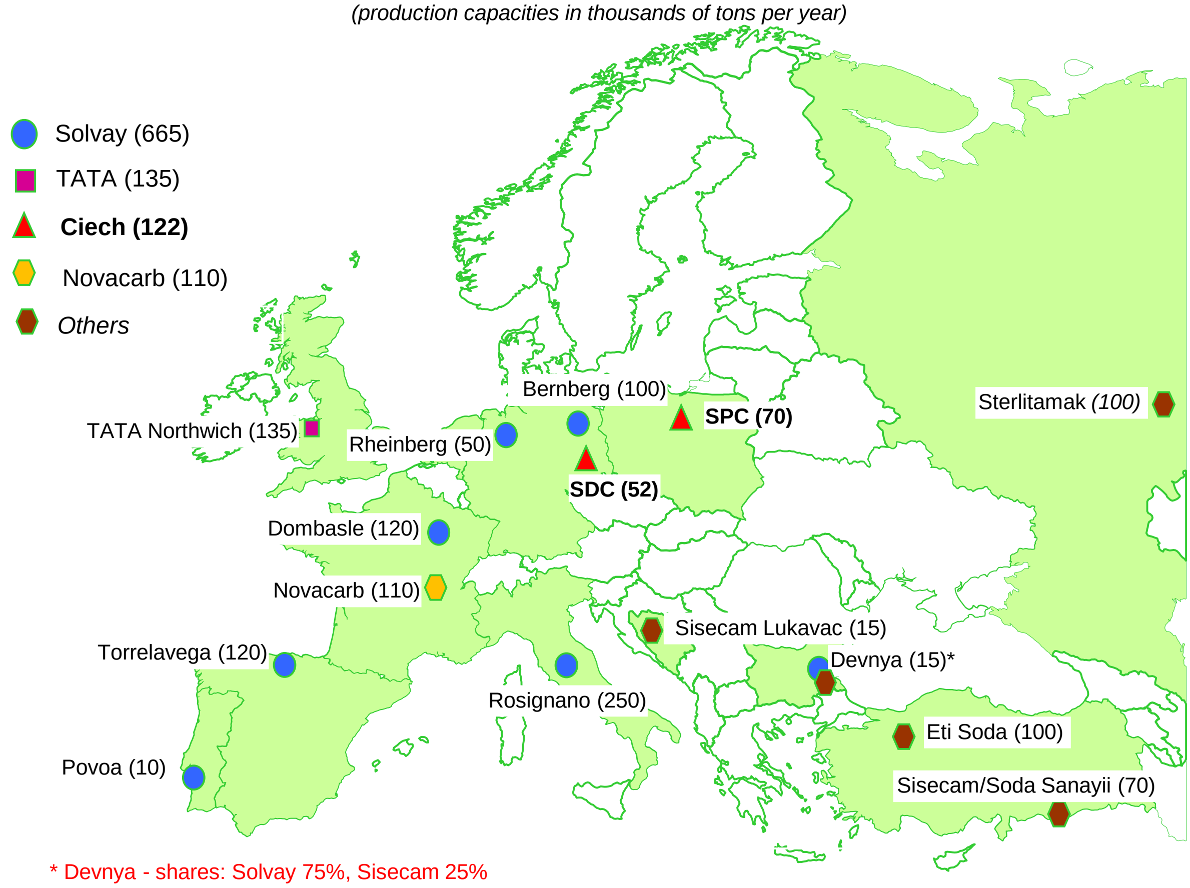
Biggest producers of sodium bicarbonate in Europe and Turkey, by production capacities



Source: own compilation based on Roskill and data from companies

In the region of Europe (also including Turkey) the production capacities of sodium bicarbonate are estimated at about 1.3 million tons per year. The biggest producer both in Europe and globally is the Solvay company, which owns factories in several countries. Combined production capabilities of this producer in Europe reach almost 0.67 million tons per year (globally 0.9 million tons per year). Second important competitor is TATA Chemicals with capacities of 135 thousand tons. Ciech Group takes the third position on the European sodium bicarbonate market with production capacities of 122 thousand tons per year. Another company in the European elite is Novacarb (110 thousand tons per year).

Competitors of Ciech Group in production of sodium bicarbonate from Europe and Turkey in 2012.
(production capacities in thousands of tons per year)



Source: own compilation based on Roskill and data from companies

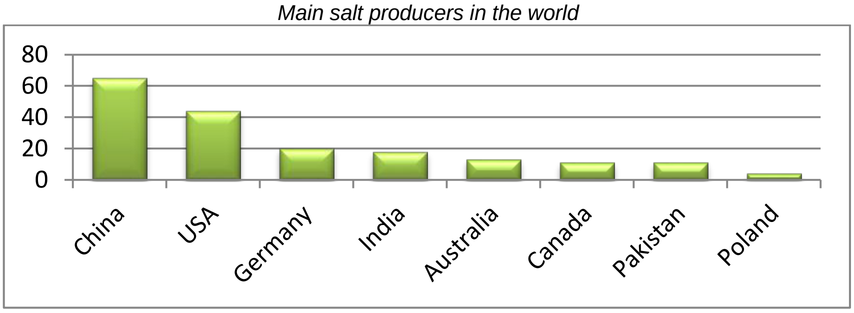
Much like the soda ash markets, the Polish and European markets for sodium bicarbonate are mature and not prone to rapid changes, with yearly growth of several percent per year. Among the target sectors for sodium bicarbonate, the one most vulnerable to economic shifts is the fodder industry In Poland however, that sector is less vulnerable than in the rest of Europe. Drops in Poland are less severe than elsewhere in Europe. At the same time there is an increase of sales in the technical bicarbonate segment, due to increased demand from the detergents sector and the desulphurization sector. European producers of sodium bicarbonate continue to work towards intensifying production of sodium bicarbonate at the cost of soda ash.

In the following year it is assumed that an average yearly usage of sodium will increase by about 2%. However the details will turn out differently depending of the segment of the market and the region of Europe. The fodder, food, and detergent segments should see an increase equal to the GDP, while the desulphurization segment, at a level several times that. Globally, the dynamics of sodium bicarbonate market development should be about 2%-3%.

Evaporated salt

Salt is usually present in the European trade in two forms: rock salt and vacuum salt. Evaporated salt belongs to key products of Ciech Group and is produced in industrial and table grade. Salt production in the world is about 280 million tones a year. Seven biggest producers (countries) are responsible for over 60% of global supply. These include Germany with about 7% contribution, producing 20 million t/year. Polish contribution in the world salt production is relatively small and amounts to about 1.4%.

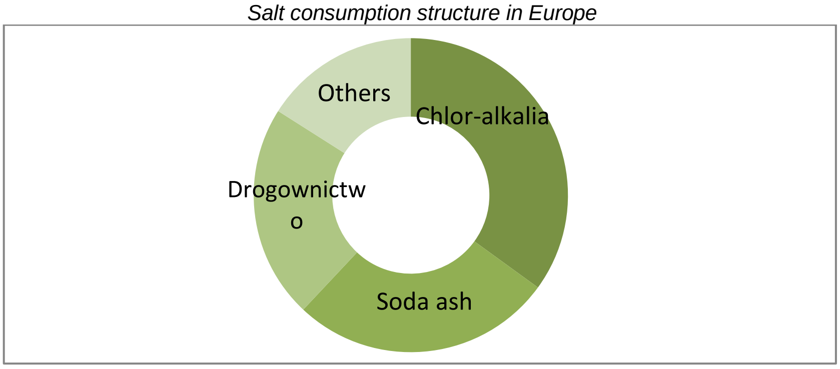
Main salt producers in the world



Source: our own study based on USGS

Because of predominance of vacuum salt with regard to quality parameters, chemical industry in Western Europe practically resigned from use of rock salt. A similar process occurred in case of food industry as well as households. Rock salt is presently used almost exclusively in highway maintenance for winter de-icing. Evaporated salt, on the other hand, is widely used in chemical industry (electrolysis, detergent and dye production) as well as household chemistry (for water treatment and softening). It is also used in food industry (including: baking, fruit and vegetable processing and meat industry). Evaporated salt of pharmacological purity grade is also used by pharmaceutical industry.
The greatest amount of salt is used in Europe in chlorine-alkali industry. Less salt is used for production of calcinated soda and in highway industry. Globally, salt contribution in highway maintenance is significant only in North America (about 40%). In other regions of the world, chlorine-alkali industry is the main buyer of salt. Also, soda branch (production of calcinated soda) in China is an important salt consumer of salt. In Asia (outside China) and Latin America, Africa and the Middle East salt is used in significant quantities for direct consumption and food production.

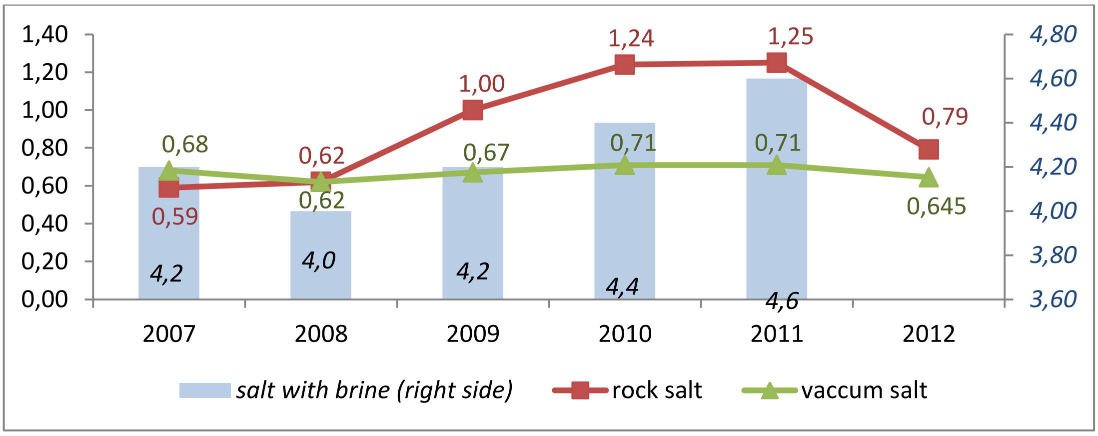
Salt consumption structure in Europe



Source: Ciech Group estimates

Polish salt market structure differs slightly from this in Europe. Salt is used mostly in highway maintenance and for direct consumption, while less in chemical industry.

Salt production in Poland with division into kinds in the years 2007-2012 (million tones)



Source: Own study based on GUS

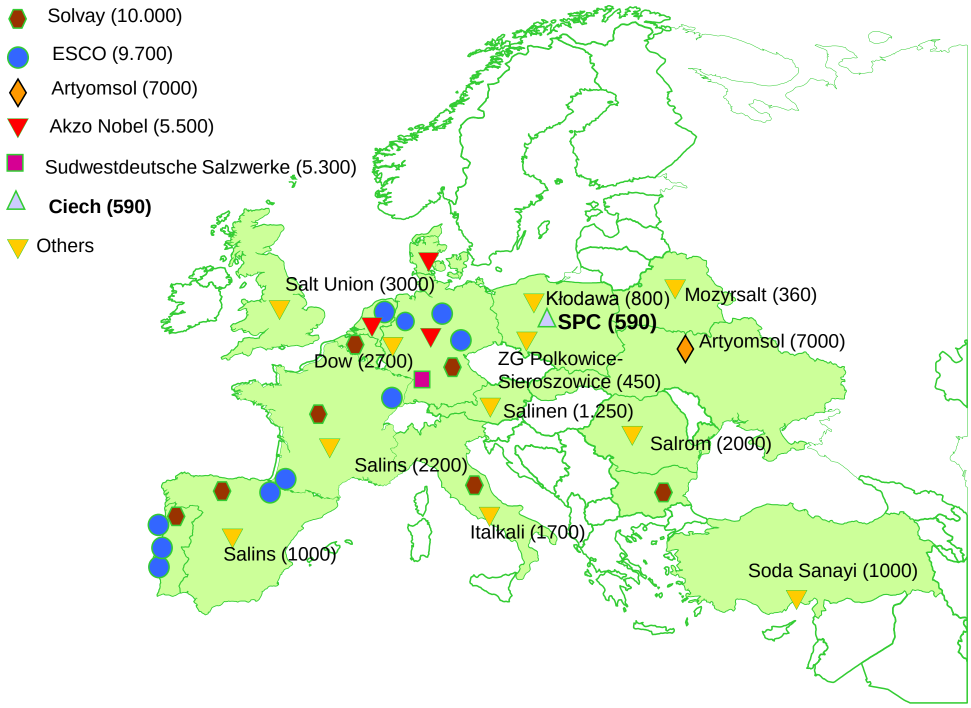
Poland belongs to leading salt producers in Europe. Total production of vacuum and rock salt in the recent years tended to increase from about 1.2 million tones in 2007 to almost 2 million tones in 2011. Production volume, including brine, reached 4.6 million tones in 2011. The data for 2012 concerning vacuum and rock salt indicate that the level of total national salt production (including brine) was significantly lower when compared to the previous year.

Polish salt market, like the European one, is a mature market. The amount of vacuum salt consumption remains on the stable level, while demonstrating resistance to the effects of economic slowdown. The increase of sales volume is small and results mostly from the increase of highly processed salt products sales. The market of rock salt used mainly for winter road maintenance, on the other hand, is characterized by high variability. The demand for rock salt in case of atmospheric anomalies can change by several dozen percent. Ciech Group does not supply highway sector with salt and for this reason, atmospheric anomalies do not influence the volume of its sales.

Ciech Group plays an important role in the following segments: table salt (food industry and direct consumption, which constitute almost half of the salt produced by the company Soda Polska Ciech S.A.); chemical industry (about 40% of sales) and water treatment (about 7% of sales).

Ciech Group, with its productive capacity at the level of 590 thou t/year, is the biggest producer of vacuum salt on the national market and its contribution in the Polish vacuum salt market is 70%.

The biggest salt producers in Europe in 2012.
(production capacities in thousand t/year)



Source: Own study based on Roskill, data from companies (excluding Russia)

European salt industrial capacities are estimates as over 45 million t/year. Solvay, who has its plants in several countries, is the greatest salt producer in Europe with total productive capacity of about 10 million t/year. Solvay also produces salt for the needs of its own soda section. The leading European salt producers include Esco with K+S Group and yearly productive capacities of 9.7 million t, Akzo Nobel (5.5 million t/year) and SudwestDeutsche Salzwerke (5.3 million t/year).

In the prospect of the coming years, the directions and further development dynamics of the global salt market, estimated for about 280 million tones in 2012, will be determined by general economic development (because of important role of chemical industry in salt consumption) as well as seasonal factors (resulting from an important role of salt in road maintenance in the developed countries). Realization of expansion plans of production facilities in Asia (with regard to chlorine-alkali and calcinated soda) will be especially important for chemical sector. Some optimistic forecasts assume salt demand increase even by about 3% a year.

The prospect of salt market development in Europe, including Poland, is evaluated as stable. The possible quantitative increases will depend on sales dynamics in the sector of highly processed products, e.g. for water treatment systems. Because of the dominating role of rock salt (used mainly in road maintenance) on the general salt market, salt sales will still depend on atmospheric conditions and can be subject to significant periodic fluctuations. These phenomena do not concern table salt segment and salt for chemical industry. The growth rate of salt consumption in Europe and in Poland over the next couple of years is estimated at 1%-2% level.

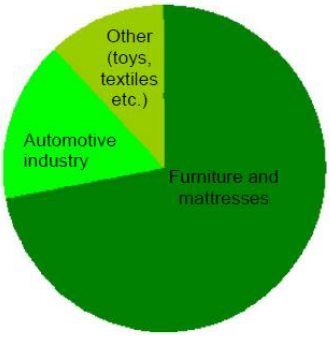
TDI

Toluene diisocyanate (TDI) is a chemical compound used mainly for production of polyurethane foam (PUR), used in furniture, mattresses and car seats. On the global scale, about 80% of TDI is used for production of flexible polyurethane foam (PUR) which, in turn, is used for furniture production, mattresses, car equipment, floor finish and packaging. TDI is also used for production of coats – paints, glues, binders and sealing agents. We estimate that global demand for TDI was about 1.8 million tones in 2012, and the global TDI productive capacity was 2.6 million tones. TDI is produced in a relatively complex and costly process and for this reason, few new companies entered the market (outside Asia). Because raw materials constitute a significant part of costs, most players have certain degree of backward integration, especially with regard to TDA (key raw material in TDI production). Production costs differ significantly in the individual producers, depending on integration, scale and technology; smaller companies operate at higher costs.

Flexible polyurethane foams (PUR)

Flexible polyurethane foams are produced from TDI and polyesters and used mainly in production of furniture and sleeping mattresses, which is responsible for about 70% of consumption of this material. Another dozen or so percent is used in automotive industry for production of seats and interior finish. For this reason, demand for foam is very sensitive to economic cycles.

Application segments of flexible polyurethane foams in the world

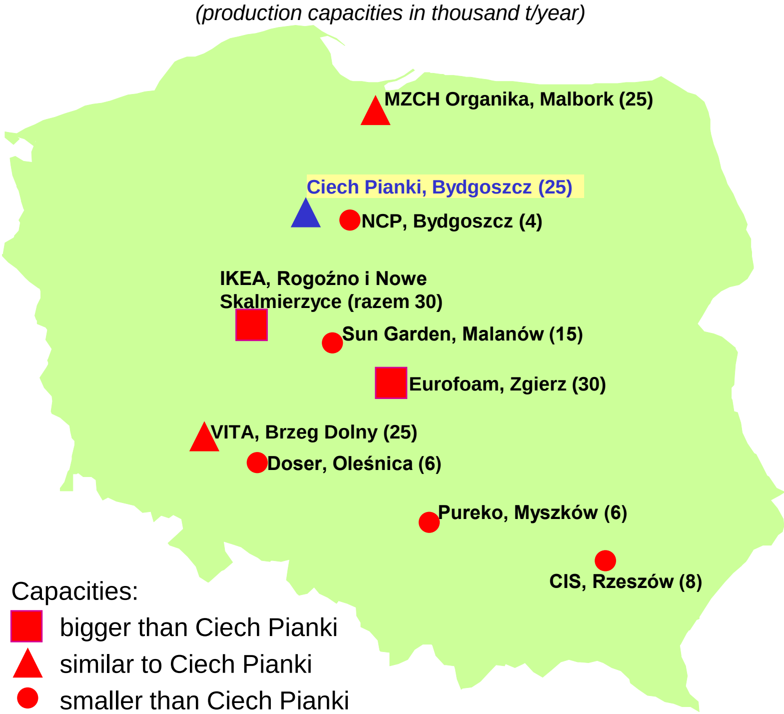


Source: own study based on Nexan information

Because of physical properties, (low specific gravity) PUR foams are sold only on local markets. Therefore, production base develops close to potential buyers. Ciech Group is active mainly on the Polish market (where import is still insignificant). However, export sales are being developed. Furniture manufacturers and foam processing plants are our clients.

On the global scale, production of polyurethane foams is very fragmented (over a thousand producers of total productive capacity of 5 million t/year). Productive capacities of Polish producers are estimated as over 170 thousand t/year. The biggest competitors of Ciech Group on the Polish market include: Eurofoam, MZCH Organika and Vita Polymers. High productive capacity of IKEA is used mainly for its own needs.

Competitors of Ciech Group (Ciech Pianki) with regard to polyurethane foams – PUR in 2012 (production capacities in thousand t/year)



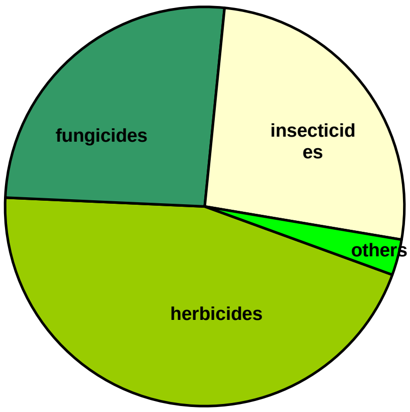
Source: own estimates based on producers data

Ciech Group, through Ciech Pianki, has over 15% share in the Polish market of this product. European demand for polyurethane foams is estimated as about 1 million t/year. Polish market demand is estimated as about 120 thousand t/year. The demand for foams depends on the situation in the industries which are the greatest consumers of the product, which means: furniture and automotive. In case of the Polish furniture industry, a distinct improvement of economic situation was observed in the years 2010-2011. The results of this branch (oriented mainly at export) depend greatly on the economic situation on foreign markets. The crisis in Western European countries in 2012 resulted in a certain worsening of Polish furniture industry prospects. The outcome and financial situation of this industry during economic crisis also greatly depend on the exchange rate of the Polish currency.
A moderate growth of the European market of polyurethane foams is expected to reach the level of 2%-3%. This dynamics should be greater in Poland because furniture industry successfully expands its sales also to the markets outside Europe.

Plant Protection Chemicals (PPA)

In 2012, value of the global market of plant protection chemicals probably already reached 50 billion USD. Almost half of this amount concerned herbicides; one quarter of sales value included fungicides as well as insecticides.

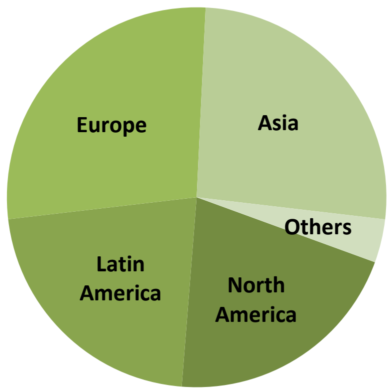
Structure of PPC consumption in the World



Source: own study based on Agrow information

The world market is dominated by 6 main global producers, which are Bayer CropScience, Syngenta, BASF, Dow AgroScience, Monsanto and DuPont. These companies are also main contributors to the world markets because they significantly influence directions of the industry development, including: development of new technologies, introduction of innovative products to the market as well as shaping of the world legislation. Contribution of the 6 greatest producers to the world sales is estimated as about 80%.

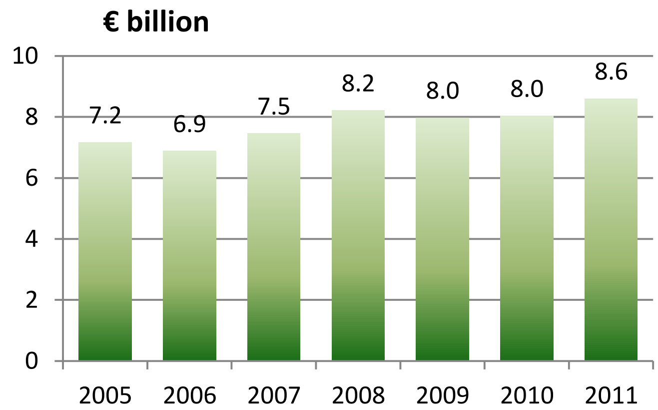
Plant protection chemicals consumption structure by regions (%)



Source: own study based on Agrow information

The greatest regional market of plant protection chemicals so far, has been European market. Its value in 2012 could have been estimated as close to 13 billion USD, which constitutes over ¼ of the world market. Contribution of North America, Latin America and Asia countries is about 20% to 25% respectively. Consumption of plant protection chemicals in the other regions amounts to the remaining several percent. The demand for plant protection chemicals in Europe was growing by about 3% a year in the recent years. The following graph presents changes in plant protection chemicals consumption volume in recent years in Europe.

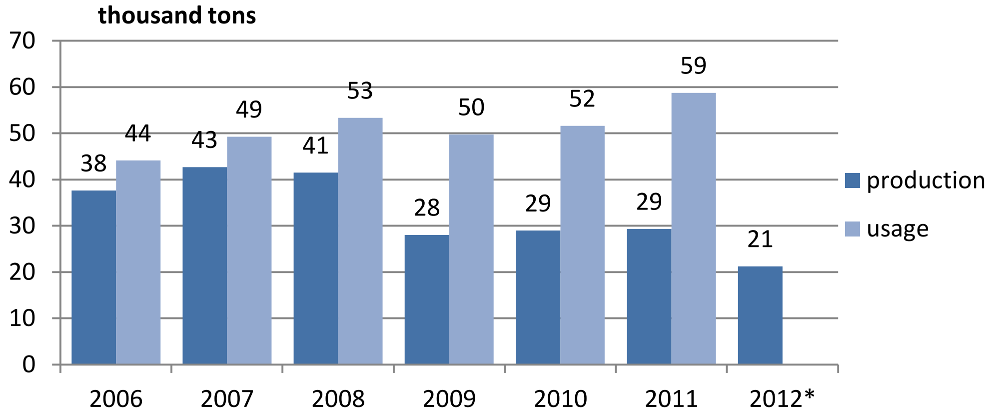
Plant protection chemicals consumption in Europe in the years 2005-2011 (bln €)



Source: own estimation based on European Crop Protection, Agrow data

Over 50 thousand tones a year of pesticides are sold in Poland. In recent years the amount of plant protection chemicals used in farming systematically increased by about 6% a year, while the dynamics of Polish production volume was variable. National production has remained at the level of below 30 thousand t/year since 2009 and the position of foreign suppliers is becoming more and more important.

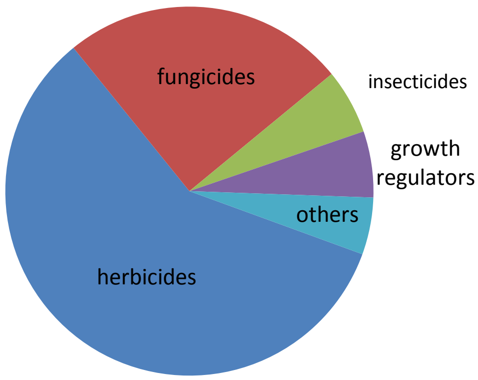
Production and consumption of plant protection chemicals in Poland in the years 2006-2012 in quantitative presentation (thousand tones)



*Source: own estimates based on GUS (*preliminary data)*

Value of the Polish plant protection chemicals market is currently estimated as about 0.5 bln EUR. Mean market value growth dynamics is over 3% a year. The estimated plant protection chemicals sales structure on the Polish market is presented below.

Structure of plant protection chemicals sales in Poland by value



Source: own estimation based on GUS data

Comparing to world consumption, significantly more herbicides are used in Poland because of high percentage of grains in general cultivated area. Much less insecticides are used, and the percentage of fungicides remains at the same level as on global market.

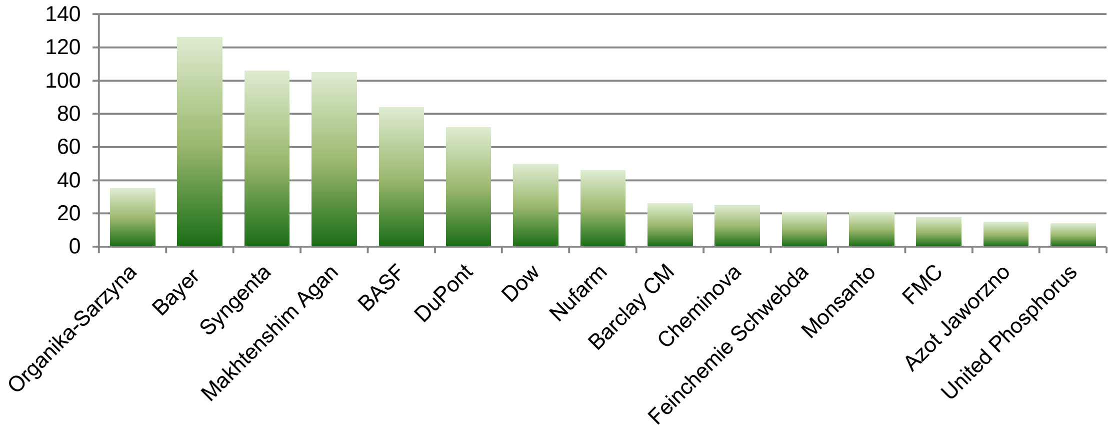
The Polish market of plant protection chemicals should systematically grow in the perspective of several years. Unit consumption of preparation per 1ha is still much lower in Poland than in Western European countries. Besides, economic situation of Polish farmers should improve thanks to direct subsidies received from the European Union. Additionally, controversies concerning genetically modified plants (GMO) will effectively influence the demand level for traditional pesticides.

High import is characteristic of Polish market and amounts to ¾ of the market offer. As a result, Polish products constitute only ¼ of the whole market. The reason of so high disproportion is the lack of sufficient offer of Polish producers, who do not have enough financial means to conduct research on new preparations, their registration and marketing.

Main subjects in the field active on Polish market are famous global concerns and Polish producers. Z. Ch. „Organika – Sarzyna" S.A. of Ciech Group is the biggest Polish enterprise in this field. The company activity concerning plant protection chemicals is focused on the Polish market, where the Group currently has a share of about 6%. This share is much higher with regard to grain herbicides, the main product group, and amount to 15%.

The following graph presents competitive position of the individual producers of plant protection chemicals by the number of products registered on the Polish market.

Number of pesticides registered in Poland with regard to the greatest producers



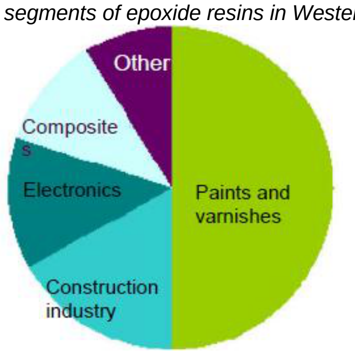
Source: MRiRW [Ministry of Agriculture and Rural Development] (state on 31.12.2012)

Plant protection chemicals market in a long-term perspective belongs to the growing markets. Mean yearly growth rate of the global market in the recent years was over 4% (by value). The prospects for the coming years assume further stable demand increase. Demand dynamics for plant protection chemicals in the world shall remain at the level of 3%-5% a year (by value) and 3% (by the amount of active substances). The main growth factors will be Latin American and Asian markets. According to experts, the expected plant protection chemicals consumption increase in Europe will amount to 4%, while in the Middle and Eastern European region it will increase faster than in Western Europe.
Optimistic market forecasts concerning plant protection chemicals are based on the assumption of decreasing arable land area in the global scale and the resulting necessity of constant yield increase. On the other hand, various national differences and international regulatory bodies, whose task is to limit plant protection chemicals use in order to lower their negative influence on natural environment as well as the growing consumer awareness regarding their application will stimulate the uncontrolled pesticide consumption.

Epoxy resins

Epoxide resin is a thermosetting polymer used because of its excellent bonding properties, electric and thermal insulation as well as chemical resistance. The most popular epoxide resins are produced in an epichlorohydrin reaction (ECH) with BPA in the presence of catalyst. Epoxide resins are highly versatile and find their final application in many fields, mainly in paints and coats, electrics/electronics, plated printed circuits and construction.
Epoxide resins in Europe are used mainly – about 50% – for production of powder paints and lacquers (chemical proof, insulating, electro insulating). In Western Europe this segment is also responsible for 50% of the product consumption. Another dozen or so percent of resins are used in construction (flooring masses, putties, fillers, protective coat binders, wall cladding). Over 10% of epoxide resins are used for production of electric insulators; about 10% – for production of composites.
In the Middle and Eastern Europe epoxide resins are used mainly for production of coats – paints, etc. (over 50%) and in construction – e.g. to make floor surfaces (over 20%).

Application segments of epoxide resins in Western Europe

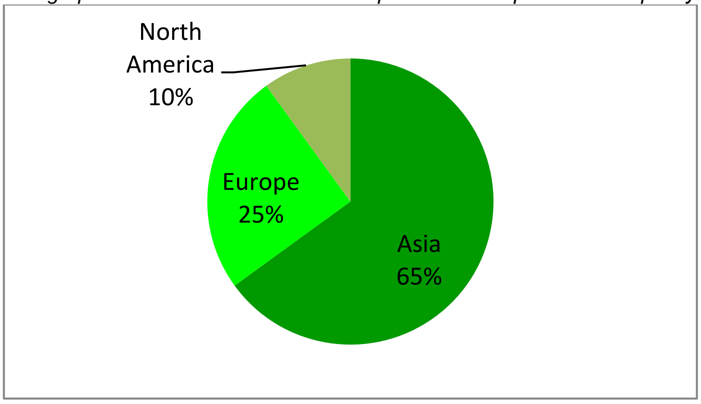


Source: own estimations based on Nexant data

Global productive capacity of the basic epoxide resins – non-modified, is estimated as 2.6 million t/year: Asia (about 65%), Europe (about 25% – 700 thousand t/year), America (about 10%). Investment projects with regard

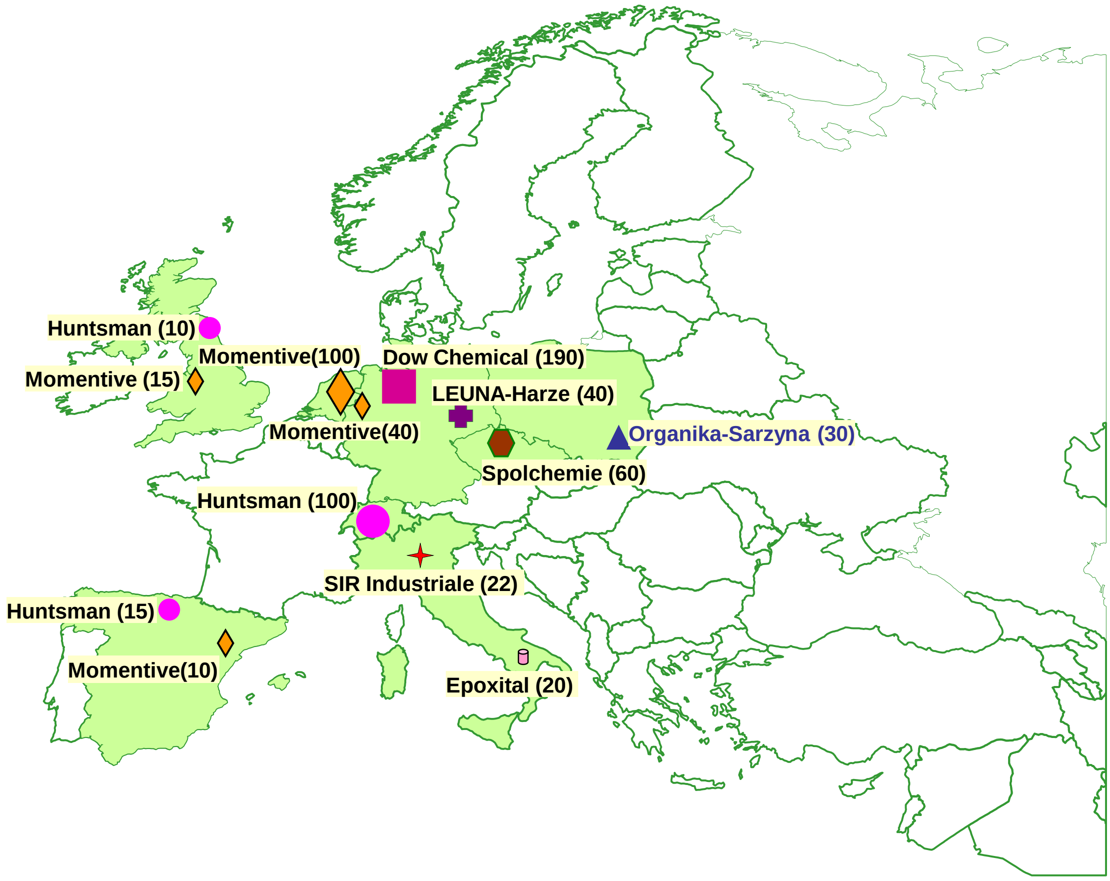
to new capacities concern mainly Asia. The greatest world resin manufacturers include: Momentive (previously Hexion), Dow Chemical, Nan Ya (Taiwan), KUKDO (South Korea) and Huntsman Advanced Materials. The above mentioned companies are collectively responsible for about 60% of the world production of these resins.
Ciech Group through Z. Ch. „Organika – Sarzyna" S.A. is the only producer of epoxide resins in Poland. Productive capacity of the Group is estimated as 30 thousand t/year and its share in the national market is almost 40%. The greatest competitors in Poland are currently suppliers from Germany, Czech Republic and Italy.

Geographic structure of non-modified epoxide resins' productive capacity



Source: own estimatiosn based on producers data

Main European competitors of Ciech Group (Z. Ch. „Organika- Sarzyna" S.A.) concerning non-modified epoxide resins in 2012. (production capacities in thousand t/year)



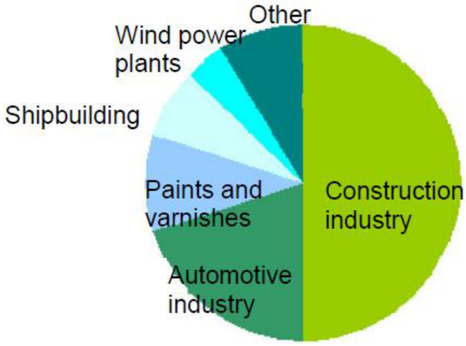
Source: own estimations based on producers data

Ciech Group estimates the size of global market of epoxide resins in 2012 at the level of 1.9 million t/year, which is higher than the record results from before the economic crisis of 2008-2009. The demand in Europe has not yet returned to its size from before the crisis and is estimated as over 350 thousand t/year. Generally, because of large demand drop and increase of productive capacity in previous years, this market is still characterized by a distinct oversupply (with the use of European productive capacities at the maximal level of 60%). Ciech Group expects that the similar market situation will remain also in the coming several years. Long term demand increase prospects, however, are quite optimistic (globally by 3%-4% a year on the average). Asian countries will be the leaders of this growth (over 5% a year). The lowest dynamics, of about 2%-3%, are to be expected in Western Europe and North America. Quite good prospects are also assumed for a relatively small market of Middle and Eastern Europe (with average yearly dynamics of 4%-5%). Europe and North America will still remain net exporters of epoxide resins (the main outlets in the international trade will be China and India). The main consumption growth factor of epoxide resins in the coming years will be glues and composites for aviation and wind power plants (in North America and Europe) as well as electronics and paints (in the Far East and South-East Asia region).

Unsaturated polyester resins

The majority of unsaturated polyester resins in Europe are used in construction and transport. The demand of these two sectors amounts to about 70% share of the market.

Application segments of unsaturated polyester resins in Europe

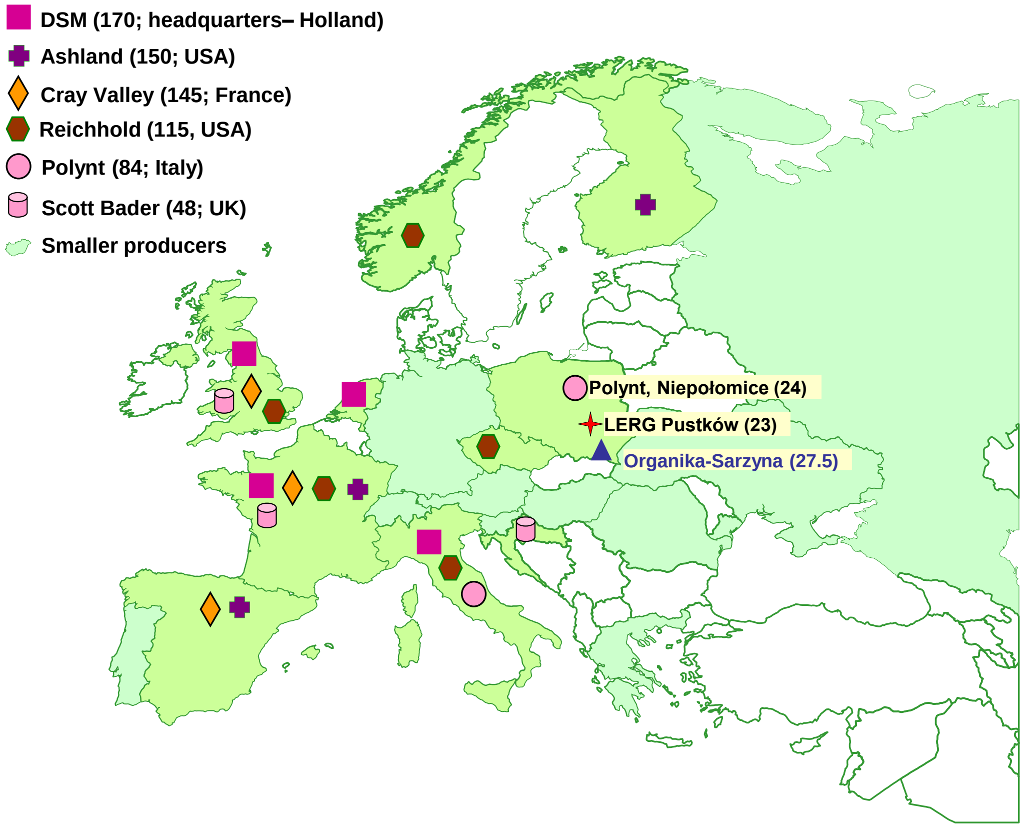


Source: own estimations based on Nexant data

The global productive capacity of unsaturated polyester resins is about 5 million t/year, out of which 1/5 falls for Europe. Almost 50 producers of these resins are active in Europe. The biggest six possess about 70% of the European productive capacity. The following international concerns belong to them: DSM (regional leader in this field), Ashland, Cray Valley, Reichhold, Polynt, Scott Bader. Small producers usually focus on highly valuable niches because of very keen competition.

The greatest producer of unsaturated polyester resins in Poland is Z. Ch. „Organika – Sarzyna" S.A. of Ciech Group (with productive capacity of 27.5 thousand t/year). Quite a sizeable portion of sales are directed to the local market in which Ciech Group holds a strong position with almost 30% share. Resins from Z. Ch. „Organika – Sarzyna" S.A. are also supplied to other European markets. Important competitors on the Polish market include: Ashland (with a share similar to that of Ciech Group), Polynt, ZTS LERG, Reichhold, Cray Valley, DSM, Scott Bader.

Main European competitors of Ciech Group (Organika Sarzyna) with regard to unsaturated polyester resins in 2012 (production capacities in thousand t/year)



Source: own estimations base on producers data

Apart from the above shown in the map, there are also two smaller resin producers of productive capacities below 10 thousand t/year: TBD Dębica and PPG Polifarb Cieszyn.

Ciech Group estimates size of the European market of unsaturated polyester resins as over 700 thousand t/year. Because of strong dependence of demand for these resins on economic situation in construction and transport, a moderate growth rate of this market in Western Europe is expected in the coming years (at the level of 1%-2%). Growth dynamics in the Middle and East European region shall be significantly higher (even at the level of 4%). The demand for unsaturated polyester resins will grow fastest in Asia and in the Middle East as well as South America (by 5% a year on the average).
The dominating factor on the European market in the coming years (for resins sales) will be construction (pipelines, tanks for chemicals, structural elements, synthetic marble, etc.). Also automotive industry will be important (substitution of metal parts with the ones made of resins). However, these two consumption directions will be characterized by a pretty slow dynamics. On the other hand, the exceptionally fast demand increase is expected with regard to, still not very important, segment of wind power plants. This will depend mainly on support for development of renewable energy sources applications by the European governments.

6.3 Information on markets, sources of supply for production materials, products and services

The Ciech Group has a well-diversified portfolio of customers. In 2012 the income from none of the partners of the Ciech Group exceeded 10% if the consolidated income of the Ciech Group. CIECH S.A. as the parent company and the company with biggest sales in the Ciech Group was not dependent in 2012 on one or more customers or suppliers and the sales for none of its customers exceeded 10% of the income.

CIECH S.A. is an important customer and supplier for the majority of the companies in the Ciech Group. The Ciech Group had the biggest turnover in transactions with the following subsidiaries:

- Soda Polska Ciech S.A.,
- ZACHEM S.A.,
- Z.Ch. "Organika –Sarzyna" S.A.

The important internal suppliers and customers for other companies in the Ciech Group in 2012 were, among others:

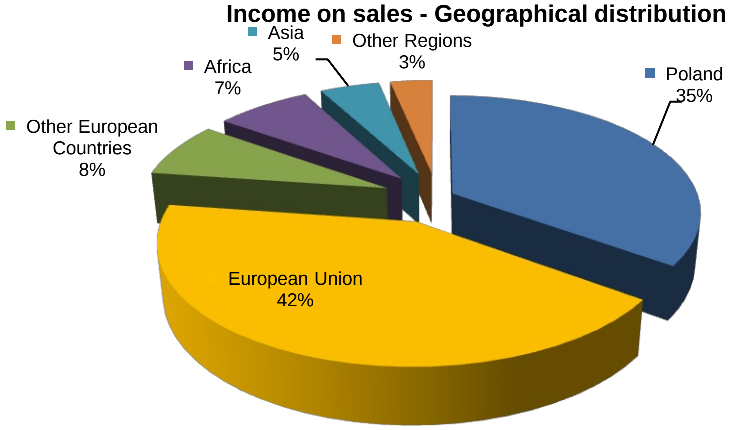
- Kompania Węglowa S.A. – coal supplier for Soda Polska Ciech S.A.,

- EMS – gas supplier for Soda Deutschland Ciech,
- Air Products – amine supplier for ZACHEM S.A. (contract dissolved).

Geographical structure of the markets
About 35% of income on product and service sales of the Ciech Group in 2012 came from the national market, while the biggest foreign recipients of products, goods and services offered by the companies belonging to the Group were the EU countries.

in PLN thousand	01.01 - 31.12.2012	01.01 - 31.12.2011	2012/2011 dynamics
Poland	**1 527342**	**1 547.299**	(1.3%)
European Union	**1 853 267**	**1 824 268**	1,6%
-Germany	813 874	732 889	11,1%
- Belgium	50 421	59 647	(15.5%)
- Czech Republic	135 229	110 456	22.4%
- The Netherlands	110 136	104 680	5.2%
- Sweden	53 929	55 330	(2.5%)
- Finland	75 491	81 291	(7.1%)
- Italy	137 841	147 013	(6.2%)
- Great Britain	70 782	43 421	63.0%
- Romania	99 210	198 011	(49.9%)
- Other EU countries	306 354	291 531	5.1%
Other European Countries	**331 799**	**286 731**	15.7%
- Switzerland	204 096	146 264	39.5%
- Norway	32 627	37 085	(12.0%)
- Russia	40 825	52 519	(22.3%)
- other European countries	54 251	50 863	6.7%
Africa	**321 193**	**184 064**	74.5%
Asia	**201 758**	**258 320**	(21.9%)
- China	31 803	138 367	(77.0%)
- Other Asian countries	169 955	119 954	41.7%
Other regions	**142 593**	**73 804**	93.2%
Total	**4 377 952**	**4 174 486**	**4.9%**

Income on sales - Geographical distribution



7 Investment activities
7.1 Investments
7.1.1. Investments implemented in 2012

The Ciech Group has and constantly updates its program of investment expenditures for production facilities. Maintaining the current levels of production in various plants, meeting the criteria related to new legal constraints and maintaining licences for conducting various activities requires high investment expenditures. The investment expenditures are also required in relation to the modernisation of old equipment, improvement of energyefficiency as well as increasing the production capacities by the elimination of bottlenecks or in relation to improving the control process.

The investment expenditures incurred by the Companies of the Ciech Group for the twelve month period ending on 31st December 2012 amounted to PLN 300 million. The investment expenditures for the periods ending on 31st December of the years 2009, 2010 and 2011 were: PLN 252,1 million, PLN 217,8 million and PLN 295,5 million.

In the recent years the investment expenditures of Companies were used for the implementation of several large-scale projects, including the modernisation of plants in the Soda Segment, such as the Janikowo Power Plant and increasing the production capacities of MCPA (active component of crop protection chemicals). As expected, the above mentioned projects have been completed before the end of 2012. In the years 2009-2012 the Group conducted several modernisation projects and increased the production effectiveness in all segments.

Currently the investment expenditures are used, for the most part, in relation to investments, with an objective to maintain and improve the soda production capacity, as well as the improvement of effectiveness of the plants manufacturing glass packaging materials.

The Group divides its investment expenditures into modernisation-reconstruction and development investments. The first category includes, in general, all expenditures required to maintain the optimal technical condition of the owned assets (e.g. remaining in line with environmental regulations, replacement of equipment etc.). The investment expenditures for future investment are designed to improve the Group's position. This category includes the decisions on the construction of new plants, development of existing plants or modification of plants in order to reduce the production costs. The decisions are made based on a business plan and such indicators of investment effectiveness as net present value, internal return ratio and payback period. The expected retutn ratio on investments implemented using investment expenditure is equal to the average weighted cost of Group capital.

In 2012 the implementation expenditure on the Capital Investment Plan of the Ciech Group Companies amounted to PLN 245 million.

Major investments implemented in 2012:
Soda Polska Ciech S.A.

- **Power Plant production modernisation task**, which covered the Janikowo CHP plant, including the tasks: comprehensive modernisation of three CKTI-75 boilers, construction of a fume desulphurisation system, modernisation of electrostatic filters for the three CKTI-75 boilers, modernisation of the boilers' ash removal system. The implementation of the project was necessary due to the need to adjust the plant to environment protection requirements and was also used to improve the energy production cost-effectiveness resulting in the effectiveness of soda ash and vacuum salt production. The obtained effects include: the increased power production effectiveness of the boilers by about 25%, increase power efficiency by 10% to 90%, allowing for the reduction of coal consumption in the modernised CHP plant by 8%, decreased emissions of fumes, as well as solving the issues of ash disposal and fume desulphurisation. The project has been completed in mid 2012. The budget for the entire project amounted to over PLN 238 million, of which PLN 37 million were spent in 2012. The Janikowo CHP plant modernisation project was financed using own financial sources as well as using EU funding, priority 4 within the Infrastructure and Environment Operational Programme (the received funding amounted to PLN 40,5 million).

- **Sodium bicarbonate plant expansion in Inowrocław** – the implementation of the project to intensify the production of sodium bicarbonate aimed at increasing the production capacity of the current sodium bicarbonate facility by 20 ttpy to 90 ttpy. This project will create conditions for more active participation in the most demanding sectors of the sodium bicarbonate markets (the pharmaceutical industry) and it will also help to obtain new customers by allowing for processing of additional amounts of soda ash. Finally the investment will be resulting in the production of a more stable product, which is closer to the end-customer as well as increase the utilisation of the production capacity of the soda ash facilities. The expected results of the investment are, among others, the ability to increase sales by about 20 ttpy and the improved product quality. The budget for the entire project amounts to PLN 16,6 million, of which PLN 5,8 million were spend in 2012. The investment is scheduled for completion in 2013.

Z.Ch. „Organika – Sarzyna" S.A.

- **Construction of a MCPA Plant** – this investment is based on the introduction of innovative technological solutions, which increase the production capacity of active substances of crop protection chemicals by 50% from the current 4 ttpy to 6 ttpy. Also, the parameters of the production process will be improved, among others, the raw materials consumption will be reduced by about 5%, the effectiveness of the production process will be increased and the energy consumption efficiency will be increased by about 5%, the production of sewage will decrease by about 5%. The investment has been completed in the 4th quarter of 2012. The budget for investment amounted to over PLN 117 million, of which PLN 704 million were spent in 2012. This project was financed using own financial sources and using EU funds, Measure 4.4 under the Innovative Economy Operational Programme (the received funding amounted to PLN 40 million).

Alwernia S.A.

- **Melamine polyphosphate Plant –** as specified in the project objectives an industrial facility for the production of a commonly used, new generation halogen-free flame retardant based on melamine polyphosphate. The cost of the investment in 2012 amounted to PLN 3 million. The total amount spent on the project was PLN 12,5 million. The expenditures were covered using a loan from the Agencja Rozwoju Przemysłu (Industrial Development Agency). The result of the project implementation is the expansion of the Alwernia S.A. product portfolio and Company's entry to the flame retardant market. The project covers gradual increase of production capacity, finally reaching 2 ttpy. In 2013 the production line will be expanded with mixing station of generated products as well as complete product encapsulation and packaging unit. The cost of this investment shall be PLN 2 million.

VITROSILICON S.A.

- **BravaGlass packaging glassware** –based on the developed technology during the research phase, the production line includes innovative products – BravaGlass packaging glassware. The assumed main results of the investment are: increased production and sales of glass packaging in the years 2009-2016 by 16%, increased potential markets areas, considerably increased income on the sales of the new product as a result of adjusting the offer to the consumers' needs. The budget for the investment amounted to PLN 19 million. PLN 2,4 million were spent on finalising the project in 2012. This project was financed using own means and using EU funds, Measure 1.4-4.1 under the Innovative Economy Operational Programme (the funding amounted to PLN 7.54 million).

7.1.2. Investments planned for the next 12 months

In the year 2013 the planned investment expenditures will amount to PLN 208 million.

Capital investments planned for the year 2013 and the following year conform to the new Strategy of the Ciech Group and assume an organic development of the soda business by:

- Optimisation of the soda ash production process by increasing the effectiveness of the filtration unit – purchase, installation and commissioning of belt filters in the soda plant in Inowrocław. The aggregated expenditure for this project is planned at PLN 19 million and the implementation period will cover the years 2013-2014.
- Development of production capacities and improvement of quality of sodium bicarbonate – in 2013 the investment will continue to increase the production of sodium bicarbonate by 20 ttpy to reach 90 ttpy in the production plant in Inowrocław.
- Intensification of the production of dry vacuum salt (Janikowo) – the objective of the project is to increase income on the sales of highly processed products by obtaining the capacity to dry the entire produced volume of wet salt (600 thousand tons/year). The aggregated expenditure for this project is planned at PLN 41 million and the implementation period will cover the years 2013-2015.

Apart from development investments the Ciech Group is planning to implement a package of modernisation-reconstruction investments to maintain the current production infrastructure. Also, environmental investment projects will be implemented, which are focused on adjusting the Group's industrial facilities to the changing of legal requirements, especially those considering industrial emissions (Industrial Emissions Directive).

The main capital investment planned for implementation in 2013 by the companies of the Ciech Group will relate to the development of the saturated polyester resin plant in Z.Ch. "Organika – Sarzyna" S.A. The project covers the expansion of the production capacity of saturated polyester resins from the current 6 ttpy to 12 ttpy. The planned investment is the result of analysis of tendencies in the saturated polyester resin market, which indicate the growth of demand in this market both in Poland and in the EU, as well as of the positive economic indicators of the investment. The budget for the investment planned at PLN 10 million. The investment is scheduled for completion in the 4th quarter of 2013.

7.2 Description of major capital investment and the methods of their financing

7.2.1 Capital investments and divestment implemented in the current reporting period and the method of their financing

Investments

Following the obligations resulting from the Social Guarantee Package in force at Z.Ch. "Organika-Sarzyna" S.A., until the end of 2013, the final phase of the obligation is to repurchase the shares presented free of charge to entitled persons based on art. 36 of the Act of 30th August 1996 on commercialisation and privatisation of national companies. In 2012, shares were purchased at the Z. Ch. "Organika-Sarzyna" S.A. for the amount of PLN 830 thousand.

Additionally, on 5th October 2012, CIECH S.A. and Bolagsratt Sundsvall AB concluded an agreement for the sale of 6500 shares of Goldcup 8001 AB to CIECH S.A. for the sum of EUR 6,500. CIECH S.A. became the owner of the company on 17th October 2012. Extraordinary General Meeting of Shareholders held on the 17th October 2012 decided to increase the share capital by EUR 58,500, by issuing 58 500 shares at EUR 1 per share and decided to change the name from Goldcup 8001 AB to Ciech Group Financing AB (publ).

Divestments

On the day of 17th September 2012, as a result of sales of 3 820 shares of POLFA Sp. z o.o., which amounts to 100% of the Company's share capital the ownership was transferred from CIECH S.A. to BM Medical S.A. The total price for the 100% of shares amounted to PLN 6,500 thousand.

7.2.2 Capital investments and divestments planned for the next 12 months

Capital investments

Following the obligations resulting from the Social Guarantee Package in force at Z.Ch. "Organika-Sarzyna" S.A., until the end of 2013, including the final phase of the obligation to repurchase the shares presented free of charge to entitled persons based on art. 36 of the Act of 30th August 1996 on commercialisation and privatisation of national companies. The motion to repurchase the shares may be forwarded after the legal limitations are subsided between the 1st and 30th April 2013 and the guaranteed buy back price shall amount to PLN 35 per one share.

Basic information on major companies subject to divestment conducted by CIECH S.A.

Company	Project status	Planned year of project completion
Z. Ch. "Organika – Sarzyna" S.A.	Ongoing talks with potential investors.	2013 / 2014
VITROSILICON S.A.	Project on hold.	2013
Alwernia S.A.	Preliminary contract for sale concluded.	2013
Transclean Sp. z o.o.	Ongoing talks with potential investors.	2013
Transoda Sp. z o.o.	Ongoing talks with potential investors.	2013

Additionally, the following are planned for the year 2013 or are already being implemented:

- intra-group sales of 100% of shares of JANIKOSODA S.A. sold by CIECH S.A. to Ciech Trading S.A. on the 28th March 2013. CIECH S.A. has in its direct and indirect control 100% of the Ciech Trading S.A. share capital (until the 26th February 2013 the name of the company Ciech Trading S.A. was Przedsiębiorstwo Chemiczne Cheman S.A.),
- sales of shares in company Boruta-Zachem Kolor Sp. z o.o. – on the 1st February 2013 an agreement was concluded for the sales of 19 303 shares of Boruta-Zachem Kolor Sp. z o.o., between the parties: ZACHEM S.A. (Selling entity) and Coal Oil Sp. z o.o. (Buying entity). The total price of sale of shares amounts to PLN 5,2 million. The ownership of the shares was transferred to the Buying entity on the date of sale i.e. 8th March 2013.

7.3 Evaluation of the ability to complete the investment plans in relation to owned assets, including the possible changes in the financing structure of these activities.

The Ciech Group's investment policy was adapted to the current ability to acquire capital so that it fully covers the planned material and capital investment.

The sources of financing of investment activities in CIECH S.A. and Ciech Group are:

- cashflow from operating activities,
- cashflow from divestments,
- external sources of funding in the form of European Union funds,
- external sources of funding in the form of bank loans and issued bonds.

8 Managing the financial resources in the Ciech Group

8.1 Information regarding important financial liabilities.

- **Information on covenants contained in credit agreements**

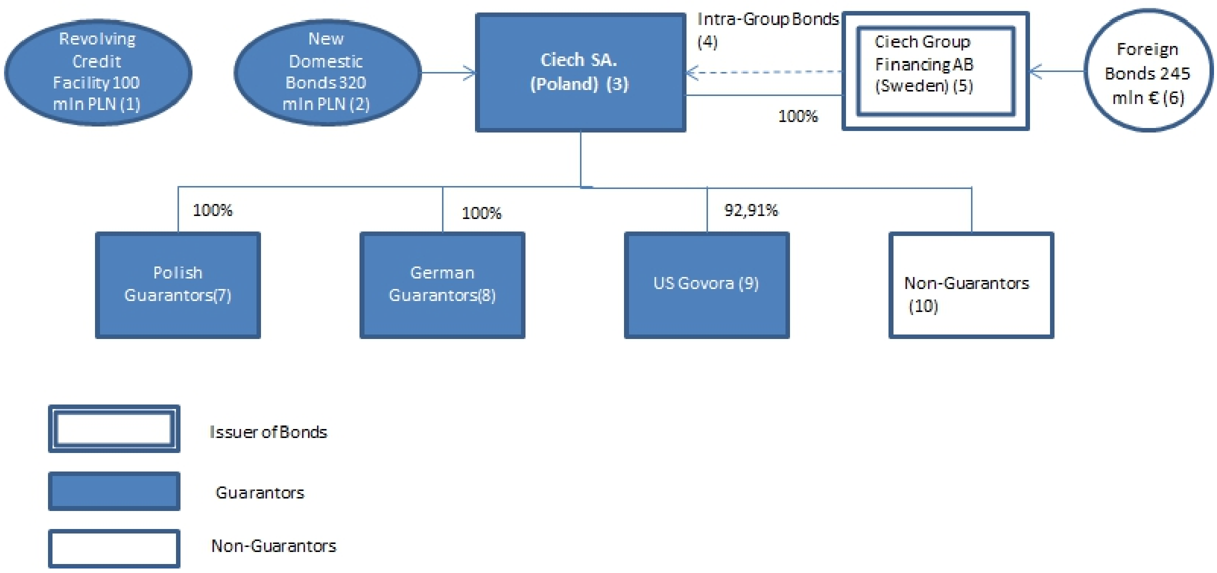
During the period covered by this report no credit agreement has been declared due and payable and there were no cases of overdue payment of capital or interest related to financial liabilities listed in the balance sheet.

Debt funding of the Group

Debt funding of the Group in the form of bonds or credit is provided mostly by:

- Foreign Bonds issued by the Ciech Group Financing AB (publ) – as of 31st December 2012 the nominal debt amounted to EUR 245 million (i.e. PLN 1 001 609 thousand),
- New Domestic Bonds issued by CIECH S.A. – as of 31st December 2012 the nominal debt amounted to PLN 320 million,
- The revolving credit made available to CIECH S.A. based on the Revolving Credit Agreement of 6th November 2012 in the amount of PLN 100 million – as of 31st December 2012 the debt amounted to PLN 0.

The diagram below shows a simplified summary of the Groups financing structure. This diagram does not contain all subsidiaries or their debt liabilities. Unless otherwise specified the subsidiaries included in the simplified structure below are directly or indirectly fully owned by the Company.



(1) *Revolving Credit Facility providing CIECH S.A. with a revolving credit to the amount of PLN 100 000 thousand, described further in this report.*

(2) *New Domestic Bonds to the amount of PLN 320 000 thousand issued by CIECH S.A. on the 5th December 2012, described further in this report.*

(3) *CIECH S.A. – is the parent company of the Foregn Bonds Issuer and Parent Guarantor. All conditions for the issue of Bonds (as well as those resulting from the Revolving Credit and New Domestic Bonds) are related to the Parent Guarantor and its subsidiaries.*

(4) *Intra-group Bonds to the nominal value of EUR 245 000 thousand issued by CIECH S.A. to Ciech Group Financing (publ) on the 6th December 2012.*

(5) Ciech Group Financing AB (publ), issuer of the Foreign Bonds, company fully owned by CIECH S.A. is a financial entity and has no important assets apart from the owned Intra-group Bonds of CIECH S.A.

(6) Foreign Bonds to the amount of EUR 245 000 thousand issued by the Ciech Group Financing AB (publ). The bonds are covered by guarantee of the Parent Guarantor (CIECH S.A.), Polish Guarantors, German Guarantors and US Govora S.A. The guarantors represent 88.9% of our total consolidated revenue (excluding ZACHEM S.A.) and 187.1% of our EBITDA (excluding ZACHEM S.A.), from the 12 month concluded on the 31st December 2012 and 88.5% of our total assets (excluding the value of the company Soda Deutschland) on the 31st December 2012 Including ZACHEM for the 31st December 2012 the Guarantors represented 85.3% of our total consolidated revenue and 1 127.7% of our EBITDA in the 12 month period concluded on the 31st December 2012 and 76.7% of all our assets (excluding the value of the company Soda Deutschland). On the day of 31st December 2012 the total debt of Subsidiaries who are not Guarantors amounted to PLN 649 906 thousand including the debt related to supplies and services but excluding debt between the companies. Among this amount, the financial liabilities of subsidiaries who are not Guarantors amounted to PLN 310 733 thousand.

(7) Polish Guarantors: Parent Guarantor (CIECH S.A.), Transclean Sp. z o.o., Soda Matwy S.A., Vitrosilicon S.A., Janikosoda S.A., Cheman S.A., Ciech Pianki Sp. z o.o., Soda Polska Ciech S.A., Alwernia S.A. and Z. Ch. "Organika – Sarzyna" S.A. With the exception of Alwernia S.A. and Organika S.A. where CIECH S.A. holds 99.624% and 98.84% of shares respectively, all Polish Guarantors completely owned by CIECH S.A.

(8) German Guarantors: Soda Deutschland Ciech GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltungs-GmbH and Sodawerk Stassfurt GmbH & Co. KG. All German Guarantors are directly or indirectly fully owned by CIECH S.A.

(9) US Govora S.A.: 92.9% of shares in US Govora are indirectly owned by CIECH S.A.

(10) The Polish non-guarantors include: Ciech Finance Sp. z o.o., Transoda Sp. z o.o. and ZACHEM Group. The German non-guarantors are KWG-Kraftwerksgesellschaft Stassfurt mbH, company fully owned by CIECH S.A., KPG Kavernen-Projekt-Beteiligungsgesellschaft mbH, company under liquidation, which is fully owned by CIECH S.A. and Kavernengesellschaft Stassfurt mbH, where CIECH S.A. holds 50% of shares.

Foreign Bonds

On the 28th November 2012 the company Ciech Group Financing AB (publ) issued secured bonds for the amount of EUR 245 000 thousand. The Bonds were offered and sold in conformity with *Rule 144A* and *Regulation S* of the *U.S. Securities Act*.

The the issue proceeds were used to acquire the intra-group bonds of CIECH S.A. and indirectly to repay the indebtedness of CIECH S.A. under the Credit Agreement of 10th February 2011 and to repay indebtedness of Sodawerk Stassfurt GmbH & KG and Sodawerk Holding Stassfurt GmbH.

Below is the information on the completed issue of Bonds:

Issuer .... Ciech Group FINANCING AB (publ) is a public limited liability company organised under the laws of Sweden, with its legal seat in Stockholm and registered in the Swedish Registry of Enterprises under no. 556905-9396.

Parent Company................................ CIECH S.A., a joint stock company, organised based on Polish law, with its legal seat in Warsaw, entered to the Register of Entrepreneurs of the National Court Register under no. 0000011687.

Issued Bonds .... a total of EUR 245 million principal amount with interest of 9.50% p.a. Bonds due in 2019.

Issue Date.. 28th November 2012

Issue Price... 100% (plus the accrued and unpaid interest if such occur, counting from the Issue Date).

Maturity Date .... 30th November 2019

Interest rate .... The Bonds bear interest of 9.50% per annum.

Interest payment dates .... The interest will be payable every half year in arrears, on the 15th November and 15th May each year starting from 15th May 2013. Interest on the Bonds is accrued starting on the date of issue.

Nominal form..................................... The Issuer issued the Bonds on the Issue Date in the form of global bonds at minimum nominal value of EUR 100 000 and multiples of EUR 1000 held in the form of entry into the registry. Bonds of nominal value lower than EUR 100 000 are not available.

Guarantees .... The Bonds are guaranteed on senior basis by the Parent Guarantor (CIECH S.A.), Alwernia S.A., Cheman S.A., Ciech Pianki Sp. z o.o., Janikosoda S.A., Soda Polska Ciech S.A., Soda Deutschland Ciech GmbH, Soda Mątwy S.A., Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt GmbH & Co. KG, Sodawerk Stassfurt Verwaltungs-GmbH, Transclean Sp. z o.o., US Govora S.A., Vitrosilicon S.A. and Z. Ch. "Organika – Sarzyna" S.A.

The guarantors represent 88.9% of our total revenue (excluding ZACHEM S.A.) and 187.1% of our EBITDA (excluding ZACHEM S.A.), for the 12 month concluded on the 31st December 2012 and 88.5% of our total assets (excluding the value of the company Soda Deutschland) on the 31st December 2012

The Bond Indenture provides that, for so long as the Intercreditor Agreement (or any additional intercreditor agreement) is in effect, on or after the occurrence of an enforcement action under the Intercreditor Agreement (or any additional intercreditor agreement), all payments in respect of any Guarantee may only be made to the Security Agent (and the Trustee and, subject to the terms of the Indenture, the holders of the Bonds may make demands or claims under any Guarantee only to the effect that such payments be made to the Security Agent) for application pursuant to the Intercreditor Agreement or any additional intercreditor agreement, as the case may be

Bond ranking..................................... The Bonds are a general obligation of the Issuer and:

- are *senior secured* obligations of the Issuer;
- have *pari passu* ranking in the payment order with existing and future liabilities of the Issuer, which are not subordinated to the Bonds including the Revolving Credit Facility and New Domestic Bonds;
- rank senior in right of payment to any and all of the existing and future indebtedness of the Issuer that is subordinated to the Bonds
- are structurally subordinated to the existing and future liabilities of the Issuers subsidiaries, who are not guarantors of the Bonds.

Collateral ....

Bonds and Guarantees are secured using collateral established essentially over all assets of the Parent Guarantor and its Restricted Subsidiaries (subject to relevant perfection requirements), including among others:

- security over the Issuer's shares, its rights to Intra-group Bonds and bank accounts;
- security over the shares of each Polish Guarantor (other than the Parent Guarantor);
- securiy over the shares of each German Guarantor and KWG-Kraftwerksgesellschaft GmbH;
- in case of Polish Guarantors and German Guarantors, security over the (1) moveable assets and property rights, (2) bank accounts and (3) assignment of insurance agreements, intra group loans and trade receivables;
- in case of Polish Guarantors and German Guarantors, mortgages over certain real properties.

The Bonds and Guarantees are secured using security interest over bank accounts of US Govora S.A. together with, in case of accounts in Romania, arrangements specifying the control over the account made with banks operating the accounts.

The collateral is shared based on the super senior principle with the creditors of the Revolving Credit Facility and based on *pari passu* principle with creditors of New Domestic Bonds, creditors in some allowable future debts and specific parties of secured hedging obligations, subject to conditions of Intercreditor Agreement.

Intercreditor Agreement.................... Each Bond holder by accepting the Bond will be considered to have accepted the terms of the agreement between the creditors ("Intercreditor Agreement"), between, among others, Parent Guarantor, Issuer, Security Agent and the Trustee. The Indenture is subject to the terms and conditions of the Intercreditor Agreement and the rights and benefits of the Bond holder are therefore limited and take into account the terms and conditions of the Intercreditor Agreement.

Optional redemption .... The Issuer is entitled to redeem the Bonds:

- in total or in part at any time after the 30th November 2015 at the buy-back price established in the Bond Indenture, increased by the accrued and unpaid interest incurred before the date of redemption;
- at any time and from time to time prior to 30th November 2015, inthe total amount not exceeding 35% of the total principal amount of originally issued Bonds, from one or more share capital offers at the price of 109.50% of the redeemed principal amount increased by the accrued and unpaid interest before the redemption date and
- in total or in part at any moment before the 30th November 2015 at the buy-back price equal to 100% of the principal amount and an additional premium ("make whole-premium") increased by the accrued and unpaid interest, if such interest exists, before the redemption date.

Additional amounts........................... All payments made by the Issuer or any Guarantor in relation to the Bonds are made without holding or discounting any taxes for any taxation body unless it is required by law. If holding or discounting such taxes is required by law in relation to the holders of the Bonds, with the exception of some cases the Issuer will pay the required additional amounts, so that the net amount received by the Bonds holders after such hold or discount is not smaller than the amount they would receive should such hold or discount be absent.

Tax payment....................................... In case the Issuer becomes obliged to issue additional sums within the changed taxation law, the Issuer is entitled to buy-back Bonds in total, but not in parts, at any moment, at the price of 100% of the principal amount increased by the accrued and unpaid interest if such exists and additional amounts if such exist before the date of redemption.

Change of control .... If a change of control occurs, the issuer is obliged to offer the redemption of Bonds at the amount of 101% of the principal amount increased by accrued and unpaid interest.

Certain covenants............................. The Indenture contains covenants that restrict the ability of the Parent Guarantor and its Restricted Subsidiaries to:

- incur more debt;
- pay dividends, repurchase stock, and make distributions and certain other payments and investments;
- create or incur liens;
- enter into transactions with affiliates;
- transfer or sell assets;
- engage in certain activities;
- impair security interests;
- provide guarantees of other debt;
- agree to restrictions on dividends by subsidiaries; and
- merge or consolidate.

	These obligations are subject to numerous important qualifications and exceptions.
Trustee...	Deutsche Trustee Company Limited
Main Paying Agent and Transfer Agent	Deutsche Bank AG – London Branch
Registry Holder, Listing Agent, Paying Agent for Luxembourg and Transfer Agent..................................	Deutsche Bank Luxembourg S.A.
Security Agent..................................	Powszechna Kasa Oszczędności Bank Polski S.A.
Listing..	The Bonds are listed at the Luxembourg Stock Exchange
Governing law	The Bonds, Indenture and Guarantees are governed by the law of the State of New York. The Governing law for Intra-group Bonds is the Polish law. Documents related to security are governed by the law of the country where the subject of such security is registered or is subject to. Agreement Between the Creditors is governed by the British law.

New Domestic Bonds

On the 5th December 2012 CIECH S.A. issued the New Domestic Bonds for the total principal amount of PLN 320 million. The funds from the issue were used mainly for the early redemption, on the 5th December 2012, of Series A bonds issued by CIECH S.A. on the 14th December 2007 (amount of PLN 285 000 thousand) and the redemption on the maturity date i.e. 14th December 2012 of the remaining amount of Series A bonds (value of PLN 15 000 thousand). Below is the information on the completed issue of bonds:

General information

The New Domestic Bonds have a 5 year maturity date. Two series of bonds were issued:

(i) Series 01 with a total nominal value of PLN 160 000 thousand with the option allowing CIECH S.A. for early redemption of the bonds before their maturity date i.e. after 18 and 42 months from the issue date, with maturity date on the 5th December 2017;

(ii) Series 02 with a total nominal value of PLN 160 000 thousand without the option of early redemption of the bonds by CIECH S.A., with maturity date on the 5th December 2017;

The New Domestic Bonds are senior obligations of CIECH S.A. secured by sureties issued by guarantor companies in the Group and are treated equally, when it comes to order of payment, with existing and future debts of CIECH S.A., which are not subordinated to the New Domestic Bonds when considering the order of payment and are structurally subordinated to all existing and future liabilities of subsidiaries of CIECH S.A., which are not guarantors.

The collateral used to secure the Foreign Bonds also is applied to the New Domestic Bonds as specified in the Intercreditor Agreement. Only those holders of the New Domestic Bonds, who participate in the Intercreditor Agreement will benefit from the security as well as rights and obligations, which stem from the Intercreditor Agreement. Any holder of the New Domestic Bonds, who does not accede to the Intercreditor Agreement will not benefit from the collateral.

Coupon

The interest rate of the New Domestic Bonds is the sum of the margin (500 basis points in case of Series 01 and 490 basis points in case of Series 02) and the semi-annual WIBOR rate (as defined in the terms of the New Domestic Bonds). Interest for the New Domestic Bonds is payable in semi-annual periods.

Optional redemption

On the day the interest is payable for the third and seventh semi-annual period, CIECH S.A. is entitled to redeem the total or part of Series 01 of New Domestic Dond. The price of the bonds will in such case be increased by the premium for earlier redemption established in the terms and conditions of the New Domestic Bonds.

Early mandatory redemption– payment default

CIECH S.A. is subject to mandatory redemption of the New Domestic Bonds at their nominal value plus the accrued and unpaid interest before the maturity date in case of payment default on interest or principal of the New Domestic Bonds.

Early mandatory redemption – Change of Control
CIECH S.A. is subject to mandatory redemption of the New Domestic Bonds at 100.7% of their nominal value plus the accrued and unpaid interest before the maturity date in case a third party or third parties acting together obtain, in one or more transaction, directly or indirectly more than 50% of votes in CIECH S.A.

Other conditions for early redemption
CIECH S.A. is subject to mandatory redemption of the New Domestic Bonds at their nominal value plus the accrued and unpaid interest before the maturity date in case one of the events listed below occurs and in some cases, when such redemption is supported in voting by two thirds of the holders of New Domestic Bonds:

non-payment in respect of the due and payable indebtedness (excluding the Foreign Bonds and the Credit Facilities) in the amount exceeding 10% of its consolidated own capital;
- cross acceleration on the indebtedness (excluding the Foreign Bonds and the Credit Facilities) in the amount exceeding 10% of its consolidated own capital;
- if Ciech S.A. or its subsidiaries incurs additional indebtedness and EBITDA-to-net interest ratio is lower than 2.5 on a pro forma consolidated basis;
- if Ciech S.A. or its subsidiaries sells any of the assets in the soda segment and does not receive at least 75% in cash or cash equivalents as consideration and does not use the proceeds in the manner set forth in the New Domestic Bonds;
- if Ciech S.A. or its subsidiaries sells any other assets and does not receive at least 75% in cash or cash equivalents as consideration and does not use the proceeds in the manner set forth in the New Domestic Bonds;
- if any licenses and permits necessary for Ciech S.A. to perform its obligations under the New Domestic Bonds expire or are revoked;
- if Ciech S.A. or any of its subsidiaries acquires another company which is not engaged in the current core business activity of the group or the surviving entity does not assume the obligations under the New Domestic Bonds;
- if Ciech S.A. or any of its subsidiaries acquires into another company which business or activity is fully or partially coherent with the current core business activity of the group and the EBITDA-to-net interest as a result of such acquisition ratio is lower than 2.5 on a pro forma basis;
- if Ciech S.A. merges with another entity unless where Ciech S.A. is the surviving entity or the surviving entity assumes the obligations under the New Domestic Bonds and in addition no event of default under the New Domestic Bonds occurs and the EBITDA-to-net interest ratio on a pro forma consolidated basis is not lower than 2.5 on a pro forma consolidated basis;
- if Ciech S.A. does not pay any amount exceeding 10% of its consolidated own capital that was due and payable pursuant to a final and binding judgment or administrative decision;
- if the claims under the New Domestic Bonds no longer enjoy at least pari passu ranking with all other unsecured and unsubordinated claims of other creditors, subject to claims enjoying statutory priority;
- if the sureties granted by the subsidiaries of Ciech S.A. in respect of the New Domestic Bonds cease to be legal, valid and enforceable security;
- if Ciech S.A. or the Guarantors incurs additional indebtedness secured over the assets of Ciech S.A. or the Guarantors and the net secured debt to EBITDA ratio is higher than 3.5 (3.0 if the additional indebtedness is incurred after December 31, 2014);
- if a non Guarantor subsidiary of Ciech S.A. incurs additional indebtedness and the net secured debt to EBITDA ratio (such debt being treated as secured debt for the purposes of calculating the ratio) is higher than 3.5 (3.0 if the additional indebtedness is incurred after December 31, 2014);
- if any representation or warranty made by Ciech S.A. in the proposal to subscribe of the New Domestic Bonds or in the terms and conditions of the New Domestic Bonds appears to be untrue entirely or in part as of the date on which it has been made;
- if the documentation pursuant to which the transaction security is to be established is not duly executed on or prior to December 14, 2012 or in the case of certain Romanian transaction security, January 14, 2013 or the motions for the registration of all the relevant transaction security are not filed with the relevant courts until December 21, 2012;
- if the transaction security ceases to be legal, valid and enforceable security;
- if any execution is effected or injunction issued against any assets of Ciech S.A. for an amount exceeding 10% of its consolidated own capital;
- if Ciech S.A. or its subsidiary gives for the benefit of the holders of the Foreign Bonds a security or guarantee to secure the Foreign Bonds and an equivalent instrument is not given by it simultaneously for the benefit of the holders of the New Domestic Bonds; and
- if Ciech S.A. defaults in respect of its other obligations and such default is not cured within 45 days of its occurrence.

CIECH S.A. is subject to obligatory redemption of the New Domestic Bonds at their nominal value plus the accrued and unpaid interest before the date of redemption in case one of the events listed below occurs (without the need for voting by the holders of New Domestic Bonds):

- cross acceleration (Foreign Bonds and/or Credit Facilities only);
- the Security Agent receives enforcement instructions from the relevant Instructing Group (as defined below) under the Intercreditor Agreement;
- insolvency proceedings;
- dissolution or liquidation of Ciech S.A.;
- cessation of business; and
- if all the shares of Ciech S.A. are fully de-listed from the regulated market in Poland.

Governing law

New Domestic Bonds are subject to, are interpreted and enforceable in accordance with the regulations of the Polish law.

Intra-group bonds

On 6 December 2012 CIECH S.A. issued non-secured registered bonds, series W, governed by Polish law, denominated in Euro with maturity on 29 November 2019, which were acquired by CIECH Group Financing AB (public). The funds from the issuance have been used, among others, for:

- repayment of granted credits, among others to CIECH S.A, on the basis of the credits facility agreement dated 10 February 2011,
- repayment of credits granted to Sodawerk Stassfurt GmbH & Co. KG and Sodawerk Holding Stassfurt GmbH in accordance with the credit facility agreement dated 23 January 2008.

Intra-group bonds have been issued on the following conditions:

- Type of issued bonds: non-secured registered bonds issued in the form of a document;
- Quantity of issued bonds: 2;
- Volume of issuance: 245,000 thousand EUR;
- Face value of the bond: 122,500 thousand EUR;
- Issue price of 1 bond: 118,100 thousand EUR being face value reduced by 4,400 thousand EUR;
- Interest (per annum): fixed interest amounting to: 10.15% p.a. in the first interest period, in which the interest will be payable on 14 May 2013; and 9.6% in subsequent interest periods;
- Days of payment of interest: 14 May and 14 November each year;
- Conditions of redemption: maturity of intra-group bonds has been fixed for 29 November 2019, the redemption will be conducted at nominal value increased by any accrued and unpaid interest; the Intra-group bonds contain the option allowing CIECH S.A. for, in the cases specified in the conditions of bonds issuance, early redemption of bonds.

Revolving Credit Facility

On 6 November 2012 a Revolving Credit Facility was concluded between CIECH S.A. as the borrower, its subsidiaries as guarantors (CIECH Group Financing AB (publ), JANIKOSODA S.A., SODA MĄTWY S.A., Soda Polska Ciech S.A., Alwernia S.A., Cheman S.A, Z. Ch. "Organika – Sarzyna" S.A.VITROSILICON S.A., TRANSCLEAN Sp. z o.o. CIECH Pianki Sp. z o.o., Soda Deutschland Ciech GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltuns-GmbH, Sodawerk Stassfurt GmbH & Co. KG) and Bank Handlowy w Warszawie S.A. ("the Facility Agent"), Millennium Bank S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., ING Śląski S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. (jointly as "the Lenders").
The instruments made available under the Revolving Credit Facility stipulate the total amount of financing equal to 100 million PLN, which may be utilised starting from the effective date of the contract (the Effective Date) inclusive, subject to meeting certain conditions precedent; the financing may be utilised by means of cash advances in PLN,issuing guarantees and letters of credit in PLN or in other currency. Financing available under the Revolving Credit Facility may be used for funding the general corporate needs of the Ciech Group and the needs with regard to the working capital.

The main borrower under the Revolving Credit Facility is CIECH S.A. The liabilities under the contract are guaranteed by Ciech Group Financing AB (publ), JANIKOSODA VITROSILICON S.A., S.A., SODA MĄTWY S.A. of Inowrocław, Soda Polska Ciech S.A., TRANSCLEAN Sp. z o.o., Alwernia S.A., Z, Ch "Organika-Sarzyna" S.A., Cheman S.A., Ciech Pianki Sp. z o.o., Soda Deutschland Ciech GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltungs-GmbH, Sodawerk Stassfurt GmbH & Co. KG as well as S.C. Uzinele Sodice Govora Ciech Chemical Group S.A.

Repayments and prepayments

Financing made available under the Revolving Credit Facility is subject to repayment within 36 months from the Effective Date (in accordance with the definition in the Revolving Credit Facility). Any amounts outstanding over this period will be immediately due and payable, with some exceptions pertaining to letters of credit and guarantees. The Revolving Credit Facility contains requirements to clean down cash drawings under the Revolving Credit Facility to PLN 0 for a period of not less than seven successive days on two occasions in each twelve month period from the date of signing of the New Credit Facility Agreement. Not less than three months shall elapse between any such clean down periods..

In accordance with the contract terms, we can make voluntary early repayment of the granted credits in the minimum amount of 5 million PLN (or 100 000 PLN in the case of letters of credit), while submitting notice within 10 working days from the date of repayment. The repaid amounts may be re-used.

The Revolving Credit Facility determines the cases of mandatory early repayment of loans, either in full or in part, under certain circumstances, including, among other things:

(1) with regard to any creditors or the issuing bank, if performance of any obligations under the Revolving Credit Facility proves or will prove to be illegal for such creditors or the issuing bank;
(2) after occurrence of a change in control;
(3) after occurrence of specified mandatory or optional redemption on the basis of the Foreign Bonds or New Domestic Bonds.

Interest and fees

The Revolving Credit Facility determines due interest from the paid credits, in the annual perspective, equal to the WIBOR rate, increased by the defined mandatory costs and margin. The contract also contains provisions concerning the commitment fee, payable quarterly in arrears in the period of availability of the credit and on the last business day of the period of availability and for the cancelled amount at the time of the effective date of cancellation. In connection with the contract, also the level of pay of the Security Agent, of the Facility Agent were determined as well as specified other required fees from time to time for payment on the basis of the conditions of the Revolving Credit Facility.

Transaction security

The instruments made available under the Revolving Credit Facility have been secured by means of the same securities as the Foreign Bonds and New Domestic Bonds.
The instruments made available under the Revolving Credit Facility are guaranteed, subject to customary guarantee limitation provisions, by each member of the group, which either was an initial guarantor or acceded as a guarantor, according to the Revolving Credit Facility and its conditions. Each guarantor provides also the defined indemnitiesw to the financing parties. Conditions of such sureties and indemnities are consistent with the customary market conditions for the transaction of a similar nature.

Covenants

The Revolving Credit Facility contains the customary operational and financial convenants, subject to certain agreed exceptions, including the provisions limiting capacity of each obligor to, among others:

- establishing security;
- sale, lease, transfer or disposal of assets;
- entering into certain derivative transactions;
- conclusion of transactions other than at arm's length;
- introducing significant changes in the nature of the business; and
- changes of centre of main interest.

The Revolving Credit Facility also requires from the specified debtors compliance with specified obligations, with specified agreed exceptions, including, among other things:

- maintenance of relevant authorisations;
- compliance with law regulations;
- payment of taxes;
- ensuring that the obligations under the Revolving Credit Facility are treated pari passu as the claims of other debtors;
- maintaining insurance;
- maintaining certain bank business relations with specific parties;
- maintenance of the principles of reporting and specified auditors;
- making redemption or changing the conditions of the Bonds;
- setting Restricted Subsidiaries; and
- filling specific conditions and later obligations within specific timeframes.

The Revolving Credit Facility also requires fulfillment of the requirements set out in the conditions of Bonds issuance.
The Revolving Credit Facility requires complying with the following net leverage ratios:

Measurement period ended	Ratio
30 June 2013	4,5
31 December 2013	4,3
30 June 2014	3,6
31 December 2014	3,6
30 June 2015	3,0

Events of default
The Revolving Credit Facility Agreement contains customary events of default (subject, in certain cases, to agreed grace periods, thresholds and other qualifications), including a cross default with respect to certain financial indebtedness, the occurrence of which would allow the lenders to, amongst others, accelerate all or part of the outstanding utilizations and/or terminate their commitments and/or declare all or part of their utilizations payable on demand and/or declare that cash cover in respect of the letter of credit facility is immediately due and payable.
Governing law
The Revolving Credit Facility as well as any non-contractual obligations resulting from or in connection with the Contract are subject to the provisions of the English law.

Events of default
The Revolving Credit Facility Agreement contains customary events of default (subject, in certain cases, to agreed grace periods, thresholds and other qualifications), including a cross default with respect to certain financial indebtedness, the occurrence of which would allow the lenders to, amongst others, accelerate all or part of the outstanding utilizations and/or terminate their commitments and/or declare all or part of their utilizations payable on demand and/or declare that cash cover in respect of the letter of credit facility is immediately due and payable..

Governing law
The Revolving Credit Facility as well as any non-contractual obligations resulting from or in connection with the Contract are subject to the provisions of the English law.

Intercreditor Agreement

In connection with entering into the Revolving Credit Facilitiy (hereafter referred to as New Credit Facility Agreement), the Indenture governing the Foreign Bonds (hereafter also referred to as Notes) and the terms and conditions of the New Domestic Bonds, the Issuer, the Parent Guarantor (as a parent guarantor under the Indenture and as issuer of the New Domestic Bonds), the Subsidiary Guarantors and certain other subsidiaries of the Parent Guarantor have entered on 28th November 2012 into an intercreditor agreement (the "Intercreditor Agreement") to govern the relationships and relative priorities among: (i) the lenders (the "Credit Facility Lenders") and the other super senior creditors under the New Credit Facility Agreement and any further credit facility (each a "Credit Facility Agreement"); (ii) any persons that accede to the intercreditor agreement as counterparties to certain permitted hedging agreements (collectively, the "Hedging Agreements"; any persons that accede to the Intercreditor Agreement as counterparties to the Hedging Agreements are referred to in such capacity as the "Hedge Counterparties"); (iii) the Trustee, on its behalf and on behalf of the holders of the Notes; (iv) Espirito Santo Investment Bank as administrative agent for the New Domestic Bonds (the "Domestic Bondholders' Representative"), on behalf of the holders of the New Domestic Bonds (the "Eligible Domestic Bondholders") who have acceded to the Intercreditor Agreement as described in the section headed "*Domestic Bondholders Accession*"; (v) the Creditor Representatives and the Pari Passu Creditors (each as defined in the Intercreditor Agreement) of any Pari Passu Debt (as defined below) that accede to the Intercreditor Agreement and (vi) intra group creditors and debtors.

The documents that contain the terms and conditions governing each of the relevant credit instruments (including the Intercreditor Agreement and any security documents and guarantees) are respectively referred to as the "Credit Facility Documents", "Notes Documents", "New Domestic Bonds Documents", "Hedging Documents", "Pari Passu Debt Documents" and, collectively, the "Debt Documents". The Parent Guarantor and each of its Subsidiaries (as defined in the Intercreditor Agreement) (the "Group") that incurs any liability or provides any guarantee under or in connection with the Debt Documents are each referred to in this description as a "Debtor" and are referred to collectively as the "Debtors". The Notes together with the New Domestic Bonds are collectively referred to in this description as the "Senior Notes".

The Intercreditor Agreement sets out:

- the relative ranking of certain indebtedness of the Debtors;
- the relative ranking of certain security granted by the Debtors;
- when payments can be made in respect of certain indebtedness of the Debtors;
- when enforcement actions can be taken in respect of that indebtedness;

- the terms pursuant to which that indebtedness will be subordinated upon the occurrence of certain insolvency events;
- turnover provisions; and
- when security and guarantees will be released to permit a sale of any assets subject to transaction security.

The Intercreditor Agreement contains provisions relating to super senior indebtedness (which may be ranking alongside the New Credit Facility Agreement with respect to priority over enforcement proceeds) and indebtedness *pari passu* with the Super Senior Liabilities, the Hedging Liabilities and the Senior Notes Liabilities (such indebtedness, "Pari Passu Debt") that may be incurred under the terms of the Debt Documents and in each case that share the security interests in the Collateral on a *pari passu* basis with any other Super Senior Liabilities, Hedging Liabilities, Senior Notes Liabilities and any other Pari Passu Debt, subject to the terms of the Intercreditor Agreement (as set out further under Additional Indebtedness below). The Intercreditor Agreement, subject to certain conditions being met, allows for a refinancing in full or in part of the Super Senior Liabilities, the Senior Notes Liabilities and/or the Pari Passu Debt.

Unless expressly stated otherwise in the Intercreditor Agreement, the provisions of the Intercreditor Agreement, as between the parties to the Intercreditor Agreement, override anything to the contrary in the Debt Documents.

By accepting a Note, holders of the Notes shall be deemed to have agreed to and accepted the terms and conditions of the Intercreditor Agreement.

By becoming an Eligible Domestic Bondholder as described in the section headed "*Domestic Bondholders Accession*", each Eligible Domestic Bondholder shall be deemed to have agreed to and accepted the terms of the Intercreditor Agreement.

The following description is a summary of certain provisions, among others, contained in the Intercreditor Agreement.

Ranking and Priority

The Intercreditor Agreement provides, subject to the provisions in respect of permitted payments described below, that the liabilities of the Debtors in respect of the Credit Facility Documents (the "Super Senior Liabilities"), the Hedging Documents (the "Hedging Liabilities"), the Notes Documents (the "HY Notes Liabilities"), the Pari Passu Debt Documents, and the New Domestic Bonds Documents held by Eligible Domestic Bondholders (the "Domestic Bonds Liabilities" and together with the HY Notes Liabilities, the "Senior Note Liabilities") and certain other liabilities rank in right and priority of payment in the following order:

- first, the Super Senior Liabilities, the Hedging Liabilities, the Senior Note Liabilities and the Pari Passu Debt *pari passu* and *pro rata* and without any preference between them; and
- second, the Intra-Group Liabilities.

"Intra-Group Liabilities" means the liabilities owed by any Debtor to any of the Intra-Group Lenders. "Intra-Group Lenders" means each member of the Group (other than certain specific exceptions set out in the Intercreditor Agreement) that is owed liabilities by any Debtor on the Issue Date as more specifically listed in the Intercreditor Agreement and each member of the Group (other than certain specific exceptions set out in the Intercreditor Agreement) which has made a loan available to, granted credit to or made any other financial arrangements having similar effect with any Debtor in excess of a certain threshold amount and which becomes a party as an Intra-Group Lender in accordance with the Intercreditor Agreement.

The Intra-Group Liabilities are postponed and subordinated to the Super Senior Liabilities, the Hedging Liabilities, the Pari Passu Debt and the Senior Notes Liabilities.

The parties to the Intercreditor Agreement have agreed in the Intercreditor Agreement that the security (the "Transaction Security") and guarantees provided by the Debtors and the other parties that will provide security for and guarantee the Super Senior Liabilities, the Hedging Liabilities, the Senior Notes Liabilities and the Pari Passu Debt rank and secure and guarantee, respectively, the Super Senior Liabilities, the Hedging Liabilities, the Senior Notes Liabilities and the Pari Passu Debt *pari passu* and pro rata and without any preference between them (but only to the extent that such Transaction Security and guarantees are expressed to secure and guarantee, as applicable, those liabilities or is capable of extending to such liabilities under relevant law) except that pursuant to the terms of the Intercreditor Agreement, all proceeds from enforcement of the Transaction Security and the guarantees will be applied as provided below under "*Application of Proceeds*".

Permitted Payments

The Intercreditor Agreement permits, inter alia, payments to be made by the Debtors in respect of the Super Senior Liabilities, the Hedging Liabilities, the Senior Notes Liabilities and the Pari Passu Debt, provided that, on or after any enforcement action, payments on the guarantees of such liabilities must be paid to the Security Agent for application as provided for in "*Application of Proceeds*" below. The Intercreditor Agreement also permits other payments (including, without limitation, Intra-Group Liabilities) from time to time not otherwise prohibited under the Debt Documents if at the time of payment no acceleration event has occurred or otherwise with the consent of: (i) prior to the date on which all secured liabilities are discharged (i.e. the Super Senior Liabilities, the Pari Passu Debt, the Senior Note Liabilities and the Hedging Liabilities) (the "Final Discharge Date"), the Instructing Group (as defined below) or (ii) that payment is made to facilitate payment of the liabilities secured by the Transaction Security (the "Secured Liabilities") which are due and payable at that time and permitted to be paid under the Intercreditor Agreement.

Instructing Group

Instructions relating to Enforcement action

In relation to instructions with respect to enforcement of the Transaction Security, the requesting of a Distressed Disposal (as defined below) and/or the release of claims and/or Transaction Security on a Distressed Disposal, the giving of instructions as to actions in respect of any Transaction Security following an insolvency event and the taking of any other actions consequential on (or necessary to effect) the enforcement of the Transaction Security (other than any action to enforce a guarantee where that action is not made in connection with or in contemplation of the enforcement of any Transaction Security) (collectively, such actions the "Enforcement"), Instructing Group means:

(i) if the Security Agent has not received Conflicting Enforcement Instructions (as defined below) on or before the Proposed Enforcement Instruction Date (as defined below), the group of creditors that delivered the Enforcement Proposal (as defined below) to the Security Agent in accordance with the Intercreditor Agreement;

(ii) if the Security Agent has received Conflicting Enforcement Instructions on or before the Proposed Enforcement Instruction Date and at the end of the Enforcement Consultation Period (as defined below), the Majority Senior Secured Creditors and the Majority Super Senior Creditors agree to the manner of the Enforcement, the Majority Super Senior Creditors and the Majority Senior Secured Creditors (acting jointly);

(iii) if the Security Agent has received Conflicting Enforcement Instructions on or before the Proposed Enforcement Instruction Date and, at the end of the Enforcement Consultation Period, the Majority Super Senior Creditors and the Majority Senior Secured Creditors cannot agree on the manner of the Enforcement, the Majority Senior Secured Creditors; or

(iv) at any time after the Super Senior Discharge Date, the Majority Senior Secured Creditors.

Notwithstanding anything to the contrary set forth above in clauses (i) to (iv), in relation to instructions with respect to Enforcement, if (i) an insolvency event has occurred (other than an insolvency event relating to the enforcement of any security over any assets of a Debtor), (ii) the Super Senior Discharge Date has not occurred within six months of the Proposed Enforcement Instruction Date, or (iii) a period of no less than three months has elapsed since the Proposed Enforcement Instruction Date and no enforcement is being effected by the Security Agent, Instructing Group will mean the Majority Super Senior Creditors.

"Conflicting Enforcement Instructions" means instructions (or proposed instructions) as to Enforcement delivered to the Security Agent by or on behalf of the Majority Super Senior Creditors or the Majority Senior Secured Creditors that are inconsistent as to the manner of Enforcement (including any inconsistency as to the timeframe for realising value from an enforcement of the Transaction Security or a Distressed Disposal) with the instructions (or proposed instructions) contained in any Enforcement Proposal delivered as more specifically described below.

"Majority Super Senior Creditors" means, at any time, those Credit Facility Lenders whose commitments under the relevant Credit Facility Agreement at that time aggregate more than $66^2/_3$ per cent. of the total commitments under that Credit Facility Agreement at that time.

An instruction or resolution (a "Resolution") of the "Majority Senior Secured Creditors" shall be calculated as follows.

At the request of the Parent Guarantor or any class of senior secured creditors (other than creditors of the Super Senior Liabilities) acting through their Creditor Representative, the Security Agent shall request votes from holders of the Notes, the holders of Pari Passu Debt (other than the Representative for the Pari Passu Debt), the Eligible Domestic Bondholders holding Domestic Bonds Liabilities and the Hedge Counterparties by a notice to them delivered to their respective Creditor Representatives (each a "Resolution Notice"). The Resolution Notice shall specify the Resolution to be voted on.

The Trustee for the Notes shall send a written notice to the holders of the Notes holding a beneficial interest in the Notes issued under the relevant Indenture notifying them of the relevant Resolution that is required or requested and shall determine, in accordance with the relevant documentation and applicable laws, the HY Notes Participations in respect of such Notes (or series of Notes, as the case may be) that has (or is deemed under the relevant Indenture to have) voted in favour of (the "HY Notes Participations Approval Amount") and against (the "HY Notes Participations Disapproval Amount") the relevant Resolution. Each Trustee shall notify the HY Notes Participations Approval Amount and the HY Notes Participations Disapproval Amount for such Notes (separately for series of Notes denominated in different currencies) to the Security Agent.

The Domestic Bondholders' Representative shall send a written notice to the Eligible Domestic Bondholders notifying them of the relevant Resolution that is required or requested and shall determine, in accordance with the provisions of the Intercreditor Agreement, the aggregate principal amount of Domestic Bonds Participations that has voted in favour of (the "Domestic Bonds Participations Approval Amount") and against (the "Domestic Bonds Participations Disapproval Amount") the relevant Resolution. The Domestic Bondholders Representative shall notify the Domestic Bonds Participations Approval Amount and the Domestic Bonds Participations Disapproval Amount to the Security Agent.

Each Creditor Representative for the Pari Passu Debt shall send a written notice to the creditors of the Pari Passu Debt that it represents notifying them of the relevant Resolution that is required or requested and shall determine, in accordance with the relevant documents and applicable laws, the aggregate principal amount of the Pari Passu Debt Participations that has (or is deemed under the relevant documents to have) voted in favour of (the "Pari Passu Participations Approval Amount") and against (the "Pari Passu Participations Disapproval Amount") the relevant Resolution. Each Creditor Representative for the Pari Passu Debt shall notify the Pari Passu Participations Approval Amount and the Pari Passu Participations Disapproval Amount for the relevant Pari Passu Debt (separately for series of Pari Passu Debt denominated in different currencies) to the Security Agent.

Each Hedge Counterparty shall determine the amount of its Hedging Credit Participations and shall notify this amount to the Security Agent and whether it approves (the "Hedge Approval Amount") or disapproves (the "Hedge Disapproval Amount") of the Resolution.

If the Security Agent has not received a notification from the Domestic Bondholders' Representative, the Trustee, the Representative for the Pari Passu Debt or the Hedge Counterparties (a "Non-Responding Creditor Representative") within the relevant time period requested in the Resolution Notice, the relevant principal amounts of the New Domestic Bonds, the Notes, the Pari Passu Debt or Hedging Liabilities in respect of which it is a Non-Responding Creditor Representative shall be disregarded in determining whether a Resolution is passed.

The calculation of the response to a Resolution shall be determined by the Security Agent on the basis of the information obtained in accordance with the Intercreditor Agreement on or before the Business Day preceding the date on which votes may be submitted, and, in the case of any Approval Amount or Disapproval Amount being denominated in a currency other than euro, the Security Agent shall convert such Approval Amount or

Disapproval Amount into euro at the Security Agent's Spot Rate of Exchange as of the fifth Business Day preceding the date on which the relevant Resolution Notice has been dispatched by the Security Agent.

A Resolution shall be determined on the basis that it is passed if: (A) the sum of the aggregate HY Notes Participations Approval Amounts, the Domestic Bonds Participations Approval Amounts, the Pari Passu Participations Approval Amounts and the Hedge Approval Amounts; exceeds: (B) the sum of the aggregate HY Notes Participations Disapproval Amounts, Domestic Bonds Participations Disapproval Amounts, the Pari Passu Participations Disapproval Amounts and the Hedge Disapproval Amounts, in each case on a euro basis.

"Domestic Bonds Participation" means, in respect of any date, the aggregate outstanding principal amount of all New Domestic Bonds which are held by Eligible Domestic Bondholders at such date as notified by the Domestic Bondholders Representative to the Security Agent.

"Hedge Credit Participation" means in relation to a Hedge Counterparty the aggregate of: (1) in respect of any transaction under any Hedging Agreement to the extent that it constitutes a Hedging Liability that has, as of the date the calculation is made, been terminated or closed out in accordance with the terms of the Intercreditor Agreement, the amount, if any, payable to it under any Hedging Agreement in respect of that termination or close-out as of the date of termination or close-out (and before taking into account any interest accrued on that amount since the date of termination or close-out) to the extent that amount is unpaid (that amount to be certified by the relevant Hedge Counterparty and as calculated in accordance with the relevant Hedging Agreement) and to the extent it constitutes a Hedging Liability; and (2) in respect of any transaction under any Hedging Agreement to the extent that it constitutes a Hedging Liability that has, as of the date the calculation is made, not been terminated or closed out, the amount, if any, which would be payable to it under that Hedging Agreement (to the extent it would constitute a Hedging Liability) in respect of that transaction, if the date on which the calculation is made was deemed to be an Early Termination Date (as defined in the relevant ISDA Master Agreement or the corresponding definition in any Hedging Agreement not based on an ISDA Master Agreement) for which the relevant Debtor is the Defaulting Party (as defined in the relevant ISDA Master Agreement or the corresponding definition in any Hedging Agreement not based on an ISDA Master Agreement), that amount certified by the relevant Hedge Counterparty and as calculated in accordance with the relevant Hedging Agreement.

"HY Notes Participations" means, in respect of any date, the aggregate outstanding principal amount of all Notes which are held by holders of Notes at such date as notified by the Trustee to the Security Agent.

"Pari Passu Participation" means, in respect of any creditor of Pari Passu Debt (other than a Creditor Representative) and, in respect of any date, the sum of: the aggregate principal amount of all loans (other than any utilisation under a guarantee or letter of credit facility) or participations therein made available by such holder of Pari Passu Debt under or in connection with the relevant documentation and outstanding at such date; in respect of any guarantee or letter of credit facility made available by such holder of Pari Passu Debt under or in connection with the relevant document, the aggregate principal amount of all guarantees or letters of credit issued at such date by the relevant holder of Pari Passu Debt under or in connection with the relevant document and under which the relevant beneficiary may claim payment provided that any amount of cash cover received by or on behalf of such holder of Pari Passu Debt in respect of any such guarantee or letter of credit shall be deducted; in respect of any revolving facility or participations therein made available by such holder of Pari Passu Debt under or in connection with the relevant documentation the amount of any undrawn commitment of such holder of Pari Passu Debt under such revolving facility or participations therein at such time; and the aggregate outstanding principal amount of all Pari Passu Debt issued in the form of notes which is held by the holders of Pari Passu Debt at such date, in each case as notified by the Creditor Representative of such holders of Pari Passu Debt to the Security Agent.

Instructions relating to matters other than Enforcement

In relation to instructions relating to matters other than Enforcement, the Instructing Group will be the Majority Super Senior Creditors and the Majority Senior Secured Creditors (calculated in accordance with the procedure set forth above under "—Instructions relating to Enforcement Action").

Entitlement to Enforce

The Security Agent may refrain from enforcing the Transaction Security or taking any other action of Enforcement unless otherwise instructed by the Instructing Group as set out below. The Security Agent may disregard any instructions from any other person to enforce the Transaction Security and may disregard any instructions to enforce any Transaction Security if those instructions are inconsistent with the Intercreditor Agreement. The Security Agent is not obliged to enforce the Transaction Security if it is not appropriately indemnified by the relevant creditors.

Enforcement Process and Consultation Periods

If either the Majority Super Senior Creditors or the Majority Senior Secured Creditors wish to instruct the Security Agent to commence Enforcement such group of creditors must deliver a copy of the proposed instructions as to Enforcement (the "Enforcement Proposal") to the Security Agent, each Creditor Facility Agent (as defined in the Intercreditor Agreement), the Trustee for the Notes, the Domestic Bondholders' Representative, the Hedge Counterparties and the Creditor Representative for the Pari Passu Debt (as appropriate) at least 20 business days prior to the proposed date of issuance of instructions under such Enforcement Proposal (the "Proposed Enforcement Instruction Date").

Until the date on which all Super Senior Liabilities have been fully and finally discharged to the satisfaction of the relevant Credit Facility Agent, whether or not as the result of an enforcement, and the Super Senior Creditors are under no further obligation to provide financial accommodation to any of the Debtors under the relevant documents (the "Super Senior Discharge Date"), if the Security Agent has received Conflicting Enforcement Instructions on or before the Proposed Enforcement Instruction Date, then the Security Agent will promptly notify the Creditor Representatives and such Creditor Representatives will consult with each other and the Security Agent in good faith for a period of not less than 20 days (or such shorter period as the relevant Creditor Representatives may agree) (the "Enforcement Consultation Period") from the earlier of (i) the date on which the Conflicting Enforcement Instructions were delivered and (ii) the date falling 20 business days after the date the original Enforcement Proposal is delivered, with a view to coordinating instructions as to Enforcement. If no Conflicting Enforcement Instructions are received on or before the Proposed Enforcement Instruction Date, the Security Agent will act in accordance with the Enforcement Proposal and any further instructions of the Instructing Group.

Notwithstanding the provisions of the preceding paragraph, the Creditor Representatives shall not be obliged to consult with each other (or, in the case where the Creditor Representatives are in agreement with regard to any proposed enforcement action, no Enforcement Consultation Period or such shorter consultation period as determined by the Creditors Representatives shall apply) in accordance with the procedure described in the previous paragraph or in accordance with the procedure described in the last paragraph of this sub-section if: (i) the Transaction Security has become enforceable as a result of an insolvency event; (ii) the Majority Super Senior Creditors or the Majority Senior Secured Creditors determine in good faith (and notify the other Creditor Representatives) that to enter into such consultation and thereby delay commencement of Enforcement could reasonably be expected to have a material adverse effect on (A) the Security Agent's ability to effect the Enforcement or (B) the realization proceeds of the Enforcement; or (iii) the Creditor Representatives agree that no Consultation Period is required.

Notwithstanding the provisions of the second paragraph of this sub-section, if the Enforcement Consultation has taken place for at least 20 days (or such shorter period as determined under the second paragraph of this sub-section) or was not required to occur as provided for in the preceding paragraph, then there will be no further obligation to consult (although the Creditor Representatives may extend the Enforcement Consultation Period) and the Security Agent may act in accordance with the instructions as to Enforcement previously received from the Instructing Group and the Instructing Group may issue instructions as to Enforcement to the Security Agent at any time thereafter.

A Creditor Representative may only give enforcement instructions that are consistent with certain security enforcement principles, including that:

(i) all enforcement proceeds are received in cash by the Security Agent or sufficient enforcement proceeds are received in cash by the Security Agent to ensure that after distribution in accordance with the Intercreditor Agreement, the Super Senior Liabilities will be repaid in full (unless the Majority Super Senior Creditors agree otherwise);

(ii) enforcement actions are taken promptly and expeditiously; and

(iii) to the extent the Transaction Security that is the subject of enforcement is either assets other than shares where the aggregate book value of such assets exceeds PLN 25,000,000 (or its equivalent) or shares, then, unless the proposed enforcement is by way of a public auction, the Security Agent will obtain an opinion from an independent internationally recognised accounting firm, any independent internationally recognised investment bank or other independent internationally recognised professional services firm which is regularly engaged in providing valuations of businesses or financial assets or, where applicable, advising on competitive sales processes (a "Financial Advisor") that, among other things, the proceeds received from any Enforcement are fair from a financial point of view taking into account the circumstances, regarding the optimal method of enforcing the Transaction Security and whether such sale is otherwise in accordance with the Security Enforcement Objective. "Security Enforcement Objective" means maximizing, so far as is consistent with a prompt and expeditious realization of value from enforcement of the Transaction Security, the recovery of the holders of the Super Senior Liabilities, the Hedge Counterparties, the holders of the Senior Notes Liabilities and the holders of the Pari Passu Debt.

If the Majority Super Senior Creditors or the Majority Senior Secured Creditors (acting reasonably) consider that the Security Agent is enforcing the Transaction Security in a manner which is not consistent with the Security Enforcement Principles (unless the Creditor Representatives are under no obligations to consult as more specifically described above and except when the Majority Super Senior Creditors have become the Instructing Group or Enforcement occurs after the Super Senior Discharge Date), the Creditor Representatives for the relevant Super Senior Creditors, the Senior Note Liabilities, the Hedging Liabilities or the Pari Passu Debt, as the case may be, shall give notice to the other Creditor Representatives after which such Creditor Representatives shall consult with the Security Agent for a period of 10 days (or such lesser period as such relevant Creditor Representatives may agree) with a view to agreeing the manner of Enforcement provided that such Representatives shall not be obliged to consult under this paragraph more than once in relation to each action as to Enforcement.

Turnover

The Intercreditor Agreement provides that (save in respect of the Domestic Bondholders' Representative and certain cash cover provided under or in connection with a Credit Facility Document in support of a letter of credit or ancillary facility) if, at any time prior to the Final Discharge Date, any creditor under the Super Senior Liabilities, the Senior Notes Liabilities, the Hedging Liabilities or the Pari Passu Debt receives or recovers the proceeds of any enforcement of any Transaction Security except in accordance with the provisions set out below under "*Application of Proceeds*", such creditor will:

- in relation to receipts or recoveries not received or recovered by way of set-off, (i) hold an amount of that receipt or recovery equal to the relevant liabilities (or if less, the amount received or recovered) on trust for the Security Agent and separate from other assets, property or funds and promptly pay that amount to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and (ii) promptly pay an amount equal to the amount (if any) by which such receipt or recovery exceeds the relevant liabilities to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and

- in relation to receipts and recoveries received or recovered by way of set-off, promptly pay an amount equal to that recovery to the Security Agent for application in accordance with the terms of the Intercreditor Agreement.

Application of Proceeds

The Intercreditor Agreement provides that amounts received from, amongst others, the realization or enforcement of all or any part of the Transaction Security will be applied in the following order of priority:

- first, without double counting, in payment of the following amounts on a *pari passu* and *pro rata* basis: any sums owing to the Security Agent, any receiver or delegate; any sums owing to each of the Creditor Representatives (other than Hedge Counterparties) in respect of their respective unpaid fees, costs and expenses (and all interest thereon as provided in the relevant Debt Documents); and any sums owing to any receiver, attorney or agent appointed by a Creditor Representative, in each case under any security document, the Intercreditor Agreement (to the extent that such Transaction Security has been given in favour of such obligations) or the Indenture;

- second, on a *pari passu* and *pro rata* basis as between them, in or towards payment of all costs and expenses incurred by the Creditor Representatives in connection with any realization or enforcement of the Transaction Security taken in accordance with the terms of the Intercreditor Agreement or any action taken at the request of the Security Agent;

- third, on a *pari passu* and *pro rata* basis between them, in or towards payment to each Credit Facility Agent on its own behalf and on behalf of the holders of Super Senior Liabilities for application towards the discharge of the Super Senior Liabilities (in accordance with the Credit Facility Documents);

- fourth, on a *pari passu* and *pro rata* basis between them, in or towards payment to (i) the Trustee on behalf of the holders of the Notes, (ii) each Eligible Domestic Bondholder holding the New Domestic Bonds (on a *pro rata* basis between the Eligible Domestic Bondholders), (iii) the Creditor Representative on behalf of the holders of Pari Passu Debt and (iv) the Hedge Counterparties for application towards the discharge of the Senior Notes Liabilities, the Pari Passu Debt and the Hedging Liabilities (on a *pro rata* basis between the Hedging Liabilities) in accordance with the Debt Documents governing those instruments; and

- fifth, after the Final Discharge Date, in payment of the surplus (if any) to the relevant Debtor or other person entitled to it.

The Intercreditor Agreement also includes customary loss equalization provisions.

Additional Indebtedness

In the event that any Debtor incurs any additional indebtedness that is permitted to be designated as Super Senior Liabilities under the then existing Debt Documents, and is entitled to be secured by the Transaction Security, the liabilities in respect of such additional Super Senior Liabilities will share in the proceeds of any enforcement of the Transaction Security on a *pro rata* basis with the existing Super Senior Liabilities.

In the event that any Debtor incurs any additional indebtedness that is *pari passu* in right of payment with the Senior Notes Liabilities, the Hedging Liabilities and/or the Pari Passu Debt and that is entitled to be secured by the Transaction Security, the liabilities in respect of such *pari passu* indebtedness will share in the proceeds of any enforcement of the Transaction Security on a pro rata basis with the Senior Notes Liabilities, the Hedging Liabilities and the Pari Passu Debt.

Release of the Guarantees and the Security

Non-distressed Disposal

In circumstances where a disposal is a Non-Distressed Disposal, the Intercreditor Agreement provides that the Security Agent is authorised (i) to release the Transaction Security over the relevant asset; and (ii) if the relevant asset consists of shares in the capital of a Debtor, to release the Transaction Security or any other claim over the assets of that Debtor and the shares in and assets of any of its Subsidiaries and (iii) to execute and deliver or enter into any release of the Transaction Security or any claim relating to the foregoing paragraphs (i) and (ii) and issue any certificates of non-crystallisation of any floating charge or any consent to dealing that may in the discretion of the Security Agent be considered necessary or desirable. Any release of Transaction Security in respect of a Non-Distressed Disposal by a member of the Group to another member of the Group must be permitted by the Debt Documents and shall not be effected to the extent that the disposal may be completed subject to that Transaction Security. In addition, if the acquiring member of the Group is required to grant replacement and/or additional Transaction Security under any of the Debt Documents it must do so on or prior to completion of the disposal.

"Non-Distressed Disposal" means a disposal of an asset of a member of the Group or an asset which is subject to the Transaction Security to a person or persons outside the Group or by a member of the Group to another member of the Group which is permitted under (or not prohibited by) the Debt Documents and is not a Distressed Disposal.

In respect of a Non-Distressed Disposal by a member of the Group to a person or persons outside the Group of non-Soda segment assets, certain Polish Transaction Security may be released and de-registered in advance of completion of the sale of those assets if certain conditions are met. Those conditions include: (1) delivery to the Security Agent of a certified copy of the fully executed contract for that disposal which contains a condition to completion that certain Polish Transaction Security has been released and de-registered and certification of the proposed completion date for the disposal; (2) the unconditional release provided by the Security Agent shall not be delivered in respect of any Polish real estate mortgage prior to the date falling 75 days before the proposed completion date and, in respect of any Polish pledges, prior to the date falling 30 days before the proposed completion date; (3) the Security Agent is immediately notified of the completion of any such disposal or the failure of the disposal; and (4) if no notification of completion is given by the date falling 10 business days after the proposed disposal completion date (the "Completion Notice Deadline") or, if earlier, notice is given that the disposal has failed (the "Failure Notice"), then the Transaction Security that has been released shall be granted by no later than the date falling 10 business days after the Completion Notice Deadline or the date of the Failure Notice, whichever is earlier.

"Distressed Disposal" means a disposal of an asset of a member of the Group which is: (i) being effected at the request of the Instructing Group in circumstances where the Transaction Security has become enforceable; (ii) being effected by enforcement of the Transaction Security (including the disposal of any property of a member of the Group, the shares in which have been subject to an appropriation); or (iii) being effected, after the occurrence of a Distress Event, by a Debtor to a person or persons which is, or are, not a member, or members, of the Group. "Distress Event" means any acceleration event or Enforcement of Transaction Security.

Distressed Disposal

If a Distressed Disposal or an appropriation is being effected, the Security Agent is irrevocably authorised (at the cost of the Parent Guarantor) and without any consent, sanction, authority or further confirmation from any creditor, Intra-Group Lender, other secured party or Debtor:

(i) to release the Transaction Security or any other claim over the asset subject to the Distressed Disposal or appropriation and execute and deliver or enter into any release of that Transaction Security or claim and issue any letters of non-crystallisation of any floating charge or any consent to dealing that may, in the discretion of the Security Agent, be considered necessary or desirable;

(ii) if the asset subject to the Distressed Disposal or appropriation consists of shares in the capital of a Debtor, to release (or instruct to release): that Debtor and any subsidiary of that Debtor from all or any part of its liabilities under the Debt Documents and certain intra-Group arrangements; any Transaction Security granted by that Debtor or any subsidiary of that Debtor over any of its assets; and any other claim of an Intra-Group Lender, or another Debtor over that Debtor's assets or over the assets of any subsidiary of that Debtor, on behalf of the relevant creditors and Debtors;

(iii) if the asset subject to the Distressed Disposal or appropriation consists of shares in the capital of any holding company of a Debtor, to release (or instruct to release): that holding company and any subsidiary of that holding company from all or any part of: its liabilities under the Debt Documents and certain intra-Group arrangements; any Transaction Security granted by any subsidiary of that holding company over any of its assets; and any other claim of an Intra-Group Lender or another Debtor over the assets of any subsidiary of that holding company, on behalf of the relevant creditors and Debtors;

(iv) if the asset subject to the Distressed Disposal or appropriation consists of shares in the capital of a Debtor or the holding company of a Debtor and the Security Agent decides to dispose of all or any part of: the liabilities (a "Debt Disposal") (other than the HY Note Liabilities owed by the Issuer); or the Debtors' intra-Group receivables, owed by that Debtor or holding company or any subsidiary of that Debtor or holding company on the basis that any transferee of those liabilities or Debtors' intra-Group receivables (the "Transferee") will not be treated as a primary creditor or a secured party for the purposes of the Intercreditor Agreement, to execute and deliver or enter into any agreement to dispose of all (and not part only) of those liabilities or Debtors' intra-Group receivables on behalf of the relevant creditors and Debtors provided that notwithstanding any other provision of any Debt Document the Transferee shall not be treated as a primary creditor or a secured party for the purposes of the Intercreditor Agreement;

(v) if the asset subject to the Distressed Disposal or appropriation consists of shares in the capital of a Debtor or the holding company of a Debtor and the Security Agent decides to dispose of all or any part of: the liabilities (other than the HY Note Liabilities owed by the Issuer); or the Debtors' intra-Group receivables, owed by that Debtor or holding company or any subsidiary of that Debtor or holding company on the basis that any transferee of those liabilities or Debtors' intra-Group receivables will be treated as a primary creditor or a secured party for the purposes of the Intercreditor Agreement, to execute and deliver or enter into any agreement to dispose of: all (and not part only) of the liabilities owed to the primary creditors (other than HY Note Liabilities owed by the Issuer); and all or part of any other liabilities and the Debtors' intra-Group receivables, on behalf of, in each case, the relevant creditors and Debtors;

(vi) if the asset subject to the Distressed Disposal or appropriation consists of shares in the capital of a Debtor or the holding company of a Debtor (the "Disposed Entity") and the Security Agent decides to transfer to another Debtor (the "Receiving Entity") all or any part of the Disposed Entity's obligations or any obligations of any subsidiary of that Disposed Entity in respect of: the intra-Group liabilities; or the Debtors' intra-Group receivables, to execute and deliver or enter into any agreement to: agree to the transfer of all or part of the obligations in respect of those intra-Group liabilities or Debtors' intra-Group receivables on behalf of the relevant Intra-Group Lenders and Debtors to which those obligations are owed and on behalf of the Debtors which owe those obligations; and to accept the transfer of all or part of the obligations in respect of those intra-Group liabilities or Debtors' intra-Group receivables on behalf of the Receiving Entity or Receiving Entities to which the obligations in respect of those intra-Group liabilities or Debtors' intra-Group receivables are to be transferred.

A Distressed Disposal or a Debt Disposal may be made in whole or in part for consideration in the form of cash or, if not for cash, for non-cash consideration which is acceptable to the Security Agent. The net proceeds of each Distressed Disposal and each Debt Disposal shall be paid, or distributed, to the Security Agent for application as described above under "*Application of Proceeds*" (subject to certain customary adjustments).

In the context of the foregoing, the Security Agent shall act in accordance with the Security Enforcement Principles.

The Security Agent may engage, or approve the engagement of, (in each case on such terms as it may consider appropriate (including, without limitation, restrictions on that Financial Adviser's liability and the extent to which any advice, valuation or opinion may be relied on or disclosed)), pay for and rely on the services of a Financial Adviser to provide advice, a valuation or an opinion in connection with: a Distressed Disposal or a Debt Disposal; the application or distribution of any proceeds of a Distressed Disposal or a Debt Disposal; or any amount of non-cash consideration which is subject to turnover provisions. For the purposes of this paragraph, the Security Agent shall act: on the instructions of the Instructing Group if the Financial Adviser is providing a valuation for non-cash recoveries or otherwise in accordance with the general provisions relating to the Security Agent's actions and in accordance with the Security Enforcement Principles.

Option to Purchase Credit Facility Liabilities

After an acceleration event or the enforcement of any of the Transaction Security, the Trustee, at the direction and expense of the holders of the Notes and acting on the instructions of the holders of the Notes in accordance with the provisions of the Indenture, will have the right to acquire or procure that a nominee acquires all (but not part only) of the rights and obligations of the Credit Facility Lenders under the Credit Facility Documents.

Any such purchase will be on terms which will include, without limitation, payment in full in cash of an amount equal to the Credit Facility Liabilities then outstanding, including in respect of the Super Senior Liabilities any broken funding costs, as well as certain costs and expenses of the Credit Facility Lenders; after the transfer, no Credit Facility Lender will be under any actual or contingent liability to any Debtor; the holders of Notes exercising such option indemnify each Credit Facility Lender and each other finance party under the Credit Facility Documents for any actual or alleged obligation to repay or claw back any amount received by such Credit Facility Lender, finance party; and the relevant transfer shall be without recourse to, or warranty from, any Credit Facility Lender or other finance party.

Amendment

The Intercreditor Agreement provides that, subject to certain conditions and/or exceptions, it may only be amended with the consent of the Instructing Group (see the section headed "Instructing Group" above for further details), the Parent Guarantor and the Security Agent, provided that to the extent an amendment or waiver or consent only affects one class of secured party, and such amendment, waiver or consent could not reasonably be expected to materially and adversely affect the interests of the other classes of secured party, only written agreement from the affected classes shall be required. An amendment or waiver that has the effect of changing or which relates to, amongst others: (a) any amendment to the order of priority or subordination set out in the Intercreditor Agreement; or (b) any amendment to the payment waterfall set out in the Intercreditor Agreement which, in each case, shall not be made without the consent of the Creditor Representative of the Super Senior Liabilities, the Trustee, the relevant majority of the Eligible Domestic Bondholders, the Creditor Representative of the Pari Passu Debt, each Hedge Counterparty, the Security Agent and the Parent Guarantor.

Security Agency/Parallel Debt Provisions

The Intercreditor Agreement contains customary provisions setting out the basis of appointment, discretions and related provisions regarding the Security Agent as well as a parallel debt, which is secured by the transaction security.

Domestic Bondholders Accession

In order to become an Eligible Domestic Bondholder, a holder of New Domestic Bonds has to accede to the Intercreditor Agreement in accordance with the mechanism set out in the Intercreditor Agreement by delivery of a duly completed and executed accession undertaking.

Any holder of New Domestic Bonds is entitled to accede to the Intercreditor Agreement and become an Eligible Domestic Bondholder at any time they hold any New Domestic Bonds for as long as they have not taken any action that would otherwise constitute "Enforcement Action" under the Intercreditor Agreement without the consent of the Instructing Group.

Without prejudice to any continuing obligations set out in the Intercreditor Agreement, any Eligible Domestic Bondholder shall automatically cease to have any rights under the Intercreditor Agreement if it ceases to hold any New Domestic Bonds unless (and to the extent only) such Eligible Domestic Bondholder held such New Domestic Bonds on a date relevant to the exercise of such rights even if it subsequently ceased to hold such New Domestic Bonds.

Any holder of New Domestic Bonds that is not an Eligible Domestic Bondholder subject to the provision in the preceding paragraph shall have no entitlement to any of the Transaction Security or any proceeds thereof or have any rights under the Intercreditor Agreement to share in any proceeds of the Guarantees realised by Enforcement Action under the Intercreditor Agreement.

By virtue of the relevant duly executed accession undertakings, privity of contract will exist between the Eligible Domestic Bondholder and the other parties to the Intercreditor Agreement.

Any contact between the Security Agent and the Eligible Domestic Bondholders including, without limitation:

(i) requests for quantifying the liabilities owed to any Eligible Domestic Bondholder; and

(ii) information as to whether/how any Eligible Domestic Bondholders has voted on any decision on which the Eligible Domestic Bondholders are eligible to vote,

shall be made through the Domestic Bondholders Representative.

The Domestic Bondholders Representative will pass on information and requests received from the Security Agent and shall collate and inform the Security Agent of information and requests received from Eligible Domestic Bondholders.

The Domestic Bondholders' Representative keepsa register of holders of the New Domestic Bonds that have acceded to the Intercreditor Agreement. The Domestic Bondholders' Representative shall verify that any holder of the New Domestic Bonds that has acceded to the Intercreditor Agreement is an Eligible Domestic Bondholder by verifying such holder's deposit certificate or equivalent evidence showing that such holder continues to hold any New Domestic Bonds or held them as of the relevant record date.

8.2 Bonds, credits, loan, sureties and guarantees

Bonds and Credits

Debt financing of the Group, in the form of a bond and a credit is provided mostly through:

- bonds issued by Ciech Group Financing AB (publ.) (as at 31 December 2012 nominal debt was 245 million EUR),
- bonds issued by of CIECH S.A. (as at 31 December 2012 the nominal debt was 320 million PLN),
- credit provided to CIECH S.A. under the revolving credit contract of 6 November 2012 in the amount of 100 million PLN (as at 31 December 2012 debt amounted to 0 PLN).

Detailed information on credits and loans concluded in 2012 by the Ciech Group Companies have been presented in the section I.8 and II.27.

Below, there is a specification of loans granted by CIECH S.A to subsidiaries in 2012

Borrower	**Current repayment deadline**	**Amount of granted and paid loan in thousand PLN according to the situation as of 31.12.2012**	**Conditions of granting**	**Value of granted loans in the currency in thousand**	**Nature of relations with the parent entity**
ZCh. ORGANIKA SARZYNA S.A.	31.12.2018	46 400	Interest in WIBOR amount of 6M + margin payable every 6 months	46 400 PLN	Subsidiary
VITROSILICON S.A.	29.11.2019	5 000	Interest in WIBOR amount of 6M + margin payable every 6 months	5 000 PLN	Subsidiary
ALWERNIA S.A.	29.11.2019	14 218	Interest in WIBOR amount of 6M + margin payable every 6 months	14 218 PLN	Subsidiary
S.C. UZINELE SODICE GOVORA - Ciech Chemical Group S.A.	29.11.2019	65 038	Interest payable every 6 months	15 909 EUR	Subsidiary

** Loans, granted and paid in the currency reported according to the average exchange rate of the National Bank of Poland of 31/12/2012.*

Below, there is a specification of loans granted by subsidiaries of CIECH in 2012

Lender	**Current repayment deadline**	**Amount of loan with capitalized interest in thousand PLN according to the situation as of 31.12.2012**	**Conditions of granting**	**Value of granted loans in the currency in thousand**	**Nature of relations of the borrower with CIECH S.A.**
CIECH-POLSIN PRIVATE LIMITED	31.07.2013	6 199	Interest in the amount of LIBOR 1M+ margin payable at the end of each month	2 000 USD	Subsidiary
CIECH-POLSIN PRIVATE LIMITED	31.07.2013	1 500	Interest in WIBOR amount of 1M+ margin payable at the end of each month	1 500 PLN	Subsidiary

Sureties and guarantees as at 31 December 2 012

Name of the entity which was given surety	**Amount of guaranteed credits which was guaranteed entirely or in a certain part w tys. zł.**	**Period for which was granted**	**Financial conditions on which sureties were granted, subject to remuneration for granted surety**	**Entity, for whose liability surety was granted**	**Nature of existing linkages between CIECH S.A and the entity, which contracted the credit**
ZACHEM S.A.*					
Bank PEKAO S.A.	18 160	do 31.12.2014	Missing	Spółka Wodna Kapuściska	None
Nordea Bank	18 160	do 31.12.2014	Missing	Spółka Wodna Kapuściska	None
Total ZACHEM S.A.	**36 320**				

***** *On 31 August 1999, Water Company Kapuściska and ZACHEM SA concluded an agreement to receive and treatment of sewage provided by ZACHEM SA to the sewage treatment plant "Kapuściska". Agreement sets minimum amount to be paid to so-called Water Company Kapuściska necessary to repay the SW's borrowings. As of December 31, 2012, the debt of SW Kapuściska due to the loan granted by the NFOŚiGW amounts to PLN 12,108 thousand. Guarantees issued SW Kapuściska as a hedge of the loan, limits participation rate ZACHEM SA in SW (45.4%). In addition, given the fact that the other guarantors* *are the City of Bydgoszcz, City Solec Kujawski and Nitro-Chem SA, the maximum potential claim against ZACHEM SA should be close to EUR 5,497 thousand, which is covered by provision.*

Name of the entity which was given guarantee	The total amount of granted own guarantees which were guaranteed in the whole or a certain part		Period for which guarantee was granted	Financial conditions on which own guarantees were granted, subject to remuneration for granted guarantees	Entity, for whose liability guarantee was given	Nature of existing linkages between CIECH S.A and the entity to whom guarantee was granted
	currency in thousands	in thousand PLN				
CIECH S.A.						
SG Equipment Leasing Polska Sp. z o.o. - Warszawa	358 EUR	1 465	01.09.2013	To the leasing contract concluded between S C Uzinele Sodice Govora and ECS International Polska Sp. z o.o. of 10.07.2007	S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. - Romania	Subsidiary
Jastrzębska Spółka Węglowa S.A.	-	4 000	Expired on 28.02.2013	Security of Payment to the long-term contract KK/04/2008 for purchase of coke	ZACHEM S.A.	Subsidiary
ING Lease Romania IFN S.A.	310 EUR	1 269	31.10.2013	Security of Payment to the leasing contracts	S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. - Romania	Subsidiary
GZNF FOSFORY Sp.z o.o.	-	750	Expired on 28.02.2013	Security of Payment to Contract of Cooperation 6/HH/2010 concerning purchase of sulphuric acid	ZACHEM S.A.	Subsidiary
AECTRA S.A. Switzerland	2 300 EUR	9 403	Expired on 31.03.2013	Guarantee securing payment for products sold to ZACHEM S.A.	ZACHEM S.A.	Subsidiary
PGE Górnictwo i Energetyka Konwencjonalna S.A.	-	40 000	Expired on 31.03.2013	Security of Payment for heat supply	ZACHEM S.A.	Subsidiary
ENEA S.A. Poznań	-	10 000	Expired on 31.03.2013	Security of Payment for electric energy supply	ZACHEM S.A.	Subsidiary
VA Intertrading Aktiengesellschaft Austria	900 EUR	3 679	Expired on 31.01.2013	Security of Payment for liquid chlorine supply	ZACHEM S.A.	Subsidiary
PCC Rokita Spółka Akcyjna		2 500	Expired on 28.02.2013	Security of Payment for liquid chlorine supply	ZACHEM S.A.	Subsidiary
Total amount of granted guarantees		**73 066**				

In 2012 the companies of Ciech Group did not receive any guarantees, nor sureties from external units.

8.3 Information about issuance of securities in CIECH S.A.

In 2012, CIECH S.A conducted issuance of bonds, which has been described in detail in the section I.8 and II .27.

8.4 Financial instruments

Financial results of Ciech Group may be subject to fluctuations as a result of change of market factors, in particular quotations of products, foreign exchange rates and interest rates. Sources of currency risk to which companies of Ciech Group were exposed in 2012 were: transactions of purchases of raw materials, product sale, incurred credits, issued bonds, as well as cash in foreign currencies.

The Ciech group applies hedge accounting in order to limit variability of revenue of the Group's companies resulting from exchange rate variability on the market. The analysis of the impact of using hedge accounting is presented in the section II.39.

Information concerning financial instruments have been presented in detail in the additional information and the explanations to the consolidated statement, in the section II.36-II.39.

8.5 Goals and principles of financial risk management in the Ciech Group

The purpose of the policy of risk management is marking out the areas requiring risk analysis, presentation of the methods of its identification and measurement, specification of activities undertaken in relation to identified risk areas and definition of organizational solutions in the risk management process.

Within the operations of the Group, there is exposure to the following financial risks:

- risk of credit scoring of customers,
- liquidity risk,
- market risk, including:
  - ✓ risk of changes in exchange rates,
  - ✓ risk of change in interest rates,
  - ✓ risk of changes in the prices of raw materials and goods.

The Group in the implementation of its superior goals tries to avoid excessive market risk. This goal is pursued by identifying, monitoring and securing risk variability of cash flows and monitoring volumes and costs of debt of the Ciech Group. The risks evaluation takes account of the portfolio effect resulting from diversity of conducted business operations. This risk materializes its effects in the cash flow statement, the balance sheet and the income statement of Ciech Group.

Financial risk management contains the processes of identification, measurement and determination of the method of handling risk, covering processes associated with variability of exchange rates and interest rates. The Group monitors risk areas most essential for operations of the Ciech Group.

The above risks categories have been described in the section I.4 and II.36.

Methods of securing significant kinds of planned transactions, for which hedge accounting is applied

Transactions secured in the form of hedge accounting are determined as highly credible. Their occurrence is assumed in long-term financial projection of the Group. Additionally, these are business transactions with long-term customers of the Group, which authenticates the probability of their occurrence.

9 Explanation of differences between financial results, and the previously published forecasts of results

In 2012, the Ciech Goup did not publish forecasts for the year 2012.

10 Employment in Ciech Group

State of employment in the Ciech Group (the parent entity of CIECH S.A. and subsidiaries consolidated with full method) at the end of 2012 amounted to 5 509 people (along with Boards of the Companies). At the end of the comparable period i.e. 2011 the state of employment amounted to 5 805 people (along with Boards of the Companies).

	2012	2011
State of employment in people	**5 509**	**5 805**
White-collar employees	1 803	1 645
Blue-collar employees	3 706	4 160
Average employment in people	**5 682**	**6 208**
White-collar employees	1 860	2 047
Blue-collar employees	3 823	4 161

According to the state at 31 December 2012 the Ciech Group employed 5 478 employees (except for Boards of the Companies), mainly performing work in Poland, Germany and Romania. About 76% employees work in Poland, of which the majority are employees of the production department.

In connection with undertaken saving initiatives since February 2009, we have been conducting employment reduction. The below table shows all employees (employed in full- and part-time) with breakdown into segments for particular years.

	As at 31 December			
	2009	**2010**	**2011**	**2012**
Soda segment	3 150	3 053	2 971	2 831
Organic segment	2 305	2 190	1 724	1 577
Silicates and Glass segment	510	506	529	498
Agrochemical segment	685	599	261	254
Other	355	328	289	318
Number of employees in total (except for Boards of the Companies)	**7 005**	**6 676**	**5 774**	**5 478**

Owing to technical nature of the activity the managerial staff is characterized by high level of technical and professional qualifications, technical trainings and personnel development are a priority for the Company.

About one third of employees of the Company employed in Germany and in Poland, as well as most employees in Romania are members of trade unions. Conditions of employment are regulated by the concluded Collective Labour Agreements (where they operate) or the contract of employment. In addition, people employed in Germany are represented by the wokr council, which in general must accept changes in terms of employment, including the amount of remuneration and benefits.

From June to September 2012, terminations of corporate collective agreements concerning employees of Ciech S.A., Soda Polska Ciech S.A., ZACHEM S.A., Alwernia S.A. and Vitrosilicon S.A were delivered. Most corporate collective agreements were effectively terminated until the end of December 2012, while for some of them (Ciech S.A. Soda Polska Ciech S.A.) the term of termination elapsed in the first decade of January 2013. Negotiations were undertaken on new collective agreements. In the month of January 2013 new collective agreements were concluded for a number of companies from CIECH Group (including, among others, Soda Polska Ciech S.A.). Until 31 December 2012 there were no important employee disputes or stoppages.

11 Changes in organization, management and financial assets of Ciech Group

11.1 Changes in basic principles of managing Ciech Group

Management of the Company and the Group was changed in June 2012, when the organizational structure of the Company changed. The previous management based on divisions, operating as production and trade centres based on a given product portfolio, was replaced with a functional model based on divisions.
Soda Division, Organic Division and Agro-Silicon Division – were replaced with Sales Division, Production Division and Purchase Division.
The Corporate Centre (including Financial-Accounting Division) focused on management, among others, of value, finance, image, financial controlling, development and implementation of the strategy expanded its the area of activity by the provision of services, the so-called support function, for the companies of the Group.
Main assumptions of changes in the organizational structure:

- functional layout and standardization of a degree of integration of business functions and support functions at the level of CIECH S.A,
- concentration of companies of the Group on production activity,
- clear division of competences and liability operational management of production companies by the parent company,
- reduction of stations related to doubling business functions and support functions,
- centralization of finance management.

Key processes implemented in newly created divisions include the areas of: sales, purchase, logistics and development of products as well as production and tangible investments. The very production is implemented by particular companies of the Group.

11.2 Changes in organizational linkages in Ciech Group

In 2012, in the scope of the Companies where CIECH S.A directly holds shares/stock, the following important changes took place, which were reflected in changes in the structure of the Group:

- ***Ciech Group Financing AB***

On 5 October 2012 CIECH S.A. and Bolagsratt Sundsvall AB signed the Contract for sales of 6 500 shares of Goldcup 8001 AB for CIECH S.A for the price of 6,500 EUR. CIECH S.A. became the owner of the Company as at 17 October 2012, i.e. as at the date of payment of the sale price. Then the Extraordinary Meeting of Shareholders on 17 October 2012 adopted a decision on increasing the initial capital by 58,500 EUR through emission of 58 500 shares with the value of 1 EUR per share and on changing the name from Goldcup 8001 AB to Ciech Group Financing AB (publ.). Registration of the increase in initial capital and changing the business name occurred as of 25 October 2012.

- ***ZACHEM S.A.***

On 28 September 2012, the Extraordinary General Meeting of ZACHEM S.A. adopted resolution on increasing share capital by 230 000 000 PLN by issuance of 23 000 000 ordinary registered B series shares with the face value of 10 PLN each. The price of share issue of B series was 10 PLN per share. B series shares were offered to CIECH S.A, only one designated addressee. CIECH S.A took up 23 000 000 ordinary registered B series shares in exchange for a cash contribution. All new issue shares were paid by contractual offset of liabilities of CIECH S.A. under loans granted to ZACHEM S.A. in the amount of 230,000 thousand PLN with the liability of ZACHEM S.A. under due payment for shares of a new issuance in the amount of 230,000 thousand PLN. Taking up new issue shares CIECH S.A increased its share in the initial capital the Company of 97.44% to 99.00%. The registration court registered increase in the initial capital on 31 October 2012 and on this day CIECH S.A increased its share in the initial capital.

- ***POLFA Sp. z o.o.***

On 29 June 2012 the Preliminary Agreement for Sales of Shares POLFA Sp. z o.o. was signed between the parties: Ciech S.A., and BM Medical S.A. On 17 September 2012, after fulfillment of the conditions precedent of this Contract, the ownership of 3 820 shares of POLFA Sp. z o.o., constituting 100% of the initial capital, was transferred to BM Medical S.A. The total price of sale amounted to 6 500 thousand PLN. POLFA Sp. z o.o. since 17 September 2012 is no longer the unit associated with Ciech S.A.

- ***Chemia.com S.A., under liquidation***

The Extraordinary General Meeting of Chemia.com on 14 November 2012 decided to terminate Chemia.com S.A., having its registered office in Warsaw and open its liquidation.

- ***Ciech America Latina under liquidation***

On the basis of the resolution of the Shareholders of Ciech America Latina Ltda (Brazil) of 20 February 2012, there was an increase in the initial capital of the Company by the amount of 100 thousand BRL (184 thousand PLN) and CIECH S.A took up a new issuance of 100 000 shares with face value of 1.00 BRL each.
The initial capital of Ciech America Latina is, after increasing, 700 thousand BRL (1 288 thousand PLN) and is divided into 700 000 shares with face value of 1 BRL each. CIECH S.A has 699 999 shares each, and the minority partner has one share. On 30 June 2009 CIECH America Latina suspended its activities and did not run business. Settlement still was required for public-legal liabilities of the Company that were payable and had to be repaid. Owing to the lack of own funds of CIECH America Latina, it was necessary to pump capital into the Company. Increase in the initial capital of Ciech America Latina was registered on 21 March 2012. After repayment of all public-legal liabilities on 13 June 2012, a resolution on termination of the Company was registered. As of that date the Company is formally in the state of liquidation.

- ***Z. Ch. "Organika-Sarzyna" S.A.***

On 14 June 2012, another purchase of shares of Z. Ch. "Organika-Sarzyna" S.A. was conducted, from employees Z. Ch. "Organika-Sarzyna" S.A. who became owners of shares by virtue of the Act on commercialization and privatization of state-owned companies. CIECH S.A. purchased in total 25 953 pieces of ordinary registered shares for the total price of 830 thousand PLN, which increased the share of CIECH S.A. in the Company's initial capital from 98.53% to 98.85%.

- ***SODA MĄTWY S.A***

The Extraordinary General Meeting of SODA MĄTWY S.A. on 12 April 2012 adopted a resolution on changes in the Company's Articles of Association containing a change of the registered office of the Company from Inowrocław to Warsaw. By the decision of the Court of 24 April 2012, the new registered office of the Company – Warsaw – was registered.

- ***JANIKOSODA S.A.***

The Extraordinary General Meeting JANIKOSODA S.A. on 12 April 2012 adopted a resolution on changes in the Company's Articles of Association containing a change of the registered office of the Company from Janikowo to Warsaw. By the decision of the Court of 24 April 2012, the new registered office of the Company – Warsaw – was registered.

- ***SODA MĄTWY S.A. and JANIKOSODA S.A.***

Boards of companies: CIECH S.A. and SODA MĄTWY S.A. and CIECH S.A. and JANIKOSODA S.A.on 27 August 2012 agreed on the Plan of division of SODA MĄTWY S.A. and the Plan of division of JANIKOSODA S.A., which plans have been announced in the Court and Commercial Monitor (Polish official journal) no. 172/2012 (4037) of 5 September 2012 under item:

- **11803 of Inowrocławskie Zakłady Chemiczne SODA MĄTWY S.A., which, among others, assumes:**
  - ✓ CIECH S.A. – acquiring company,
  - ✓ SODA MĄTWY S.A. – divided company
  - ✓ Method of division: the division will be conducted pursuant to Article 529 § 1 item 4 of the Code of Commercial Companies, by transfer to CIECH S.A. of part of property of SODA MĄTWY S.A. in the form of an organized part of the company-the Sodium Branch (division by separation). From the day of arrangement of the Division Plan until the Day of Separation, SODA MĄTWY S.A. will conduct activities so as to ensure that there were no significant changes in the economic value of the Sodium Branch, other than resulting from normal operations of SODA MĄTWY S.A.
  - ✓ In order to execute the division, the initial capital of CIECH S.A. will be increased by the amount of 5 PLN, by creation of 1 Share of Division Issuance, which will be granted to the Minority Shareholder, in exchange for 1 share of A series of SODA MĄTWY S.A. (exchange parity for the Division: 1 share of CIECH S.A in exchange for 1 share of SODA MĄTWY S.A.).
  - ✓ As a result of the division, the initial capital of SODA MĄTWY S.A. will be reduced from 74 160 750 PLN to the amount of 148 321.48 PLN, by the amount of 74 012 428.52 PLN.
- **11805 Janikowskie Zakłady Sodowe JANIKOSODA S.A., which, among others, assumes:**
  - ✓ CIECH S.A. – acquiring company,
  - ✓ JANIKOSODA S.A. – divided company
  - ✓ Method of division: the division will be conducted pursuant to Article 529 § 1 item 4 of the Code of Commercial Companies, by transfer to CIECH S.A. of part of property of JANIKOSODA in the form an organized part of the company – the Sodium Branch (division by separation). From the day of arrangement of the Division Plan until the Day of Separation, JANIKOSODA S.A. will conduct activities so as to ensure that there were no significant changes in the economic value of the Sodium Branch, other than resulting from normal operations of JANIKOSODA S.A.
  - ✓ In order to execute the division, the initial capital of CIECH S.A. will be increased by the amount of 5 PLN, by creation of 1 Share of Division Issuance, which will be granted to the Minority Shareholder, in exchange for 1 share of A series of JANIKOSODA S.A. (exchange parity for the Division: 1 share of CIECH S.A in exchange for 1 share of JANIKOSODA S.A.)
  - ✓ As a result of the division, the initial capital of JANIKOSODA S.A. will be reduced from 44 676 080 PLN to the amount of 134 028.21 PLN, by the amount of 44 542 051.79 PLN.

Within the structure of the Capital Group, in the scope of companies where CIECH S.A. indirectly has shares/stock, in 2012 there were the following changes:

ZACHEM Group

- ***BIPROCHEM Sp. z o.o. under liquidation*** – The Extraordinary Meeting of Shareholders of BIPROCHEM Sp. z o.o. under liquidation on 24 October 2011 finished the process of the company liquidation. BIPROCHEM Sp. z o.o. under liquidation was removed from the register of entrepreneurs of the National Court Register on 21 February 2012.
- ***NCP Sp. z o.o.*** in liquidation bankruptcy – the District Court in Bydgoszcz 15th Commercial Department, by way of resolution dated 6 February 2012 declared the bankruptcy of Natural Chemical Products Sp. z o.o. including liquidation of the company's assets, file ref no. XV GU 81/11.
- ***Bydgoski Park Przemysłowo-Technologiczny Sp. z o.o.*** – pursuant to the decisions of 30 April 2012 the registration court registered increase in the initial capital of the company from the amount of 43 405 thousand PLN up to the amount of 49 689 thousand by establishing 6 284 shares that were taken up by the city of Bydgoszcz in exchange for a non-cash contribution in the form of real estate. In connection with the above, the percentage share of ZACHEM S.A. in the Company's initial capital decreased from 8.09% to 7.07%.
- ***BUDPUR Sp. z o.o.*** under liquidation – as of the date of 17 May 2012 by resolution of the Extraordinary Meeting of Shareholders of 28 March 2012, the Company was put into liquidation.
- ***Boruta-Zachem KOLOR Sp. z o.o.*** – by way of resolution dated 24 October 2012 the registration court registered reduction of the initial capital of the company through reduction in value of share from 826 PLN to 723 PLN, thus the initial capital was reduced from the amount of 15 945 930 PLN to the amount of 13 957 515 PLN. The number of the shares in the initial capital, after reducing the initial capital, did not change, the initial capital is divided into 19 305 shares. The funds from reduction in the initial capital, in the amount of 1 988 415 PLN were paid to shareholders in proportion to their share in the initial capital. Payment occurred within 30 days from the date of registering by the registration court the reduction in the initial capital.

SODA MĄTWY Group

- ***Soda Polska Ciech S.A.*** – as of the date of 12 June 2012, the District Court registered transformation of Soda Polska Ciech Sp. z ograniczoną odpowiedzialnością (limited liability company) into a joint-stock company. The initial capital remains unchanged, i.e. 669 050 thousand PLN and will be divided into 133 810 000 registered shares of A series with the value of 5 PLN per each share. Shareholders submitted a statement of participation in the Company, and so:
  - ✓ **SODA MĄTWY S.A.** took up 71 605 000 shares with the face value of 5 PLN per share, with the total face value of 358 025 thousand PLN, which is 53.51% of the initial capital.
  - ✓ **JANIKOSODA S.A.** took up 62 205 000 shares with the face value of 5 PLN per share, with the total face value of 311 025 thousand PLN, which is 46.49% of share capital.

Z.Ch "Organika – Sarzyna" S.A.

- ***Zakład Remontowo – Budowlany Organika Sp. z o.o.*** – on 24 April 2012 the contract for sale of shares was signed for Zakład Remontowo-Budowlany "Organika" Sp. z o.o. Ownership of shares was transferred to the Buyer as at 30 April 2012.
- ***Zakład Chemiczny Silikony Polskie Sp. z o.o. –*** on 27 April 2012 the contract for sale of shares was signed for Z.Ch. "Silikony Polskie" Sp. z o.o. Ownership of shares has been transferred to the Buyer as at 2 July 2012, namely on the day of payment of the sale price.
- ***Rzeszowska Agencja Rozwoju Regionalnego S.A.*** – as of the date of 13 July 2012 Z. Ch. "Organika – Sarzyna" S.A. was removed from the Share Register of Rzeszowska Agencja Rozwoju Regionalnego S.A., which is a result of end of the process of compulsory buyout of shares of RARR S.A. belonging to minority shareholders. All the shares subject to obligatory repurchase have been acquired by the Podkarpackie Province based in Rzeszów.

12 Information about purchase of own shares of the parent company

In the year 2012 CIECH S.A. did no purchase own shares.

13 Description of using receipts from issuance by the Issuer

Shares of CIECH S.A. debuted on the Stock Exchange on 10 February 2005. The issuance prospectus of CIECH S.A. was made available to the public on 6 January 2005 and is available at *http://www.ciech.com/PL/inwestorzy/Strony/Prospekt_emisyjny_2004.aspx*. In the Prospectus the Issuer defined the investment program including a number of projects with the total value of outlays of 500-600 million PLN implemented in the years 2005 -2006. In order to finance the investment plan CIECH S.A. used all measures from issuance and own and external funds in the form of long-term investment credits. In 2011, the funds from issuance of 2005 were not used.

In February 2011 the company completed the process of shares issuance with the preemptive right, as a result of which it issued 23 000 000 ordinary bearer shares. The issuance prospectus concerning issuance is available on the website of the company at www.ciech.com. Allocation of shares of a new issuance occurred on 25 February 2011. As a result of issuance, the company gathered 436 million PLN of net receipts. According to issuance purpose specified in the Prospectus, 245 million PLN was intended to the reduction of indebtedness towards banks financing the Group. The remaining amount of net receipts, i.e. 191 million PLN is intended, along with other receipts, coming mostly from restructuring activities, for co-financing the investment plan of the Group.

Investment outlays implemented in the period from the 2nd quarter of 2011 until the end of 2012, concerning projects specified in the issuance prospectus amounted to:

- Modernization of Heat and Power Station Janikowo – Soda Polska Ciech S.A. – 78,7 million PLN,
- Construction of the system for production of substance MCPA and MCPP-P – Z. Ch. "Organika-Sarzyna" S.A. – 109,2 million PLN,
- Construction of the system and implementation of an innovative epichlorhydrine production technology from glycerin – ZACHEM S.A. – 67,8 million PLN,
- Implementation of the investment project of intensification the production of bicarbonate soda, intended to increase the production capacity of the present bicarbonate soda system to 90 tt/year – Soda Polska Ciech S.A. – 7,9 million PLN,
- Implementation of the investment project of modernisation and restoration in Soda Polska Ciech S.A. – 56,9 million PLN,
- Optimization of process of TDI production to achieve production capacity at the level of 90 tt/year. – ZACHEM S.A. – 0,4 million PLN.

The total value of investment outlays concerning projects specified in the Prospectus amounted to 320,9 million PLN (of which 191 million PLN was financed from receipts from issuance).

14 Information about the exchange rate of shares of CIECH S.A.

- 10 February 2005 – IPO of shares of CIECH S.A.on the Stock Exchange,
- 2 February 2011 – day of the right to take up D Series Shares,
- 30 March 2011 – first quotation of D Series Shares.

The shares of the company are quoted on the primary market of the Stock Exchange, in the system of continuous quotations. Currently they are a part of the WIG, mWIG40 and WIG-Chemia indexes.

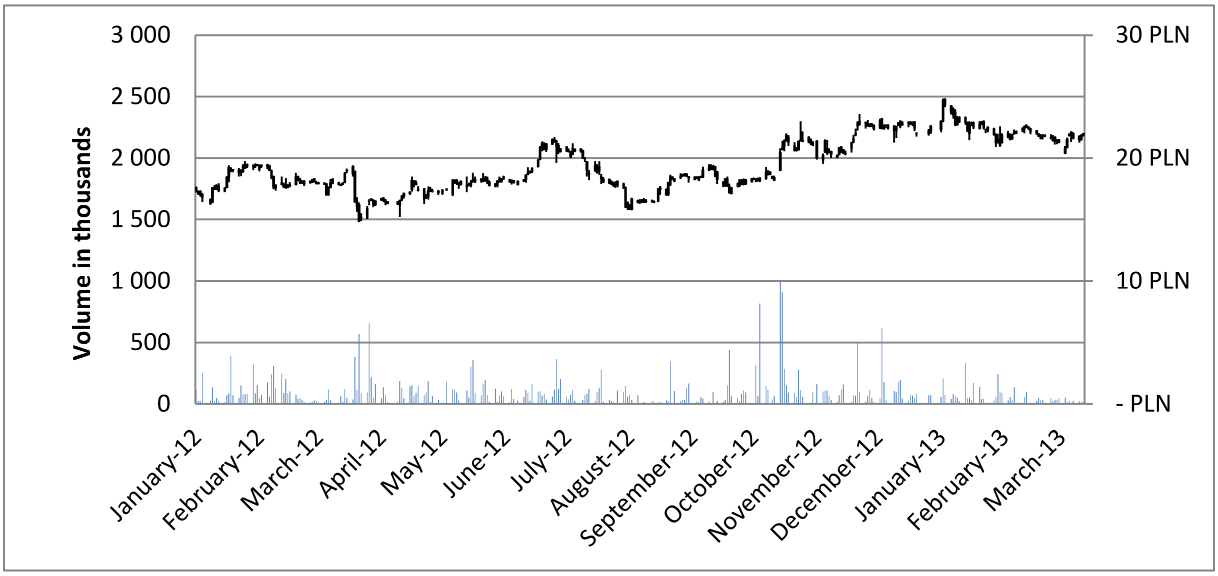


Figure 1. Exchange rate of CIECH S.A. shares

In 2012, the exchange rate of CIECH S.A should was moving in a growing trend. Growth in capitalization of the company recorded during the year amounted to 27.7%.

	measurement unit	2011	2012
Number of shares	*pcs.*	52 699 909	52 699 909
Closing exchange rate from the last day of quotations in the year	*PLN*	17.40	22,20
Capitalization of the company at the end of the year	*million PLN*	917	917
Maximum price in the year	*PLN*	33,00	23,59
Minimum price in the year	*PLN*	10,83	14,76
Volume turnover per session			
average	*pc. of shares*	113 571	104 717
median	*pc. of shares*	73 461	69 366

Figure 2. Key data about shares of CIECH S.A.quoted on the Warsaw Stock Exchange

Maximum value of the exchange rate of shares in 2012 amounted to 23.59 PLN and was recorded on 23 November 2012. The minimum value of the exchange rate of shares in 2012 amounted to 14.76 PLN and was recorded on 22 March 2012. Average share trade volume within a session in 2012 amounted to 104 717 shares, at the median equal to 69 399 shares.

Recommendations and reports of brokerage houses

Ciech S.A. as a representative from the chemical sector whose shares are quoted, among others, in the index of companies with average capitalization mWIG-40 is regularly evaluated and valuated by reputable institutions of the capital market. Reports and recommendations are prepared, among others, by:

- Investment House of BRE,
- IDM S.A. Brokerage House,
- PKO BP Brokerage House,
- TRIGON Brokerage House,
- Erste Securities Polska,

- ING Securities,
- Ipopema Securities,
- Raiffeisen Centrobank.

In 2012, the following recommendations were issued for shares of CIECH S.A:

Release Date	Institution	Type of Recommendation	Target price
2012-12-21	PKOBP Brokerage House	Buy	23.38 zł
2012-12-10	Raiffeisen Centrobank	Buy	26.00 zł
2012-12-05	IDMSA Brokerage House	Buy	27.40 zł
2012-12-04	Trigon Brokerage House	Hold	23.30 zł
2012-11-13	BRE Investment House	Buy	28.10 zł
2012-11-12	Ipopema Securities	Sell	20.10 zł
2012-10-23	IDMSA Brokerage House	Buy	24.40 zł
2012-09-18	Raiffeisen Centrobank	Buy	21.00 zł
2012-09-04	BRE Investment House	Buy	21.60 zł
2012-08-27	PKOBP Brokerage House	Hold	15.81 zł
2012-08-22	BDM S.A. Brokerage House	Hold	17.70 zł
2012-07-26	IDMSA Brokerage House	Sell	17.50 zł
2012-07-04	BRE Investment House	Hold	20.51 zł
2012-05-15	BRE Investment House	Buy	21.60 zł
2012-05-10	Raiffeisen Centrobank	Hold	20.00 zł
2012-04-16	IDMSA Brokerage House	Hold	17.50 zł
2012-04-11	BDM S.A. Brokerage House	Accumulate	18.40 zł
2012-03-07	PKOBP Brokerage House	Buy	23.87 zł
2012-01-25	Trigon Brokerage House	Buy	22.40 zł
2012-01-24	IDMSA Brokerage House	Buy	23.50 zł
2012-01-17	DM AmerBrokers	Neutral	18.05 zł
2012-01-16	BRE Investment House	Buy	21.50 zł
2012-01-12	BDM S.A. Brokerage House	Hold	16.90 zł
2012-01-01	IDMSA Brokerage House	Buy	24.80 zł

15 Perspectives for development of operations of Ciech Group

Perspectives for development of CIECH S.A. and Ciech Group result both from their market position and position in chemical industry as well as the present and the forecasted conditions of environment of the Group in Poland and worldwide.

The Ciech Group has a strong position on many product markets and is:

- the second European manufacturer of soda ash;
- the third European manufacturer of bicarbonate soda;
- the only Polish manufacturer and the main supplier to the domestic market with regard to calcined and bicarbonate soda, calcium chloride, epoxy resins, food phosphoric acid;
- the largest manufacturer of vacuum salt, unsaturated polyester resins, plant pesticides and glass lanterns;
- an important supplier to the European markets of calcined and bicarbonate soda, calcium chloride, epoxy resins, sodium silicates, food phosphoric acid, glass lanterns.

In the short-term perspective the most important macroeconomic factors in the environment of the Group include:

➢ **Uncertainty of situation on financial and freight markets** (high variability of foreign exchange rates and quotations of oil and its derivatives; still at relatively low credit activity of banks).

- **Repeated weakening of economic activities in developed countries** (slowdown in the pace of return to levels of industrial production from before the crisis in the years 2008-2009; exceptionally high programmes of budget savings in the largest economies of EU related to the crisis of public finance in the Eurozone).
- **Moderate pace of development or stagnation in the target markets of the Group** (delay in return to the growth dynamics of construction production in the EU; stagnation of chemical production in the EU; slowdown in dynamics of development the furniture industry in Europe with simultaneous chance for the national industry operating in the segment of cheaper furniture).

In the opinion of CIECH S.A. in the medium-and long-term perspective, most emphasis will be put on macroeconomic factors encouraging further development and strengthening the position of Ciech Group on the present and related markets, such as:

- **A relatively high GDP dynamics in Poland** (forecasted dynamics of economic development of Poland, being among the highest in the EU – annually on average in the range of 3% of the GDP until 2030, creating good grounds for further sustainable development of the country).
- **Good perception of Poland by foreign investors** (maintenance of the growth tendencies regarding inflow of investments to our country in 2012).
- **Significant potential for growth in demand for chemicals in Poland,** where their consumption *per capita* at the level in the range of 400 EUR is still ca. 3-4-times lower than in Western Europe (including the presenceo Ciech Group on a relatively rapidly growing markets of calcined and bicarbonate soda in Central-Eastern Europe).
- **Regulations of the European Union reducing the competitiveness of Polish entities** (adverse effects of Directive EU ETS on greenhouse gas emission; significantly strict conditions of the use of the environment by economic entities from 2016 as a result of implementation of the Directive IED (Industrial Emissions Directive) on industrial emissions).

16 Characteristics of external and internal factors essential for the development of Ciech Group

External general factors

The situation in industries of recipients of products of the Group in Poland

Poland is the largest sale market of the Group. The direct most important domestic recipients of the Group's products include: glass industry, industries of chemical and plastic products, furniture, agriculture, food industry. The development of these sectors of the economy depends on the economic situation in Poland. The sales in industry at fixed prices within 12 months of 2012 increased by 1.0% as compared to the previous year (accordingly in 2011 increased by 7.7%). Respectively, the dynamics of the chemical industry demonstrated: in the field of production of chemicals and chemical products (without pharmacy) – increase by 7.0% as well as products from production of rubber and plastics – increase by 0.2%. After a clear acceleration of economic growth of Poland in the period of 2010 -2011 (with annual dynamics of GDP of 4%) in the future years, a slowdown will be quoted in the pace of development to the level of 2-2.5%. For 2012 GDP dynamics was estimated in the range of 2.0%-2.5%; for 2013 the growth in GDP is estimated at the level of 1.5%-2.2%. A similar tendency should be expected in chemical industry that develops usually like the whole economy.

Economic situation in Europe and in the world

Activity of the Group is based in a considerable part on sales of chemical products on foreign markets. The level and the profitability of sales are dependent on the global economic situation in Europe and in the world. Weakening of the world economic situation usually affects reduction in the demand for raw materials on world markets, and hence the amount of export turnover performed by the Group.

In 2012, there was a relatively rapid development in the largest countries of Asia (China and India) and countries of ASEAN, Middle East and Northern Africa. According to the estimations of the International Monetary Fund, the global GDP increased in 2012 only by 3.2% in comparison to 3.9 and 5.1% accordingly in the years 2011 and 2010. In the light of the world economy, negative situation could only be observed in the EURO zone where in 2012 decrease in GDP could reach – 0.4%.Forecasts for 2013 indicate a small improvement in the economic situation as compared to the previous year. IMF envisages acceleration of growth rate of the global GDP up to 3.5%, and in the case of the European Union, positive dynamics of GDP in the range of 0.2% (According to the European Commission 0.4%). After substantial increases in the chemical production volume in 2010 (globally by 10% according to the American Chemical Chamber – ACC; in the EU also by 10% according to the European Council of Chemical Industry – CEFIC data) in 2011, there was a clear reduction in the pace of this development (respectively to 3.5 and 1.3%). ACC assesses that after a small growth in the world's production of chemicals by 1.2% in 2012, in the current year there will be an acceleration of dynamics up to 3.6%. On the other hand, in the European Union for 2012 CEFIC estimates a decrease in chemical production by 2% as compared to to the previous year. For 2013, a small growth in the range of 0.5% is expected.

Financial condition of agriculture

Part of revenues of the Group including plant pesticides and fertilizers (products made in the Group or goods) proceeds under sale to the agricultural sector. In the opinion of the Group, in the long-term perspective, the

demand for chemicals for agriculture in Poland and in Central-Eastern Europe should still grow. Significant factors that are favourable for increase in consumption of agrochemicals in Poland and thus in the demand for products and goods of the Group include processes improving financial condition and profitability of agricultural production, including: quotation of production and direct subsidies. This should be reflected in the increase in revenues of the Group. On the other hand, the lack of significant improvement in purchasing power of the agricultural sector may result in stagnation of the demand for plant pesticides and fertilizers, and at the same time in stagnation of the revenue of the Group in the scope of agrochemical products.
According to the data of the Institute of Agricultural and Food Economics, (IERiGŻ) in 2012 the market conditions of domestic agricultural production were in general less favourable than the year before. It was affected by increases in prices of means of agricultural production in the absence of the actual growth in purchase price of crops. The value of the synthetic rate of the economic situation in agriculture (SWKR) in December 2012 was slightly higher than in the previous year (growth from 100.6 to 100.7). During the next months the market conditions for agriculture should undergo a certain improvement owing to the anticipated growth in purchase prices of agricultural raw materials.

Economic situation on raw material market
Within the operations of the Group a significant part of commercial turnover is the import of raw chemicals to Poland. Raw material markets are characterized by great cyclicity connected with fluctuations of the world's economic situation. Rising prices of raw materials cause, on the one hand, reduction in margins of commercial intermediaries and weakening demand at the recipients. On the other hand decreasing prices are most often the sign of a weakening demand and beginnings of recession. Maintenance of a stable rate of economic growth and stable prices of chemical raw materials will have a positive impact on the commercial activity of the Group in the scope of import of raw materials. Significant demand and price fluctuations may be caused by economic changes owing to, for instance, rapid economic growth or economic stagnation. Strong fluctuations can have adverse impact on operations related to trade in raw chemicals by Ciech Group.

EUR/PLN exchange rate relationships
Export sales of Ciech Group is implemented above all in EUR. Strong EUR increases profitability of export sale both of the Group as well as of other manufacturers from the chemical industry in Poland. It also increases the value of commercial turnover performed by the Group for the benefit of other manufacturers. As a result. the foreign exchange rate of EUR/PLN affects profitability of sales revenues of the Group. On the other hand, in the case of consolidation of the national currency in relation to EUR, we can observe the decrease in profitability of exports and a negative impact on the volume of export sales implemented by the Group.

Internal factors

Maintenance of cost and qualitative competitiveness
Competitiveness of Ciech Group results from basic market factors, i.e.: costs, quality, marketing operations, market position. The most important of them are as follows:
- cost competitiveness based on the effects of a large production scale, specialization, standardization and effects of experience,
- qualitative leadership and quality control systems,
- competition based on strength of the company (position of the market leader),
- cost leadership and diversification.

Competitiveness of companies is significantly connected with innovativeness. The basis for competing become, therefore, technological and product innovations. Under the adopted investment strategy the companies of Ciech Group implement a number of innovative process and product solutions.

Obligations related to purchase of Z.Ch "Organika-Sarzyna" S.A.
According to the obligations resulting from the Package of Social Guarantees binding in Z.Ch "Organika-Sarzyna S.A.until the end of 2013, including the last stage of the obligation to repurchase shares issued free of charge to the authorized persons according to Art. 36 of the Act of 30 August 1996 on commercialization and privatization of state-owned companies. The application for repurchase of shares may be submitted after cessation of statutory limitations from 1 to 30 April 2013, and the guaranteed share repurchase price will be PLN 35 per share.

Obligations related to purchase of companies of Soda Deutschland Ciech Group
Soda Deutschland Ciech Group shows in its balance sheet an obligation to repurchase the Heat and Power Station. The Heat and Power Station was sold on 1 September 1999 by KWG GmbH (subsidiary of Sodawek Stassfurt GmbH&Co. KG) to VASA Kraftwerke – Pool for the amount of EUR 115.8 million. In connection with signing a new lease contract for the heat and power station with VASA Kraftwerke – Pool, the hard commitment to repurchase the heat and power station on 31 December 2014 was deferred by at least 1 year (depending on the will to enforce the option by VASA Kraftwerke Pool), preserving the right to repurchase the Heat and Power Station as at 31 December 2014 at the previously valid price.

Quality and stability of the management staff and employees
The market position of Ciech Group is, to a large extent the result of high quality of the management staff and middle-level employees. The personal policy executed by the Group provides employees with stabilization and possibility of professional development, as well as constant improvement in qualifications.

17 Expected financial situation of Ciech Group

The Board of Directors of CIECH S.A. according to the assumptions of the implemented strategy envisages that in 2013 financial results will be better than the ones achieved in 2012, in terms of both the operating profit (EBIT, EBITDA) and the net profit.

Improvement in results will be fostered by:
- impact of effects of deep restructuring in the product portfolio of the Group in 2012,
- stable level sales in soda segment with a possibility to increase prices of sodium products,
- maintaining a high degree of use of the production capacity in all companies of the Group,
- further projects in the scope of saving costs of operations and improvement in business processes.

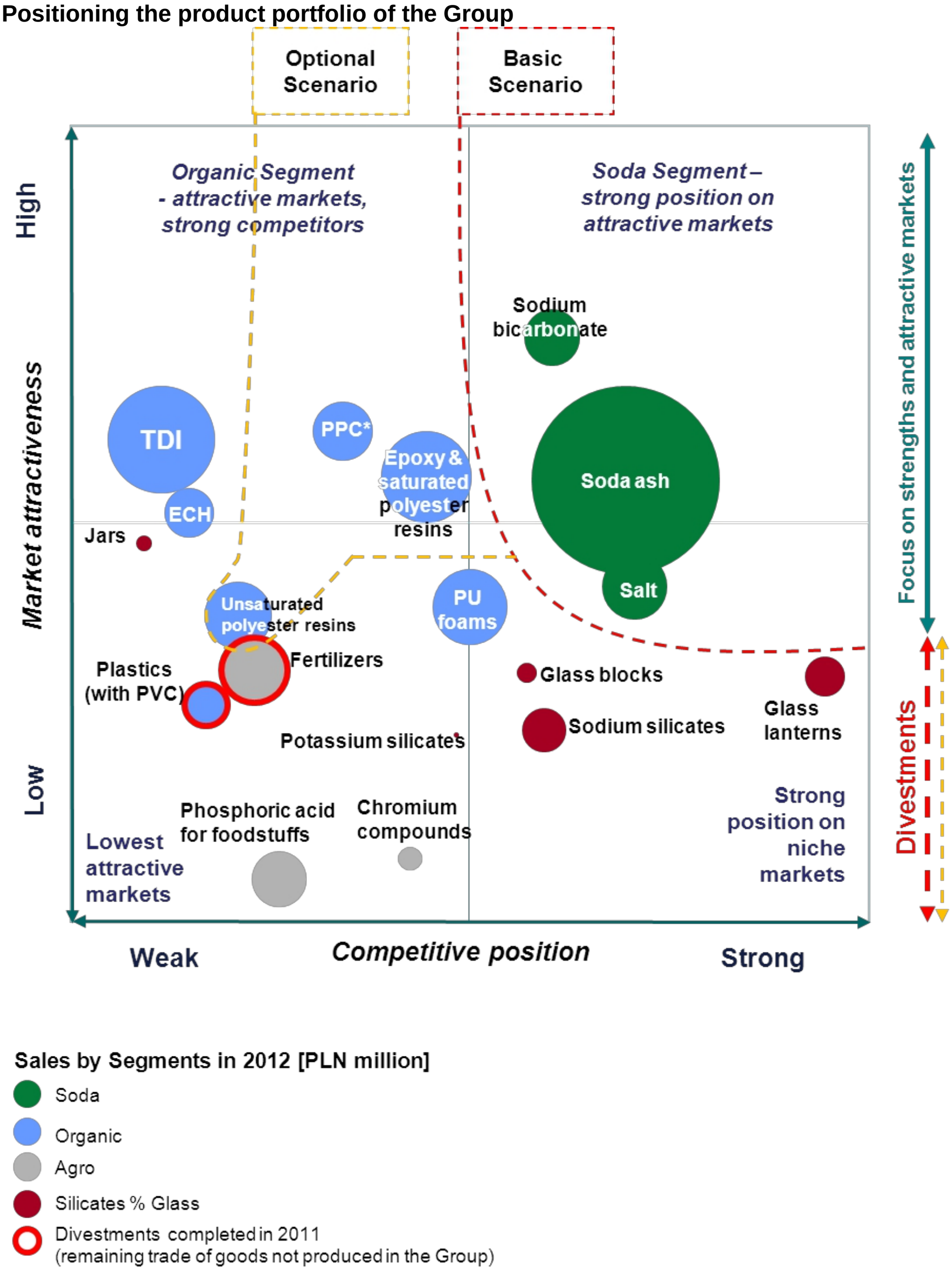
18 Strategic priorities of Ciech Group

Mission of Ciech Group
The mission of the Group its further development through creation of value in particular segments of the chemical market where the Group has competencies and achieves a strong and sustainable competitive position. The Group intends to strengthen its market position, among others, by building the position of the leader in the chemical industry in the region, with simultaneous claiming increasing profitability of the Group and its shareholder value.

Strategy
The basic strategic goals of Ciech Group are:
- Concentration and specialization of the Group in the soda segment (alternatively additionally in the organic segment).
- Increased effectiveness as a result of increased specialization.
- Rationalization of the management structure.
- Leaving agro, as well as silicate and glass segments.
- Leaving the organic segment, depending on the ultimately adopted development scenario.
- Divestments of selected companies and sales of some production and non-operating assets.

Development strategy of the Group in particular segments has been defined on the basis of analysis of the competitive position of the Group's products in different markets and evaluation of attractiveness of particular markets. Its detailed implementation will depend on the ultimately adopted scenario (basic or alternative).

Positioning the product portfolio of the Group



Source: own study of Ciech S.A.

Soda segment

The Group aims at development of the soda segment, being the basic segment of the Group operations, through further development of the product portfolio and optimization of costs in this segment. The soda segment is the most attractive area for the development of the Group, due to growth perspectives of this market, relatively high achieved margins and strong entry barriers. The Group has a strong competitive position on the sodium market, being the cost leader in Europe, having significant production capacities, good access to the raw material base, as well as target markets.

Strategic priorities for the soda segment include the following operations:

a) organic development, through:

- strengthening the position of a cost leader (further improvement in operations and cost reduction in all factories),
- growth in production capacities (SPC, SDC) and improvement of different types of bicarbonate soda (for application in pharmacy, for flue gas treatment in the Heat and Power Station),
- development of production and sale of highly processed dry salt types (SPC),

- optimization of energy costs (modernization of the second heat and power station in SPC, repurchasing heat and power station in SDC),

b) development by acquisitions and consolidation of the sodium market

- the goal of possible potential acquisitions will be further improvement in the competitive positiom and/or reduction in production costs,
- potential acquisition goals include target markets (on which the increase in demand is forecased) or geographically close ones (to gain synergy of sales).

Organic segment
The Group currently aims at limiting involvement in assets of the organic segment. Divestment is implemented with regard to assets of ZACHEM S.A., divestment is planned with regard to Ciech Pianki Sp. z o.o., while in the case of other assets of Ciech Group from the organic segment (Z. Ch. "Organika-Sarzyna" S.A.), it is considered to sell the company depending on the finally adopted development scenario and, additionally, in the event of obtaining attractive offers.

Agrochemical segment
The Group aims at limiting involvement in assets in the agro segment. Withdrawal from this segment by divestment of the FOSFORY Group was initiated in 2011. Signing, on 31 January 2013, the conditional sales contract for shares of Alwernia S.A. in practice (after fulfillment of the contractual terms) will end the process of divestment of the Group's assets – companies from the agrochemical segment.

Silicates and glass segment
The Group considers divestment of silicates and glass business (VITROSILICON S.A.), subject to receipt of attractive purchase offers.

Under restructuring, the Group consistently pursues the program of sale of assets not related to its basic activity. Thus, divestment processes are conducted, among others, as to transport companies of the Group, i.e.: Transoda Sp. z o.o. and Transclean Sp. z o.o.

19 Information about concluded contracts, significant for Ciech Group (including contracts concluded between shareholders and insurance and cooperation contracts)

Information on concluded agreements, significant for Ciech Group has been included in the section I.2.

20 Information about concluded contracts with the entity authorized to audit/review the consolidated financial statement of the Ciech Group

Information about concluded contracts with the entity authorized to audit/review the consolidated financial statement has been presented in the section II.35.

21 Description of transactions with related entities

Companies of Ciech Group did not conclude transactions on the terms other than market ones. Sales to and purchases from the related entities are made according to the market prices.

Description of transactions concluded between related entities, can be found in the section II. 40.

22 Information on the environmental protection issues

The production activity of the companies from Ciech Group involves use of the environment which causes interference in its natural balance. The awareness of the environmental impact and the need to meet constantly increasing legal requirements obligates the company to control and monitor the course of production processes, with particular focus on their impact on the environment. All companies of Ciech Group aim at minimization of the environmental impact through effective consumption of raw materials and energy, reduction in emission of pollutants into the air, water and soil, rational waste management, as well as the use of solutions improving operational safety of the technological systems. A sign of care for environment is a a wide range of environmentally friendly investment projects implemented each year and rendering measurable effects in the form of restricting the emission of pollutants and visible improvement in the condition of the environment in production plants.

Most production companies of Ciech Group has rich, long-term experience in works on implementation and maintenance of environmental management systems, consistent with the requirements of ISO 14001. They are often a part of integrated management systems, also involving management of quality, occuparional health and safety, as well as food safety. In addition, Z. Ch. "Organika – Sarzyna" S.A. is signatory to the Responsibility and Care Programme. The companies use environmental management systems as basic tools in claiming limiting environmental impact, with simultaneous optimization of economy of management of held resources, as well as building positive image in the eyes of all stakeholders of Ciech Group. It is extremely important in the case of companies representing chemical industry, for many years identified as the main source of environmental contamination. It is necessary to follow more and more rigorous regulations in the field of environmental protection and occupational health and safety.
The Ciech group is obliged to obtain and periodically update permits or decisions for conducting industrial activities resulting in emission to the soil, air or water, as well as for waste management and other substances causing hazard. The aforementioned permits and decisions define conditions of using the environment which the Group Companies have to comply with.
The Group envisages that the regulations having effect on activities, related to environment protection and occupational health and safety, within the next few years will be joined by new legal regulations introduced under the Directive on industrial emissions, the Directive establishing a system of trade in emission allowances, the Directive on environmental liability ("ELD") and the REACH regulation.

Directive on industrial emissions and the directive establishing a scheme for emission allowances are intended to limit greenhouse gases emissions to the air. Under the Directive on industrial emissions as of 1 January 2016, strict standards will be introduced as to emission of SO_2, NOx and dust from the LCP plants, including the heat and power stations belonging to the Group. As a result of introduction of new provisions, the Ciech group will be obliged to perform significant investments in plants, particularly heat and power stations in sodium plants in Inowrocław and Janikowo. This can also entail replacement of the currently used fuel based on coal with alternative fuel, which ensures a lower level of emission. The Group prepares in advance for the mentioned changes in regulations, for instance, modernizing the heat and power station in Janikowo.

The Ciech Group envisages that investment expenses related to environmental issues in the nearest time will be meant for: (i) projects whose implementation is required owing to the need to adjust to the requirements of environmental protection regulations, e.g. modernization in heat and power stations in Inowrocław and Janikowo, modernization of sewage treatment plants (construction of settling tanks) in the production plant in Stassfurt in Germany and (ii) eco-innovations and solutions aimed at improving power effectiveness e.g. in the production plant in US Govora in Romania. Plans concerning investment outlays for the need of environmental protection cover the expected costs related to improvement of plants for the purposes of the currently known requirements, constituting the condition to obtain permits. It is estimated that the Group under investment outlays for achieving compliance with regulations environmental spent ca. 3.7 million PLN in 2012 and plans to spend 97.2 million PLN in the period from 2013 to 2015. The Ciech Group also continuously strives to ensure improvement in the systems, using eco-innovations and energy saving solutions. The Group estimates that in the case of non-approval of by EC of the Temporary National Plan owing to changes in the Directive on industrial emissions in the period from 2013 to 2015, it may prove necessary to intend additional 227 million PLN to adjust to environmental regulations.

In addition, companies of the Ciech Group are involved in manufacturing safe products and providing a safe place of work. In order to protect employees in all facilities policies, programs and procedures have been established regarding occupational health and safety.

22.1 Legal status of the use of the environment

Ciech Group companies operate under the current administrative decisions regarding the manner and extent of use of the environment. The most important of these are integrated permits, water permits and decisions concerning waste disposal. All Ciech Group companies operating IPPC plants (Integrated Pollution Prevention and Control) received integrated permits within the deadline valid for a 10-year period, which in most cases expires on 31 December 2016. Until the end of 2013, all integrated permits issued should be routinely subject to change by the competent authority, which will cover, inter alia, their indefinite validity period. In the event of significant changes in the functioning of facilities, integrated permits are updated. The following table provides a list of integrated permits held by Ciech Group Companies.

The following table provides a list of integrated permits held by Ciech Group Companies

Company	Permit for	Validity period
Soda Polska Ciech S.A. Plant in Inowrocław	Integrated permit for IPPC systems (manufacture of extra light soda and heavy ash, bicarbonate soda, calcium chloride) and auxiliary systems – manufacture of agricultural lime.	31 December 2016.
Soda Polska Ciech S.A. Plant in Janikowo	Integrated permit for IPPC systems (manufacture of extra light soda and heavy ash, waste disposal) and other systems (manufacture of wet and dry vacuum salt, agricultural lime, transport by cableway).	31 December 2016.
Soda Polska Ciech S.A. Heat and Power Station in Inowrocław	Integrated permit for the CHP plant systems (4 boilers OP-110).	31 December 2014.
Soda Polska Ciech S.A. Heat and Power Stationin Janikowo	Integrated permit for the CHP plant systems (3 boilers CKTI/2 boilers OP-140).	1 July 2016.
ZACHEM S.A.	Integrated permit for IPPC systems: brine electrolysis, manufacture of phosgene, DNT, TDA, TDI, ECH and waste disposal.	31 December 2016.
Ciech Pianki Sp. z o.o.	Integrated permit for the manufacture of PUR foams.	28 May 2019.
US Govora S.A.	Integrated permit for IPPC systems: manufacture of soda ash and waste disposal.	12 September 2022
Sodawerk Stassfurt GmbH	Integrated permit for IPPC systems: manufacture of extra light soda and heavy ash and manufacture of bicarbonate soda.	indefinite
Z. Ch. „Organika – Sarzyna" S.A.	Integrated permit for IPPC systems: manufacture of unsaturated and saturated polyester resins, epoxy resins, curing agents for epoxy resins, phenol-formaldehyde resins, Ukanol DOP, Flodur, Adufer, o-orthophenylenediamine FDA, phosphating concentrates and plant protection products (MCPA, MCPP, BCM carbendazim).	31 October 2016.
Alwernia S.A.	Integrated permit for systems for the manufacture of: chromium oxide, alkaline sodium sulfate and sodium bisulfite, phosphorus and magnesium sulphate compounds.	20 July 2015.
	Integrated permit for systems for the manufacture of feed calcium phosphate.	29 April 2015
	Integrated permit for systems for the manufacture of nitrate salt.	23 June 2016.
	Integrated permit for systems for the manufacture of granular fertilizers.	24 September 2017.
	Integrated permit for a landfill.	30 April 2017.
VITROSILICON S.A. Plant in Żary	Integrated permit for the manufacture of sodium silicate glass and potassium silicate glass.	14 September 2015.
VITROSILICON S.A. Plant in Iłowa	Integrated permit for the manufacture of sodium and potassium water glass, glass packaging and CLAROGLASS glass blocks.	28 December 2015.
VITROSILICON S.A. Plant in Pobiedziska	Integrated permit for the manufacturing system for wide-mouth glass products – lanterns and jars.	31 October 2017.

According to Directive 1999/31/EC on the landfill of waste implemented into the Romanian legislation by Government Decree 349/2005, implementing resolution of the Treaty of Accession to the EU dated 31 December 2012, the USG should cease its activities related to the disposal of liquid industrial waste in landfills. Integrated Permit No. 68/2012, valid for 10 years provided that the USG will solve the problem of soda waste after 2012.
Mistake (in other EU countries, sodium waste are stored in exactly the same manner, in accordance with the requirements of BAT) related to qualification of ultrasound joints as a liquid landfill, was indicated to the environmental authorities repeatedly. The effects of this error affect the performance of not only the ultrasound, but also plants in which waste is ashes, hitting with hydraulic transport to landfill.
Environmental authorities however ruled out reopening of the Accession Treaty. The solution to this situation is going to be starting the process of closing the waste pools on the date of 01 January 2013. For this reason, the Company ordered a technical Project „Sludge ponds closing and post-closure monitoring of ultrasound - CIECH"

This Project involves following steps:
1) Raise the joint (the technology used today) in order to raise all parts of the site to a level of 231 m. According to the estimated amount of the cost, realization stage amounts to EUR 733 thousand (PLN 2,997 thousand).
2) Reclamation of reservoir B4 an estimated value of EUR 736 thousand (PLN 3,009 thousand).
3) Fill the cavities between the sludge ponds - sections I and II – and the construction of the substructure to the level of 234 m. Estimated amount for this stage is EUR 5 040 thousand (PLN 20,605 thousand).

Described steps 1,2 and 3 will be conducted within investment. Completion of step 1, enable the Company to operate, assuming current production capacity at the level of 1,200 t per day, for a period of three years. However, the implementation phase of 3rd, enable to operate even in the next 14 years, therefore 17 years of further operations should be carried out without the expense significantly influencing the financial situation of ultrasound.
By the date, the Company will undertake activities aimed at changing negative, erroneous record. Success would mean extending the life of joints for about 30 years, and the ability to reduce expenses related to the restoration of the entire surface of the landfill, which is currently estimated at EUR 29,208 thousand.

The Company submitted the propos al with the necessary opinions of the local Office for the Environment. Currently, the project is in the approval process. Management believes there is no reason why the project would be rejected. First, the whole situation is the result of an erroneous decision. Second, the company stored waste in the same way as other EU producers of soda. Third, a refusal would mean the closure of plants, including those that heat the houses.

In March 2012, the integrated permit for Soda Polska Heat and Power Stationin Inowrocław for the production parameters of the system and waste management was updated. Changes in the integrated permit also apply to Soda Polska Ciech Heat and Power Stationin Janikowo. On 24 October 2012, an update of the permit was issued, which was associated with the upgrade of CKTI boilers, construction of a flue gas desulphurisation system, construction of a dry ash removal system and a new water demineralisation station.

On 19 December 2012, an integrated permit for Soda Polska Ciech Plant in Janikowo was updated in regard to the permissible noise levels for the cableway.

In December 2012, the Marshal of the Podkarpackie Province made the decision to update the integrated permit for Z. Ch. "Organika-Sarzyna" S.A. taking into account, inter alia, the following changes:
- Decommissioning of old MCPA and MCPP plant and start of the new MCPA and MCPP plant,
- Changes in quantity and assortment of products in the unsaturated polyester resins plant,
- Instrument changes in plants.

Due to the continuous development and modernisation of the Plant in Iłowa (VITROSILICON S.A.), changes were introduced to the integrated permit in January 2012 to increase the types of waste generated, as well as to increase the amount of waste produced. In addition, changes related to the increase in the type and quantity of waste glass supplied to the Plant for recovery.

22.2 Environmental protection costs

The fees for the use of the environment in 2012 by the Polish Group companies amounted to a total of PLN 24,676 thousand, 96% of which was charged to Soda Polska Ciech S.A. – mainly for discharging sewage into surface waters and releasing gases and particulate matter into the air.

The following table shows the amount of fees for the use of the environment in 2012.

Name of the Company	Soda Polska Ciech	ZACHEM	Organika-Sarzyna	Alwernia	VITROSILICON	US Govora	Sodawerk
Fee amount in 2012	PLN 23,812 thousand	PLN 357 thousand	PLN 278.5 thousand	PLN 164 thousand	PLN 63 thousand	PLN 8,905 thousand	PLN 577 thousand*

** Not including the fee of EUR 414 thousand for the withdrawal of surface water and groundwater, which will have to be paid after obtaining the administrative decision on the withdrawal of surface water and groundwater.*

In 2012, the operations of manufacturing companies, except as described below, was conducted under the conditions of use of the environment, specified in the relevant administrative decisions.

WIOŚ in Bydgoszcz on the basis continuous measurements of emissions conducted in 2006, identified an exceedance of limit emissions of particulate matter and SO2 from the CHP plant in Janikowo. A penalty totalling PLN 457 thousand was imposed on Soda Poland Ciech S.A. Payment deadline for the fine for exceeding the allowable emissions of particulate matter was postponed at the request of the Company until 31 December 2012, i.e. until the completion of the modernisation of electrostatic precipitators and completion of the flue gas desulphurisation system. Due to the change in the timing and scope of the project involving the construction of flue gas desulphurisation system in CHP Janikowo, on 31 July 2012, a fine of PLN 285 thousand (including interest) was paid for exceeding the allowable SO2 emissions from boilers OP-140 No. 4 and 5.
In connection with the completion of the project in July 2012, involving the modernisation of electrostatic precipitators for CKTI boilers 1, 2 and 3 in CHP Janikowo, the Company in early 2013 submitted a request to WIOŚ in Bydgoszcz to reduce the amount of the fine (PLN 172 thousand) for over-limit particulate matter emissions by the amount of own funds disbursed for the implementation of this project. Administrative proceedings are pending in this matter.
Due to the exceeded admissible standards for particulate matter emissions from boiler OP-110 in CHP Inowrocław and OP-140 and CKTI in CHP Janikowo, occurring in 2011 and 2012, penalties will be imposed on Soda Polska Ciech S.A., the total amount of which will be determined by WIOŚ in Bydgoszcz
Due to the use of OP-140 boilers 4 and 5 in Janikowo in violation of the conditions laid down in the current integrated permit, i.e. with lowered purification efficiency of electrostatic precipitators cooperating with them, WIOŚ in Bydgoszcz on 16 December 2011 initiated proceedings to halt the use of these devices. The reason for the reduced scrubbing efficiency of the above electrostatic precipitators was improper operation of pneumatic ash removal system for electrostatic precipitators of OP-140 boilers 4 and 5. In order to remove these anomalies, the Company has installed emergency ash removal systems using hydraulic transport.
Next, WIOŚ in Bydgoszcz, in its decision of 6 March 2012, has set the deadline for the removal of the above violation for 31 July 2013, i.e. until the end of the modernisation of electrostatic precipitators cooperating with OP-140 boilers 4 and 5. The Company is carrying out the project in accordance with the approved schedule.
Every year, the Company pays a penalty for exceeding the maximum permissible noise level at night (estimated amounts for 2012 is about PLN 23 thousand). On 19 December 2012, Soda Polska Ciech S.A. received an update on the decision on noise, which was issued on the basis of the new Regulation of the Minister of Environment of 1October 2012, amending the regulation on permissible noise levels in the environment (Dz.U.2012.0.1109). The amendments increase the permissible noise levels for roads and railways for daytime and night time which is beneficial for Soda Polska Ciech S.A. – Plant in Janikowo.
On the basis of control measurements carried out in 2012, WIOŚ in Bydgoszcz found an exceedance of the allowable emissions of NO2 in the system for the production of bicarbonate soda in the Manufacturing Plant in Inowrocław. The estimated amount of penalty for this violation is approximately PLN 48 thousand.

In 2012, US Govora paid fines for violating the terms of use of the environment in a total amount of RON 50 thousand. Since 2012, litigation initiated by US Govora is pending against ABA OLT on the amount of fees associated with meeting water permit conditions. The case in question concerns the difference in the calculation of the penalty that could be imposed on US Govora by ABA OLT.

22.3 Emissions trading

In 2012, the quantity of allowances held in holding accounts in the companies: Soda Polska Ciech S.A., Alwernia S.A. and VITROSILICON S.A. was sufficient to cover the actual carbon dioxide emissions. In Sodawerk Stassfurt, shortage in late 2012 will be covered by allowances acquired before 30 April 2013.
Due to changes in the EU ETS from 2013, in addition to companies participating so far i.e. Soda Polska Ciech S.A., Sodawerk Stassfurt, Alwernia S.A. i VITROSILICON S.A., the system will directly cover S.C. Uzinele Sodice Govora S.A. The scope of CO2 emissions will be significantly expanded by process emissions associated with, among others, the production of soda. Producers of electricity used by all Ciech Group companies are partially or completely covered by the obligation to purchase allowances, which will increase the price of electricity. The degree of use of CERs and ERUs will also change.
The internal analyses carried out by the Ciech Group show that the quantity of free allowances for CO2 emissions in the EU ETS III will not be sufficient to cover the actual need for this type of units of account. It will be possible to balance the resulting deficit of carbon dioxide emission allowances by using one or more of the following:

- The use of emission allowances received free of charge and unredeemed during the second period of the EU ETS (2008 -2012);
- Purchase missing allowances in auctions, exchange or OTC transactions;
- Capital investments aimed at reducing the emission of heat generated and/or process emission;
- Use of raw materials and fuels with less emission.

In addition to the direct costs associated with the purchase of carbon dioxide emission allowances, all Ciech Group companies will face higher costs of purchasing electricity due to the transfer of the purchase costs of emission allowances by manufacturers.

22.4 REACH

In accordance with the requirements of REACH, the Group companies marketing substances in quantities above 1 ton/year have made or intend to make the registration of these substances within the time limits, which will allow them to continue operations in the current range. So far, 33 high-volume substances have been registered (including 9 substances in ZACHEM S.A.). In the second stage, i.e. until 31 May 2013, it is planned to register 8 substances with tonnage of 100-1000 Mg/yr. In the third stage, i.e. until 31 May 2018 – 46 substances marketed in quantity between 1-100 Mg/yr.
In 2012, the Ciech Group didn't register any substances. However, activities related to the preparation for the next stage of registration in May 2013 were implemented. In May 2013, registration will be carried out by Alwernia S.A. and Z. Ch. „Organika – Sarzyna" S.A.

22.5 Environmental liabilities

Due to the nature of the Ciech Group's business, there are active sources of groundwater pollution on some of the Group's property. The Group incurs ongoing operating costs and establishes provisions related to the recultivation of contaminated soil and groundwater purification. The amount of provisions for environmental liabilities in Ciech Group as at 31 December 2012 amounted to PLN 65 million.

23 Key achievements in research and development at the Ciech Group

Research, innovation and development

The activities of the Ciech Group in research, innovation and development are focused on the development and improvement of products for key end markets, improvement of existing processes and improvement of productivity and efficiency, as well as implementation of innovative technologies. Strategy for research, innovation and development aims, in particular, to:
• Introduce innovative solutions for the main production processes;
• Improve existing products;
• Introduce new products;
• Increase the efficiency of processes;
• Implement eco-innovative modernisation projects;
• Attract foreign investors in connection with the planned projects, as well as
• Implement initiatives aimed at optimisation and savings in the area of energy acquisition.

Activities in the field of research, innovation and development are driven by research and development departments located within the companies of the Group, in collaboration with external entities, such as technical universities, as well as independent groups and research institutions with which the Company signed partnership agreements. We maintain close contact with selected universities departments and research institutes having a good standing, who have experience in developing products and technologies relevant to the Company's operations. Partner research institutes include the Institute of Heavy Organic Synthesis "Blachownia", Institute of Fertilizers including the "IChN" – inorganic chemistry department in Gliwice, Institute of Industrial Organic Chemistry and Industrial Chemistry Research Institute, and the universities: Warsaw University of Technology, Poznan University of Technology, University of Technology and Life Sciences in Bydgoszcz, Wroclaw University of Technology, West Pomeranian University of Technology in Szczecin, Rzeszów University of Technology and the University of Nicolaus Copernicus in Torun.

The company continues actively looking for opportunities to co-finance projects in research, innovation and development using EU funds, as well as national and regional aid funds. The corporate team for innovation and development is responsible for coordinating the implementation of projects in research, innovation and development area, carried out by production plants of the Ciech Group companies. Employees participate actively in the ongoing implementation of strategic initiatives.

If necessary, the Ciech Group companies are supported by external experts in the research, innovation and development, providing professional expertise in the field of innovation and development policy. They evaluate designs for new or improved products and processes, the implementation of which is planned in the Ciech Group companies. They also provide advice on establishing cooperation between Ciech Group companies and research institutes, universities and research and development institutes of the Polish Academy of Sciences.

Expenditure on research, innovation and development in the year ended 31 December 2012 amounted to PLN 154.6 million (including PLN 5.9 million on research projects).

In 2011 and 2012, most of the expenditure on research, innovation and development concerned the organic segment. Projects in research, innovation and development implemented during this period included:

1. Finalisation of innovative projects, of which the main ones are:

- Implementation of an innovative technology of ECH production using bio-glycerin, being a waste from the production of bio-fuels. A new innovative process solution is a substitute for the common method of obtaining ECH based on petrochemical propylene, which promotes energy savings and is associated with lower levels of emissions than the production of ECH using the existing method based on chlorine and propylene. In 2012, construction of a pilot plant wascompleted for the production of ECH from bio-glycerine in Bydgoszcz.
- Implementation of innovative technologies of MCPA production thanks to which the parameters of the production process will be improved including reducing raw material consumption by about 5%, increasing the efficiency of the production process, improving energy efficiency by about 5% reduction of wastewater generation by about 5%. Implemented technological solutions also increase production capacity by 50% for active substances for the production of high margin crop protection chemicals from the current level of 4 ttpy to 6 ttpy.
- The project of modernisation of power plant (CHP Janikowo) included the implementation of the solutions necessary due to compliance with the requirements of environmental protection. The project also aimed to improve the cost and energy production effectiveness resulting in the cost effectiveness of the production of soda ash as well as vacuum salt. Effects planned to achieve include: increasing the energy efficiency of these boilers by 25%, improving energy efficiency by 10% to 90%, enabling the reduction of coal consumption in the modernised plant by 8%, reduction in greenhouse gas emissions, and resolving the issue of management of ash and flue gas desulfurisation.

2. Implementation of R&D projects – including:

- Research on improvement of the technology of epoxy resins production in „Organika – Sarzyna" S.A. The project is implemented in cooperation with the Institute of Heavy Organic Synthesis "Blachownia" and co-financed under the IniTech programme of the National Centre for Research and Development (NCBiR).
- The research project, which aims to start production of eco-foam at Ciech Pianki Sp. z o.o., is implemented as part of a research and industrial consortium with the participation of the Cracow University of Technology and the University of Warsaw, among others. The project is funded under the Programme for Applied Research of the NCBiR.
- Research on the start of production of innovative on a global scale hybrid flame retardants in Alwernia S.A. – Project carried out in collaboration with the Industrial Chemistry Research Institute and funded under the INNOTECH programme (NCBiR).

In mid-2012, a new strategy of the Ciech Group was approved for implementation, assuming increased focus on the soda segment. Following the changes in the comprehensive Strategy of the Ciech Group, strategic objectives in the area of innovation and development of the Group have been redefined. From the second half of 2012, innovation and development activities have been concentrated in the areas of research related to soda ash and soda-based products, mainly on:

- optimising of production processes (e.g. optimising production through the implementation of innovative system solutions, improving energy efficiency through the use of waste heat),
- expanding the range of applications of products by improving their quality parameters (e.g. high-quality sodium bicarbonate for specialised applications – pharmaceuticals segment, sorbent for flue gas cleaning, etc.).

24 Infortion about significant contingent iems

Information about singnificant contingent items has been presented in the section II.34.

25 Information concerning agreements that may influence changes in the proportions of shares owned by current shareholders and bond holders

As of the date of the publishing of this report, no agreements were signed that could influence changes in the proportions of shares owned by current shareholders.

26 Information concerning the control system of employee share programs

No employee share programs are applied in the CIECH S.A. company or in any company of the Ciech group.

27 Remuneration for the Board and the Supervisory Board

Information about remuneration for the Board and Supervisory Board has been presented in the section II.40.5.

28 Determination of the total amount and nominal value of all Company shares and of shares and stocks in related units in the possession of management and supervisory persons

From declarations submitted by management and supervisory persons, it results that as of the day of 31 December 2012 and as of the day of report approval:

- Mr. Dariusz Krawczyk – President of the Company Board owned 40,000 shares in CIECH S.A.
- Mr. Artur Osuchowski – Member of the Company Board owned 3,825 shares in CIECH S.A.

Other management and supervisory persons did not possess shares in CIECH S.A. or shares or stock in related units as of 31 December 2012.

29 Declaration on the application of Corporate Governance

29.1 Application of the principles of corporate governance

In 2012, the CIECH S.A. company adhered to the principles of the "Code of Best Practice for Companies Listed on the Stock Exchange" (hereinafter referred to as the "Code of Best Practice for WSE Listed Companies"), applicalbe in the Warsaw Stock Exchange. This set of principles for corporate governance is available on the website dedicated to corporate governance in the Warsaw Stock Exchange (http://corp-gov.gpw.pl/) as well as on the corporate website of CIECH S.A. (http://www.ciech.com) in the section dedicated to Company shareholders – "Investor relations" in the "Corporate governance" tab.

CIECH S.A. manages a corporate website that is a reliable and useful source of information about the Company for representatives of the capital market. The content of the website is prepared in a transparent and reliable fashion, so as to make it possible for investors and analysts to make decisions based on the information presented by the Company. The Company provides all interested parties with equal access to the information published on the corporate website. The Company ensures functioning of the website in the scope indicated in part II point 1 of the "Code of Best Practice for WSE Listed Companies", also in the English language. The investor relations sections contains several tabs in which all current and periodical reports published by the Company can be found. There is also a tab concerning best WSE practice on the website. Information concerning the dates of general meetings, drafts of resolutions, and complete documentation presented to shareholders at general meetings are available at the corporate website.

In 2012, CIECH S.A. applied all applicable rules for which the "comply or explain" principles is applied, as specified in sections II, III, and IV of the "Code of Best Practice for WSE Listed Companies".

In the scope of the I section of the "Code of Best Practice of WSE Listed Companies" containing "Recommendations", two points require comment.

According to the recommendation, CIECH S.A. has a remuneration policy specifying the form, structure, and level of remunerations, including for members of Company management and supervisory bodies. The remuneration system is transparent and links the remuneration of the top management with the Company's financial results and the effects of work of remunerated persons.

Standards of European Commission recommendations did not constitute a model for the development of the remuneration system in the Company and not all of the above recommendations are applied. The remuneration policy does not constitute a separate item on the agenda of the Ordinary General Meeting and is not subject to voting. The Company has not uploaded a "declaration concerning remuneration" on its website. Nonetheless, the Company gives access to a series of information that should be contained in the declaration in various documents.

At CIECH S.A. the principles and amounts of remuneration for Board Member are established by the Company Supervisory Board. In the light of the recommendations of the European Commission, the Remuneration Committee of the CIECH S.A. Supervisory Board fulfills the functions of the Remuneration Committee. Remunerations of Company Supervisory Board Members are established at the Company General Meeting.

The second matter that requires clarification is the recommendation concerning transmission of the general meeting through the Internet, recording of the course of the meeting, and providing public access to it on the website. During the period subject to reporting, the Company did not implement the recommended direct transmissions of General Meetings or recording of the course of meetings and provision of public access to meeting records on the website. However, in order to ensure a transparent and effective informational policy making fast and secure access to information possible for shareholders, analysts, and investors, the Company used various communication tools.

29.2 Internal control and risk management system in the process of developing financial reports and consolidated financial reports

The Board of CIECH S.A. is responsible for the internal control system in the Company and its efficiency in the process of development of financial reports and periodical reports prepared and published in accordance with the principles of the Ordinance of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and conditions for acknowledging as equivalent information required by the legal provisions of a country that is not a member country.
The Company's effective internal control and risk management system in the financial reporting process functions by means of:

- the preparation of procedures specifying the principles and division of responsibilities for developing financial reports, including for ensuring of their quality,
- establishment of the scope of reporting based on applicable International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), accepted for implementation in the European Union, and related interpretations announced in the form of European Commission Regulations,
- development, implementation, and supervision of the use of coherent accounting principles in Ciech Group companies,
- semi-annual reviews and annual inspections of published financial reports of CIECH S.A. and the Ciech Group by an independent auditor,
- authorization procedures for financial reports before publishing.

Supervision over the process of preparation of Company financial reports and periodical reports is effected by the Board Member responsible for financial matters. The Finance and Accounting Division is reponsible for the organization of work related to the preparation of financial reports and is directly subject to a CIECH S.A. Board Member. The uniformity of applied standards in the Group makes it possible for all companies to apply the uniform accounting principles of the Ciech Group as well as uniform consolidation principles according to IAS/IFRS.

The scope of data disclosed in published periodical reports results from the Company's accounting records and additional information submitted by individual organizational units of CIECH S.A. Companies of the Capital Group submit the required data in the form of reporting packs for the purpose of the development of a consolidated financial report for the Group. The scope of data disclosed within the framework of the Capital Group is defined and results from the informational obligations specified in IAS/IFRS. Monitoring of changes in the IAS/IFRS is conducted in an ongoing fashion in order to determine the necessity of updating the scope of reporting.

In accordance with applicable regulations, the Company subjects its financial reports to reviews and inspections by an independent expert auditor.

The Supervisory Board selects the expert auditor from among a group of reputable auditing companies, guaranteeing high standards of service and the required independence. Agreements for the conduct of inspections of financial reports by an expert auditor are signed every year with the auditor selected by the Supervisory Board. The Audit Committee appointed within the framework of the competences of the Supervisory Board supervises the financial reporting process and cooperates with the independent auditor, and also recommends an auditor to the Supervisory Board.
Financial report authorization procedures are defined in the Company. Reports for the I, III, and IV quarter are not subject to verification by an auditor and are approved by the Board before being published. Semi-annual and annual periodical reports are submitted to the Supervisory Board and Company Shareholders after the conclusion of the appropriate review or inspection by an auditor. Annual reports accepted by the Company Board, after being opined by the Audit Committee and assessed by the Supervisory Board, are approved at the General Shareholders' Meeting.

Before publishing of the annual or semi-annual financial report, conclusions from the inspection of the financial report are presented to the Audit Committee. Representatives of the Audit Committee analyze the results of inspection and review at closed meetings with the Company auditor. The expert auditor also presents a Letter to the Board, which contains recommendations for the Boards of Group Companies based on the results of inspection or review of the financial report for a given year. The recommendations received from the auditor are discussed by the Audit Commitee along with the Management of the Finance and Accounting Division for the purpose of their implementation.

Financial data constituting the basis of financial reports and periodical reports comes from the finance and accounting system, in which transactions are registered in accordance with the Company's accounting policy (approved by the Board) based on International Accounting Standards. The accounting ledgers of CIECH S.A. are kept in the ERP integrated IT system. The modular structure of the system provides a transparent division of competences, coherence of operation records in ledgers, and inspections of compliance between the general ledger and subsidiary ledgers. The capabilities of the system make it possible to adapt to changing accounting principles or other legal regulations in an ongoing fashion. The system possesses full technical and operational documentation, which is updated periodically pursuant to article 10 of the act of 29 September 1994 on accounting.

Access to the informational resources of the IT system is limited by the appropriate authorizations to authorized employees. Employees only have access to those areas of the system that they are concerned with. Access control is present at every stage, starting with the input of source data, through data processing, and ending with the generation of output information.

The effects of the application of inspection and risk management procedures in the development of CIECH S.A. and Ciech Group financial reports reflect their efficiency and include high quality of these reports, as confirmed by the opinions issued by expert auditors after financial report inspections, high scores of report recipients, and high rankings of CIECH S.A. in The Best Annual Report Contest organized by the Institute of Accounting and Taxes under the patronage of the Warsaw Stock Exchange.

Selection of the entity authorized for inspecting the financial reports of CIECH S.A. and of the Ciech Group is among the competences of the Company Supervisory Board (after prior recommendation by the Audit Committee to the Supervisory Board), which has specified the following principles of Auditor selection for the purpose of ensuring the independence of the opinion:

- the entity authorized for inspecting financial reports may not conduct audits of the Company/Group for more than 5 years in a row;
- the entity authorized to inspect financial reports may resume inspection activities of the Company/Group after at least 2 years have passed;
- a key expert auditor may not perform financial auditing activities of the Company/Group for a period of more than 5 years in a row;
- a key expert auditor may resume the performance of financial auditing activities of the Company/Group after at least 2 years have passed.

29.3 CIECH S.A. shareholders holding large share packages.

CIECH S.A. shares are listed on the Warsaw Stock Exchange S.A. As of the day of publishing of this report, share capital amounts to 263,500,975 PLN and divided into 52,699,911 shares of a nominal value of 5 PLN each, including:

- 20,816 A-series bearer common shares,
- 19,775,200 B-series bearer common shares,
- 8,203,984 C-series bearer common shares,
- 23,000,000 D-series bearer common shares,
- 1,699,909 E-series bearer common shares,
- 2 F-series common registered shares.

Shareholder	Type of share	Number of shares	Percentage of share capital (%)	Number of votes at the General Meeting	Percentage in the general number of votes at the General Meeting
State Treasury*	Common bearer	20.407.437	38,72%	20.407.437	38,72%
Otwarty Fundusz Emerytalny PZU "Złota Jesień" S.A.**	Common bearer	3.140.000	5,96%	3.140.000	5.96%
ING Otwarty Fundusz Emerytalny**	Common bearer	4.000.000	7,59%	4.000.000	7,59%

* according to information provided by the State Treasury as of 24 August 2011 (rb 59/2011)

** based on a list of shareholders possessing at least 5% of votes at the Ciech S.A. Extraordinary General Meeting as of 29 August 2012 (Art. 70 point 3 of the Act on public offer of financial instruments – General Shareholders' Meeting list above 5%)

29.4 Shareholders possessing special control authorization with a description of such authorization

There are no securities entitling the bearer to special control authorization in the CIECH S.A. company. No shares are preferred, and each gives the right to one vote at the general meeting.

29.5 Restrictions concerning the performance of the right to vote

At the CIECH S.A. company, there are no restrictions concerning the performance of the right to vote, such as the right to vote by holders of a specific part or number of votes, time limits concerning the performance of the right to vote, or regulations, according to which, with the company's cooperation, capital rights related to securities are separate from the possession of securities.

29.6 Restrictions concerning the transfer of ownership rights to the issuer's securities

The statute of CIECH S.A. does not impose any restrictions concerning the transfer of ownership rights to securities issued by the Company.

29.7 Description of authorization for making decisions on the issue or redemption of shares

The authorization of persons in management positions is specified by the regulations of the Code of Commercial Companies and the Company Statute. Persons holding management positions do not have special authorization to make decisions on the issue or redemption of shares.

29.8 Principles of changing the statute or the Issuer's deed of partnership

Changes to the Company Statute are made under the principles specified in the regulations of the Code of Commercial Companies. The Statute does not introduce detailed regulations relating to the above regulations. Changes to the Statute require a resolution by the Company's General Meeting and an entry in the entrepreneur's register. A resolution of the General Meeting concerning changes to the Company Statute is made by a majority of three quarters of votes. After changes to the Statute are entered into the entrepreneurs' register, CIECH S.A. issues a current report on this subject to public knowledge. The Company's General Meeting may authorize the Supervisory Board to establish the consolidated text of the Statute.

In 2012, changes were made to § 6 par. 1 of the CIECH S.A. Statute, based on expansion of the object of the company's activity. The above change (expansion) of the object of the Company's activity made it possible for the Company Board to undertake further activity leading to the concentration of management of key non-production areas of the activity of Ciech Group companies in CIECH S.A. ("mother company"), and thus to optimize the costs of activity of the entire Group in this scope. Another change to the Statute made in 2012 concerned § 7 par. 1. It resulted from the increase in the Company's share capital from the amount of 263,500,965 PLN to 263,500,975 PLN by way of the issue of 2 F-series common registered shares in relation to the division of SODA MATWY S.A. and JANIKOSODA S.A. through the transfer to CIECH S.A. of the organized part of the company – Soda Division of Soda Mątwy and the organized part of the company – Soda Division of Janikosoda. Registration of the change of the above amount of share capital took place on 25 January 2013.

29.9 Method of activity of the general meeting and its primary authorization with a description of shareholder rights and the method of their performance

The method of functioning of the CIECH S.A. General Meeting and its authorization are regulated by the Company Statute and the Regulations of the CIECH S.A. General Meeting. These documents are available on the corporate website of CIECH S.A. www.ciech.com in the sections: "CIECH S.A./Company Documents" and "Investor Relations/General Meeting Regulations".

The CIECH S.A. General Meeting is held as ordinary or extraordinary in accordance with the regulations of the Code of Commercial Companies and the Statute under the principles specified in the General Meeting Regulations. The General Meeting is convened in the method and under the principles indicated in generally applicable regulations. The General Meeting is convened by an announcement uploaded to the Company's website and through the submission of a current report. The announcement is to be made at least twenty six days before the date of the General Meeting. An Ordinary General Meeting is convened by the Company Board. The Supervisory Board may convene an Ordinary General Meeting if the Board does not convene it by the appointed date. The following are entitled to the right to convene an Extraordinary General Meeting:
1) the Board,
2) the Supervisory Board, if it deems its convening as necessary,
3) shareholders representing at least half of the share capital or at least half of the general number of votes in the Company.
A shareholder or shareholders representing at least 1/20 of the share capital may demand the convening of an Extraordinary General Meeting and may put specific matters on the agenda of this Meeting. The demand should be reported to the Board in writing or in electronic form to the e-mail address indicated on the Company's website, along with substantiation. A shareholder or shareholders representing at least 1/20 of the share capital may:
1) demand the inclusion of specific matters in the agenda of the nearest General Meeting – such a demand should be reported to the Board in writing or in electronic form to the e-mail address indicated on the Company

website, no later than twenty one days before the appointed date of the Meeting and is to contain substantiation or a draft of the resolution concerning the proposed item on the meeting agenda.
2) submit drafts of resolutions concerning the matters put on the agenda of the General Meeting or matters that are to be introduced to the meeting agenda to the Company in writing or by means of electronic communication to the e-mail address indicated on the Company website, before the date of the General Meeting.
According to the Regulations of the General Meeting, the Meeting may be cancelled if its convening encounters extraordinary obstacles (forces majeures) or if it is apparently aimless. Cancellation of a Meeting, the agenda of which contains specific matters included upon the request of authorized entities, or which was convened upon such a request, is only possible with the consent of the requesting parties. Cancellation takes place in the same way as convening, in such a way that shareholders will be subject to the least negative effects. Changing of the date of the Meeting takes place in the same way as its cancellation, even if the proposed meeting agenda is not subject to change.

According to the Statute of CIECH S.A., the competences of the General Meeting include, in particular:

- ✓ consideration and approval of the Board's report on Company activity, the financial report for the previous year of turnover, the consolidated financial report, and the report on the activity of the capital group, in which the dominant entity is the Company, so long as the Company develops them, and the annual written report of the Supervisory Board, as well as acknowledging the fulfillment of duties by Company bodies;
- ✓ making of resolutions on the division of profits or covering of losses;
- ✓ adoption of the General Meeting Regulations;
- ✓ changing of the Company Statute;
- ✓ changing of the Company's object of activity;
- ✓ sale or leasing of the company or of its organized part and establishment of a limited property law on it;
- ✓ appointment and dismissal of Supervisory Board members and establishment of the amount of remuneration for Supervisory Board members;
- ✓ *appointment and dismissal of Board members, including the President of the Board;*
- ✓ increase or reduction of share capital;
- ✓ making of resolutions concerning the issuance of bonds, including bonds exchangeable for shares;
- ✓ merging of the Company with other companies, division and transformation of the Company;
- ✓ dissolution of the Company;
- ✓ expressing of consent for the purchase of shares by the Company for the purposes of amortization and resolving terms of share amortization;
- ✓ passing of other resolutions provided for in legal provisions or in this Statute.

According to § 21 par. 2 point 3) of the CIECH S.A. Statute, matters raised at the General Meeting of CIECH S.A. are considered and opined on by the Supervisory Board of CIECH S.A.

Shareholders may participate in the Meeting and perform their right to vote in person or through representatives. Proxy is to be granted in writing or in electronic form. A shareholder granting or revoking proxy for participation in the General Meeting in electronic form will inform the Company by e-mail to the address wza@ciech.com.

According to the General Meeting Regulations of CIECH S.A., besides the participants of the Meeting, members of the Board and Supervisory Board also take part, in an attendance making it possible to give meritorious answers to the questions posed during the Meeting. In addition, the following persons may take part in the Meeting:

1) experts, advisors, and Company employees, the presence of which is recognized as purposeful by the Board, Supervisory Board, or the Chairman,
2) persons servicing the Meeting,
3) representatives of mass media, so long as the Meeting does not object to their presence by way of a resolution,
4) persons referred to in art. 370 § 3 and art. 395 § 3 sentence 2 of the Code of Commercial Companies.

The Chairman of the Meeting is selected from among the participants of the Meeting. The Chairman directs the course of the Meeting in accordance with the accepted meeting agenda, legal regulations, Statute, and General Meeting Regulations, ensuring an efficient course of the Meeting with respect to the rights and interests of all Shareholders.

The competences of the Chairman of the General Meeting include, in particular:

a. keeping watch over adherence to the regulations, including the General Meeting regulations, by participants of the Meeting, and if necessary, making of the appropriate ordinal decisions in this scope,
b. opening discussions on individual items on the meeting's agenda, giving of the floor,
c. taking the floor in the case of statements:
    i. exceeding the established time limit for statements or replicas, or
    ii. on matters not included in the meeting agenda, or
    iii. containing insulting content,

d. closing of discussions on individual items of the meeting agenda,
e. closing of the lists referred to in § 42 par. 4 (list of candidates for members of the Board, including the President of the Board or Supervisory Board),
f. establishment – on the basis of accepted applications – of the content of drafted Meeting resolutions,
g. calling for votes, watching over the correct course of voting, signing of all documents containing voting results, and announcement of voting results,
h. issuance of ordinal dispositions applicable in the meeting place,
i. settlement of procedural doubts and clarification – if necessary based on obtained legal opinions – of legal and regulatory matters,
j. statement of the conclusion of the meeting agenda,
k. adjourning the Meeting after the conclusion of the meeting agenda,
l. making of other decisions of an ordinal nature.

The Chairman may independently order breaks in the meeting other than the breaks ordered by the Meeting pursuant to art. 408 § 2 of the Code of Commercial Companies. Breaks should be ordered by the Chairman in such a way that the Meeting can be concluded on the day of its commencement.

The Chairman may introduce the consideration of an application and making of a resolution on appointing an extraordinary general meeting to the meeting agenda as well as other ordinal matters, including, in particular:
1) admission to the meeting place of the persons referred to in § 8 par. 2 points 1-3,
2) application for a change in the order of considering matters contained in the meeting agenda,
3) selection of commissions provided for in the Regulations, Participants of the Meeting may place substantive applications concerning the matters included in the meeting agenda, ordinal applications, and an application for convening an extraordinary general meeting.

Drafts of resolutions proposed for acceptance by the Meeting are uploaded to the Company website. Resolutions of the CIECH S.A. General Meeting are passed by an absolute majority of votes, unless the regulations of the Code of Commercial Companies states otherwise.
The General Meeting Regulations do not provide for the possibility of voting by way of correspondence, as referred to in art. 411^1 of the Code of Commercial Companies.
The Statute does not provide for the possibility of participating and making statements during the Meeting using means of electronic communication.

Voting is carried out as open voting. Secret voting is ordered:
1) during elections,
2) for applications for dismissal/appointment of members of Company bodies,
3) for applications for dismissal of Company liquidators,
4) for applications for holding accountable the persons specified in points 2) and 3),
5) in personnel matters,
6) upon the demand of even one of the participants of the Meeting.

The right to demand secret voting is not applicable when resolutions are made on ordinal matters. The Meeting may repeal the secrect of voting in matters concerning the selection of the commissions appointed by it.

In 2012, five General Meetings were held. On 19 January 2012, an Extraordinary General Meeting made changes in the composition of the Supervisory Board. On 26 April 2012, an Extraordinary General Meeting passed resolutions concerning changes in the composition of the Supervisory Board and concerning changes in the composition of the Company Baord and authorization of the CIECH S.A. Supervisory Board to initiate and conduct a contest for a Board member or members and presentation of the results of contest proceedings to the General Meeting. On 28 May, 2012, an Extraordinary General Meeting passed resolutions concerning changes of the composition of the Company Board. On 25 June 2012, an Ordinary General Meeting was held. During the Ordinary General Meeting, shareholders approved the annual report on the activity of the Company and the Ciech Capital Group and the financial report for 2011. They also decided to acknowledge the fulfillment of duties by all members of the Supervisory Board and the Company Board. The General Meeting also resolved the division of net profit of CIECH S.A. for the 2011 turnover year, allocating it in its entirety to the Company's reserve capital. Furthermore, the Meeting supplemented the composition of the Company Supervisory Board. On 19 November 2012, an Extraordinary General Meeting made a resolution concerning the expression of consent for establishment of a registered pledge on a set of chattels and property rights by CIECH S.A., and after a break in the meeting ordered until the day of 27 November 2012, a resolution was passed on the division of SODA MĄTWY S.A. and JANIKOSODA S.A., on increasing the share capital of CIECH S.A., on changing the Statute of CIECH S.A., and on authorizing the Supervisory Board to establish the consolidated text of the CIECH S.A. Statute.

29.10 Composition of the management, supervisory, and administrative bodies of the Issuer and of their committees, and changes made to it during the last year of turnover, as well as a description of the activities of these bodies.

Board of CIECH S.A.

According to § 23 par. 1 of the Company Statute, the Board consists of three to five persons. The joint term of the Board members lasts three years. The seat of a Board Member expires, at the latest, with the day on which a General Meeting is held approving the financial report for the last full turnover year of the Member's function as a Board Member. The expiration of a Member's seat also takes place as a result of death, resignation, or dismissal from the Board.

The Board's competences include all matters and economic decisions and other decisions not reserved by the regulations of the Code of Commercial Companies or the stipulations of the Company Statute as belonging solely to the General Meeting or Supervisory Board. The President of the Board, independently, two Board members, jointly, or one Board member together with an authorized agent, are authorized to make statements of will and to sign them in the name of the Company.

The current joint term of the Company Board commenced with the day of 21 June 2010. A detailed division of the competences of individual Board Members has been specified in a Board resolution.

The Board of CIECH S.A. operates on the basis of the regulations passed by the Board and approved by the Supervisory Board. Board resolutions are passed with an absolute majority of votes. In the case of a tie of votes, the vote of the President of the Board is decisive. In accordance with the principles of best practices, Board Regulations state, that in the event of a conflict of the Company's interest with the personal interests of a Board Member, his spouse, relatives, or kinsman of the second degree or persons with whom he has a personal relationship, he should abstain from participation in the settlement of such matters and request for this to be noted in the Board meeting protocol.

According to the wording of the Regulations, Board resolutions are required by matters exceeding the scope of ordinary Company activities, including, in particular:

- ✓approval and changing of the Board Regulations;
- ✓approval and changing of the Company Organizational Regulations;
- ✓acceptance of applications directed to the Supervisory Board or General Meeting;
- ✓convening of General Meetings and acceptance of proposed agendas;
- ✓acceptance of annual and long-term financial plans and development strategies for the Company;
- ✓granting of procuration or general power of attorney;
- ✓contracting of credit and loans;
- ✓granting of loans and donations;
- ✓disposal of a right or contraction of a commitment of a value exceeding 500 thousand PLN;
- ✓ application for bank guarantees, contraction of commitments from bills of exchange, granting of all types of guarantees, and the establishment of other indemnities.

A Board resolution is also required in matters not exceeding the scope of ordinary Company activities if its passing is requested by any Board Member.

As of 1 January 2012, the CIECH S.A. Board fulfilled its function in the following composition:

- Ryszard Kunicki,
- Andrzej Bąbaś,
- Artur Osuchowski,
- Rafał Rybkowski.

As of 26 April 2012, the following persons were dismissed from the Board:

- Ryszard Kunicki,
- Andrzej Bąbaś,
- Rafał Rybkowski.

As of 27 April 2012, the Supervisory Board delegated Supervisory Board Member Dariusz Krawczyk to fulfill the functions of President of the Board in a temporary capacity and Supervisory Board Member Maciej Lipiec for fulfillment of the functions of Board Member in a temporary capacity, until such time as the composition of the Company Board is supplemented by the General Meeting to the minimum number specified in the Statute.

In light of the above, as of 27 April 2012, the Board's composition was as follows:

- Dariusz Krawczyk – Supervisory Board Member delegated for temporary fulfillment of the functions of President of the Board,
- Artur Osuchowski – Board Member,

- Maciej Lipiec – Supervisory Board Member delegated for temporary fulfillment of the functions of Board Member.

On 28 May 2012, an Extraordinary General Meeting appointed a Board with the following composition: Dariusz Krawczyk and Andrzej Kopeć.

As of 31 December 2012, and as of the day of approval of the report, the Company Board fulfilled and fulfills its functions with the following composition:
1. Dariusz Krawczyk – President of the Board,
2. Andrzej Kopeć – Board Member,
3. Artur Osuchowski – Board Member.

The body responsible for establishing the principles and amounts of remunerations for Board members is the CIECH S.A. Supervisory Board.

According to signed employment contracts, Board Members receive base remuneration and an annual bonus from profits.

The total value of remunerations for Board Members (fulfilling functions in 2012) given by the Company in 2012 amounted to 5,868 thousand PLN

Information on the amounts of remuneration received by individual Board Members, with division into the base remuneration and bonus, are presented in the section II.40.5.

Detailed information about CIECH S.A. Board Members is presented below.

Name and surname	**Dariusz Krawczyk**
Position	**President of the Board of CIECH S.A. as of 28 May 2012**
Qualifications	A graduate of Warsaw University of Technology (1993), completed Tax Studies (1996), Manager Studies (1997) and Post-graduate Studies in management of company value (2002) at the Warsaw School of Economics. Since 1993, he is in possession of a license of a securities broker.
Experience	From 1993 – 1998, employed at the Brokers' Office of Bank Handlowy, Center of Capital Operations, at the position of Director of the Turnover and Sales Office. In the years 1998—1999, fulfilled the function of President of the Board at Expandia Polska S.A. In the years 1999-2000, he was a Director of the Investment Banking Department at PKO BP. In 2001, he became Board Member at Nafta Polska S.A. In 2000-2002, he fulfilled the function of Director of the Shareholder Supervision Office at PKN ORLEN S.A. In 2002-2003 – Director of the Department of Capital Investments at PSE S.A. In 2004-2005 – President of the Board of PSE Centrum S.A. In 2005-2011, he fulfilled the function of President of the Board of Synthos S.A. A member of many supervisory boards, including Rafineria Trzebinia S.A., Rafineria Glimar S.A., II Narodowy Fundusz Inwestycyjny S.A., Huta Buczek S.A., Warszawska Giełda Towarowa S.A., Warta Vita S.A., Petrolot Sp. z o.o., Petrogaz Płock, Kaučuk a.s., Active Zone Group S.A., Firekom S.A. He is currently the chairman of supervisory boards at Firekom S.A. and Active Zone Group S.A.
Scope of responsibilities in the Ciech Group	**Supervision over organizational units:** ● Strategy Department ● Human Resources Department ● Shareholder Supervision Department ● Legal and Organizational Department ● Innovation and Development Department ● Audit and Contorl Department ● Communications Department ● PROCUREMENT DIVISION, including: ○ Raw materials and materials purchasing department ○ IT and Administrative Purchases Department ○ Purchasing Investment Department ● PRODUCTION DIVISION, including: ○ Production Department ○ Purchasing Investment Department ○ Energy Department ○ Kaizen Department ● Independent Positions: ○ Senior Health and Safety Specialist

Name and surname	Andrzej Kopeć
Position	**Board Member of CIECH S.A. as of 28 May 2012**
Qualifications	Graduate of the Academy of Finance of the Government of the Russian Federation in Moscow, Faculty of International Economic Relations, majored in Economics (1993). Graduated with a master's degree for management staff in administration and management (Executive MBA at GFKM and RSM, Erasmus University (2010) and numerous professional courses in the field of financial sector issues, including finance management. He has a diploma from ACI – ACI U. K. The Financial Markets Association – in the scope of knowledge and skills concerning operations on financial markets in accordance with international standards.
Experience	During the years 1993-2001, he fulfilled the function of Director of the Treasury Department at Bank Śląski S.A., member of the ALCO Committee. During the years 2001-2003, he was employed at ING BSK S.A. at the position of Asst. Director of the Department of Accounting and Reporting, Advisor to the President of the Board for Management of Assets and Liabilities, and Secretary of the ALCO Committee. During the years 2003-2006, he fulfilled the function of Vice-President of Bank Gospodarki Żywnościowej, and since 2005 also the Bank Financial Director. In the years 2006-2009 – Board Member of DZ BANK Polska. During the years 2009-2012, he was a Board Member of Zakłady Azotowe Puławy.
Scope of responsibilities in the Ciech Group	**Supervision over organizational units:** ➢ FINANCE AND ACCOUNTING DIVISION, including: ○ Accounting Department ○ Finance Management Department ○ Controlling Department ➢ Property Management and Environmental Protection Department ➢ IT Department.

Name and surname	Artur Osuchowski
Position	**Board Member of CIECH S.A. as of 2 April 2008**
Qualifications	Graduate of the Private Higher School of Business and Administration in Warsaw, Faculty of Economics, majored in Finance and Banking. Completed professional courses in management of company value, appraisal of companies on the capital market, restructuring of company activity. Holder of a scholarship of the "Die Zeit" weekly magazine, American Council on Germany, Dreager Foundation.
Experience	During the years 2003-2008, he fulfilled the function of manager at KPMG Advisory in the Economic Consulting Department. Responsible for the development of services in the scope of strategic projects, reorganization of company business, and projects related to the business financing as well as support of direct investments. During the years 2001-2003, he was senior consultant at the Corporate Finance Department at Capgemini. Responsible for merger and takeover projects on the capital market and strategic projects related to restructuring and reorganization of company business. From 1998 to 2001, senior consultant in the Corporate Finance department at Ernst & Young (responsible for merger and takeover projects on the capital market and strategic projects related to the restructuring and reorganization of company business. During the years 1996-1997, analyst in the Management Accounting Department at Raiffeisen Bank Polska.
Scope of responsibilities in the Ciech Group	**Supervision over organizational units:** ➢ SALES DIVISION, including: ○ SODA Sales Department ○ ORGANICS Sales Department ○ Silicates Sales and Trading Department ○ Logistics Department ○ Sales Marketing and Analysis Department ➢ Independent Positions: ○ Agent of the Board of CIECH S.A. for matters of the Integrated Quality Management System and Security of Information ○ Information Security Administrator at CIECH S.A. ○ Agent for matters of Security of Classified Information at CIECH S.A.

<u>Supervisory Board of CIECH S.A.</u>
According to § 20 par. 1, the Supervisory Board consists of five to nine members appointed by the General Meeting. The joint term of Supervisory Board members lasts three years. On 30 June 2011, the Ordinary General Meeting of CIECH S.A. appointed the Supervisory Board of CIECH S.A. for another joint term.

The Supervisory Board of CIECH S.A. operates on the basis of the regulations passed by the Supervisory Board and approved by the General Meeting. Appointment and dismissal of Supervisory Board members are among the competences of the General Meeting. The Supervisory Board appoints a Chairman of the Supervisory Board from among its members, and if necessary, his deputy and secretary. The Supervisory Board supervises the Company's activity.

The competences of the Supervisory Board include, in particular:

- ✓ assessment of the Board's report on Company activity and of the financial report for the previous year of turnover and the consolidated financial report and the report on the activity of the capital group, in which the dominant entity is the Company, so long as the Company develops them, in the scope of their compliance with ledgers and documents, as well as with the factual state, as well as Board applications concerning division of profits or covering of losses, and submission to the General Meeting of an annual written report on the results of these assessments;
- ✓ opining of Company activity programs developed by the Board;
- ✓ consideration and opining of matters that are to be the object of resolutions at the General Meeting;
- ✓ adoption of the Supervisory Board regulations;
- ✓ approval of the Board regulations;
- ✓ *establishment of principles of remuneration and the amount of remunerations for Board Members, including the President of the Board;*
- ✓ selection of an expert auditor for performance of a review of the Company's financial report and of the consolidated financial report of the Company's capital group;
- ✓ expression of consent for disposal of rights or contracting of a commitment, which, on the basis of one or several related legal activities, exceeds the equivalence of the amount of 10 million PLN, with the exception of:
  a) raw material, semi-product, and product sales agreements related to the object of the Company's activity;
  b) activities requiring the consent of the General Meeting.

The Supervisory Board passes resolutions with an absolute majority of votes in the presence of at least half of the members of the Supervisory Board, and in the event of a tied vote, the Chairman's vote is decisive. According to the Statute of CIECH S.A., the Supervisory Board may pass resolutions without convening a meeting by way of written voting or voting by means of means of direct communication at a distance, however, in order for the adoption of a resolution to be effective in such a case, it is necessary to inform all Supervisory Board members of the content of the draft of the resolution. Supervisory Board Members may participate in the adoption of resolutions by the Supervisory Board by casting their vote in writing through another Supervisory Board Member. Casting of a vote in writing may not be concerned with matters introduced to the agenda during a meeting of the Supervisory Board.

Supervisory Board meetings are held as needed, however, no less frequently than once per quarter.

Every year, the Supervisory Board of CIECH S.A. submits a Report on the Activity of the Supervisory Board for the given year of turnover to the Ordinary General Meeting of the Company. The report contains a detailed discussion of the activity of the Supervisory Board, discussion of the realization by the Company Board of programs of activity, assessment of the Company Board's report on the activity of the Company and the Ciech Capital Group, a financial report of the Company and the Ciech Capital Group, and the conclusions of the Company Board concerning division of profits or covering of losses.

With consideration of the highest standards and best practices, and in order to provide the possibility for reliable assessment of the Company by shareholders, the Supervisory Board of CIECH S.A. makes a concise assessment of the situation of CIECH S.A. This assessment is presented annually before the Ordinary General Meeting of the Company at a time making it possible for CIECH S.A. shareholders to become acquainted with the document.

As of 1 January 2012, the Supervisory Board fulfilled its function in the following composition:

1) Ewa Sibrecht-Ośka – Chairwoman of the Supervisory Board,
2) Przemysław Cieszyński – Vice-chairman of the Supervisory Board,
3) Krzysztof Salwach – Secretary of the Supervisory Board,
4) Arkadiusz Grabalski – Supervisory Board Member,
5) Jacek Goszczyński – Supervisory Board Member,
6) Waldemar Maj – Supervisory Board Member,
7) Sławomir Stelmasiak – Supervisory Board Member.

On 19 January 2012, an Extraordinary General Meeting of CIECH S.A. made changes to the composition of the Company Supervisory Board by dismissing Jacek Goszczyński and Krzysztof Salwach and appointing Dariusz Krawczyk and Mariusz Obszyński.

As of 19 January 2012, the Supervisory Board fulfilled its functions in the following composition:

- Ewa Sibrecht-Ośka – Chairwoman of the Supervisory Board,
- Przemysław Cieszyński – Vice-chairman of the Supervisory Board,
- Mariusz Obszyński – Supervisory Board Member,
- Arkadiusz Grabalski – Supervisory Board Member,
- Dariusz Krawczyk – Supervisory Board Member,
- Waldemar Maj – Supervisory Board Member,
- Sławomir Stelmasiak – Supervisory Board Member.

On 8 February 2012, the Supervisory Board entrusted Mr. Mariusz Obszyński with the function of Secretary of the Supervisory Board.

On 26 April 2012, an Extraordinary General Meeting appointed Mr. Zygmunt Kwiatkowski and Mr. Maciej Lipiec as Supervisory Board Members. In light of the above, the composition of the Supervisory Board was as follows:

1. Ewa Sibrecht-Ośka – Chairwoman of the Supervisory Board,
2. Przemysław Cieszyński – Vice-chairman of the Supervisory Board,
3. Mariusz Obszyński – Secretary of the Supervisory Board,
4. Arkadiusz Grabalski – Supervisory Board Member,
5. Dariusz Krawczyk – Supervisory Board Member,
6. Zygmunt Kwiatkowski – Supervisory Board Member,
7. Maciej Lipiec – Supervisory Board Member,
8. Waldemar Maj – Supervisory Board Member,
9. Sławomir Stelmasiak – Supervisory Board Member.

As of 27 April 2012, the Supervisory Board delegated Supervisory Board Member Dariusz Krawczyk to fulfill the functions of President of the Board in a temporary capacity and Supervisory Board Member Maciej Lipiec for fulfillment of the functions of Board Member in a temporary capacity, until such time as the composition of the Company Board is supplemented by the General Meeting to the minimum number specified in the Statute.

On 28 May 2012, Dariusz Krawczyk resigned from his functions as Supervisory Board Member at CIECH S.A. and was appointed as a Company Board member. In light of the above, the composition of the Supervisory Board was as follows:

- Ewa Sibrecht-Ośka – Chairwoman of the Supervisory Board,
- Przemysław Cieszyński – Vice-chairman of the Supervisory Board,
- Mariusz Obszyński – Secretary of the Supervisory Board,
- Arkadiusz Grabalski – Supervisory Board Member,
- Zygmunt Kwiatkowski – Supervisory Board Member,
- Maciej Lipiec – Supervisory Board Member,
- Waldemar Maj – Supervisory Board Member,
- Sławomir Stelmasiak – Supervisory Board Member.

The total value of remunerations given by the Company to all Supervisory Board Members fulfilling their functions in 2012 amounted to 868 thousand PLN.

Detailed information on the amounts of remunerations paid to individual Supervisory Board Members can be found in the section II.40.5.

Detailed information about CIECH S.A. Supervisory Board Members is presented below.

Name and surname	**Ewa Sibrecht-Ośka**
Position	**Chairwoman of the Supervisory Board of CIECH S.A. from 22 October 2009, a Supervisory Board Member since 14 September 2009.** **Does not conduct competitive activity relative to CIECH S.A.**
Qualifications	Graduate of the Faculty of Law of the University of Łódź. Legal advisor since 1994, completed her advisor application in Warsaw.
Experience	1991-2001 employed at the legal department of the Ministry of Finance. 1995-1996 Law Offices of Baker McKenzie 1998-2001 Cavere Law Offices 2000-2011 Office of the European Integration Committee

Name and surname	Ewa Sibrecht-Ośka
	2001-2006 Nafta Polska S.A. 2006-2007 Legal advisor at Korporacja Polskie Stocznie S.A. 2007 – Legal advisor at the City Hall of the Capital City of Warsaw, Shareholder Supervision Department, and at Progres Services Sp. z o.o. 2007- Minister's Advisor at the Department of Shareholder Supervision and Privatization at the Ministry of Treasury; since May 2009, Director of the Analysis Department at the Ministry of Treasury. She is currently Director of Department Owernship Supervision at the Ministry of Treasury. Mrs. Ewa Sibrecht-Ośka took part in work on drafts of the act on tax consulting and the act on compensation proceedings in entities of particular significance to the Polish shipbuilding industry and was involved in preparing the LOTOS S.A. Group for their debut on the stock market. In addition, she was involved in the privatization process of the Wielka Synteza Chemiczna sector (Z. Ch. "Organika-Sarzyna" S.A. and ZACHEM S.A.) – project for preparation of the sale of company shares to investors, including the acceptance of pre-privatization analyses, agreements with privatized companies, and negotiations of agreements with investors, including matters of public aid.

Name and surname	Przemysław Cieszyński
Position	**Vice-Chairman of the Supervisory Board of CIECH S.A. since 12 July 2011, a Supervisory Board Member since 21 June 2010.** **Does not conduct competitive activity relative to CIECH S.A.**
Qualifications	Graduate of the Information Technology and Management Faculty of the Wrocław University of Technology; Master of Science Engineer specializing in informational systems. Fullbright scholarship holder – studied Management at Vanderbilt University in Nashville (USA) – MBA degree.
Experience	1990-1993 consultant at the IT Department of URM. 1994-1998 project leader and systems(IT) manager at Tricon Restaurants International Warsaw (a division of PepsiCo) 1998-2003 Senior Manager at Accenture Warszawa – concerned with financial services and matters of strategy. 2003-2004 Executive Director at CII Group Warsaw (currently Kolaja and Partners). 2004-2005 Board Member, Financial Director of the Banking Services Division at Polcard S.A. March-November 2005 Director of the Restructuring Department at Telewizja Polska S.A. Since December 2005, a partner in Raitaro Consulting, a company rendering complete management consulting services.

Name and surname	Arkadiusz Grabalski
Position	**Supervisory Board Member of CIECH S.A. since 21 June 2010.** **Does not conduct competitive activity relative to CIECH S.A.**
Qualifications	A graduate of the Faculty of Law and Administration of the University of Warsaw. Since 1998, he is registered on the list of legal advisors at the Regional Chamber of Legal Advisors in Warsaw.
Experience	In the years 1995-1996, employed at the legal department of the Ministry of Ownership Transformation. From 1996 to 1998, he was employed at Creditanstalt SC G Fund Management S.A. – the company managing NFI Hetman S.A. In the years 1998-2005, he was employed at White & Case, W. Daniłowicz, W. Jurcewicz Law Offices Sp.k. Since 2005, he is a partner at Stolarek & Grabalski Law Offices Sp.k. Mr. Arkadiusz Grabalski specializes in capital market law, M&A transactions, and private equity transactions. A significant part of his practice is concerned with restructuring processes, bankruptcy law, public aid, and legal disputes. He was involved in processes of preparing companies for privatization and selling of privatized company shares to investors. He actively participated in mergers of several banks and other companies, including public companies. He has advised many companies during public offering processes (IPO), as well as during successive issuances of these companies, including issuances of bonds exchangeable for shares. He took part in the process of creating one of the first securitization funds. He represented entrepreneurs in restructuring processes, processes of obtaining financing for investment activity, as well as in important legal disputes.

Name and surname	Zygmunt Kwiatkowski
Position	**Supervisory Board Member of CIECH S.A.; does not conduct competitive activity relative to CIECH S.A.**
Qualifications	A graduate of the Marie-Curie Skłodowska University – Faculty of Mathematics, Physics, and Chemistry (1979). Completed post-graduate studies for bank management staff at the faculty of Economic Sciences at the University of Warsaw (1997). Completed doctorate studies at the Faculty of Organization and Management of the University of Warsaw. Obtained the title of Doctorate Major in Business Administration at the Northwest Columbia University (2004). Completed courses and training in the scope of financial analysis, management, financial instruments, and stock exchange matters.
Experience	In 2002-2006, he fulfilled the functions of President of the Board at Z.A. Puławy. In the years 2012-2011, he was President of the Board of Wiko Company S.A. He currently performs the functions of Vice-President of the Board of Kruszywa Niemce S.A. and conducts his own economic activity in the company Cooperation and Global Consulting Zygmunt Kwiatkowski. He held seats in the supervisory boards of Z.A. Puławy (2001-2002), Z.Ch. Police S.A. (2010), F.S. Holding in Lublin (2002). He is currently Chairman of the Supervisory Board of Z.A.O. A.F.K. in Kiemierowo (Russian Federation) – construction of a wood processing industrial complex and holds a seat on the Supervisory Board of P.P.M.B. Niemce S.A.

Name and surname	Maciej Lipiec
Position	**Supervisory Board Member of CIECH S.A. since 26 April 2012** **Does not conduct competitive activity relative to CIECH S.A.**
Qualifications	Graduate of the Academy of Economics in Cracow (2000), completed the Małopolska School of Public Administration/University of Copenhagen with the degree of Master of Public Administration (MPA), and held a scholarship at the University of Stockholm (School of Business).
Experience	In 2000—2002, he was employed at Commercial Union Financial Services and PTE Open Retirement Fund BPH CU WBK. In 2002 – 2003, he was employed at the Ministry of Economy, Labor, and Social Policy in the EFS Department. In 2003 – 2004, he performed the functions of advisor to the Vice-President of the Council of Ministers, Minister of Economy and Labor at the Ministry of Economy and Labor. In 2004—2005, he was director of the Secretariat of the Vice-President of the Council of Ministers at the Office of the Prime Minister. In 2005—2011, he was employed by Agencja Rozwoju Przemysłu S. A. He is currently performing the functions of President of the Board at Operator ARP Sp. z o.o. He holds the certificates of Project Manager PRINCE2 and Risk Manager. He has held seats on supervisory boards in Krakowskie Zakłady Garbarskie S.A. (2005 – 2006), Operator ARP Sp. z o.o. (2007 – 2011) and Z.E. Elsen S.A. (od 2011).

Name and surname	Waldemar Maj
Position	**Supervisory Board Member of CIECH S.A. since 21 June 2010.** **Does not conduct competitive activity relative to CIECH S.A.**
Qualifications	Graduated from the Faculty of Technical Physics and Applied Mathematics of the Warsaw University of Technology (1980). Obtained the degree of doctor at the Physics Institute of PAN (1989) and an MBA at Harvard Business School in the USA (1996).
Experience	Partner and co-founder of Metropolitan Capital Solutions Sp. z o.o. SKA, a company concerned with strategic consulting and corporate finance (since April 2009). A member of the Supervisory Board of PZU S.A. (since December 2009), chairman of the IPO committee (until May 2010). From September 2007 to June 2008, he was Vice-president of the Board for financial matters of PKN Orlen S.A., responsible for the Finance and Investor Relations Division; Board Member of AB Mazeikiu Nafta and chairman of the Audit Committee of the Supervisory Board of Unipetrol a.s. From April 2005 to August 2007, vice-president of the Board of Bank BGŻ S.A. (recommended by Rabobank), responsible for corporate and treasury banking. From July 2002 to March 2005, a Board Member, and subsequently the president of the stock exchange bank DZ Bank Polska S.A. During the years 2000-2002, senior associate at the American strategic consulting company McKinsey & Company in Warsaw. During the years 1996-2000 senior investment officer at International Finance Corporation (World Bank Group) in Washington. In the years 1991-1994 advisor to the Minister of Finance and president of the Foundation for the Development of the Financial System; chairman of the Supervisory Board of Bank Gdański S.A. (1993-1994). In the years 1981-1991, assistant, and subsequently assistant professor at the Institute of Physics at PAN; postdoctoral fellow at Kamerlingh Onnes Laboratorium in Lejda, Netherlands. Distinguished by the Officer's Cross of the Order of Polonia Restituta.

Name and surname	Mariusz Obszyński
Position	**Supervisory Board Member of CIECH S.A. since 19 January 2012** **Does not conduct competitive activity relative to CIECH S.A.**
Qualifications	Graduate of the Marie-Curie Skłodowska University in Lublin, Faculty of Economics.
Experience	Employed, among other places, at PGNiG S.A. as management advisor, director of the amalgamation and takeover department at Agencja Rozwoju Przemysłu S.A. and director of the shareholder supervision department at the Nafta Polska S.A. company, employed at the companies PGE Energia Jądrowa S.A. and PGE EJ1 Sp. z o.o. as Director of the Capital Department He held seats on the supervisory boards of the following entities: Rafineria Czechowice S.A. with headquarters in Czechowice-Dziedzice, Zakłady Chemiczne Police S.A. with headquarters in Police, Zakłady Azotowe in Tarnów-Mościce S.A. with headquarters in Tarnów and the LOTOS S.A. group with headquarters in Gdańsk and Przedsiębiorstwo Eksploatacji Rurociągów Naftowych Przyjaźń S.A.. Since 2012 a member of the Board of Przedsiębiorstwo Eksploatacji Rurociągów Naftowych Przyjaźń S.A.

Name and surname	Sławomir Stelmasiak
Position	Supervisory Board Member of CIECH S.A. since 14 September 2009. **Does not conduct competitive activity relative to CIECH S.A.**
Qualifications	Graduate of the Faculty of Chemistry of the A. Mickiewicz University in Poznań. Completed post-graduate studies in mediation and negotiation (Poznań School of Social Sciences), internal audits (Higher School of Commerce and Accounting in Poznań) and doctorate studies at the Faculty of Management of the Poznań University of Economics. In 1997, he passed the exam for members of supervisory boards of State Treasury companies.
Experience	Since 2003, a member of the Supervisory Board of MPK Poznań Sp. z o.o. Participated in numerous training seminars, placement programs, and conferences on the subject of environmental protection, financing of investments in environmental protection, the energy market, and renewable energy sources. Since 1988, he has conducted individual economic activity as a shareholder and stock-holder in companies subject to commercial law. He has taken part in investment projects as a member of management and supervisory bodies, in the branches of: commerce, real estate, extraction, and chemistry. Since 1998, he is a member of the governing body of the Wielkopolska Association of Commerce and Services. A member of the Financial Council, advisor to the rector of the Poznań Trade and Commerce College. In the years 2008-2010 at GK Enea – advisor to Board on matters of renewable energy sources.and President of the Board of BHU S.A. (Enea Group). Currently President of the Stomil-Poznań S.A.

Committees of the Supervisory Board of CIECH S.A.

The following Committees function within the framework of the Supervisory Board of CIECH S.A.: Audit Committee of the Supervisory Board of CIECH S.A. and Remuneration Committee of the Supervisory Board of CIECH S.A.

Audit Committee

The Audit Committee of the Supervisory Board of CIECH S.A. was appointed by Resolution No. 57/IV/2005 of 16 February 2005.

According to the Audit Committee Regulations, the tasks of the Audit Committee include, in particular:

- ✓ monitoring of the financial reporting process,
- ✓ monitoring of the effectiveness of the internal control system,
- ✓ monitoring of the effectiveness of the internal auditing system,
- ✓ monitoring of the effectiveness of the risk management system,
- ✓ monitoring of the performance of financial review activities,
- ✓ monitoring of the independence of the expert auditor and entity authorized for inspection of the Company's financial reports.

The Audit Committee of the Supervisory Board of CIECH S.A. submits an annual report on its activity, which is part of the Report on the activity of the Supervisory Board of CIECH S.A., provided to Shareholders during the Ordinary General Meeting of CIECH S.A.

As of the day of 1 January 2012, the Audit Comittee of the Supervisory Board of CIECH S.A. functioned in the following composition:

- Waldemar Maj – Chairman
- Przemysław Cieszyński
- Krzysztof Salwach
- Sławomir Stelmasiak

On 19 January 2012, Mr. Krzysztof Salwach was dismissed from the Supervisory Board of CIECH S.A.

On 8 February 2012, the Supervisory Board of CIECH S.A. appointed Mr. Mariusz Obszyński as a member of the Audit Committee with Resolution no. 32/VII/2012.

In relation to the above, as of 8 February 2012, the Audit Committee of the Supervisory Board of CIECH S.A. performed its functions in the following composition:

- Waldemar Maj – Chairman,
- Przemysław Cieszyński,
- Mariusz Obszyński,
- Sławomir Stelmasiak.

Remuneration Committee of the Supervisory Board of CIECH S.A.
The Remuneration Committee was appointed by Resolution No. 66/IV/2005 of the Supervisory Board of CIECH S.A. According to the Remuneration Committee Regulations, the primary task of the Committee is to advise the Supervisory Board on matters related to the establishment of the principles and amounts of remuneration for the Company Board members of CIECH S.A.

In particular, the Committee's tasks include:

- presenting the Supervisory Board with proposals in the scope of the principles of remuneration for Company Board members of CIECH S.A., which should account for all forms of remuneration, in particular as regards: base remuneration, a remuneration system based on results, retirement system, and severance pay;
- presenting the Supervisory Board with proposals in the scope of amounts of remuneration for each member of the Company Board of CIECH S.A.;
- presenting the Supervisory Board with drafts of agreements regulating the performance of responsibilities by the members of the Company Board of CIECH S.A.;
- discussion (with or without the involvement of the Company Board) of all problems or reservations that may arise in matters related to the remuneration of members of the Company Board of CIECH S.A.;
- consideration of all other matters to which the Committee or Supervisory Board has directed attention;
- informing of the Supervisory Board of all significant matters in the general context of the Committee's activity.

The Remuneration Committee of the Supervisory Board of CIECH S.A. submits an annual report on its activity, which is part of the Report on the activity of the Supervisory Board of CIECH S.A., provided to Shareholders during the Ordinary General Meeting of CIECH S.A.

As of 1 January 2012, the composition of the Remuneration Committee was as follows:

- Arkadiusz Grabalski,
- Jacek Goszczyński.

In relation to the dismissal of Mr. Jacek Goszczyński from the Supervisory Board, the composition of the Remuneration Committee was as follows:

- Arkadiusz Grabalski,
- Zygmunt Kwiatkowski.

29.11 Information concerning agreements signed between the issuer and persons in management positions, providing for compensation in the event of their resignation or dismissal from their position without just cause or when their dismissal takes place as a result of the issuer's merging through a takeover

In the case of dismissal of Board Members from their positions, they are entitled to a one-time cash severance package that does not exceed six months of remuneration. The non-competition agreement with Board Members after the termination of the employment relationship provides for payment of damages in the amount of 100% of monthly remuneration for a period that does not exceed 12 months.

30 Information required in connection with the issuance of foreign bonds, according to the Offering Memorandum

The information required by the Offering Memorandum are presented in the following sections of this report:

1) Operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition and liquidity and capital resources – section I.5, I.6 and a I.8.
2) Description of material commitments and contingent liabilities – section II.34
3) Description of critical accounting policies – section II.2.
4) Description of the business – section I.6.
5) Description of management of Ciech S.A. – section I.29.10
6) Information about the shareholders of the parent company Ciech SA – section I.29.3
7) Description of all material affiliate transactions - section II.40.
8) Indebtedness and material financing arrangements – section I.8 and II.27.
9) Description of all material contractual arrangements including material debt instruments – section I.8 and II.27.
10) Description of material risk factors – section I.4 and II.36.
11) Information about the recent developments in the business of Ciech S.A. and its subsidiaries – section I.2 and II.40.

II. THE CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2012

CONSOLIDATED INCOME STATEMENT OF THE CIECH GROUP

		01.01-31.12.2012			01.01-31.12.2011*		
PLN '000	*Note*	Continuing operations	Discontinued operations	TOTAL	Continuing operations	Discontinued operations	TOTAL
Sales revenues	*5*	3 386 905	991 047	4 377 952	2 952 752	1 221 734	4 174 486
Cost of sales	*6*	(2 874 173)	(907 284)	(3 781 457)	(2 480 285)	(1 133 522)	(3 613 807)
Gross profit/loss on sales		**512 732**	**83 763**	**596 495**	**472 467**	**88 212**	**560 679**
Other operating income	*7*	85 181	46 110	131 291	104 700	12 322	117 022
Selling costs	*7*	(222 146)	(54 229)	(276 375)	(216 863)	(59 156)	(276 019)
General and administrative expenses	*7*	(154 379)	(48 037)	(202 416)	(151 499)	(62 097)	(213 596)
Other operating expenses	*7*	(170 119)	(275 219)	(445 338)	(44 549)	(24 822)	(69 371)
Operating profit/loss		**51 269**	**(247 612)**	**(196 343)**	**164 256**	**(45 541)**	**118 715**
Financial income	*7*	6 641	3 455	10 096	38 089	(4 599)	33 490
Financial expenses	*7*	(284 632)	12 948	(271 684)	(116 111)	(27 510)	(143 621)
Net financial income/expenses		**(277 991)**	**16 403**	**(261 588)**	**(78 022)**	**(32 109)**	**(110 131)**
Share of profit of equity-accounted investees		801	(57)	744	132	(86)	46
Profit/loss before tax		**(225 921)**	**(231 266)**	**(457 187)**	**86 366**	**(77 736)**	**8 630**
Income tax	*8*	10 755	11 384	22 139	(7 487)	12 073	4 586
Net profit/loss		**(215 166)**	**(219 882)**	**(435 048)**	**78 879**	**(65 663)**	**13 216**
Profit/loss on disposal of discontinued operations	*9*	-	(2 663)	(2 663)	-	(11 715)	(11 715)
Net profit/loss for the financial year		**(215 166)**	**(222 545)**	**(437 711)**	**78 879**	**(77 378)**	**1 501**
including:							
Net profit/loss attributable to shareholders of the parent company		(210 577)	(220 007)	(430 584)	75 898	(74 739)	1 159
Net profit/loss attributed to non-controlling interest		(4 589)	(2 538)	(7 127)	2 981	(2 639)	342
Earnings per share (in PLN):							
Basic	*10*	(4,00)	(4,17)	(8,17)	1,61	(1,59)	0,02
Diluted	*10*	(4,00)	(4,17)	(8,17)	1,61	(1,59)	0,02

** Restated.*

The consolidated income statement of the Ciech Group should be analysed together with the notes, which constitute an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE CIECH GROUP

PLN '000	01.01.-31.12.2012			01.01.-31.12.2011*		
	Continuing operations	Discontinued operations		Continuing operations	Discontinued operations	
Net profit/loss for the financial year	**(215 166)**	**(222 545)**	**(437 711)**	**78 879**	**(77 378)**	**1 501**
Other comprehensive income before tax						
Currency translation differences (foreign companies)	12 727	-	12 727	(16 056)	-	(16 056)
Cash flow hedge	13 373	-	13 373	(9 471)	-	(9 471)
Net currency translation differences (investments in foreign companies)	(19 852)	-	(19 852)	31 955	-	31 955
Income tax attributable to other comprehensive income	(3 139)	-	(3 139)	1 799	-	1 799
Other comprehensive income net of tax	**3 109**	**-**	**3 109**	**8 227**	**-**	**8 227**
TOTAL COMPREHENSIVE INCOME	**(212 057)**	**(222 545)**	**(434 602)**	**87 106**	**(77 378)**	**9 728**
Comprehensive income including attributable to:	**(212 057)**	**(222 545)**	**(434 602)**	**87 106**	**(77 378)**	**9 728**
Shareholders of the parent company	(210 366)	(220 007)	(430 373)	86 942	(74 739)	12 203
Non-controlling interest	(1 691)	(2 538)	(4 229)	164	(2 639)	(2 475)

** Restated.*

The consolidated statement of comprehensive income of the Ciech Group should be analysed together with the notes, which constitute an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CIECH GROUP

ASSETS (PLN '000)	*Note*	31.12.2012	31.12.2011*	31.12.2010*
Property, plant and equipment	*12*	2 099 395	2 218 720	2 065 529
Right of perpetual usufruct	*13*	57 134	56 278	60 968
Intangible assets, including:	*14*	129 167	181 121	156 499
- goodwill	*15*	*60 455*	*64 149*	*51 273*
Investment property	*16*	113 018	87 487	87 667
Non-current receivables	*17*	65 534	72 227	32 521
Investments in associates and jointly-controlled entities measured under the equity method	*18*	4 971	4 655	4 344
Other long-term investments	*19*	44 661	40 915	49 593
Deferred income tax assets	*8*	31 884	24 489	9 801
Total non-current assets		**2 545 764**	**2 685 892**	**2 466 922**
Inventory	*20*	279 126	356 619	305 653
Short-term investments	*22*	946	1 505	533
Income tax receivables	*21*	4 086	8 800	8 542
Trade and other receivables	*21*	705 136	819 558	722 992
Cash and cash equivalents	*23*	81 177	145 805	177 077
Non-current assets held for sale	*9*	111 800	57 017	255 988
Total current assets		**1 182 271**	**1 389 304**	**1 470 785**
Total assets		**3 728 035**	**4 075 196**	**3 937 707**
EQUITY AND LIABILITIES (PLN '000)				
Share capital		287 614	287 614	164 115
Share premium		507 835	508 122	151 328
Cash flow hedge		2 722	(8 111)	(439)
Other reserve capitals		78 521	78 521	78 521
Net currency translation differences (investments in foreign companies)		(9 055)	11 396	(20 559)
Currency translation differences (foreign companies)		(52 967)	(62 796)	(49 419)
Retained earnings		71 330	502 405	501 344
Equity attributable to shareholders of the parent	***25***	**886 000**	**1 317 151**	**824 891**
Non-controlling interest		(5 812)	(2 020)	32 619
Total equity		**880 188**	**1 315 131**	**857 510**
Liabilities due to loans, borrowings and other debt instruments	*26*	1 291 660	190 916	495 343
Liabilities due to finance sale-and-lease-back **	*33*	204 231	158 105	128 734
Finance lease liabilities	*33*	3 235	11 594	17 541
Other non-current liabilities	*26*	122 213	88 104	84 921
Employee benefits	*30*	20 560	63 163	66 391
Provisions (other long-term)	*31*	40 422	52 666	62 002
Deferred tax liability	*8*	104 170	120 666	108 052
Total non-current liabilities		**1 786 491**	**685 214**	**962 984**
Overdraft facility	*23*	-	6 744	-
Loans, borrowings and other debt instruments	*32*	6 543	1 017 663	1 119 222
Liabilities due to finance sale-and-lease-back **	*33*	48 740	803	-
Finance lease liabilities	*33*	7 855	12 586	10 317
Trade and other liabilities	*32*	768 404	955 833	898 458
Income tax liabilities	*32*	23 749	21 930	36 147
Provisions (short-term provisions for employee benefits and other provisions)	*30,31*	172 474	26 221	31 515
Liabilities related to assets classified as held for sale	*9*	33 591	33 071	21 554
Total current liabilities		**1 061 356**	**2 074 851**	**2 117 213**
Total liabilities		**2 847 847**	**2 760 065**	**3 080 197**
Total equity and liabilities		**3 728 035**	**4 075 196**	**3 937 707**

**Restated.*

The consolidated statement of financial position of the Ciech Group should be analysed together with the notes, which constitute an integral part of the consolidated financial statements.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY OF THE CIECH GROUP

PLN '000	Share capital	Share premium	Cash flow hedge	Other reserve capitals	Net currency translation differences (investments in foreign companies)	Currency translation differences (subsidiaries)	Retained earnings	**Equity attributable to parent's shareholders**	Non-controlling interest	**Total equity**
Equity as at 01/01/2012 *	**287 614**	**508 122**	**(8 111)**	**78 521**	**11 396**	**(62 796)**	**502 405**	**1 317 151**	**(2 020)**	**1 315 131**
Share Premium decrease	-	(287)	-	-	-	-	-	**(287)**	-	**(287)**
Dividend	-	-	-	-	-	-	-	**-**	(54)	**(54)**
Change in the Group's structure	-	-	-	-	-	-	(491)	**(491)**	491	**-**
Total comprehensive income for the period	**-**	**-**	**10 833**	**-**	**(20 451)**	**9 829**	**(430 584)**	**(430 373)**	**(4 229)**	**(434 602)**
Net profit / loss	-	-	-	-	-	-	(430 584)	**(430 584)**	(7 127)	**(437 711)**
Other comprehensive income	-	-	10 833	-	(20 451)	9 829	-	**211**	2 898	**3 109**
Equity as at 31/12/2012	**287 614**	**507 835**	**2 722**	**78 521**	**(9 055)**	**(52 967)**	**71 330**	**886 000**	**(5 812)**	**880 188**

** Restated.*

The consolidated statement of changes in consolidated equity of the Ciech Group should be analysed together with the notes, which constitute an integral part of the consolidated financial statements.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY OF THE CIECH GROUP

PLN '000	Share capital	Share premium	Cash flow hedge	Other reserve capitals	Net currency translation differences (investments in foreign companies)	Currency translation differences (subsidiaries)	Retained earnings	**Equity attributable to parent's shareholders**	Non-controlling interest	**Total equity**
Equity as at 01/01/2011										
Previously reported	**164 115**	**151 328**	**(439)**	**78 521**	**(20 559)**	**(49 419)**	**494 304**	**817 851**	**32 619**	**850 470**
Accounting policy change	-	-	-	-	-	-	7 040	**7 040**	-	**7 040**
Equity (restated) as at 01/01/2011	**164 115**	**151 328**	**(439)**	**78 521**	**(20 559)**	**(49 419)**	**501 344**	**824 891**	**32 619**	**857 510**
Share issue	123 499	-	-	-	-	-	-	**123 499**	-	**123 499**
Share Premium	-	356 794	-	-	-	-	-	**356 794**	-	**356 794**
Change in the Group's structure	-	-	-	-	-	1 038	(1 274)	**(236)**	(32 164)	**(32 400)**
Total comprehensive income for the period	**-**	**-**	**(7 672)**	**-**	**31 955**	**(14 415)**	**2 335**	**12 203**	**(2 475)**	**9 728**
Net profit / loss	-	-	-	-	-	-	1 506	**1 506**	(5)	**1 501**
Other comprehensive income	-	-	(7 672)	-	31 955	(14 415)	829	**10 697**	(2 470)	**8 227**
Equity as at 31/12/2011*	**287 614**	**508 122**	**(8 111)**	**78 521**	**11 396**	**(62 796)**	**502 405**	**1 317 151**	**(2 020)**	**1 315 131**

** Restated.*

The consolidated statement of changes in consolidated equity of the Ciech Group should be analysed together with the notes, which constitute an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT OF THE CIECH GROUP

PLN '000	*Note*	**01.01-31.12.2012**	**01.01-31.12.2011***
Cash flows from operating activities			
Net profit (loss) for the period		**(437 711)**	**1 501**
Adjustments			
Amortisation/depreciation		236 677	222 109
Recognition / reversal of impairment allowances		210 678	(2 161)
Foreign exchange gain / loss		45 430	(10 455)
Investment property revaluation		(27 248)	-
Profit / loss on investment activities		4 629	11 543
Profit / loss on disposal of non-current assets		938	1 318
Dividends and interest		142 568	100 202
Income tax		(21 354)	11 092
Profit/ loss on the settlement of construction contracts (voids)		(6 845)	(38 967)
Share of profit / loss on equity accounted investees		(744)	(46)
Cash from operating activities before changes in working capital and provisions		**147 018**	**296 136**
Change in receivables	*24*	69 587	(135 894)
Change in inventory	*24*	45 209	(90 892)
Change in current liabilities	*24*	(178 999)	48 401
Change in provisions and employee benefits	*24*	109 516	(21 663)
Cash generated from operating activities		**192 331**	**96 088**
Interest paid		(103 628)	(93 667)
Inflows from construction contracts (voids)		7 972	11 166
Income tax paid		406	(33 434)
Other adjustments		875	(7 523)
Net cash from operating activities		**97 956**	**(27 370)**
Cash flows from investment activities			
Inflows (positive)		**31 202**	**248 085**
Disposal of a subsidiary		3 924	94 275
Disposal of intangible assets and property, plant and equipment		16 049	28 658
Disposal of financial assets		4 271	2 143
Dividends received		1 461	1 598
Interest received		2 875	567
Repayment of loans		500	120 611
Other inflows		2 122	233
Outflows (negative)		**(318 256)**	**(303 711)**
Acquisition of a subsidiary (after deduction of acquired cash)		(1 019)	(5 115)
Acquisition of intangible assets and property, plant and equipment		(297 961)	(287 519)
Research and development expenditures		(1 615)	(10 554)
Hedging deposit		(13 936)	-
Other		(3 725)	(523)
Net cash from investment activities		**(287 054)**	**(55 626)**
Cash flows from financial activities			
Inflows (positive)		**1 513 514**	**477 483**
Net inflows from issue of shares and other equity instruments, and equity contributions		-	435 994
Proceeds from loans and borrowings		79 905	18 210
"Silent partnership" contribution		50 083	-
Subsidies received		40 724	20 628
Issue of debt securities		1 342 658	-
Other financial inflows		144	2 651
Outflows (negative)		**(1 381 594)**	**(458 182)**
Dividends paid to non-controlling interest		(45)	(1 499)
Repayment of loans and borrowings		(1 023 646)	(443 407)
Redemption of debt seucurities		(300 000)	-
Payments of financial lease liabilities (including fees related to electrical power and heating plant lease)		(57 840)	(13 160)

PLN '000	*Note*	**01.01-31.12.2012**	**01.01-31.12.2011***
Other financial outflows		(63)	(116)
Net cash from financial activities		**131 920**	**19 301**
Total net cash flows		**(57 178)**	**(63 695)**
Cash as at the beginning of period		**149 044**	**208 394**
Impact of foreign exchange differences		(949)	4 345
Cash as at the end of period	***23***	**90 917**	**149 044**

* *Restated.*

The consolidated cash flow statement should be analysed together with the notes, which constitute an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP

1 General Information

These consolidated financial statements of the Ciech Group for the period from January 1, 2012 to December 31, 2012, including comparative data, were approved by the Management Board of CIECH S.A. on April 19, 2012.

CIECH Spółka Akcyjna, with its company offices in Warsaw, ul. Puławska 182, registered under the number 0000011687 at the District Court for the Capital City of Warsaw, 13th Commercial Department of the National Court Register, is the parent entity in the Ciech Group.

As at December 31, 2012 the State Treasury had a significant shareholding in CIECH S.A. enabling it to control the company.

The Ciech Group is the leader of chemical industry in Poland, a group which comprises domestic and foreign production, trade and service companies conducting their operations within the chemical sector. The Group is a major domestic manufacturer in the chemical industry, mainly focused on the markets of Central and Eastern Europe, however, also operating in Western Europe and other regions of the world. The Group also deals in trading and distribution of chemical goods produced by manufacturers from outside of the Ciech Group.

The Management Board of CIECH S.A. declares that to the best of its knowledge the consolidated financial statements for 2012, including comparative data, have been prepared in accordance with the generally acceptable accounting principles and that they represent a true, accurate and fair reflection of the Ciech Group's financial position and the results of operations. Furthermore, the Management Board of CIECH S.A. declares that the financial statements for 2012 contain a true image of the Group's developments, achievements, and condition, including the description of major risks and threats.

The Management Board of CIECH S.A. declares that the following entity was chosen in accordance with the binding legal regulations as the independent auditor of the Group's financial statements for the period from January 1, 2012 to December 31, 2012 : KPMG Audyt Sp. z o.o., with its registered office in Warsaw, entered into the list of entities authorised to audit financial statements under the registry no. 458, kept by the National Chamber of Statutory Auditors. The above entity, including the certified auditors performing the audit, satisfy all the conditions required in order to issue an unbiased and independent opinion and audit report, pursuant to the applicable legal regulations.

2 Basis for preparation of the consolidated financial statements

The Management Board statement of compliance with International Financial Reporting Standards
The Management Board of CIECH S.A. declares that these consolidated financial statements for the current and comparative reporting period have been prepared in compliance with International Financial Reporting Standards approved by the European Union and related interpretations issued by the European Commision in the form of Regulations (IFRS) .

These consolidated financial statements have been prepared based on individual financial statements of the Ciech Group's parent company and its subsidiaries, prepared from the accounting ledgers maintained in accordance with the applicable accounting principles of their respective coutries of operation. For the purpose of these consolidated financial statements, adjustments have been made to the accounting policies used in the preparation of the above-mentioned individual financial statements for them to be aligned with International Financial Reporting Standards.

Uniform accounting policies, established by the parent company, CIECH S.A., are used by all entities of the Ciech Group. The calendar year represents the fiscal year of all of the Ciech Group's companies.
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The consolidated income statement of the Ciech Group is prepared in the cost by function format. The Group's consolidated statement of cash flows is prepared under the indirect method.

The Polish zloty (PLN) is the reporting currency of these consolidated financial statements. Unless stated otherwise, all financial data in these consolidated financial statements has been presented in thousands of Polish zlotys (PLN '000).. The functional currency of the parent entity CIECH S.A. is Polish zloty .

As at 31, December 2012 the average EURO exchange rate of the National Bank of Poland was 4.0882 zł, The average EURO exchange rate of the National Bank of Poland as at 31st, Decemeber 2011 equalled 4.4168

The items of income and expense were translated into EURO at the exchange rate representing the average of rates announced by the National Bank of Poland for the last day of each month from January to December.. The exchange rate is 4.1736 for the current reporting period , whereas for the comparative reporting period is 4.1401.

The functional currencies for the signifcant foreign subsidiaries are as follows:

- Soda Deutschland Ciech Group and the Ciech Group Financing AB –functional currency- EUR; reporting currency in the consolidated financial statements of the Ciech Group – PLN (EUR rate as at reporting date 31 December 2012 – 4.0882 PLN).
- S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. – functional currency RON; reporting currency in consolidated financial statemets of the Ciech Group - PLN (RON rate as at reporting date 31 December 2012 roku - 0.9197 PLN).

The preparation of financial statements in conformity with International Financial Reporting Standards requires the Management Board to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Detailed information on estimates made is provided in the section II.2.21 "Estimates adopted in the preparation of the financial statements" of these consolidated financial statements.

These consolidated financial statements have been prepared on a going concern basis.

New Standards and amendments to Standards which do not have a material effect on these consolidated financial statements

The following new and amended IFRSs were also applied in the preparation of these consolidated financial statements. The application of these new and amended Standards had no material impact on the amounts recognised in either current or comparative period, however, they may have effect on the settlement of future transactions or contracts.

Standards and Interpretations adopted for the first time 2012

Amendments to IFRS 7 "Financial Instruments: Disclosures" – Transfers of financial assets(effective for annual periods beginning on or after July 1, 2011). The amendments were endorsed by the EU on November 22, 2011 and are intended to improve the quality of information where a financial asset is transferred but not fully derecognised due to not meeting derecognition criteria; and also where a financial asset was derecognised but is still used by the entity.

Above amendments to Standards do not have a material effect on accounting policy applied by Ciech Group

Standards and interpretations issued and endorsed by the EU but not yet effective

The consolidated financial statements of Ciech Group was approved whithout applying the following standards, amendments to standards and interpretations which were endorsed and published by the EU but are yet not effective.

Amendments to IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters" applied for periods beginning on or after 1 January 2013. The Amendments add an exemption to IFRS 1 that an entity can apply at the date of transition to IFRSs after being subject to severe hyperinflation. The exemption allows an entity to measure assets and liabilities held before the functional currency normalization date at fair value and use that fair value as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position

Amendments to IFRS 1 First-time adopters Government Loans, applied for periods beginning on or after 1 January 2013. The amendments add a new exception to retrospective application of IFRS. A first-time adopter of IFRS now applies the measurement requirements of financial instruments standards (IAS 39 or IFRS 9) to a government loan with a below-market rate of interest prospectively from the date of transition to IFRS. Alternatively, a first-time adopter may elect to apply the measurement requirements retrospectively to a government loan, if the information needed was obtained when it first accounted for that loan. This election is available on a loan-by-loan basis.

Amendments to IAS 1 Presentation of Financial Statements - amends the presentation of items of other comprehensive income and are are applied retrospectively for annual periods beginning on or after 1 July 2012, with early application permitted. The amendments require:

- that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects then the aggregated tax amount should be allocated between these sections.
- change the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income, however, other titles are also allowed to be used.

Amendments to IAS 19 „Employee Benefits" – applied for periods beginning on or after 1 January 2013. Changes contribute to significant improvements through:

(1) remove the possibility to defer actuarial profit and loss, known as “corridor method”, contributing to the improvement of comparability and fair view; (2) improvement of presentation of assets and liabilities changes resulting from particular employee benefits, including by requiring the presentation of changes resulting from revaluation in other comprehensive income, therby separating those changes from changes resulting from the normal operations of the entity; (3) increased disclosure requirements on the characteristics of defined benefit plans, therby improving the quality of information about the characteristics of defined benefit plan and the entiy’s risks associated with participation in these benefits. The Group is currently analyzing the impact of the new Standart, but does not expect to have material impact on its consolidated financial statements.

Amendments to IFRS 7 „Financial Instruments: Disclosures” – Offsetting Financial Assets and Financial Liabilities, applied for periods beginning on or after 1 January 2013. The amendments require disclosure of all recognized financial instruments that have been offset in accordance with paragraph 42 of IAS. The amendments also require disclosure of recognized financial instruments that give the right to set off in accordance with the agreement or similar agreements, even if thay are not offset in accordance with IAS 32.

IFRS 13 „ Fair Value Measurement ” - applied for periods beginning on or after 1 January 2013. IFRS 13 defines fair value, establishes a framework for measuring fair value. Nevertheless, IFRS 13 does not change requirements regarding which items should by measured or disclosed at fair value. The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements.

IFRIC Interpretation 20 „Stripping Costs in the Production Phase of a Surface Mine” - applied for periods beginning on or after 1 January 2013. The Interpretation set, that stripping costs in the production phase of a surface mine shall be accounted for as an addition to, or as an enhancement of, an existing asset and shall be depreciated over the expected usufull life of recognized resources accessible by stripping (using the metod of production unit unless other method is more appropriate).

IAS 12 Income taxes - Deferred Tax: Recovery of Underlying Assets - applied for periods beginning on or after 1 January 2013. The amendments introduce a rebuttable presumption that the carrying value of investment property measured using the fair value model would be recovered solely by sale. Management’s intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset’s economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted.

Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities - applied for periods beginning on or after 1 January 2014. The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

IFRS 10 Consolidated Financial Statements- applied for periods beginning on or after 1 January 2014. IFRS 10 provides a new single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when (1) it is exposed or has rights to variable returns from its involvement with the investee, (2) has the ability to affect those returns through its power over that investee and (3) there is a link between the power and returns.
The new standard also includes disclosure requirements and requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008).

IFRS 11 Joint Arrangements - applied for periods beginning on or after 1 January 2014. IFRS 11, Joint Arrangements, supersedes and replaces IAS 31, Interest in Joint Ventures. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10. Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:

- a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement.
- a joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement.

IFRS 11 effectively carves out from IAS 31, those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations, under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, must be accounted for using the equity method. Proportionate consolidation is no longer possible.

IFRS 12 Disclosure of Interests in Other Entities - applied for periods beginning on or after 1 January 2014. IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

IAS 27 (revised in 2011) "Separate Financial Statements" - applied for periods beginning on or after 1 January 2014. IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some minor clarifications. As well, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been carried over into IFRS 10 Consolidated Financial Statements.

IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures" – applied for periods beginning on or after 1 January 2014.

There are limited amendments made to IAS 28 (2008):

- Associates and joint ventures held for sale. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.
- Changes in interests held in associates and joint ventures. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities – applied for periods beginning on or after 1 January 2013.
The amendments:

- define the date of initial application of IFRS 10 as the beginning of the annual period in which the standard is applied for the first time (1 January 2013 unless early adopted). At this date, an entity tests whether there is a change in the consolidation conclusion for its investees;
- limit the restatement of comparatives to the period immediately preceding the date of initial application; this applies to the full suite of standards. Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged;
- requires disclosure of the impact of the change in accounting policy only for the period immediately preceding the date of initial application (i.e. disclosure of impact on the current period is not required);
- will remove the requirement to present comparative information disclosures related to unconsolidated structured entities for any periods before the first annual period for which IFRS 12 is applied.

Standarts and Interpretations adopted by the IASB, but not yet approved by the EU

IFRS as adopted by the EU do not differ significantly from the regulations adopted by the IASB, with the exception of the following standards, amendments to standards and interpretations, which as at 19 April 2013 had not yet been approved for application:

IFRS 9 Financial Instruments – applied for periods beginning on or after 1 January 2015.
New Standard replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement, about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable.
Upon initial recognition, financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, except that for an investment in an equity instrument which is not held for trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. No amount recognised in OCI is ever reclassified to profit or loss at a later date.

Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures - applied for periods beginning on or after 1 January 2015.

The 2010 additions to IFRS 9 replace the guidance in IAS 39 Financial Instruments: Recognition and Measurement, about classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities.
The Standard retains almost all of the existing requirements from IAS 39 on the classification and measurement of financial liabilities and for derecognition of financial assets and financial liabilities.
The Standard requires that the amount of change in fair value attributable to changes in the credit risk of a financial liability designated at initial recognition as fair value through profit or loss, be presented in other comprehensive income (OCI), with only the remaining amount of the total gain or loss included in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss.

Amounts presented in OCI are not subsequently reclassified to profit or loss but may be transferred within equity.
Derivative financial liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are required to be measured at fair value under IFRS 9.

Derivative financial liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are required to be measured at fair value under IFRS 9

Amendments to IFRS 9 (2010) change the disclosure and restatement requirements relating to the initial application of IFRS 9 Financial Instruments (2009) and IFRS 9 Financial Instruments (2010).

The amended IFRS 7 requires to disclose more details about the effect of the initial application of IFRS 9 when an entity does not restate comparative information in accordance with the amended requirements of IFRS 9.
If an entity adopts IFRS 9 on or after 1 January 2013, then it will no longer be required to restate comparative information for periods prior to the date of initial application.
If an entity early adopts IFRS 9 in 2012, then it has a choice either to restate comparative information or to provide the enhanced disclosures as required by the amended IFRS 7.
If an entity early adopts IFRS 9 prior to 2012, then neither restatement of comparative information nor provision of the enhanced disclosures under the amended IFRS 7 are required.

Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – Investment Entities - applied for periods beginning on or after 1 January 2014. The Amendments provide an exception to the consolidation requirements in IFRS 10 and require qualifying investment entities to measure their investments in controlled entities – as well as investments in associates and joint ventures – at fair value through profit or loss, rather than consolidating them.
The consolidation exemption is mandatory (i.e. not optional), with the only exception being that subsidiaries that are considered as an extension of the investment entity's investing activities, must still be consolidated.
An entity qualifies as an investment entity if it meets all of the essential elements of the definition of an investment entity. According to these essential elements an investment entity:

- obtains funds from investors to provide those investors with investment management services;
- commits to its investors that its business purpose is to invest for returns solely from appreciation and/or investment income; and
- measures and evaluates the performance of substantially all of its investments on a fair value basis.

The amendments also set out disclosure requirements for investment entities.

Amendments to International Financial Reporting Standards, 2009-2011

- The Improvements to IFRSs (2009-2011) contains 7 amendments to 5 standards, with consequential amendments to other standards and interpretations. The main changes relate to:
- repeated application of IFRS 1 – a repeated adopter that elects not to apply IFRS 1 has to apply IFRS retrospectively in accordance with IAS 8, as if it had never stopped applying IFRS;
- clarification that first-time adopter of IFRS choosing to apply borrowing costs exemptions should not restate the borrowing cost component that was capitalized under previous GAAP and should account for borrowing cost incurred on or after the date of transition (or an earlier date, as permitted by IAS 23) in accordance with IAS 23;
- clarification that only one comparative period, which is the preceding period, is required to a complete set of financial statements; however if additional comparative information is prepared it should be accompanied by related notes and be in accordance with IFRS;
- clarification that the opening statement of financial position is required only if a change in accounting policy, a retrospective restatement or reclassification has a material effect upon the information in that statement of financial position and except for the disclosures required under IAS 8, other notes related to the opening statement of financial position are no longer required;
- clarification on the classification and accounting of spare parts, stand-by equipment and servicing equipment;

- removal of inconsistencies between IAS 32 and IAS 12 in respect of distributions to holders of an equity instrument and transaction costs of an equity transaction, by clarification that IAS 12 applies to the accounting for income taxes relating to those transactions;
- additional disclosure required of a measure of total assets and liabilities for a particular reportable segment for interim financial reporting.

The Company would not expect the above-mentioned standards, interpretations and amendments to have a material effect on the consolidated financial statements had they been adopted as at the balance sheet date.

Changes in accounting policies and comparative data
From the beginning of 1 January 2012, the Management Board of Ciech SA changed the accounting policy regarding investment property valuation from historical cost to the valuation at fair value and also changed the presentation of origin certificates of electricity obtained during electricity production in cogeneration, which were previously presented as receivables, and after the changes these are presented as inventory.
Amended rules adopted for use in the preparation of financial statements from 1 January 2012 (including comparative information). The impacts of changes in accounting policies on individual items of the statement of financial position and income statement are presented in note II.44.

The remaining accounting policies presented below were consistently applied to all periods presented in these consolidated financial statements.

Accounting Policy
These consolidated financial statements have been prepared on the historical cost basis save for investment property and certain financial instruments recognised at fair value.

2.1 Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Parent. Control occurs when the Group has the power to givern, either directly or indirectly, the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control both existing and potential voting rights exercisable at the reporting date are considered. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Consolidation adjustments

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, as well as the Group's revenues and costs, loss allowances on intragroup doubtful accounts, write-downs on investments, intragroup dividends and intragroup sales of fixed assets are all eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The subsidiaries' acquisition-date net equity amounts are eliminated against the related investment account in the parent company's books to the extent of the Group's share in the share capital of these entities. Consolidation adjustments, depending on their nature, are recorded against appropriate items of equity. Changes in the parent's ownership interest that do not result in a loss of control of the subsidiary are accounted for as equity transactions

2.2 Foreign currency

Financial statements of foreign operations
The parent company's functional currency is the currency in which these consolidated financial statements are presented. Foreign operation subsidiaries producing their financial statements in currencies other than the presentation currency of these consolidated financial statements translate their results of operations as well as financial position into the presentation currency as follows:

- all items of income and expense are translated at exchange rates at the dates of the relevant transactions, although appropriate average rates for the period may be used where such simplified approach would not have a significant effect of the consolidated financial statements
- all assets and liabilities are translated at the exchange rate at the reporting date.
- components of shareholders' equity are translated at historical rates e.g. share capital is translated at the exchange rate at the date of a related business combination, items of income and expense recognized directly in equity are translated at respective transaction-date exchange rates or, for simplicity, at the average exchange rate for the period.

The difference arising from the translation of components of shareholders' equity at exchange rates different form the exchange rate at the reporting date, applied to other balance sheet items, is presented in equity as "currency translation differences (foreign companies). When there is a non-controlling interest in a foreign operation subsidiary, the amount of accumulated exchange differences attributable to the NCI is allocated to and recognised as part of the NCI.

Goodwill related to a foreign operation should be considered to be expressed in the functional currency of the foreign operation and should be translated into the presentation currency of the consolidated financial statements at the exchange rate as at the reporting date. The resulting translation differences are recognised in other comprehensive income and presented within "currency translation differences (foreign companies).

A monetary item receivable from or payable to a foreign operation may for a part of the net investment in the foreign operation if the settlement is neither planned nor likely to occur in the foreseeable future. Foreign exchange gains and losses arising from monetary item that in substance forms part of the net investment in the foreign operation are recognised in the consolidated financial statements in other comprehensive income and are presented within equity as “Net currency translation differences (investments in foreign companies)”.

Upon the loss of control over a foreign operation, the cumulative exchange differences related to that foreign operation, recognized in equity as “Currency translation differences (subsidiaries)” and “Net currency translation differences (investments in foreign companies)” are reclassified to profit or loss .

2.3 Financial instruments

measurement of investments in subsidiaries, finance lease agreements, insurance contracts, financial instruments under employee plans, and an entity’s own entity instruments.

The most significant assets subject to the measurement principles for financial instruments include:
1. investments in other entities,
2. bonds issued by other entities,
3. other securities issued by other entities (e.g. participation units),
4. loan receivables,
5. trade receivables,
6. cash,
7. derivatives (options, forwards, futures, swaps, embedded derivatives) with positive fair value,
8. other financial assets.

The most significant liabilities subject to the measurement principles for financial instruments include:
1. borrowings,
2. loans,
3. obligations on bonds issued,
4. trade payables,
5. derivatives with negative fair value,
6. other financial liabilities.

Classification of financial instruments

Financial assets are classified into:
1. financial assets at fair value through profit or loss,
2. loans and receivables,
3. held-to-maturity financial assets,
4. available-for-sale financial assets.

Financial liabilities shall be divided into:
1. financial liabilities at fair value through profit or loss,
2. Other financial liabilities.

Loans, receivables and deposits are initially recognized on the date when they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date, at which the Group becomes party to the contractual provisions of the instrument. The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial asset that is created or retained by the Group is recognised as a separate asset or liability.

Issued debt instruments and subordinated liabilities are initially recognized by the Group on the date when they originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date, at which the Group becomes party to the contractual provisions of the instrument. The Group derecognises a financial liability when the obligation is repaid, redeemed or expires.

(i) Financial assets at fair value through profit or loss

Financial assets designated at fair value through profit or loss are presented within current assets and measured at fair value, and changes therein are recognised directly in profit or loss. Financial assets at fair value through profit or loss comprise the financial assets:
- held for trading,
- forming part of a portfolio of financial assets that are managed together to generate short-term profits,

- designated at the time of initial recognition as measured at fair value through profit or loss.

Upon initial recognition financial assets may be designated at fair value through profit or loss provided that the following criteria are met:
- such classification eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch),
- the assets are part of a group of financial assets that are managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management strategy,
- financial assets include embedded derivatives that should be separately recognized.

Financial assets at fair value through profit or loss also include derivatives, provided that the conditions for applying hedge accounting have not been satisfied.

(ii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets quoted in an active market, with fixed or determinable payments and fixed maturity, that the Group has the positive intent and ability to hold to maturity, other than loans and receivables and financial assets designated upon initial recognition at fair value through profit or loss and financial assets available for sale.

The Group does not classify any financial assets as held-to-maturity if in the current financial year or in the preceding two financial years it sold or reclassified more than a non-significant amount of held-to-maturity investments, save for the sale or reclassification performed:
- so close to maturity or financial asset's call date that changes in the market interest rates would not have a significant effect on the financial asset's fair value;
- after the Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- as a result of an isolated event that is beyond the Group's control, is non-recurring and could not have been reasonably anticipated by the entity.

Financial assets held-to-maturity upon initial recognition are measured at amortised cost using the effective interest method.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than financial assets, which:
- the Group intends to sell immediately or in near term, which shall be classified as held for trading and those that the Group upon initial recognition designates at the fair value through profit or loss;
- upon initial recognition were designated by the Group as available for sale; or
- the Group may not recover substantially all of its initial investment, other than due to credit deterioration, which shall be classified as available for sale.

Loans and receivables upon initial recogintion are measured at amortised cost using the effective interest method less any impairment losses.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets upon initial recongition are measured at fair value and changes therein are recognized in revaluation reserve. Interest on any debt instruments included in this category, calculated using the effective interest method, is presented directly in profit or loss.

In the absence of a quoted market prices in an active market and the inability to reliably determine the fair value of equity instruments using alternative methods, available-for-sale financial assets are measured at cost less any impairment losses.

(v) Financial liabilities

Financial liabilities held for trading, including, in particular, derivatives with negative fair value, not designated as hedging instruments, are recognised at fair value with changes therein recognised directly in profit or loss.

Other financial liabilities are measured at amortised cost using the effective interest method

Principles of measurement after initial recognition/at the end of reporting period and presentation of financial instruments in financial statements

Category of assets or liabilities	Measurement	Recognition
Assets at fair value through profit or loss	At fair value	Remeasurement changes recognized in the current period profit or loss under finance income or costs
Liabilities at fair value through profit or loss	At fair value	Remeasurement changes recognized in the current period profit or loss under

Category of assets or liabilities	Measurement	Recognition
		finance income or costs
Other financial liabilities	At amortised cost using the effective interest (IRR)	Remeasurement changes adjust the carrying amount of the liability and are recognized in current period profit or loss
Loans and receivables	At amortised cost using the effective interest (IRR)	Remeasurement changes adjust the carrying amount of the asset and are recognized in current period profit or loss
Held-to-maturity financial assets	At amortised cost using the effective interest (IRR)	Remeasurement changes adjust the carrying amount of the asset and are recognized in current period profit or loss
Available-for-sale financial assets	At fair value	Changes from remeasurement at fair value are recognized under revaluation reserve. For debt instruments, interest is recognized directly in profit or loss
Financial assets and financial liabilities held for trading	At fair value	After initial recognition, finance liabilities are measured at fair value. Gains and losses on valuation are recognized directly in profit or loss.

If, in a subsequent period, the fair value of impaired financial investments increases, and the increase can be related objectively to an event occurring after the recognition of the impairment loss, the Group appropriately reverses the impairment loss through profit or loss, save for any equity securitiess classified as available for sale.

Hedge accounting and embedded derivatives

Hedge accounting
The purpose of derivatives and, in certain circumstances, of other financial assets or liabilities designated as hedging instruments is to hedge the fair value of assets or liabilities, or future cash flows so that the change in their fair value balances in full or in part the change in the fair value of a hedged item or future cash flows related to the hedged item.

For the aforesaid derivatives to be designated as hedging items and accounted for in accordance with the hedge accounting principles all of the following conditions stipulated in IAS 39 need to be met:

- At the inception of the hedge, formal documentation has been established including, at the minimum, the description of the following: the entity’s risk management objective and strategy, clear identification of the heding instrument as well as the assets, liabilities or forecast transactions hedged by this instrument, the nature of the risk being hedged, hedging period, the method and procedures for assessing the effectiveness in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk.

- Hedging is highly effective in achieving fair value or cash flows offsets. The effectiveness is measured by comparing changes in the fair value or cash flows of the hedging instrument and the changes in the fair value or cash flows of the hedged item. A hedge is considered highly effective if, for the entire hedging period, substantially all of the changes in fair value or cash flows of the hedged item are offset by the changes in fair value or cash flows of a hedging instrument, and the actual effectiveness level is between 80 and 125 percent.

- The effectiveness of the hedging relationship can be reliably measured. This requires the fair value of the heding instrument, and the fair value or cash flows of the hedged item to be reliably measurable. The effectiveness of a hedging relationship is assessed retrospectively (so-called ex-post tests) by determining whether the hedging relationship was highly effective in the audited accounting periods.
- For a cash flow hedge of a forecast transaction, the transaction is highly probable.

The application of cash flow hedge accounting allows the Group to better match the effects of remeasuring of a hedging instrument, and the realisation of the hedged item, by recognizing in other comprehensive income and hedging reserve the effective portion of changes in the hedging instrument’s fair value. This allows for reduced volatility created by the repeated adjustment to the value of derivatives and achieves an offsetting effect in profit or loss of one reporting period. Consequently, the economic and accounting effect of a hedge is reflected in the same period.

Hedges of a Net Investment in a Foreign Operation(including a hedge of a monetary item), is recognized as part of the net investment and are accounted for similarly to cash flow hedge.

In a cash flow hedge, the effective portion of the changes in fair value of a hedging instrument is recognised in other comprehensive income and under a separate line item in equity (hedging reserve). The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in profit or loss (finance costs/income). If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses, previously recognized in other comprehensive income and accumulated in equity, are reclassified to profit or loss in the same period or periods during which the asset acquired or liability assumed affect profit or loss

Hedges of a Net Investment in a Foreign Operation - if there is a difference between the functional currency of the foreign operation and the parent's functional currency, net Investment in a Foreign Operation is hedged by foreign currency liabilities. Revaluation of foreign currency liabilities designated for hedge accounting is recognised in equity and offset the opposite revaluation of net investments in foreign operation in consolidation financial statements.

A derivative designated as a hedging instrument in a fair value hedge is an instrument used to limit the risk of changes in the fair value of an asset or liability recognised in statement of the financial position, an unrecognised firm commitment, or an identified portion thereof, that is attributable to a particular risk and could affect profit or loss.

In a fair value hedge, gains and losses from remeasuring the hedging instrument to fair value are recognised in profit or loss as a separate item within finance income or costs. The hedged item of assets or liabilities is remeasured to fair value in respect of the hedged risk only. Any resulting changes to the carrying amount of the hedged item are recognized within, respectively, finance costs or income. If a hedge of a forecast transaction results in subsequent recognition of a non-financial asset or non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment, to which a fair value hedge would apply, any gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss in the same period or periods in which the non-financial asset acquired or liability assumed affect profit or loss.

If a hedged forecast transaction is no longer expected to occur, the accumulated effective portion of the changes in fair value of the heding instrument previously recognised within hedge reserve shall be reclasiffied to finance income or expense.

The Group discontinues hedge accounting if the hedging instrument expires, or is sold, terminated or exercised, or if the Group revokes the instrument's designation. In such circumstances, the accumulated gains/losses associated with the hedging instrument, previously recognised within equity, remain in equity until the transaction is effected.

2.4 Property, plant and equipment

(i) Owned property, plant and equipment
Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises of its purchase price and all other costs directly attributable to the acquisition of the asset and bringing it to a working condition for its intended use. The cost also includes the cost of replacing components of machinery and equipment when incurred if the recognition criteria are met.

(ii) Property, plant and equipment used under the finance lease agreements
Leases in terms of which the Group assumes substantially all the risks and rewards of ownership of an item of property, plant and equipment are classified as finance leases. Upon initial recognition the leased item of property, plant and equipment is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset's carrying amount is decreased by accumulated depreciation and accumulated impairment losses. Payments under operating lease agreements are recognised as an expense over the lease term.

In case of an asset used under a finance lease, if it is not reasonably certain that the lessee will obtain ownership of the asset by the end of the lease term, then the tangible asset is depreciated over one of the following two periods, whichever shorter:

- the lease term ,
- the expected useful life of the asset

When an agreement is classified as a finance lease, the underlying asset is recognised within the Company's (lessee's) property, plant and equipment and is depreciated in accordance with principles specified in point (iv).

(iii) Subsequent costs
The cost of replacing part of an item of property, plant and equipment are capitalised. Other costs are capitalised only to the extent that it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. Other subsequent costs are recognised in profit and loss statement as an incurred expenses.

Pursuant to IAS 16 A separate component of an item of property, plant and equipment, requiring replacement at regular intervals, is depreciated over its economic useful life. Repair costs are capitalized when the amount of outlays is related to parts recognised as a separate component of an item of property, plant and equipment. If those components are not separated at the time of recognising an item of property, plant and equipment, it may be done upon bearing subsequent costs.

Pursuant to IAS 16 the Group increases the value of property, plant and equipment by the value of outlays for regular overhauls, necessary for the functioning of a given item of property, plant and equipment. These expenditures are treated as a separate item of property, plant and equipment and depreciated through the anticipated period to the next planned overhaul. Upon capitalisation of new costs of overhauls, the non-depreciated value of previous repairs is allocated to operating expenses.

Upon the acquisition or creation of an item of property, plant and equipment, the Group separates from the cost a value equal to the expenditures that need to be made during the next overhaul of a given item of property, plant and equipment and depreciates it through the anticipated period left until the next planned overhaul.

(iv) Depreciation
Items of property, plant and equipment, and also their significant and separate components, are depreciated on a straight-line basis over their respective estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	**20 - 50**	**years**
Machinery and equipment	**2 - 20**	**years**
Vehicles	**2-20**	**years**
Other	**1-15**	**years**

Depreciation periods and residual values are reviewed at each reporting date with any resulting adjustments made prospectively as a change in estimate.

2.5 Right of perpetual usufruct of land

Purchased rights of perpetual usufruct of land are recognised as separate items in the statement of financial position. Perpetual usufruct rights obtained based on an administrative decision are recorded off-balance sheet(recognised as operating lease).

Rights of perpetual usufruct of land are depreciated on a straight-line basis over the lease term.

2.6 Intangible assets

(i) Goodwill
Goodwill arises on a combination of two separate entities or businesses into one reporting entity. It specifically relates to the acquisitions of subsidiaries, associates, or jointly controlled entities. All business combinations of unrelated entities are recognised under the acquisition method.

The Group initially measures goodwill as the difference between:

- the aggregate of:
  - ✓ the acquisition-date fair value of the consideration transferred,
  - ✓ the amount of any non-controlling interests in the acquiree measured either at fair value or at their proportionate share in the fair value of the acquiree's net assets, and
  - ✓ in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

and

- the net recognised amounts (fair value) of the identifiable assets acquired and liabilities assumed measured at the acquisition date.

Occasionally, a bargain purchase may occur, i.e. a business combination in which the net recognised amounts of the identifiable assets acquired and liabilities assumed measured at the acquisition date exceed the aggregate of the acquisition-date fair value of the consideration transferred, the amount of any non-controlling interests measured at fair value or at their proportionate share in the acquiree's net assets, and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquire. Before recognising a gain on a bargain purchase, the acquirer reassesses whether it has correctly identified and measured the amounts of assets acquired and liabilities assumed, non-controlling interests, consideration transferred, and in a business combination achieved in stages, the acquirer's previously held equity interest in the acquiree. The purpose of the reassesment is to ensure that the measurements accurately consider all information available at the acquisition date. Any remaining gain from a bargain purchase after completing the reassessment is recognised in profit or loss at the acquisition date (as other operating income).
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For a PUT option to acquire any non-controlling interests acquired before 1 January 2010, whose purchase cost is subject to a periodic remeasurement, any changes in the amount of liability are recognized in goodwill. For a PUT option to acquire non-controlling interests acquired on or after 1 January 2010, whose purchase cost is subject to a periodic remeasurement, any changes in the amount of liability are recognized in profit or loss.

At the date of an acquisition, any goodwill acquired in a business combination is allocated to the cash-generating units that are expected to benefit from the synergies of the combination. Each cash-generating unit or a group of units to which the goodwill was allocated:

- is the lowest level within the Group, at which goodwill is monitored for internal management purposes, and
- is not larger than an operating segment defined pursuant to IFRS 8 “Operating Segments”.

Goodwill represents an asset with indefinite useful life and as such is subject to annual impairment tests. Goodwill is tested at a minimum at an operating segment level.

Goodwill referring to investments in associates is reflected in their carrying amounts in the Group’s consolidated financial statements. Consequently, any investments in associates and the related goodwill are analysed for impairment on a combined basis.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost less accumulated amortisation and accumulated impairment losses. Any expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

The costs of registering a substance in the REACH system, such as participation in research, consulting services linked to a specific registration, costs of preparing the registration documents and Chemical Safety Reports, registration fees, authorization, are capitalised as intangible assets.

(iii) Subsequent costs

Subsequent expenditure on existing intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other subsequent expenditure is expensed as incurred.

(iv) Amortisation

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The estimated useful lives of intangible assets are as follows:

Development costs	**2 – 5**	**years**
Patents and licences	**2 –10**	**years**
Other	**2 – 12**	**years**

Amortisation periods and residual values are reviewed at each reporting date with any resulting adjustments made prospectively as a change in estimate.

Amortisation of intangible assets related to the costs incurred in respect of the registration in the REACH system, begins in the month following the month of proper registration of a given substance. The amortisation period is 12 years with amortisation charged to cost of sales.

(iiv) Costs of completed development

Research activities represent an innovative and scheduled search for solutions, undertaken with the prospect of gaining new scientific or technical knowledge. Development activities are understood as a practical application of discoveries or achievements of other knowledge in planning and designing the production of new or considerably improved materials, devices, products, technological processes, systems or services, taking place prior to starting mass production or prior to their application.

All expenditure on research activities is recognised in profit or loss as incurred. Whenever a clear distinction between research and development activities cannot be made, the Group treats the related expenditure as research only.

Development expenditure is capitalised as part of intangible assets only if the Group is able to prove:

- that the product or process is technically and commercially feasible,
- its intent to complete development and to use or sell the asset,
- the ability to use or sell the asset,
- the manner in which the asset will bring future economic benefits (*inter alia*, the entity should prove the existence of a market for new products created by the asset or a market for the asset itself, or – if the asset is to be used by the Group – the usefulness of the intangible asset to the Group),
- the availability of appropriate technical, financial and other resources required to complete development activities and then use or sell the asset, and
- its ability to reliably measure development costs attributable to the asset

Internally generated trademarks, magazine titles, editorial titles, customer lists and other items of similar nature are not recognised in the financial statements.

The amortization periods of capitalised development costs should reflect their estimiated useful lives.

2.7 Associates and joint ventures

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Joint venture is a contractual arrangement whereby two or more parties undertake an economic activity subject to joint control.

The consolidated financial statements include the Group's share of the income and expenses of equity accounted associates and joint ventures from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. The Group also measures impairment of the share in the net assets of associates and joint ventures and creates appropriate allowance. When the Group's share of losses exceeds the carrying amount of its interest in an associate or a joint venture, such carrying amount is reduced to nil and the recognition of further losses is discontinued.

2.8 Borrowing costs

In case of a qualifying asset, the borrowing costs that are capitalised are those that otherwise would have been avoided if the expenditure on the qualifying asset has not been made. The amount of borrowing costs eligible for capitalisation is defined as the appropriate portion of loan interest, the cost of arranging financing and respectively foreign exchange differences on foreign currency loans.

2.9 Investment property

Investment property (land and/or buildings) are held to earn rentals or for capital appreciation (or both).
Investment property is remeasured at fair value. After initial recognition, investment property is accounted for in accordance with the cost model as set out in IAS 16 Property, Plant and Equipment – cost less accumulated depreciation and less accumulated impairment losses. In next reportind periods change in fair value of investment property is recognised in profit or loss in the period when change is recognised and is presented in other operational income or cost.
Investment property held under operating leases are classified and accounted for as investment property if the definition of investment property is fullfilled.

2.10 Trade and other receivables

Upon initital recognittioin current trade and other receivables are measured at the amortized cost using the effective interest method less any impairment losses.

2.11 Inventory

Raw materials and merchandise goods are measured at at cost being the purchase price increased by other costs incurred in bringing the asset to its present location and condition or place on the market but not higher than the selling price possible to achieve.

Finished goods and work in progress are measured at cost including direct manufacturing costs and reasonable portion of costs indirectly connected with the manufacturing process, but not higher than the selling price possible to achieve.

The cost of inventory is based on the first-in first-out principle (FIFO).

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand and bank deposits repayable on demand. Current investments that are not subject to significant changes in value and may be easily exchanged for a determinable amount of cash and form an integral part of the Group cash management are recognised as cash and cash equivalents for the purposes of the statement of cash flows.
At the reporting date, any foreign currencies in bank accounts and on hand are measured at the average exchange rate for a given currency, established by the President of the National Bank of Poland.

2.13 Impairment losses

(i) Asset impairment

The carrying amounts of the Group's non-financial assets, other than inventory and deferred tax assets, are reviewed at reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the respective cash-generating unit is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date, irrespective of the existence of the aforesaid indications.

(ii) Recoverable amount

The recoverable amount of an asset or a cash-generating unit is the greater of its fair value less costs to sell or its value in use. The recoverable amount is determined for individual assets, unless the asset does not generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If the asset's carrying amount exceeds its recoverable amount, an impairment loss is recognised against the carrying amount of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

Impairment losses are recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. Impairment losses are recognised in profit or loss in those expense categories that correspond to the function of the asset to which they relate.

An impairment loss in respect of goodwill is not reversed.
In respect of other assets, impairment losses can be reversed, if there has been a change in the estimates used to determine the recoverable amount.
An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of amortisation or depreciation, if no impairment loss had been recognised.

(iii) Impairment of non-derivative financial assets

At each reporting date the Group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets measured at amortised cost

If any objective evidence indicates that loans and receivables measured at amortised cost are impaired, the impairment loss is the amount of the difference between the carrying amount of the financial asset and the present value of estimated future cash flows (excluding future losses on unrecocerable receivables that have not yet been incurred) discounted at the original (i.e., determined at initial recognition) effective interest rate. The carrying amount of assets is reduced through the use of allowances. The amount of allowance is recognized in profit or loss.
The Group first assesses whether there is any objective evidence of impairment of individually significant financial assets, and also whether any indications of impairment exist in respect of financial assets that are not individually significant. If the analysis does not reveal any objective evidence of impairment of an individually assessed financial asset, regardless of whether it is significant or not, the Group includes such an asset in a group of financial assets with similar credit risk and evaluates them collectively in terms of impairment. Assets that are individually assessed for impairment and for which an impairment loss was recognised or it was considered that the existing allowance should not change, are not taken into account when assessing the group of assets for impairment.
When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss to the extent that the asset's carrying amount at the reversal date does not exceed its amortised cost.
In particular, in relation to trade receivables from entities in liquidation or bankruptcy, or not admitted to bankruptcy, or in relation to receivables that are contested by debtors (disputed receivables), or where payments due are delayed and either the debtor’s financial standing makes the collection no longer probable or such delay exceeds 180 days, an impairment loss is recognised in the full amount due after taking into account the amounts of any existing security which the Board considers highly probable of execution.

Available-for-sale financial assets

If objective evidence indicates that available-for-sale financial assets are impaired, the amount of the difference between the asset’s acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss, is removed from equity and reclassified into profit or loss. Reversals of impairment losses on equity instruments classified as available-for-sale cannot be recognised in profit or loss. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

Financial assets measured at cost

If objective evidence indicates that impairment may exist in respect of an unquoted equity instrument that is not recognised at fair value due to the fact that its fair value cannot be reliably measured, or a derivative, which is linked to or must be settled through delivery of such an unquoted equity instrument, the amount of impairment loss is determined as the difference between the carrying amount of the financial asset and the present value of its estimated future cash flows discounted at the current market rate of return for similar financial assets.

2.14 Equity

The total consolidated shareholders’ equity includes equity attributable to shareholders of the parent company and non-controling interest.

The Group's share capital is represented by the share capital of the parent company and is accounted for at its nominal value adjusted by the effects of hyperinflation in the years 1989-1996.

Post-acquisition changes in the equity of subsidiaries are recognised in the Group's equity to the extent of the parent company's interest in those subsidiaries. The remaining equity of the consolidated entities is recognised in non-controling interest, described below.

When a foreign operation is disposed of, the relevant amounts in the currency translation differences (foreign companies) and net currency translation differences (investments in foreign companies) are transferred to profit or loss.

When share capital recognised as equity is repurchased by the parent company or a consolidated subsidiary, the amount of the consideration paid, which includes directly attributable costs, is recognised as a change in equity. The repurchased shares are presented as a deduction from total equity.
A liability for a dividend payable is not recognised until such dividend has been properly authorised.

Dividends payable from pre-acquisition profits do not reduce the acquisition price of the shares, however, they may provide evidence of impairment.

The consolidated net profit (loss) is presented in shareholders' equity within retained earnings and represents the sum of the net profit (loss) of the parent company, its share in net profit (loss) of equity accounted investees, net profit (loss) of consolidated subsidiaries and profit (loss) of non-controlling interests.
A liability for a dividend payable is not recognised until such dividend has been properly authorised.

Dividends payable from pre-acquisition profits do not reduce the acquisition price of the shares, however, they may provide evidence of impairment.

The consolidated net profit (loss) is presented in shareholders' equity within retained earnings and represents the sum of the net profit (loss) of the parent company, its share in net profit (loss) of equity accounted investees, net profit (loss) of consolidated subsidiaries and profit (loss) of non-controlling interests.

Non-controlling interest
Non-controlling interest represents interest in a subsidiary's equity which is not directly or indirectly attributable to the parent company.
Non-controlling interest is measured:
- at the amount of proportionate interest in subsidiary's net assets, or
- at fair value

for each business combination separately at the time of initial recognition.

The carrying amount of non-controlling interest should correspond to the amount calculated by adding changes in the current period to the carrying amount of non-controlling interest at the end of the preceding period. These changes may result from:
- changes in the percentage share of interest held by non-controlling shareholders - e.g. purchase, sale, increase or decrease of base capital,
- changes in equity not related to the changes in the interest held – e.g. increase or decrease of equity with no effect on shareholding, additional equity contributions made by non-controlling shareholders, net result of the current year, transactions recognised directly in other comprehensive income, dividends paid.

Profit or loss as well as any elements of other comprehensive income are attributable to the shareholders of the parent company and to non-controlling interest even where the attribution results in a negative carrying amount of non-controlling interests.

2.15 Employee benefits

Jubilee awards, retirement benefits pays and disability pay:
Based on the Group's remuneration plan, the employees of its companies are entitled to long-term jubilee awards and to retirement benefits. The Group's obligations in respect of the above benefits is the amount of benefit entitlement that employees have earned as a result of their service in the current and prior years.
The obligation for long-term jubilee awards, and retirement and disability benefits, is calculated by an authorised actuary using the projected unit credits method discounted to its present value and reduced by the fair value of any related assets.
As the above benefits are used the related provisions decrease, with the recognition/reversal of such provisions increasing other operating income/costs, respectively.
Actuarial gains and losses, resulting from differences between estimates and actual experience, and also from changes in assumptions used in the calculations, are recognised in profit or loss and presented within financing activities.

2.16 Provisions

A provision is recognised if, as a result of a past event, the Group has a present obligation and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Restructuring

A provision for restructuring is recognised when the Management Board has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly and a reliable estimate can be made.

(ii) Reclamation

In accordance with the Group's published and currently enforced environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognised. The provision is recognised in the amount of the expected future restoration costs discounted to present value.

2.17 Trade and other liabilities

Trade and other liabilities are classified as current or non-current based on the following principles:

- those due to be settled within 12 months of the end of the reporting period and trade payables are considered current liabilities,
- other payables, which do not meet the current liability conditions, are classified as non-current liabilities.

At the reporting date trade payables are measured at amortised cost (i.e. they are discounted using the effective interest method) and increased by any applicable late interest accrued.

Late interest is not accrued when a formal waiver is received from the counterparty. In all other cases such interest is accrued and recognised in accordance with the following principles:

- on an ongoing basis, based on interest notes received,
- in estimated amounts, with such estimates based on comparison of interest charged in the past by a counterparty to the related amounts owed.

2.18 Contingent liabilities

A contingent liability is a possible future obligation, whose existence will be confirmed by the occurrence or non-occurence of uncertain future events not wholly within the Group's control. Contingent liabilities are not recognised in the statement of financial position; they are however disclosed in the financial statements.

2.19 Revenue and costs

Revenue from the sale of products and goods is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the customer.

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed. Revenue is not recognised when significant doubts exist as to the collectibility of the amounts due or the reimbursement of costs, or as to the amounts of potential returns of goods and products.

Expenses are probable decreases in economic benefits in the form of outflows or depletions of assets or increases in liabilities and provisions.

Cost of sales comprises the production cost of products and services sold and the value of sold goods and materials.

Selling costs include, among others: sales commissions and the costs of advertising, promotion and distribution.

General and administrative expenses are expenses associated with activities of the entity's management or those of general functions..

The reporting period's results are also affected by **other operating income and costs** indirectly related to the Group's core operations. The key items include:

- Gains/ losses on disposal and liquidation of non-financial long-term assets
- Gains/ losses on sales of emission rights,
- Recognition/ reversal of impairment losses (including allowances for doubtful receivables) and provisions (e.g. for retirement and disability benefits),
- Revenue/expenses associated with construction contracts – when the outcome of the contract can be estimated reliably, contract revenue and expenses are recognised in accordance with the stage of completion of the contract. The stage of completion is determined by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs or completion of a physical proportion of the contract work.

An expected loss on a construction contract should be recognised as an expense as soon as such loss is probable

- income from rental of investment property is recognised in profit or loss on a straight-line basis over the lease term. Any lease incentives granted are an integral part of the net consideration agreed for the use of the asset.
- Gains/ losses on remeasurement of investment property at fair value

Financial income/ expense relate to an entity's financing activities, including the acquisition and disposal of equity securities, drawing of loans and borrowings, issuance of debt securities. Accordingly, key items of financing activities include:

- interest on borrowings, determined based on the effective interest method,
- interest earned by the Group on cash and cash equivalents (bank deposits and accounts, loans granted and receivables) - accounted for in the profit and loss on accrual basis using the effective interest method.
- dividend income - recognised in profit or loss when the Group's right to receive payment is established,
- net foreign exchange gains or losses,
- gains/ losses on sales of financial assets,
- gains/ losses on derivatives.

2.20 Taxes

Current tax
Current tax for the current and prior periods is the expected tax payable or receivable measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities used for taxation purposes and the amounts recognised in the financial statements.
deferred tax liability is recognised for all taxable temporary differences, unless the deferred tax liability arises from:

- the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit, or
- unless the investor is able to control the timing of the reversal of temporary differences in respect of investments in subsidiaries, associates and joint ventures and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences, and for unused tax credits and tax losses carried forward, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised:

- unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit, and
- deductible temporary differences in respect of investments in subsidiaries, associates and joint ventures are recognised in statement of financial position only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of a deferred tax asset is reviewed at the end of every reporting period and is reduced to the extent that it is no longer probable that sufficient taxable income will be available against which the asset can be utilised. Any previously unrecognized deferred tax asset is reassessed at each reporting date and is recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.
Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the tax rates and laws that have been enacted at the reporting date or whose application in the future is certain at the reporting date.

Income tax related to items recognised outside profit or loss is itself recognised outside profit or loss: either in other comprehensive income when it relates to items recognised in other comprehensive income or directly in equity when it relates to items recognised directly in equity.
Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity.

2.21 Estimates adopted in the preparation of the financial statements

The preparation of the consolidated financial statements in conformity with IFRSs requires the Management Board to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses presented in the consolidated financial statements and the notes thereto.
All estimates and related assumptions are based on historical experience and various other factors considered reasonable under the circumstances, and provide the basis for professional assessment of the carrying amounts of assets and liabilities that would not be available from other sources. The management board's certain significant estimates are based on opinions of independent experts.

Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are accounted for in the period in which the change occurs, if such changes apply solely to that period, or in the current period and future periods, if such changes apply both to the current and future periods.

The key estimates and judgements in applying accounting policies underlying these financial statements relate, *inter alia*, to the following:

Type of estimate	
Deferred tax	Recognition of a deferred tax asset based on the assumption that taxable profit will be available against which the deductible temporary differences and losses can be utilised. Detailed information is presented in the section II.8.
Employee benefits	Actuarial valuation. Assumptions about discount rates, increase in wages, inflation, employee turnover ratio. Detailed information is presented in the section II.28.
Provisions	Assumptions about discount rates, amounts and payment dates. Detailed information is presented in the section II.29.
Amortisation/depreciation rates	Determined based on the expected useful lives of property, plant and equipment and intangible assets - subject to annual review. Detailed information is presented in notes II.2.4.iv and II.2.6.iv.
Impairment of assets	Assumptions behind the recoverable amount – future cash flows, discount rates, cost of capital, rate of growth. Detailed information is presented in the section II.12, II.14 and II.15.

2.22 Foreign currency receivables, liabilities and revenue

Receivables denominated in foreign currencies are recognised at the average NBP exchange rate effective on the working day immediately preceding the date of the transaction, unless a different exchange rate was indicated in the customs declaration or another binding document.

At the reporting date, receivables denominated in foreign currencies are translated at the average exchange rate established for that date by the National Bank of Poland.

Liabilities denominated in foreign currencies are recognised at the NBP's average exchange rate effective on the last working day before the date of transaction.
Prepayments for future deliveries received in foreign currencies are recognised at the NBP's average exchange rate effective on the prepayment receipt date.
At the reporting date foreign currency denominated liabilities are translated at the average exchange rate announced for that day by the National Bank of Poland.
Currency translation differences arising upon the repayment of a liability or its translation (unrealised) are presented within financial income or expense.

Revenue from the sales of products and goods is recognised in profit or loss, at the NBP's average exchange rate from the date preceding the date of invoice, when the significant risks and rewards of ownership have been transferred to the customer.

2.23 Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and that the entity will comply with all relevant conditions of the grant. Grants are recognised as income in profit or loss on a systematic basis when the entity recognises, as expenses, the related costs that the grants are intended to compensate. Grants that relate to the acquisition of an asset are initially recognised at their fair value in deferred income and then reclassified into profit or loss as the asset is depreciated or amortised.

2.24 Discontinued operations and non-current assets held for sale

Non-current assets are classified as held for sale when their carrying amounts are expected to be recovered primarily through a sale transaction and when they are available for sale in their current condition with such transaction being highly probable.
A discontinued operation is a component of the Group's business that has been disposed of or is held for sale, and that represents:

- a separate major line of business,
- part of a co-ordinated plan to dispose of a separate major line of business or a geographical area of operations,
- a subsidiary acquired exclusively with a view to resale.

A component of the Group comprises operations and cash flows that can be distinguished clearly, both operationally and for financial reporting purposes.
The above assets are measured at the lower of their carrying amount and net selling price.

2.25 Determination of fair values

Fair values have been determined for measurement and for disclosure purposes based on the following methods.

(i) Property, plant and equipment
The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of other items of property, plant and equipment is based on market approach and cost approaches using quoted market prices for similar items when available. Where appropriate, fair value is based on depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(ii) Intangible assets
The fair value of the Group's intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iii) Investment property
Investment property is appraised by an external independent valuer with proper professional qualifications and experience for the location and category of property appraised. The fair values of the items of investment property are based on their market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of investment property under construction is determined by estimating the fair value of the completed investment property, and then deducting from that amount the estimated costs to complete the construction, financing costs and a reasonable profit margin.

(iv) Inventory
The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.

(v) Equity instruments and debt instruments
The fair value of equity and debt securities is determined by reference to their quoted bid price as at the reporting date, or if unquoted, determined using an appropriate valuation technique. Valuation techniques employed include market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(vi) Trade and other receivables
The fair value of trade and other receivables, excluding construction work in progress, but including receivables from concessioned service contracts, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

(vii) Derivatives
The fair value of forward exchange contracts is based on their quoted market price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of interest swap contracts is based on broker quotes. These quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument, and include adjustments to take account of the Company's and, when appropriate, the counterparty's, credit risk.

(viii) Non-derivative financial liabilities
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities with no conversion option. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

2.26 Carbon dioxide emission rights

The following principles are applied in accounting for emission rights:
- The emissions rights received free of charge are recognised in the statement of financial position at the grant date and also in subsequent periods in their nominal amounts (nil). Any charges for granting the rights as well as applicable registration charges are recognised as deferred expenses or charged to profit or loss, if immaterial. These charges neither reflect nor determine the value of the rights.
- The payments made are charged to cost of sales in proportion to their use in a given settlement period.

- At the reporting date, the number of rights granted for the period is compared to their actual utilisation; if the utilisation exceeds the number of rights granted for the year, a provision is recognised for the shortfall at the current market value unless the entity is able to prove that it will not be required to buy additional rights to cover the shortfall. The provision is charged to cost of sales.
- When additional rights are purchased on the market, such rights shall be measured at purchase cost and presented as intangible assets. If at the reporting date the entity is able to prove that specific rights purchased on the market are held for resale and it is highly probable that benefits of these rights will be realised in a sale transaction, these specific rights are recognised at cost and presented in the financial statements as intangible assets.
- The acquired emission rights are not subject to amortisation as their residual values correspond to their purchase cost. However, at each reporting date the rights are subject to impairment testing with impairment losses recognised where necessary. Impairment losses are charged to other operating expenses.
- When rights are purchased to cover a shortfall upon the settlement of the annual limit, such rights at their book values are applied against the provision previously created for the shortfall.
- When the rights granted are sold, any proceeds of such sale are recognised according to general principles as other operating revenues. The related cost of sales is also recognised. Any profit on the sale of rights is presented within the profit on the sale of non-financial assets line in the income statement.
- FIFO method is applied to the utilisation of purchased rights and the cost of the rights sold.

3 Information about related entities

3.1 List of companies covered by the Group's consolidated financial statements

The consolidated financial statements include the financial statements of the following companies/sub groups

List of consolidated entities and those measured under the equity method in 2011 and in the prior period

Company/Group	Consolidation method as at 31.12.2012 and CIECH S.A.'s control.	Consolidation method as at 31.12.2011 and CIECH S.A.'s control.	Share in equity as at 31.12.2012	Share in equity as at 31.12.2011	Business
1) CIECH S.A.	Parent	Parent	–	-	According to the Statute, the core business of the parent entity includes: commercial activity including trade activity, investment activity, manufacturing activity, service activity and financial operations in particular foreign and domestic trade in chemicals and activity connected therewith. The Company may act as an agent for Polish and foreign companies.
2) „POLFA" Sp. z o.o.	The company was sold at 17th September 2012.	Fully consolidated subsidiary of CIECH S.A.	-	100%	– wholesale of pharmaceutical goods, – wholesale of chemical products, – wholesale of perfumes and cosmetics, – retail sale of medical and orthopaedic goods. –
Grupa CIECH FINANCE					
3) CIECH FINANCE Spółka z ograniczoną odpowiedzialnością	Fully consolidated subsidiary of CIECH S.A.	Fully consolidated subsidiary of CIECH S.A.	100%	100%	– implementing divestment projects concerning obsoletefixed assets (property) and financial assets (shares in companies),
3.1.) Cheman S.A. (From 26th February 2013 name was changed Ciech Trading S.A.)	Fully consolidated lower-tier Group	Fully consolidated lower-tier Group	100%	100%	– wholesale and distribution of solid inorganic and organic chemicals, – wholesale and distribution of raw materials for household chemicals, – wholesale and distribution of raw materials for cosmetic and pharmaceutical products, – wholesale and distribution of fillers, pigments, raw materials for paints and varnishes, – wholesale and distribution of food and feed additives, – wholesale and distribution of acids, bases and other liquid chemicals
Grupa SODA MĄTWY	Fully consolidated lower-tier Group	Fully consolidated lower-tier Group	100%	100%	– manufacture of other inorganic basic chemicals, – wholesale of chemical products, – production and distribution of electricity,
4) SODA MĄTWY S.A.	Lower	tier parent	100%	100%	

Company/Group	Consolidation method as at 31.12.2012 and CIECH S.A.'s control.	Consolidation method as at 31.12.2011 and CIECH S.A.'s control.	Share in equity as at 31.12.2012	Share in equity as at 31.12.2011	Business
4.1.) Soda Polska Ciech S.A.	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	100%	100%	– goods shipment
4.1.1) TRANSODA Sp. z o.o.	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	100%	100%	
5) JANIKOSODA S.A.	Subsidiary of CIECH S.A. - fully consolidated	Subsidiary of CIECH S.A. - fully consolidated	100%	100%	– production of salt, – manufacture of industrial gases, – manufacture of other inorganic basic chemicals, – manufacture of other chemical products n.e.c.
6) „Alwernia" S.A.	Fully consolidated subsidiary of CIECH S.A.	Fully consolidated subsidiary of CIECH S.A.	99,62%	99,62%	– manufacture of other inorganic basic chemicals, – manufacture of dyes and pigments, – manufacture of other organic basic chemicals, – manufacture of chemical fertilizers and nitrogen compounds, – manufacture of gypsum, – production of heat (steam and hot water)
7) CIECH-POLSIN PRIVATE LIMITED	Fully consolidated subsidiary of CIECH S.A.	Fully consolidated subsidiary of CIECH S.A.	98,00%	98,00%	– wholesale and retail sale of a variety of goods in the Far East markets
8) VITROSILICON Spółka Akcyjna	Fully consolidated subsidiary of CIECH S.A.	Fully consolidated subsidiary of CIECH S.A.	100%	100%	– manufacture of other inorganic basic chemicals, – manufacture of household and technical glassware, – manufacture of plastic packing goods, – manufacture of other plastic products
9) Przedsiębiorstwo Transportowo-Usługowe TRANSCLEAN Sp. z o.o.	Fully consolidated subsidiary of CIECH S.A.	Fully consolidated subsidiary of CIECH S.A.	100%	100%	– international transport of liquid chemicals, – tank truck and rail tank car wash
10) Zakłady Chemiczne „Organika-Sarzyna" S.A.	Fully consolidated subsidiary of CIECH S.A.	Fully consolidated subsidiary of CIECH S.A.	98,85%	98,54%	– manufacture of plastics, – manufacture of pesticides and other chemical products
Grupa ZACHEM	Fully consolidated lower-tier Group	Fully consolidated lower-tier Group	99,00%	97,44%	**The former core business** – manufacture of organic and other non-organic chemicals, – manufacture and sales of plastics, – manufacture of plastic plates, sheets, tubes and profiles, – manufacture of dyes and pigments, – services of installation, repairs and maintenance of general-purpose machinery n.e.c.
11) ZACHEM S.A.	Lower-tier parent	Lower-tier parent	99,00%	97,44%	
11.1) BORUTA - ZACHEM Kolor Spółka z ograniczoną odpowiedzialnością	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	98,99%	97,43%	

Company/Group	Consolidation method as at 31.12.2012 and CIECH S.A.'s control.	Consolidation method as at 31.12.2011 and CIECH S.A.'s control.	Share in equity as at 31.12.2012	Share in equity as at 31.12.2011	Business
11.2) ZACHEM UCR Spółka z ograniczoną odpowiedzialnością	Indirect associate of CIECH S.A. measurement under the equity method at lower tier.	Indirect associate of CIECH S.A. measurement under the equity method at lower tier.	24,78%	24,39%	Air Products - longtime provider of amine (TDA) needed for the production of raw material TDI, ceased its production breaching the contract agreement with ZACHEM S.A. Consequently, ZACHEM S.A terminated the agreement for amine supply (TDA), which lead to cessation of activities by CIECH Group in TDI industries in connection with the conclusion of Conditional Purchase Agreement and TDI Assets Transfer to BASF. AS a result, there has been a change of operations, which should be registered in the National Court Register by the end of April 2013. The core busines pursuant to the resolution of EGM of ZACHEM S.A. of December 7th, 2012 is as follows: - distribution and sale of electricity and heat; – steam and air conditioning supply; – buying and selling of own real estate; – lease and management of property; – performing the duties of a Trade and Technical Operator with relation to joint procurement of electricity for the Ciech Group Companies; – general construction works related to linear transmission structures: pipelines, power lines, traction lines and telecommunications lines; water collection, treatment and – supply; sewerage.
11.3) ZACHEM Epichlorohydryna Sp. z o.o.	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	-	99,00%	-	
11.4) ZACHEM Energetyka Sp. z o.o.	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	-	99,00%	-	
11.5) ZACHEM Park Sp. z o.o.	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	-	99,00%	-	
12) S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A.	Fully consolidated subsidiary of CIECH S.A.	Fully consolidated subsidiary of CIECH S.A.	92,91%	92,91%	– manufacture of other inorganic basic chemicals, – wholesale of chemical products
Grupa Soda Deutschland Ciech	Fully consolidated lower-tier Group	Fully consolidated lower-tier Group	100%	100%	– manufacture of other inorganic basic chemicals, – wholesale of chemical products, – production and distribution of electricity.
13.) Soda Deutschland Ciech GmbH	Lower-tier parent	Lower-tier parent	100%	100%	
13.1.) Sodawerk Holding Stassfurt GmbH	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	100%	100%	
13.1.1.) Sodawerk Stassfurt Verwaltungs GmbH	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	100%	100%	

Company/Group	Consolidation method as at 31.12.2012 and CIECH S.A.'s control.	Consolidation method as at 31.12.2011 and CIECH S.A.'s control.	Share in equity as at 31.12.2012	Share in equity as at 31.12.2011	Business
13.1.2) Sodawerk Stassfurt GmbH&Co.KG	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	100%	100%	
13.1.3) KWG GmbH	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	100%	100%	
13.1.4) Kaverngesellschaft Stassfurt GbmH	Indirect associate of CIECH S.A. measurement under the equity method at lower tier.	Indirect associate of CIECH S.A. measurement under the equity method at lower tier.	50%	50%	
14) Ciech Pianki Sp. z o.o.	Subsidiary of CIECH S.A. - fully consolidated.	Subsidiary of CIECH S.A. - fully consolidated.	100%	100%	– manufacture of organic and other non-organic chemicals,
15) Ciech Group Financing AB	Subsidiary of CIECH S.A. - fully consolidated.	-	100%	-	- conducting financial activities, particularly lending of funds by issuing bonds and other financial instruments with institutional and private investors as well as the direct lending of such funds to the companies of the Group and carrying out any other activities in support of such activities and the provision of related services.

4 Financial figures by business segment

The Ciech Group's operating segments are designated on the basis of internal reports related to the components of the entity that management reviews regularly and monitors in making decisions about operating matters in allocating resources to segments and in assessing their performance.

Information for a given operating segment may include sales of products and goods also included in the core product range of other Divisions. Such items, however, are not significant for those Divisions' management accounting.

Based on the current organisational structure, the Group has been divided into the following operating segments:

Soda Segment - in particular soda ash light and dense(Ciech Group is the sole manufacturer of soda ash in Poland), vacuum salt, backing soda and calcium chloride. These products are manufactured by the Soda Mątwy Group, S.C. Uzinele Sodice Govora, Sodawerk Stassfurt GmbH&Co. KG. and sold mainly by parent company – Ciech S.A.

Organic Segment - includes mainly products manufactured by ZACHEM Group – TDI, ECH, hydrochloric acid, soda lye and plastics - and by Z.Ch. „Organika-Sarzyna" S.A.: epoxy and polyester resins and plant protection chemicals and by Ciech Pianki Sp. z o.o. - Polyurethane foams. Organic segment includes commercial goods purchased and sold by the Organic Division of CIECH S.A. – mainly PVC and high purity caustic soda. The majority of sales of organic segment products, including: TDI, hydrochloric acid, soda lye and epoxy resins, is conducted by CIECH S.A. on its own account while the sale of ECH outside the Ciech Group and purchase of strategic raw materials is performed under agency agreements.
Ciech Group is a supplier of a broad range of products in the field of organic chemicals to the domestic industry.
Ciech Group was the only Polish manufacturer of TDI and epichlorohydrin (ECH) and is also the only producer in Poland epoxy resins. Zachem group discontinued to produce TDI and ECH in 2012.

Agrochemical Segment provides a full product range for agriculture chemicals. This segment covers fertilisers manufactured by Alwernia S.A. Materials for fertiliser production supplied to Alwernia S.A. are also present in this segment. The Group supplies its products mainly to agricultural producers. The segment also includes trading in fertilisers and materials for fertilisers for the benefit of other entities, not belonging to the Ciech Group.

Silicates and Glass Segment includes mainly the products of "VITROSILICON" Spółka Akcyjna and other manufacturers, such as glass and sodium silicate, exported by CIECH S.A. Due to organizational reasons, this segment also includes the trade in other goods, mainly sulfur. The Group's products are manufactured from glass, such us glass containers (lanterns and jars) and construction glass (glass blocks). Glassware are used in the construction industry, the food industry and the production of candles.

OPERATING SEGMENTS

01.01-31.12.2012 *PLN '000*	Soda Segment	Organic Segment	*including: discontinued operations*	Silicates and Glass Segment	Agrochemical Segment	*including: discontinued operations*	Other operations segment	*including: discontinued operations*	Corporate functions - reconciliation item	Eliminations (consolidation adjustments)	TOTAL
Revenues from third parties	1 925 552	1 658 062	*767 830*	435 559	229 241	*180 795*	129 538	*42 422*	-	-	4 377 952
Revenues from inter-segment transactions	49 937	32 920	-	8	6 797	-	11 420	-	-	(101 082)	-
Total revenues	**1 975 489**	**1 690 982**	***767 830***	**435 567**	**236 038**	***180 795***	**140 958**	***42 422***	-	**(101 082)**	**4 377 952**
Cost of sales	(1 651 440)	(1 527 599)	*(712 914)*	(365 841)	(210 700)	*(159 334)*	(120 283)	*(35 036)*	-	94 406	(3 781 457)
Gross profit/(loss)on sales	**324 049**	**163 383**	***54 916***	**69 726**	**25 338**	***21 461***	**20 675**	***7 386***	-	**(6 676)**	**596 495**
Selling costs	(125 100)	(84 874)	*(49 238)*	(53 340)	(7 606)	*(3 676)*	(11 532)	*(1 315)*	-	6 077	(276 375)
General and administrative expenses	(67 069)	(65 102)	*(36 209)*	(7 830)	(6 698)	*(6 054)*	(10 078)	*(5 774)*	(46 309)	670	(202 416)
Result on management of receivables	(1 119)	(3 704)	*(2 097)*	(108)	(161)	*(161)*	243	*(60)*	-	-	(4 849)
Result on other operating activities	(20 092)	(217 222)	*(182 920)*	(4 186)	(43 856)	*(43 861)*	(23 709)	*(10)*	-	(133)	(309 198)
Operating profit/(loss)	**110 669**	**(207 519)**	***(215 548)***	**4 262**	**(32 983)**	***(32 291)***	**(24 401)**	***227***	**(46 309)**	**(62)**	**(196 343)**
Exchange differences and interest on trade settlements	(25 118)	(38 912)	*(6 030)*	(15 453)	(8 797)	*(6 625)*	(8 996)	*(526)*	45	-	(97 231)
Group financing costs	-	-	-	-	-	-	-	-	(172 924)	-	(172 924)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	-	-	-	8 567	-	8 567
Share in profit of equity-accounted investees	801	(57)	-	-	-	-	-	-	-	-	744
Profit/(loss) before tax	**86 352**	**(246 488)**	***(221 578)***	**(11 191)**	**(41 780)**	***(38 916)***	**(33 397)**	***(299)***	**(210 621)**	**(62)**	**(457 187)**
Income tax											22 139
Net profit/(loss)											**(435 048)**
Profit /(Loss) on disposal of discontinued operations											(2 663)
Net profit/(loss) for the financial year											**(437 711)**
Amortisation/depreciation	160 954	54 834	*29 190*	15 627	1 989	*1 791*	135	-	3 138	-	236 677
EBITDA	**271 623**	**(152 685)**	***(186 358)***	**19 889**	**(30 994)**	***(30 500)***	**(24 266)**	***277***	**(43 171)**	**(62)**	**40 334**
*Normalized EBITDA**	*348 671*	*75 996*	*X*	*29 489*	*14 316*	*X*	*(2 128)*	*X*	*(43 050)*	*(182)*	*423 112*

**Normalized EBITDA for the year ended 31 December 2012 is calculated as EBITDA adjusted by non-typical one-off events: impairment loss of property, plant and equipment amounted to PLN 179.9 million, impairment loss of intangible assets amounted to PLN 21.5 million, gain on the sale of gas emission rights amounted to PLN 2.1 million, valuation of energy certificates amounted to PLN 22.3 million, valuation of investment property to fair vaule amounted to PLN 27.2 milion, cost of investment sunspension amounted to PLN 13.9 million, provision for environmental protection amounted to PLN 17.2 million, provision for liabilities and forseeable losses amounted to PLN 42.5 million, provision for compensation amounted to PLN 54.9 million, unused production capacity amounted to PLN 21.8 million, costs of removing effect of random events amounted to PLN 5.1 million, provision for employee severance in Zachem Group amounted to PLN 20.1 million.*

01.01-31.12.2011 *PLN '000*	**Soda Segment**	**Organic Segment**	*including: discontinued operations*	**Silicates and Glass Segment**	**Agrochemical Segment**	*including: discontinued operations*	**Other operations segment**	*including: discontinued operations*	**Corporate functions - reconciliation item**	**Eliminations (consolidation adjustments)**	**TOTAL**
Revenues from third parties	1 681 429	1 548 487	*808 232*	315 452	378 753	*325 255*	250 365	*88 247*	-		4 174 486
Revenues from inter-segment transactions	47 382	56 583	-	74	11 455	-	1 665		-	(117 159)	-
Total revenues	**1 728 811**	**1 605 070**	***808 232***	**315 526**	**390 208**	***325 255***	**252 030**	***88 247***	-	**(117 159)**	**4 174 486**
Cost of sales	(1 425 644)	(1 518 646)	*(805 691)*	(248 091)	(312 160)	*(255 376)*	(220 815)	*(72 455)*	-	111 549	(3 613 807)
Gross profit/(loss)on sales	**303 167**	**86 424**	***2 541***	**67 435**	**78 048**	***69 879***	**31 215**	***15 792***	-	**(5 610)**	**560 679**
Selling costs	(117 544)	(81 512)	*(40 644)*	(49 061)	(17 086)	*(14 970)*	(16 998)	*(3 542)*	-	6 182	(276 019)
General and administrative expenses	(72 634)	(66 369)	*(39 253)*	(8 309)	(12 526)	*(12 296)*	(16 293)	*(10 548)*	(37 676)	211	(213 596)
Result on management of receivables	(1 246)	(2 681)	*(775)*	(380)	(2 021)	*(2 020)*	288	*424*	11	70	(5 959)
Result on other operating activities	68 687	(8 949)	*(1 387)*	270	(8 812)	*(8 820)*	2 822	*78*	(408)	-	53 610
Operating profit/(loss)	**180 430**	**(73 087)**	***(79 518)***	**9 955**	**37 603**	***31 773***	**1 034**	***2 204***	**(38 073)**	**853**	**118 715**
Exchange differences and interest on trade settlements	(8 463)	(35 138)	*(20 237)*	(10 507)	(19 508)	*(9 144)*	(877)	*(230)*	(8 545)	657	(82 381)
Group financing costs	-	-	-	-	-	-	-	-	(101 657)	-	(101 657)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	-	-	-	73 907	-	73 907
Share in profit of equity-accounted investees	132	(86)	-	-	-	-	-	-	-	-	46
Profit/(loss) before tax	**172 099**	**(108 311)**	***(99 755)***	**(552)**	**18 095**	***22 629***	**157**	***1 974***	**(74 368)**	**1 510**	**8 630**
Income tax											4 586
Net profit/(loss)											**13 216**
Profit /(Loss) on disposal of discontinued operations											(11 715)
Net profit/(loss) for the financial year											**1 501**
Amortisation/depreciation	134 087	62 693	*38 646*	17 087	3 211	*3 183*	496	*262*	4 535	-	222 109
EBITDA	**314 517**	**(10 394)**	*(40 872)*	**27 042**	**40 814**	*34 956*	**1 530**	*2 466*	**(33 538)**	**853**	**340 824**
*Normalized EBITDA**	*286 137*	*(3 133)*	*X*	*27 524*	*49 940*	*X*	*785*	*X*	*(34 668)*	*857*	*327 442*

**Normalized EBITDA for the year ended 31 December 2011 is calculated as EBITDA adjusted by non-typical one-off events: impairment loss of assets amounted to PLN 2.3 million, gain on the sale of gas emission rights amounted to PLN 8.6 million, a decrease of liabilities related to the supply of heat to Soda Deutschland Ciech amounted to PLN 28.3 million zł, reversal of provisions for environmental protection amounted to PLN 2.4 million, unused production capacity amounted to PLN 13.1 million, liquidation of inventory and fixed assets amounted to PLN 4.5 million.*

31.12.2012 *PLN '000*	**Soda Segment**	**Organic Segment**	**Silicates and Glass Segment**	**Agrochemical Segment**	**Other operations segment**	**Corporate functions - reconciliation item**	**Eliminations (consolidation adjustments)**	**TOTAL**
Property, plant and equipment	1 482 158	552 322	63 204	206	373	1 132	-	2 099 395
Intangible assets	86 815	36 855	2 063	229	556	2 649	-	129 167
- goodwill	*45 346*	*15 070*	*39*	-	-	-	-	*60 455*
Investments in associates and joint ventures accounted for under the equity method	4 971	-	-	-	-	-	-	4 971
Inventory	128 909	110 900	37 396	375	2 107	-	(561)	279 126
Trade receivables	258 059	180 553	50 844	10 110	29 369	-	(29 319)	499 616
Assets classified as held for sale included in previous periods under segment assets.	-	-	11 140	73 420	-	-	-	84 560
Other assets held for sale	-	-	-	-	-	27 240	-	27 240
Other assets	-	-	-	-	-	603 960	-	603 960
Total assets	**1 960 912**	**880 630**	**164 647**	**84 340**	**32 405**	**634 981**	**(29 880)**	**3 728 035**
Trade liabilities	288 622	166 791	58 084	30 130	8 111	-	(30 076)	521 662
Liabilities related to assets classified as held for sale included in previous periods under segment liabilities	-	-	-	5 507	-	-	-	5 507
Other liabilities related to assets classified as held for sale	-	-	-	-	-	28 084	-	28 084
Other liabilities	-	-	-	-	-	2 292 594	-	2 292 594
Total liabilities	**288 622**	**166 791**	**58 084**	**35 637**	**8 111**	**2 320 678**	**(30 076)**	**2 847 847**

31.12.2011 *PLN '000*	**Soda Segment**	**Organic Segment**	**Silicates and Glass Segment**	**Agrochemical Segment**	**Other operations segment**	**Corporate functions - reconciliation item**	**Eliminations (consolidation adjustments)**	**TOTAL**
Property, plant and equipment	1 467 188	605 476	83 494	52 587	328	9 647	-	2 218 720
Intangible assets	115 589	53 908	2 446	2 274	546	6 358	-	181 121
- goodwill	*48 991*	*15 119*	*39*	-	-	-	-	*64 149*
Investments in associates and joint ventures accounted for under the equity method	4 655			-	-	-	-	4 655
Inventory	126 533	152 607	34 551	43 426	-	-	(498)	356 619
Trade receivables	276 571	182 970	49 496	32 958	24 773	-	(22 929)	543 839
Assets classified as held for sale included in previous periods under segment assets	-	-	821	-	44 210	-	-	45 031
Other assets held for sale	-	-	-	-	-	11 986	-	11 986
Other assets	-	-	-	-	-	713 225	-	713 225
Total assets	**1 990 536**	**994 961**	**170 808**	**131 245**	**69 857**	**741 216**	**(23 427)**	**4 075 196**
Trade liabilities	295 723	241 364	39 537	28 439	8 919	-	(25 202)	588 780
Liabilities related to assets classified as held for sale included in previous periods under segment liabilities	-	-	-	-	31 879	-	-	31 879
Other liabilities related to assets classified as held for sale	-	-	-	-	-	1 192	-	1 192
Other liabilities	-	-	-	-	-	2 138 214	-	2 138 214
Total liabilities	**295 723**	**241 364**	**39 537**	**28 439**	**40 798**	**2 139 406**	**(25 202)**	**2 760 065**

Other information related to operating segments

01.01.-31.12.2012 *PLN '000*	**Soda Segment**	**Organic Segment**	*including: discontinued operations*	**Silicates and Glass Segment**	**Agrochemical Segment**	*including: discontinued operations*	**Other operations segment**	*including: discontinued operations*	**Corporate functions - reconciliation item**	**Eliminations (consolidation adjustments)**	**TOTAL**
Recognised impairment losses	48 780	145 682	*120 596*	1 713	44 104	*43 940*	4 541	*72*	-	-	244 820
Reversed impairment losses	2 756	5 314	*1 602*	243	332	*98*	419	*4*	-	-	9 064
Recognised impairment losses (not attributable to segments), including:	-	-	-	-	-	-	-	-	62 639	-	62 639
- *discontinued operations*	-	-	-	-	-	-	-	-	*20 853*	-	*20 853*
Reversed recognised impairment losses (not attributable to segments), including:	-	-	-	-	-	-	-	-	40 191	-	40 191
- *discontinued operations*	-	-	-	-	-	-	-	-	*38 894*	-	*38 894*
Interest income attributable to segments	501	1 477	*331*	444	9	-	53	*25*	-	(454)	2 030
Interest income recognised under Corporate Functions	-	-	-	-	-	-	-	-	2 929	-	2 929
Interest expense attributable to segments	6 109	5 487	*5 312*	101	28	*14*	456	*173*	-	(454)	11 727
Interest expense recognised under Corporate Functions	-	-	-	-	-	-	-	-	113 495	-	113 495

Other information related to operating segments

01.01.-31.12.2011 *PLN '000*	**Soda Segment**	**Organic Segment**	*including: discontinued operations*	**Silicates and Glass Segment**	**Agrochemical Segment**	*including: discontinued operations*	**Other operations segment**	*including: discontinued operations*	**Corporate functions - reconciliation item**	**Eliminations (consolidation adjustments)**	**TOTAL**
Recognised impairment losses	4 364	9 686	*4 552*	1 121	5 058	*5 109*	502	*165*	-	(163)	20 568
Reversed impairment losses	11 815	4 161	*1 325*	47	459	*365*	732	*582*	-	2	17 216
Recognised impairment losses (not attributable to segments), including:	-	-	-	-	-	-	-	-	22 914	-	22 914
- discontinued operations	-	-	-	-	-	-	-	-	*21 770*	-	*21 770*
Reversed recognised impairment losses (not attributable to segments), including:	-	-	-	-	-	-	-	-	9 830	-	9 830
- discontinued operations	-	-	-	-	-	-	-	-	*5 043*	-	*5 043*
Interest income attributable to segments	941	1 602	*544*	226	303	*235*	162	*40*	-	(781)	2 453
Interest income recognised under Corporate Functions	-	-	-	-	-	-	-	-	8 907	-	8 907
Interest expense attributable to segments	4 564	4 174	*4 165*	21	27	*10*	963	-	-	(779)	8 970
Interest expense recognised under Corporate Functions	-	-	-	-	-	-	-	-	98 075	-	98 075

Sales revenues by operating segment

	2012	2011	change	change %	% share in total revenue 2012	% share in total revenue 2011
Soda Segment including:	**1 975 489**	**1 728 811**	**246 678**	**14,3%**	**45,1%**	**41,4%**
Dense soda ash	1 094 632	968 764	125 868	13,0%	25,0%	23,2%
Light soda ash	344 044	313 147	30 897	9,9%	7,9%	7,5%
Salt	151 582	147 016	4 566	3,1%	3,5%	3,5%
Baking soda	119 769	108 245	11 524	10,6%	2,7%	2,6%
Calcium chloride	21 139	34 124	(12 985)	(38,1%)	0,5%	0,8%
Other products	194 386	110 133	84 253	76,5%	4,4%	2,6%
Revenues from inter-segment transactions	49 937	47 382	2 555	5,4%	1,1%	1,1%
Organic Segment including:	**1 690 982**	**1 605 070**	**85 912**	**5,4%**	**38,6%**	**38,4%**
TDI	553 868	426 975	126 893	29,7%	12,7%	10,2%
Resins	467 515	469 007	(1 492)	(0,3%)	10,7%	11,2%
Polyurethane foams	202 986	208 159	(5 173)	(2,5%)	4,6%	5,0%
Plant protection chemicals	176 225	129 123	47 102	36,5%	4,0%	3,1%
Plastics	42 154	64 975	(22 821)	(35,1%)	1,0%	1,6%
ECH	57 435	89 722	(32 287)	(36,0%)	1,3%	2,1%
Other products	157 879	160 526	(2 647)	(1,6%)	3,6%	3,8%
Revenues from inter-segment transactions	32 920	56 583	(23 663)	(41,8%)	0,8%	1,4%
Agrochemical segment, including:	**236 038**	**390 208**	**(154 170)**	**(39,5%)**	**5,4%**	**9,3%**
Fertilizers	71 095	158 939	(87 844)	(55,3%)	1,6%	3,8%
Phosphorus compounds	142 393	148 538	(6 145)	(4,1%)	3,3%	3,6%
Chromium compounds	11 706	16 402	(4 696)	(28,6%)	0,3%	0,4%
Other products	4 047	54 874	(50 827)	(92,6%)	0,1%	1,3%
Revenues from inter-segment transactions	6 797	11 455	(4 658)	(40,7%)	0,2%	0,3%
Silicates and Glass Segment, including:	**435 567**	**315 526**	**120 041**	**38,0%**	**9,9%**	**7,6%**
Sulphur	263 202	150 561	112 641	74,8%	6,0%	3,6%
Glass blocks and packaging	89 556	87 900	1 656	1,9%	2,0%	2,1%
Sodium silicate in lumps	53 775	52 007	1 768	3,4%	1,2%	1,2%
Sodium water glass	21 522	17 157	4 365	25,4%	0,5%	0,4%
Other products	7 504	7 827	(323)	(4,1%)	0,2%	0,2%
Revenues from inter-segment transactions	8	74	(66)	(89,2%)	0,0%	0,0%
Other operations segment	**140 958**	**252 030**	**(111 072)**	**(44,1%)**	**3,2%**	**6,0%**
Revenues from external entities	129 538	250 365	(120 827)	(48,3%)	3,0%	6,0%
Revenues from inter-segment transactions	11 420	1 665	9 755	585,9%	0,3%	0,0%
Consolidation eliminations	**(101 082)**	**(117 159)**	16 077	(13,7%)	(2,3%)	(2,8%)
TOTAL, including:	**4 377 952**	**4 174 486**	**203 466**	**4,9%**	**100,0%**	**100,0%**

	2012	2011	change	change %	% share in total revenue 2012	% share in total revenue 2011
Discontinued operations	*991 047*	*1 221 734*	*(230 687)*	*(18,9%)*	*22,6%*	*29,3%*

INFORMATION ON GEOGRAPHICAL AREAS

01.01.-31.12.2012 *PLN '000*	**Poland**	**European Union (excluding Poland)**	**Other European countries**	**Africa**	**Asia**	**Other regions**	**TOTAL**
Sales revenue	1 527 342	1 853 267	331 799	321 193	201 758	142 593	**4 377 952**

01.01.-31.12.2011 *PLN '000*	**Poland**	**European Union (excluding Poland)**	**Other European countries**	**Africa**	**Asia**	**Other regions**	**TOTAL**
Sales revenue	1 547 299	1 824 268	286 731	184 064	258 320	73 804	**4 174 486**

31.12.2012 *PLN '000*	**Poland**	**European Union (excluding Poland)**	**Other European countries**	**Africa**	**Asia**	**Other regions**	**TOTAL**
Non-current assets other than financial instruments	1 724 334	794 233	-	-	198	-	2 518 765
Deferred tax assets	21 792	10 092	-	-	-	-	31 884
Other assets	723 155	353 951	38 577	33 920	17 767	10 016	1 177 386
Total assets	**2 469 281**	**1 158 276**	**38 577**	**33 920**	**17 965**	**10 016**	**3 728 035**

31.12.2011 *PLN '000*	**Poland**	**European Union (excluding Poland)**	**Other European countries**	**Africa**	**Asia**	**Other regions**	**TOTAL**
Non-current assets other than financial instruments	1 866 293	741 102	-	-	328	-	2 607 723
Deferred tax assets	13 490	10 500	-	-	499	-	24 489
Other assets	718 779	575 363	50 172	34 931	52 813	10 926	1 442 984
Total assets	**2 598 562**	**1 326 965**	**50 172**	**34 931**	**53 640**	**10 926**	**4 075 196**

5 Sales Revenue

SALES REVENUE	31.12.2012	31.12.2011
Revenue from sales of products and services	**3 896 510**	**3 648 181**
- products	3 831 375	3 582 743
- services	65 135	65 438
Revenue from sales of goods and materials	**481 442**	**526 305**
- goods	461 551	500 567
- materials	19 891	25 738
Net sales of products, goods and materials	**4 377 952**	**4 174 486**
including discontinued operations	*991 047*	*1 221 734*

6 Cost of sales

COST OF SALES	31.12.2012	31.12.2011
Cost of manufacture of products and services sold	3 229 024	3 058 767
Cost of sold goods and materials sold	522 987	553 261
Reversal of impairment losses on inventory	(4 620)	(6 559)
Recognition of impairment losses on inventory	34 066	8 338
Cost of sales	**3 781 457**	**3 613 807**
including discontinued operations	*907 284*	*1 133 522*

7 Income and costs other than sales revenue and cost of sales

PLN '000	31.12.2012	31.12.2011
Selling costs	276 375	276 019
General and administrative expenses	202 416	213 596
TOTAL	**478 791**	**489 615**
including discontinued operations	*102 266*	*121 253*

PLN '000

Costs by kind	31.12.2012	31.12.2011
Amotisation	235 759	220 816
Consumption of materials and energy	2 351 599	2 361 554
Employee Benefits	414 552	440 224
External services	541 001	523 246

PLN '000

Employee Benefits	31.12.2012	31.12.2011
Payroll	328 500	350 183
Social security and other benefits	81 185	84 311
Expenditure on retirement benefit and jubilee awards (including provisions)	4 003	4 474
Expenditure on defined - benefit pension schemes	-	-
Other	864	1 256
TOTAL	**414 552**	**440 224**

PLN '000

OTHER OPERATING INCOME	31.12.2012	31.12.2011
Grants	10 338	3 678
Rents/lease payments	6 044	5 462
Gain on disposal of non-financial non-current assets	-	2 215
Reversal of impairment allowances on receivables	3 693	3 568
Reversal of impairment losses on property, plant and equipment and intangible assets	751	7 099
Reversal of provisions on employee benefits	41 958	1 074

OTHER OPERATING INCOME	31.12.2012	31.12.2011
Reversal of other provisions	7 763	6 987
Profit on sales of emission rights	2 098	8 635
Penalty fees and damage received	2 463	3 603
Income from liquidation of current and non-current assets	3 564	525
Valuation of investment property in fair value	27 248	-
Revenues from caverns	6 419	40 370
Other charges returned	59	2 182
Liabilities forgiven and written-off	32	16 294
Other services	6 616	6 514
Other	12 245	8 816
TOTAL	**131 291**	**117 022**
including discontinued operations	*46 110*	*12 322*

Grants

Grants included in deferred income as at 31 December 2012 amounted to PLN 88,812 thousand (compared to PLN 71 265 thousand as at 31 December 2011).

Grants recognised in the income statement in the reporting period amount to PLN 10,338 thousand (PLN 3,678 thousand in the comparable period). Grants are amortized over time in proportion to the amortisation of capitalised development costs to which they relate

Ciech Group companies receive grants for research and development activities, purchase of property, plant and equipmentant and for adapting its projects to environmental requirements. The grants are mainly awarded to the Ciech Group companies by the European Regional Development Fund.

The most significant grant, received by Z.Ch. „Organika – Sarzyna" S.A. in the amount of PLN 39 997 thousand, relates to the project: "Creation of an innovative MCPA and MCPP-P manufacturing system", and includes:

- 85% of the funding in the form of payments from the European Regional Development Fund,
- 15% of the funding in the form of a targeted grant - an agreement concluded with the Polish Agency for Enterprise Development.

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Construction contracts

Soda Deutschland Ciech Group, pursuant to IAS 11 "Construction Contracts", attributes revenues and costs connected with contracts concerning voids desalination to particular periods in which the works were conducted.

The methods used to determine the stage of completion of contracts:

- **For Project 1** - The stage of completion is assessed by reference to surveys of work performed.
- **For Project 2** - The contract includes sale of mining rights and land and preparation of four gas voids (S113 to S116). The contract's stage of completion is based on percentage of contract costs incurred to date in relation to total estimated cost of the contract.

Revenues recognised in 2012 represent discounted amount of the expected proceeds to be received under the contract multiplied by the percentage of completion of the contract in the period.

The results on construction contracts recognised in other operating income or costs for the period amounted to:

- For Project 1 - PLN 422 thousand (EUR 101 thousand)
- For Project 2 - PLN 6,841 thousand (EUR 1,639 thousand)

In the prior period these costs amounted to:

- For Project 1 - PLN 1,064 thousand (EUR 257 thousand)
- For Project 2 - PLN 37,903 thousand (EUR 9,155 thousand)

The receivables relating to the construction contract recognised in assets amounted to:

- For Project 1 - PLN 3,311 thousand (EUR 810 thousand)
- For Project 2 - PLN 65,534 thousand (EUR 16,030 thousand)

In the prior period these receivables amounted to:

- For Project 1 - PLN 4,024 thousand (EUR 911 thousand)
- For Project 2 - PLN 71,477 thousand (EUR 16,183 thousand)

The amount of prepayments received on account of construction contracts in progress was PLN 13,920 thousand (PLN 30,697 thousand in the prior period)

The total costs and recognised profits (reduced by related losses) in respect of these construction contracts amounted to PLN 122,695 thousand (PLN 122,460 thousand in the comparable period).

PLN '000

OTHER OPERATING EXPENSES	31.12.2012	31.12.2011
Costs related to investment property	4 652	2 894
Loss on disposal of fixed assets	176	-
Recognition of impairment losses on receivables	8 542	9 528
Recognition of impairment losses on property, plant and equipment and intangible assets	201 512	2 711
Recognition of provisions on employee benefits	36 819	6 898
Recongition of other provisions	122 043	4 509
Costs of liquidated property, plant and equipment	3 721	3 865
Cost of liquidated materials	544	641
Amortisation/depreciation	798	855
Costs of idle assets and production capacity	21 836	13 138
Costs of remediating the effects of fortuitous events	5 080	1 576
Fortuitous events	178	5 324
Penalties and damages paid	1 994	2 921
Restructuring costs	9 651	19
Costs related to past activities	1 773	3 313
Costs of abandoned investment	13 886	248
Receivables write-off	59	908
Other	12 074	10 023
TOTAL	**445 338**	**69 371**
including discontinued operations	*275 219*	*24 822*

PLN '000

NET FINANCIAL INCOME/EXPENSES	31.12.2012	31.12.2011
Total interest	4 959	11 360
Interest on receivables	*2 075*	*2 589*
Interest on bank deposits and accounts	*2 259*	*8 589*
Other interest	*625*	*182*
Gain on valuation of derivatives	1 231	8 032
Dividends and share in profit	1 328	626
Foreign exchange gains, net	-	5 722
Profit on receivables sold	755	307
Reversal of impairment losses	1 365	2 719
Decrease in provisions due to change in discount rate	-	4 703
Other	458	21
FINANCIAL INCOME	**10 096**	**33 490**
Total interest	125 222	107 045
Interest on trade liabilities	11 727	*8 970*
Interest on borrowings	63 681	*65 218*
Interest on bonds	28 693	*17 614*
Interest on lease agreements	20 107	*1 482*
Other interest	1 014	*13 761*
Foreign exchange losses, net	24 387	-
Loss on disposal of financial assets	1 551	904
Recognition of impairment losses on non-current investments and investments in equity accounted associates	3 575	2 158
Recognition of other impairment losses	1 874	3 701
Factoring commissions	3 980	3 683
Bank fees and commissions	62 312	12 352
Recognized provisions	510	681
Increase in provisions due to change in discount rates	17 178	4 213
Costs of discounting of liabilities	1 480	1 800
Loss on derivatives	5 317	4 877

NET FINANCIAL INCOME/EXPENSES	31.12.2012	31.12.2011
Costs of sureties and guarantees	984	1 211
Other	23 314	996
FINANCIAL EXPENSES	**271 684**	**143 621**
NET FINANCIAL INCOME/EXPENSES	**(261 588)**	**(110 131)**
including discontinued operations	*16 403*	*(32 109)*

Research and development costs
The expenditures on research and development expensed in the period as not meeting the capitalisation criteria amounted to PLN 2,525 thousand (PLN 2,612 thousand in the prior period).

8 Income tax

The main components of tax expense include:

PLN '000

The main components of tax expense (tax income)	31.12.2012	31.12.2011
Current income tax	7 262	2 568
Income tax for the reporting period,	7 145	3 021
Adjustment to tax for previous years	117	(453)
Deferred tax	(29 401)	(7 154)
Origination/reversal of temporary differences	(59 132)	6 232
Recognition of tax losses not recognized in previous years	8 255	(21 843)
Recognition of temporary differences not recognized in previous years	-	(1 487)
Recognition/ reversal of impairment losses on deferred tax assets	21 476	9 944
Income tax recognised in income statement	**(22 139)**	**(4 586)**

PLN '000

INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME	31.12.2012	31.12.2011
Cash flow hedging	(2 540)	1 799
Net currency at translation differences (investments in foreign companies)	(599)	-
TOTAL	**(3 139)**	**1 799**

The following represents a reconciliation of income tax calculated by applying the currently enacted statutory tax rate to the Group's pre-tax financial result to income tax calculated based on the effective tax rate:

EFFECTIVE TAX RATE	31.12.2012		31.12.2011	
	%	*PLN '000*	%	*PLN '000*
Profit (loss) before taxes		**(457 187)**		**8 630**
Current tax in the income statement	**-2%**	**7 262**	**30%**	**2 568**
Income tax due to current tax statement	**-2%**	**7 143**	**37%**	**3 212**
Income tax based on currently enacted tax rate	**19%**	**(86 866)**	**19%**	**1 640**
Difference due to the application of tax rates of other tax jurisdictions	2%	(7 062)	13%	1 104
Non-tax deductible costs	-58%	265 271	1032%	89 019
Tax deductible costs not recognised in profit before tax	3%	(11 453)	-287%	(24 740)
Taxable revenues not recognised in profit before tax	0%	(2 013)	4%	311
Non-taxable revenues	9%	(43 095)	-942%	(81 288)
Tax free incomes	2%	(9 022)	42%	3 608
Tax losses utilized	13%	(60 317)	-154%	(13 254)
Consolidation adjustments	18%	(80 825)	525%	45 272
Tax loss for the current period	-9%	42 525	-214%	(18 460)
Income tax for previous years recognised in the income statement	0%	119	-7%	(644)
Deferred tax in the income statement	**6%**	**(29 401)**	**-83%**	**(7 154)**
Deferred tax liability - change in temporary differences	9%	(39 920)	349%	30 093
Deferred tax asset - change in temporary differences (except for tax losses)	3%	(13 774)	-151%	(13 043)

EFFECTIVE TAX RATE	31.12.2012		31.12.2011	
	%	*PLN '000*	%	*PLN '000*
Deferred tax asset - recognition of an asset in respect of the current tax loss	3%	(14 923)	-256%	(22 120)
Deferred tax asset - recognition of an asset in respect of prior year's tax losses	0%	(50)	-253%	(21 842)
Deferred tax asset - change in the asset due to the utilisation of underlying tax losses	-4%	17 790	114%	9 814
Recognition/reversal of impairment losses on assets in respect of temporary differences (except for tax losses)	0%	(441)	-51%	(4 371)
Recognition/reversal of a impairment losses on assets in respect of tax losses	-5%	21 917	166%	14 315
Effective tax rate	**5%**	**(22 139)**	**-53%**	**(4 586)**

**In 2012, income tax of POLSIN PRIVATE LIMITED (17%), S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. (16%), Soda Deutschland Ciech Group (2,.25%) amounted to PLN 2,126 thousand (in 2011, income tax for POLSIN PRIVATE LIMITED, DALTRADE PLC, S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. amounted to PLN 22,944 thousand).*

Deferred income tax

Deferred income tax is attributable to the following items:

PLN '000

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITY	31.12.2012			31.12.2011		
	asset	liability	net value	asset	liability	net value
Property, plant and equipment	29 060	106 997	(77 937)	4 203	165 797	(161 594)
Intangible assets	3 655	2 199	1 456	4	4 503	(4 499)
Right of perpetual usufruct of land	-	5 468	(5 468)	-	5 544	(5 544)
Investment property	-	21 170	(21 170)	-	1 572	(1 572)
Financial assets	3 978	2 030	1 948	57	2 269	(2 212)
Inventory	3 230	95	3 135	1 941	81	1 860
Trade and other receivables	923	28 632	(27 709)	1 549	30 209	(28 660)
Provisions for employee benefits	10 273	-	10 273	12 468	(278)	12 746
Other provisions	12 096	-	12 096	15 728	-	15 728
Tax losses carried forward	76 625	-	76 625	81 672	-	81 672
Foreign exchange differences	(3 726)	(1 793)	(1 933)	4 274	12 126	(7 852)
Liabilities	9 689	9 455	234	32 810	1 489	31 321
Other	(1)	11	(12)	40	2 151	(2 111)
Deferred tax assets/liability	**145 802**	**174 264**	**(28 462)**	**154 746**	**225 463**	**(70 717)**
Set - off of deferred tax assets/ liability	(70 094)	(70 094)	-	(104 797)	(104 797)	-
Impairment loss on asset	43 824	-	43 824	25 460	-	25 460
Deferred tax assets/liability recognised in the statement of financial position	**31 884**	**104 170**	**(72 286)**	**24 489**	**120 666**	**(96 177)**

PLN '000

CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	**As at 01.01.2012**	Change in temporary differences recognised in income statement	Change in temporary differences recognised in equity capital	Foreign exchange differences	Transfer from/to assets held for sale	**As at 31.12.2012**
Property, plant and equipment	(707 165)	341 916	-	22 073	(15 284)	(358 460)
Intangible assets	(20 847)	23 007	-	87	(11)	2 236
Right of perpetual usufruct of land	(29 178)	399	-	-	-	(28 779)
Investment property	(8 276)	(103 153)	-	-	-	(111 429)
Long-term receivables	-	-	-	-	-	-
Financial assets	(11 582)	21 890	-	10	-	10 318
Inventory	9 859	7 317	-	-	(605)	16 571
Trade and other receivables	(110 876)	(1 870)	-	6 192	(368)	(106 922)
Provisions for employee benefits	66 196	(11 462)	-	(110)	(774)	53 850
Other provisions	67 948	5 263	-	(2 009)	(15 258)	55 944
Tax losses carried forward	423 371	(4 286)	-	(11 874)	-	407 211
Foreign exchange differences	(41 332)	47 823	(16 521)	-	(142)	(10 172)
Liabilities	119 373	(96 989)	-	(4 455)	(467)	17 462
Other	(10 653)	10 340	-	55	200	(58)
TOTAL	**(253 162)**	**240 195**	**(16 521)**	**9 969**	**(32 709)**	**(52 228)**

PLN '000

CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	**As at 01.01.2011**	Change in temporary differences recognised in income statement	Change in temporary differences recognised in equity capital	Foreign exchange differences	Transfer from/to assets held for sale	**As at 31.12.2011**
Property, plant and equipment	(642 432)	(30 011)	-	(34 722)	-	(707 165)
Intangible assets	(25 655)	5 523	-	(715)	-	(20 847)
Right of perpetual usufruct of land	(29 637)	459	-	-	-	(29 178)
Investment property	(7 065)	(1 211)	-	-	-	(8 276)
Financial assets	(11 909)	340	-	(13)	-	(11 582)
Inventory	8 136	1 769	-	-	(46)	9 859
Trade and other receivables	(36 543)	(62 927)	-	(6 785)	(4 621)	(110 876)
Provisions for employee benefits	37 427	28 818	-	114	(163)	66 196
Other provisions	65 734	(958)	-	3 267	(95)	67 948
Tax losses carried forward	231 549	183 917	-	7 905	-	423 371
Foreign exchange differences	(16 705)	(34 095)	9 468	-	-	(41 332)
Liabilities	98 572	15 111	-	8 194	(2 504)	119 373
Other	(948)	(9 602)	-	(103)	-	(10 653)
TOTAL	**(329 476)**	**97 133**	**9 468**	**(22 858)**	**(7 429)**	**(253 162)**

Dividend payments to the shareholders of the Ciech Group have no effect on deferred taxes
.
The Ciech Group companies which recognised deferred tax assets in respect of tax loss carryforwards, expect based on their tax budgets that sufficient taxable profits will be available within 5 years (7 years for US Govora S.A.) against which the Group can fully utilise the benefits therefrom.

9 Discontinued operations and assets and liabilities classified as held for

Discontinued operations
The accounting policies applied in the preparation of a discontinued operation's income statement are the same as the accounting policies of the Group.

The results of discontinued operations include:

For the period from 1 January 2012 to 31 December 2012:
- Results of POLFA Sp. z o.o. for the period of inclusion in the Group, as well as the consolidated result from disposal of that entity
- Results of Zachem group due to discontinued production of TDI and ECH in Zachem – operations were presented in organic segment
- Results of Alwernia S.A. reported in discontinued operations due to agreement singed between CIECH S.A., and Alwernia Invest Sp. z o.o. described in detail in section I.2,
- Eliminations of effects of transactions between entities included in the Ciech Group and reported as discontinued operations.
- Results of Ciech Group (CIECH S.A.) from transactions with companies reported in discontinued operations

The table below presents the result on disposal of discontinued operations:

PLN '000	**POLFA Sp. z o.o.**
Sales revenues	6 500
Consolidated cost	(8 378)
Gross profit	(1 878)
Income tax	(785)
Net result on disposal	**(2 663)**

For the period from 1 January 2011 to 31 December 2011:
- Results of companies held for sale – POLFA Sp. z o.o.,
- Results of the company over which the Group lost control – Zachem UCR Sp. z o.o,
- Results of units sold in 2011 for the period of inclusion in the Group in 2011 - FOSFORY Group, Daltrade Ltd., as well as the consolidated result from disposal of these entities,
- Results of ZACHEM Group,
- Results of Alwernia S.A.,
- Eliminations of effects of transactions between entities included in the Ciech Group and reported as discontinued operations.
- Results of Ciech Group (CIECH S.A.) from transactions with companies reported in discontinued operations.

The table below presents the result on disposal of discontinued operations:

PLN '000	**FOSFORY Group**	**Daltrade Ltd.**	**TOTAL**
Sales revenues	106 740	89	106 829
Consolidated cost	(102 195)	(671)	(102 866)
Gross profit	4 545	(582)	3 963
Income tax	(16 311)	633	(15 678)
Net result on disposal	**(11 766)**	**51**	**(11 715)**

An appropriate presentation adjustment was also made in the financial statements for 2011 (comparative information).

Assets and liabilities classified as held for sale

As at December 31 2012 the Ciech Group classified as "Assets classified as held for sale the following assets:

- VITROSILICON Spółka Akcyjna disclosed tangible fixed assets amounting to PLN 11,992 thousand – in the current period, one of the three VITROSILICON S.A.'s plants, located in Pobiedziska, as well as a glass block production line located in Iłowa were classified as assets held for sale. The object of the planned disposal is the complex of real property, as well as plant and machinery. The preliminary sales agreement was entered into on February 15th, 2013. These assets are categorised in the silicates and glass segment.

- CIECH S.A. disclosed the shares in Alwernia S.A. in connection with entering on 31 January 2013 into a preliminary share sale agreement. The subject of sale were 2,277,431 shares, which constitutes 99.62% of the share capital of the company. Consequently, Alwernia S.A. disclosed in the consolidated statements all its balance sheet items as assets or liabilities classified as held for sale. These assets are categorised in the agro-chemical segment.

As at 31 December 2011,the Ciech Group recognised the following items under "Fixed assets held for sale":

- CIECH S.A. disclosed the shares in POLFA Sp. z o.o. in connection with entering on July 15th, 2011 into a share sale agreement. The subject of sale were 3,820 shares, which constitutes 100% of the share capital of POLFA Sp. z o.o. The amount of borrowings granted to POLFA Sp. z o.o. by CIECH S.A. was also disclosed in the separate statements as an asset held for sale. Consequently, POLFA Sp. z o.o. disclosed in the consolidated statements all its balance sheet items as assets or liabilities classified as held for sale. These assets are categorised in the “other activities” segment.
- Due to the process of sale of shares in Cheman S.A. and Ciech Finance Sp. z o.o. executed by CIECH S.A. in 2011, Cheman S.A. and Ciech Finance Sp. z o.o. disclosed in the consolidated statements all their balance sheet items as assets or liabilities classified as held for sale. The companies were assigned to the “other activities” segment.
- In connection with the conclusion by ZACHEM S.A. of the agreement concerning the sale of shares in ZACHEM UCR Sp. z o.o. on September 27th, 2011, the ZACHEM Group disclosed in its consolidatedstatements all balance sheet items related to ZACHEM UCR Sp. z o.o. as assets or liabilities classified as held for sale. These assets are categorised in the organic segment.
- VITROSILICON Spółka Akcyjna disclosed tangible fixed assets amounting to PLN 821 thousand, including:
  - land – PLN 368 thousand,
  - buildings and structures – PLN 132 thousand,
  - machinery and equipment - PLN 321 thousand.These assets are categorised in the silicates and glass segment

Z.Ch. „Organika – Sarzyna” S.A. disclosed tangible fixed assets amounting to PLN 844 thousand. These assets re categorised in the organic segment.

The following list presents the main items of assets and liabilities held for sale:

PLN ‘000

ASSETS CLASSIFIED AS HELD FOR SALE	31.12.2012	31.12.2011
Property, plant and equipment	24 662	3 138
Intangible assets	1 989	701
Non-current receivables	-	2
Right of perpetual usufruct	726	61
Long-term investments	1 320	205
Deferred tax assets	6 230	780
Inventory	36 411	8 059
Income tax receivables	-	48
Trade and other receivables	30 722	34 040
Cash and cash equivalents	9 740	9 983
TOTAL	**111 800**	**57 017**

PLN ‘000

LIABILITIES CLASSIFIED AS HELD FOR SALE	31.12.2012	31.12.2011
Long-term liabilities due to loans, borrowings and other debt instruments	7 648	-
Other non-current liabilities	104	-
Long-term provisions for employee benefits	421	167
Other long-term reserves	14 733	-
Short-term liabilities due to loans, borrowings and other debt instruments	1 176	-
Trade and other liabilities	8 721	32 710
Short-term provisions for employee benefits	4	28
Other current provisions	696	166
Current income tax liablility	88	-
TOTAL	**33 591**	**33 071**

Items in the cash flow statement related to discontinued operations are as follows

PLN '000

CONSOLIDATED CASH FLOW STATEMENT - DISCONTINUED OPERATIONS	31.12.2012	31.12.2011
Net cash from operating activities	14 382	893
Net cash from investing activities	(6 403)	1 962
Net cash from financing activities	(11 254)	(3 099)
Total net cash flows	**(3 275)**	**(244)**
Opening balance of cash	13 211	10 171
Change in foreign exchange difference	(196)	56
Cash at the end of the period	**9 740**	**9 983**

10 Earnings per share

Basic earnings per share is the net profit for the year attributable to ordinary share holders of the parent entity, divided by the weighted average number of ordinary shares outstanding during the year.
Diluted earnings per share is the net profit for the year attributable to ordinary share holders of the parent entity, divided by the weighted average number of ordinary shares outstanding during the year adjusted for the effects of all dilutive potential ordinary shares.

The table below presents profit and shares data used in the calculation of the basic and diluted earnings per share:

PLN '000	31.12.2012	31.12.2011
Net profit (loss) from continuing operations attributable to the share holders of the parent	(210 577)	75 898
Net profit (loss) from discontinued operations attributable to the share holders of the parent	(220 007)	(74 739)
Net profit (loss) attributable to the share holders of the parent, used in calculation of basic earnings per share	(430 584)	1 159
Net profit (loss) attributable to the share holders of the parent, used in calculation of diluted earnings per share	(430 584)	1 159
Weighted average number of issued ordinary shares, used in calculation of basic and diluted earnings per share	52 699 609	47 070 649

11 Dividends paid and proposed

Due to loss gained in 2012 The Management Board of CIECH S.A. is not expecting to pay out dividend in 2013.

On June 25th, 2012 the Annual General Shareholders' Meeting of CIECH S.A. adopted a resolution to earmark the entire net profit for 2011 amounted to PLN 351,176 thousand for the Company's supplementary capital.

Considering the net loss incurred in 2010, CIECH S.A. did not pay any dividends in 2011. On June 30th, 2011 the Annual General Shareholders' Meeting of CIECH S.A. adopted a resolution to cover the loss from the Company's supplementary capital.

12 Property, plant and equipment

PLN '000

MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT 01.01.-31.12.2012	Land	Buildings, offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other property, plant and equipment	Property, plant and equipment under construction	TOTAL property, plant and equipment
Cost of property, plant and equipment at the beginning of period	**85 660**	**926 341**	**2 016 062**	**126 452**	**47 328**	**243 719**	**3 445 562**
Purchase	-	50 742	244 430	784	2 048	543 791	**841 795**
Reclassified	-	47 828	171 383	1 519	897	(518 265)	**(296 638)**
External financing costs	-	8	140	-	-	14 617	**14 765**
Transfer from/to assets held for sale	(735)	(50 553)	(91 966)	(6 139)	(3 679)	(13 974)	**(167 046)**
Change of valuation of property, plant and equipment due to finance lease agreement of thermal-electric power station	-	(29 328)	(143 079)	-	-	-	**(172 407)**
Currency translation differences related to foreign operations	(6 685)	(15 805)	(56 838)	(1 185)	(815)	(916)	**(82 244)**
Sales	-	(1 652)	(7 978)	(6 294)	(58)	(3 160)	**(19 142)**
Liquidation	-	(5 234)	(13 088)	(164)	(536)	-	**(19 022)**
Other increases/decreases	-	(76)	(3 271)	(3 631)	(10)	(515)	**(7 503)**
Cost of property, plant and equipment at the end of period	**78 241**	**922 271**	**2 115 794**	**111 342**	**45 174**	**265 298**	**3 538 120**
Accumulated depreciation at the beginning of period	**7 575**	**304 566**	**762 564**	**76 092**	**30 104**	**-**	**1 180 901**
Depreciation for the period (due to)	**(564)**	**28 123**	**67 805**	**(3 541)**	**1 225**	**-**	**93 047**
Depreciation charge	-	49 293	157 328	8 374	5 438	-	**220 433**
Reclassification	-	1 056	(679)	-	(4)	-	**373**
Transfer from/to assets held for sale	-	(15 040)	(57 532)	(5 240)	(3 265)	-	**(81 077)**
Currency translation differences related to foreign operations	(564)	(2 225)	(15 590)	(713)	(484)	-	**(19 575)**
Sales	-	(1 089)	(3 406)	(5 843)	(41)	-	**(10 380)**
Liquidation	-	(3 100)	(9 918)	(121)	(424)	-	**(13 562)**
Other increases/decreases	-	(773)	(2 397)	1	4	-	**(3 165)**
Accumulated depreciation at the end of period	**7 011**	**332 688**	**830 369**	**72 551**	**31 328**	**-**	**1 273 948**
Impairment losses at the beginning of the period	**2 094**	**17 729**	**25 787**	**112**	**48**	**171**	**45 941**
Recognition	6	48 370	55 719	2 331	2 687	70 854	**179 968**
ReversalCurrency translation differences related to foreign operations	(6)	(25 076)	(23 889)	(617)	(292)	(12 369)	**(62 249)**
Recognition	(211)	(444)	(376)	-	-	-	**(1 032)**
Sales	-	(240)	(1 200)	(28)	-	-	**(1 468)**
Liquidation	-	(247)	(645)	-	(19)	-	**(911)**
Other increases/decreases	(984)	1 396	4 181	-	72	(138)	**4 527**
Impairment losses at the end of the period	**899**	**41 488**	**59 576**	**1 798**	**2 496**	**58 518**	**164 776**
Carrying amount of property plant and equipment at the beginning of period	**75 991**	**604 046**	**1 227 711**	**50 248**	**17 176**	**243 548**	**2 218 720**
Carrying amount of plant and equipment at the end of period	**70 330**	**548 094**	**1 225 849**	**36 993**	**11 349**	**206 780**	**2 099 395**

PLN '000

MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT 01.01.-31.12.2011	Land	Buildings, offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other property, plant and equipment	Property, plant and equipment under construction	**TOTAL property, plant and equipment**
Cost of property, plant and equipment at the beginning of period	**77 343**	**881 303**	**1 832 467**	**126 570**	**44 490**	**139 708**	**3 101 881**
Purchase	-	1 055	9 791	1 342	2 594	291 347	**306 129**
Reclassified from assets under construction	-	38 251	136 258	6 052	1 590	(197 553)	**(15 402)**
External financing costs	-	-	2	-	-	12 900	**12 902**
Transfer from/to assets held for sale	70	(2 713)	(2 511)	(2 517)	(885)	(945)	**(9 501)**
Currency translation differences related to foreign operations	8 569	18 525	68 074	1 205	924	1 020	**98 317**
Sales	(161)	(2 661)	(17 329)	(6 047)	(794)	-	**(26 992)**
Liquidation	-	(2 073)	(10 539)	(251)	(269)	(2 440)	**(15 572)**
Change in the Group structure	-	(4 872)	(85)	(119)	(322)	(5)	**(5 403)**
Other increases/decreases	(160)	(473)	(66)	216	-	(314)	**(797)**
Cost of property, plant and equipment at the end of period	**85 660**	**926 341**	**2 016 062**	**126 452**	**47 328**	**243 719**	**3 445 562**
Accumulated depreciation at the beginning of period	**5 148**	**257 699**	**628 783**	**71 718**	**25 571**	**-**	**988 919**
Depreciation for the period (due to)	**2 426**	**46 866**	**133 781**	**4 375**	**4 533**	**-**	**191 982**
Depreciation charge	1 718	48 176	139 540	9 326	5 851	-	**204 611**
Reclassification	-	4	(575)	-	1	-	**(570)**
Transfer from/to assets held for sale	-	(572)	(2 289)	(1 520)	(777)	-	**(5 158)**
Change in the Group structure	-	(533)	(79)	(101)	(134)	-	**(847)**
Currency translation differences related to foreign operations	708	2 101	15 531	649	474	-	**19 463**
Sales	-	(1 110)	(12 469)	(3 749)	(692)	-	**(18 020)**
Liquidation	-	(1 091)	(5 866)	(215)	(191)	-	**(7 363)**
Other increases/decreases	-	(108)	(11)	(15)	-	-	**(134)**
Accumulated depreciation at the end of period	**7 575**	**304 566**	**762 564**	**76 092**	**30 104**	**-**	**1 180 901**
Impairment losses at the beginning of the period	**1 892**	**17 256**	**25 659**	**125**	**60**	**2 440**	**47 433**
Recognition	-	694	1 846	-	-	171	**2 711**
Reversal	-	(51)	(311)	(13)	-	-	**(375)**
Currency translation differences related to foreign operations	202	418	384	-	-	-	**1 004**
Sales	-	(20)	-	-	-	-	**(20)**
Liquidation	-	(115)	(1 791)	-	(12)	(2 440)	**(4 358)**
Other increases/decreases	-	(453)	-	-	-	-	**(453)**
Impairment losses at the end of the period	**2 094**	**17 729**	**25 787**	**112**	**48**	**171**	**45 941**
Carrying amount of property plant and equipment at the beginning of period	**70 303**	**606 347**	**1 178 025**	**54 728**	**18 859**	**137 268**	**2 065 529**
Carrying amount of plant and equipment at the end of period	**75 991**	**604 046**	**1 227 711**	**50 248**	**17 176**	**243 548**	**2 218 720**

In 2012 the capitalisation rate applied to determine the amount of borrowing costs to be capitalised amounted to 12%, whereas in 2011 amounted to 9%.

Depreciation of property, plant and equipment was charged to the following line items in the consolidated income statement:

PLN '000

PROPERTY, PLANT AND EQUIPMENTDEPRECIATION CHARGES	31.12.2012	31.12.2011
Cost of sales	198 075	193 883
Selling costs and general and administrative expenses	21 383	9 240
Other operating expenses	975	1 488
TOTAL	**220 433**	**204 611**
including discontinued operations	*29 913*	*39 710*

PLN '000

RECOGNIZED NON-CURRENT ASSETS (OWNERSHIP STRUCTURE)	31.12.2012	31.12.2011
Owned	1 807 876	2 177 528
Finance lease agrements (including finance sale-lease-back agreement)	291 519	41 192
TOTAL	**2 099 395**	**2 218 720**

The carrying amounts of the categories of property, plant and equipment used pursuant to financial lease agreements:

PLN '000

PROPERTY, PLANT AND EQUIPMENTUSED PURSUANT TO FINANCIAL LEASE AGREEMENTS (including finance sale-lease-back agreements)	31.12.2012	31.12.2011
Machinery and equipment	287 650	35 282
Means of transport	3 869	5 910
TOTAL	**291 519**	**41 192**

In the reporting period, the Ciech Group received compensation from third parties for impaired items of property, plant and equipment in the amount of PLN 2,039 thousand (PLN 1,322 thousand in the prior year).

Expenditure on property, plant and equipment under construction incurred by the Ciech Group in 2012 was mainly related to the following capex projects:

SODA MĄTWY Group	*PLN '000*
Modernization of CKTI boilers	26 645
Turbine TGS 3 with the modernization of the energy infrastructure	10 733
Z.Ch. "Organika-Sarzyna" S.A.	
MCPA facility 6000 tons p.a.	23 198
MCPA production building construction, along with the basic installation	22 365
ZACHEM Group	
Construction of a system and implementation of an innovative technology of producing ECH out of glycerine	35 647

All Property, plant and equipment in Polish (Ciech S.A., Transclean Sp. z o.o., Soda Matwy S.A., Vitrosilicon S.A., Janikosoda S.A., Cheman S.A., Ciech Pianki Sp. z o.o., Soda Polska Ciech S.A., Alwernia S.A. i Z. Ch. „Organika – Sarzyna" S.A. and German companies (Soda Deutschland Ciech GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltungs-GmbH i Sodawerk Stassfurt GmbH & Co. KG.) who are the guarantors of the bonds are the collateral of financial liabilities.

Future commitments arising from concluded agreements for the acquisition of property, plant and equipment was PLN 28,289 in 2012 thousand (PLN 94,491 thousand in the prior year).

w tysiącach złotych

OFF-BALANCE SHEET PROPERTY, PLANT AND EQUIPMENT	31.12.2012	31.12.2011
Used based on rental, tenancy and other agreements, including:	**58 088**	**60 648**
Land in perpetual usufruct	51 511	55 001
Operating lease agreement	4 451	4 444
Tenancy agreement	2 126	1 203

13 Right of perpetual usufruct of land

Presented below is the carrying amount of the right of perpetual usufruct purchased by the Ciech Group.

PLN '000

RIGHT OF PERPETUAL USUFRUCT OF LAND	31.12.2012	31.12.2011
Cost at the beginning of period	**62 447**	**65 868**
Sale	(42)	(2 118)
Change in the Group structure	-	(1 720)
Transfer from/to assets held for sale	(801)	417
Other	2 489	-
Cost at the end of period	**64 093**	**62 447**
Amortisation at the beginning of the period	**6 169**	**4 900**
Amortisation for the period	853	1 716
Sale	(3)	(119)
Transfer from/to assets held for sale	(60)	(9)
Other	-	(319)
Amortisation at the end of the period	**6 959**	**6 169**
Impairment losses at the end of the period	**-**	**-**
Carrying amount as at the beginning of period	**56 278**	**60 968**
Carrying amount at the end of period	**57 134**	**56 278**

The right of perpetual usufruct of land received through administrative allocation satisfies the criteria for operating lease pursuant to IAS 17 "Leases" and as such is not recognised in the books but is instead recorded off-balance sheet.

14 Intangible assets

PLN '000

CHANGES TO INTANGIBLE ASSETS (GROUPED BY TYPE) 31.12.2012	Development costs	Goodwill	Licences, patents, permits etc. obtained, including:	*Computer software*	Intangible assets under development	Other intangible assets	**TOTAL**
Cost of intangible assets at the beginning of period	**16 256**	**439 717**	**88 237**	**37 578**	**19 943**	**96 747**	**660 900**
Purchase	-	-	1 610	1 531	7 576	123	9 308
Reclassification	37	-	2 713	331	(4 446)	-	(1 696)
Transfer from/to assets held for sale	(1 379)	-	(1 919)	(41)	(1 151)	-	(4 449)
Exchange differences	-	(39 904)	(174)	(107)	-	(6 866)	(46 943)
Sales	-	-	(12)	(12)	-	-	(12)
Liquidation	-	-	(190)	(185)	-	(9)	(199)
Other increases/decreases	-	(49)	6 496	6 496	(13 880)	843	(6 590)
Cost of intangible assets at the end of period	**14 914**	**399 764**	**96 761**	**45 591**	**8 042**	**90 838**	**610 319**
Accumulated amortisation at the beginning of the period	10 830	-	58 186	29 156	-	23 243	**92 259**
Amortisation for the period (due to)	**(309)**	**-**	**14 086**	**9 466**	**-**	**4 682**	**18 458**
Amortisation charge	1 026	-	8 753	3 422	-	5 558	15 337
Transfer from/to assets held for sale	(1 335)	-	5 610	6 297	-	838	5 113
Exchange differences	-	-	(95)	(75)	-	(1 714)	(1 809)
Sales	-	-	(1)	(1)	-	-	(1)
Liquidation	-	-	(181)	(176)	-	(1)	(182)
Accumulated amortisation at the end of period	**10 521**	**-**	**72 271**	**38 622**	**-**	**27 925**	**110 717**
Impairment losses at the beginning of the period	**-**	**375 568**	**-**	**-**	**-**	**11 952**	**387 520**
Recognition	1 937	-	1 381	49	397	17 836	21 551
Reversal	(274)	-	(477)	-	-	-	(751)
Exchange differences	-	(36 259)	-	-	-	(1 228)	(37 487)
Other increases/decreases	-	-	-	-	(397)	-	(397)
Impairment losses at the end of the period	**1 663**	**339 309**	**904**	**49**	**-**	**28 559**	**370 435**
Carrying amount of intangible assets at the beginning of period	**5 426**	**64 149**	**30 052**	**8 422**	**19 943**	**61 552**	**181 121**
Carrying amount of intangible assets at the end of period	**2 730**	**60 455**	**23 586**	**6 920**	**8 042**	**34 354**	**129 167**

PLN '000

CHANGES TO INTANGIBLE ASSETS (GROUPED BY TYPE) 31.12.2011	Development costs	Goodwill	Licences, patents, permits etc. obtained, including:	*Computer software*	Intangible assets under development	Other intangible assets	**TOTAL**
Cost of intangible assets at the beginning of period	**13 111**	**410 626**	**93 830**	***43 618***	**11 234**	**87 698**	**616 500**
Purchase	-	-	1 371	*1 289*	16 834	293	18 498
Reclassification	3 145	-	2 179	*1 439*	(8 060)	57	(2 679)
Transfer from/to assets held for sale	-	-	(7 903)	*(7 503)*	-	(838)	(8 741)
Exchange differences	-	20 951	174	*113*	-	9 538	30 663
PUT option valuation	-	757	-	-	-	-	757
Sales	-	-	(436)	*(436)*	-	-	(436)
Liquidation	-	-	(978)	*(942)*	-	(1)	(979)
Change in the Group structure	-	7 514	-	-	-	-	7 514
Other increases/decreases	-	(132)	-	-	(65)	-	(197)
Cost of intangible assets at the end of period	**16 256**	**439 717**	**88 237**	***37 578***	**19 943**	**96 747**	**660 900**
Accumulated amortisation at the beginning of the period	**8 901**	**-**	**58 027**	***34 072***	**-**	**16 571**	**83 499**
Amortisation for the period (due to)	**1 929**	**-**	**158**	***(4 916)***	**-**	**6 673**	**8 760**
Amortisation charge	1 929	-	8 264	*3 038*	-	5 496	15 689
Transfer from/to assets held for sale	-	-	(7 212)	*(7 082)*	-	(838)	(8 050)
Exchange differences	-	-	83	*68*	-	2 015	2 098
Liquidation	-	-	(783)	*(747)*	-	(1)	(784)
Other increases/decreases	-	-	(193)	*(193)*	-	-	(193)
Accumulated amortisation at the end of period	**10 830**	**-**	**58 186**	***29 156***	**-**	**23 243**	**92 259**
Impairment losses at the beginning of the period	**-**	**359 354**	**-**	**-**	**-**	**17 148**	**376 502**
Reversal	-	-	-	-	-	(6 724)	(6 724)
Exchange differences	-	16 214	-	-	-	1 527	17 741
Impairment losses at the end of the period	**-**	**375 568**	**-**	**-**	**-**	**11 952**	**387 520**
Carrying amount of intangible assets at the beginning of period	**4 210**	**51 273**	**35 803**	***9 546***	**11 234**	**53 979**	**156 499**
Carrying amount of intangible assets at the end of period	**5 426**	**64 149**	**30 052**	***8 422***	**19 943**	**61 552**	**181 121**

The most significant item is goodwill recognised at the Ciech Group tier and at the lower-tier group - Soda Deutschland Ciech in the total amount of PLN 60,455 thousand.

An important component of "other" intangible assets of the Soda Deutschland Group is the client base in the amount of PLN 16 700 thousand. The valuation was executed in relation to the most significant clients of the production company, Sodawerk Stassfurt, a member of the Soda Deutschland Ciech Group – identified based on an analysis of data for 2005-2007. The basis for the valuation represents 25 customers who have a stable and long-term relationship with the company and will remain clients of Sodawerk Stassfurt in the future. These are the relationships with the clients who are to a large extent dependant on Sodawerk Stassfurt as their main, or second supplier of raw materials. The most significant clients of Sodawerk Stassfurt would not be able to satisfy their demand for soda in the open market because of insufficient supply. In addition the dependence of many of the measured clients on Sodawerk Stassfurt is associated with the existence of a developed logistics system between them.

Other intangible assets of the Ciech Group include mainly IT systems (the most significant is the Oracle system), licences and patents, other software, own development works and other intangible assets. All intangible assets belong to the Ciech Group.

Amortisation of intangible assets was included in the following line items of the consolidated income statement:

PLN '000

AMORTISATION CHARGES ON INTANGIBLE ASSETS	31.12.2012	31.12.2011
Cost of sales	7 608	8 600
Selling costs and general and administrative expenses	5 600	4 978
Other operating expenses	2 129	2 111
TOTAL	**15 337**	**15 689**
including discontinued operations	*707*	*1 181*

All intangible assets in polish (Ciech S.A., Transclean Sp. z o.o., Soda Matwy S.A., Vitrosilicon S.A., Janikosoda S.A., Cheman S.A., Ciech Pianki Sp. z o.o., Soda Polska Ciech S.A., Alwernia S.A. i Z. Ch. „Organika-Sarzyna" S.A.) and german companies (Soda Deutschland Ciech GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltungs-GmbH i Sodawerk Stassfurt GmbH & Co. KG.) who are the guarantors of the bonds are the collateral of financial liabilities.

Future committments arising from concluded agreements for the acquisition of intangible assets amount to PLN 812 thousand for 2012(PLN 7,565 thousand in prior year).

In the presented periods, the Ciech Group did not revalue intangible assets. In the current period, changes in accounting estimates did not have a material impact and it not expected that they will have a material impact in future periods.

Apart from goodwill, the Ciech Group does not hold other intangible assets with an indefinite useful lifes. Additional information about the goodwill is presented in Note II.15.

Research and development
Research and development works carried out by the Ciech Group are aimed at increasing economic potential; and are mainly related to the modernisation of technological processes, reduction of manufacturing costs and optimisation of technical and technological parameters.

Internally generated intangible assets
The tables below present information about internally generated intangible assets.

PLN '000

Internally generated intangible assets for the period 01.01-31.12.2012	
Cost as at 01.01.2012	41 831
Expenditure incurred	1 615
Cost as at 31.12.2012	**43 446**
Amortisation - as at the beginning of the period	22 811
Amortisation for the period	3 154
Amortisation as at the end of the period	**25 965**
Impairment losses at the beginning of the period	2 123

Internally generated intangible assets for the period 01.01-31.12.2012	
Carrying amount at 31.12.2011	**15 358**

PLN '000

Internally generated intangible assets for the period 01.01-31.12.2011	
Gross value as at 01.01.2011	41 897
Expenditure incurred	2 669
Impairment losses of intangible assets	2 735
Cost as at 31.12.2011	**41 831**
Amortisation - as at the beginning of the period	18 632
Amortisation for the period	4 179
Amortisation as at the end of the period	**22 811**
Impairment losses at the beginning of the period	-
Carrying amount at 31.12.2011	**19 020**

15 Goodwill impairment testing

In preparing the consolidated financial statements of the Ciech Group, the goodwill recognised in the consolidated financial statements in relation to a subsidiary, Z.Ch. “Organika-Sarzyna”, and Soda Deutschland Ciech Group was tested for impairment in accordance with the policies of the Group, applied on a consistent basis. Value in use, calculated based on the models in effect within the Group, was used as the basis to determine recoverable amount. Value in use was calculated based on five-year plans compiled by the lower-tier Company/Capital Group. Financial projections included capital expenditure assuming continuation of current operating activities. Neither the Soda Deutschland Ciech Group nor Z.Ch. "Organika-Sarzyna" S.A. identified an impairment of goodwill in 2011. The average weighted cost of capital applied in goodwill impairment testing was: 10,5% for the residual period (test for 2012) for Z. Ch. "Organika-Sarzyna" S.A., and - 7,7% (tests for 2011) for the Soda Deutschland Ciech Group. The assumed growth rate for the residual period was 1.5% for the Soda Deutschland Ciech Group and 3.0% for other Ciech Group Companies.

Goodwill presented in the consolidated financial statements for 2011 amounts to PLN 60,455 thousand and changed for the following reasons:

- In 2012, there was an decrease in goodwill recognised in the statement of the lower tier group, the Soda Deutschland Ciech Group by PLN 3,645 thousand, which resulting from a change in the EUR exchange rate in 2012.
- Additionally in 2012 roku there was partiall realization of put options issued for the shares in Z. Ch. “Organika-Sarzyna” S.A. the difference between amount of liabilities recognized in financial statement and the amount actually paid decrease goodwill by PLN 49 thousand.

Goodwill presented in the consolidated financial statements for 2011 amounts to PLN 64,149 thousand and changed for the following reasons:

- In 2011, there was an increase in goodwill recognised in the statement of the lower tier group, the Soda Deutschland Ciech Group, which resulted from the merger of a company consolidated in the Soda Deutschland Ciech Group - Sodawerk Stassfurt with Sodachem Handels GmbH, which was not previously consolidated. The goodwill that was recognized as a result of this merger amounted to PLN 7,514 thousand.
- In 2011, there was an increase in goodwill recognised in the statement of the lower tier group, the Soda Deutschland Ciech Group, by PLN 4,737 thousand, which resulting from a change in the EUR exchange rate in 2011.
- Pursuant to the adopted policy, changes in the value of liabilities pertaining to put options issued for the shares in Z. Ch. “Organika-Sarzyna” S.A., except for discount unwinding, are treated as an adjustment to the acquisition cost and adjust goodwill recognised in the consolidated financial statements upon initial recognition, i.e. December 31st, 2006. For this reason, in 2011 the company’s goodwill was adjusted by PLN 132 thousand.

In additon, in 2011 put options were partially realised. The difference between the amount of liabilities recognised in the financial statements and the actual amount paid increased goodwill by PLN 757 thousand.

16 Investment property

PLN '000

INVESTMENT PROPERTY	31.12.2012	31.12.2011
Carrying amount at the beginning of period	**87 487**	**87 667**
Sales	(1 984)	(1 620)
Goodwill valuation	29 232	-
Reclassifications	(1 142)	-
Other increases/decreases*	(575)	1 440
Carrying amount at the end of period	**113 018**	**87 487**

On 1 January 2012, the Management Board of CIECH S.A. changed its accounting principles concerning investment property valuation from valuation according to the historic cost to valuation according to the fair value. At the initial recognition, the result of valuation of investment property to fair value is recognised in equity, under "Retained earings". In subsequent reporting periods, the profit or loss resulting from the change in fair value of aninvestment property is recognised in the net profit or loss in the period in which this change occurred and is recognised as other operating income/costs. Investment property remeasuered at fair value amounted to PLN 113,018 thosuand as at 31 December 2012. Fair value of investment property was settled by independent expert by comparision method.

The line item "Investment property" presented by the Ciech Group includes land, buildings and structures that have been acquired only in order to achieve economic benefits from rents or for the increase of their value.

As at 31 December 2012 the Ciech Group has the following investment property:
- **CIECH S.A.** - As at 31 December 2012, the investment property line item for CIECH S.A. includes land and investment expenditure related to the construction of a residential and office complex, located in Warsaw on Krasińskiego Street, on the corner with Powązkowska Street.
- **Grupa ZACHEM** – The investment property line item for ZACHEM Group includes land located in direct neighborhood ZACHEM S.A. and national road number 10.
- **Grupa SODA MĄTWY** - Buildings acquired by Soda Polska CIECH Sp. z o.o. as a result of a merger with the company Soda Med Sp. z o.o. These are buildings are leased for medical outpatient clinics, nursing and treatment rooms as well as private doctor's and dentist's consulting rooms.
- **Z. Ch. „Organika-Sarzyna" S.A. -** 35 buildings and structures located on the premises of Z.Ch. Z.Ch. "Organika-Sarzyna" S.A., in the past used by the company for its own needs, currently leased to generate revenue.

In connection with the conclusion of the consortium loan agreement and establishment of collateral on Ciech Group companies' assets, they have restricted right to dispose of their investment property, including a prohibition on sale.

PLN '000	01.01.-31.12.2012	01.01.-31.12.2011
Income from investment property rental	5 822	2 621
Operating costs related to investment property generating rental income in the period	4 323	1 911
Operating costs related to investment property not generating rental income in the period	1 948	992

17 Non-current receivables

PLN '000

NON-CURRENT RECEIVABLES	31.12.2012	31.12.2011
Receivables in relation to caverns	65 534	71 477
Other	-	750
Net non-current receivables	**65 534**	**72 227**
Write-down on receivables	-	-
Gross non-current receivables	**65 534**	**72 227**

18 Investments in associates and jointly-controlled entities measured under the equity method

The following table presents the carrying amounts of investments in associates and jointly-controlled entities measured under the equity method:

PLN '000

INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES	31.12.2012	31.12.2011
Investments in associates and jointly-controlled entities	4 971	4 655
Share in net profit of associated entities measured under the equity method	744	46

Other investments in associates

Kaverngesellschaft Stassfurt mbH
CIECH S.A. holds a 50% indirect share in Kaverngesellschaft Stassfurt GmbH. It is a jointly-controlled company, measured under the equity method at the lower-tier group level. Soda Deutschland Ciech Group (50% direct share in Kaverngesellschaft Stassfurt GmbH).
The table below presents abridged information regarding the investments in Kaverngesellschaft Stassfurt GmbH:

PLN '000	31.12.2012	31.12.2011
Share in the equity	**50%**	**50%**
Non-current assets	1 210	1 721
Current assets	3 835	2 376
Equity	3 369	1 155
Non-current liabilities	343	1 182
Current liabilities	1 333	1 760
Sales revenue	8 831	4 413
Profit before tax	2 241	372
Income tax	(634)	(110)
Net result	1 607	262

The company is not listed on the stock exchange, which is why there is no published fair value for these investments. Reporting dates and reporting periods of associated companies are identical to those of the Group's.

Zachem UCR Sp. z o.o.
CIECH S.A. indirectly own 24,78% shares in Zachem UCR Sp. z o.o. It is associate and is measured using the equity method at the lower-tier group level – ZACHEM Group (25,03% direct share in Zachem UCR Sp. z o.o.).
Based on the above, 25,03% of shares in Zachem UCR Sp. z o.o. is measured using the equity method as at 31 December 2012

The table below presents condensed information related investment in Zachem UCR Sp. z o.o.:

PLN '000	31.12.2012	31.12.2011
Share in the equity	**25,03%**	**25,03%**
Non-current assets	6 608	7 333
Current assets	6 032	9 922
Equity	3 914	4 139
Non-current liabilities	1 145	2 554
Current liabilities	7 581	10 562
Sales revenue	27 682	38 041
Profit/(loss) before tax	(226)	442

PLN '000	**31.12.2012**	**31.12.2011**
Income tax	-	(58)
Net result	(226)	384

19 Other long-term investments

PLN '000

NON-CURRENT FINANCIAL ASSETS	**31.12.2012**	**31.12.2011**
Shares	13 978	23 128
Bank deposits	30 594	17 700
Other	89	87
TOTAL	**44 661**	**40 915**

Long-term bank deposits represent a deposit amounting to EUR 7,475 thousand that constitutes security for a guarantee granted by Bank Pekao S.A. for the benefit of S.C. CET Govora S.A. The guarantee was established on demand of CIECH S.A. on January 23rd, 2007, pursuant to an agreement on the provision of guarantees, to secure the performance of an obligation of US Govora S.A. and CIECH S.A.

Effective interest rates of short-term bank deposits are close to nominal interest rates and fair value of short-term bank deposits do not differer significantly from their carring value. Interest rates are variable based on WIBOR, EURIBOR and LIBOR.

PLN '000

CHANGE IN IMPAIRMENT ALLOWANCES ON LONG-TERM ASSETS	**31.12.2012**	**31.12.2011**
Opening balance	**3 426**	**2 785**
Recognized	3 575	2 158
Reversed/released	-	(170)
Used	-	(1 348)
Other	(50)	1
Closing balance	**6 951**	**3 426**

20 Inventory

PLN '000

INVENTORY	**31.12.2012**	**31.12.2011**
Materials	132 504	160 939
Semi-finished products and work in progress	20 378	27 513
Finished products	117 285	128 520
Goods	8 959	39 647
TOTAL	**279 126**	**356 619**

PLN '000

CHANGE OF INVENTORY IMPAIRMENT WRITE-DOWNS	**31.12.2012**	**31.12.2011**
Opening balance	**11 067**	**10 468**
Recognized	36 684	8 213
Reversed/released	(4 616)	(6 513)
Used	(1 690)	(1 288)
Exchange differences	(225)	321
Other	(487)	(134)
Closing balance	**40 733**	**11 067**

The Ciech Group recognises inventory impairment allowances for damaged and slow moving inventory. Inventory write-downs are also recognised for inventory with a carrying amount that exceeds net selling price. Reversal occurs as a result of the use or sales of inventory in the course of business activity, while usege is the result of inventory being scrapped.

21 Short - term receivables

PLN '000

TRADE AND OTHER RECEIVABLES	31.12.2012	31.12.2011
Trade receivables	499 616	543 839
- up to 12 months	*497 068*	*543 591*
- prepayments for inventory	*2 548*	*248*
Prepayments for non-current assets	5 965	18 820
Escrow receivables	127	16 877
Receivables with respect to caverns	3 311	4 024
Public and legal receivables (excluding income tax)	120 960	147 541
Receivables from sales of energy	9 419	11 833
Receivables from sales of tangible assets	461	7 129
Insurance receivables	851	4 316
External services	2 938	9 404
Factoring receivables	45 265	38 676
Other receivables	16 223	17 099
NET TRADE AND OTHER RECEIVABLES	**705 136**	**819 558**
Impairment allowances with respect to trade receivables, including	50 502	58 176
- Impairment allowance recognized in the current reporting period	*8 781*	*7 448*
Impairment allowances with respect to other current receivables, including	12 873	9 209
- Impairment allowance recognized in the current reporting period	*1 577*	*1 662*
GROSS TRADE AND OTHER RECEIVABLES	**768 511**	**886 943**

Fair value of trade receivables and other receivables do not different significantly from their carrying value.

PLN '000

CHANGE IN IMPAIRMENT ALLOWANCESON SHORT-TERM RECEIVABLES	31.12.2012	31.12.2011
Opening balance	**67 385**	**85 813**
Recognized	10 358	9 110
Reversed	(5 569)	(3 638)
Used	(9 428)	(14 634)
Reclassification from/ to assets for sale	4 897	(10 555)
Exchange rate differences	(936)	1 276
Other additions/disposals	(3 322)	13
Closing balance	**63 375**	**67 385**

Impairment allowance with respect to current receivables were recognised for those that are subject to compromise arrangements or in dispute, penalty interest receivables, past due and doubtful receivables and for receivables from companies in bankruptcy. Reversal occurred as a result of settlement of the receivable while usege occurs when receivables are written-off due to ineffective enforcement and bankruptcy of companies on whose receivables an impairment was recognised.

PLN '000

AGEING OF PAST DUE TRADE RECEIVABLES	31.12.2012	31.12.2011
Up to 1 month	69 272	61 255
Between 1 and 3 months	17 667	16 407
3 to 6 months	4 934	7 650
6 months to 1 year	4 986	5 720
Above 1 year	41 679	46 622
Total (gross) past due trade receivables	**138 538**	**137 654**
Impairment allowances on past due trade receivables	43 785	50 734
Total (net) past due trade receivables	**94 753**	**86 920**

The terms of transactions with related entities have been presented in Note II.40.
Commercial contracts concluded by the Ciech Group include various terms of payment of trade receivables, depending on the type of transaction, market characteristics and trade conditions. The most common payment terms are: 14, 30, 60 and 90 days.

22 Short-term investments

PLN '000

SHORT-TERM INVESTMENTS	31.12.2012	31.12.2011
Loans granted	-	500
Shares	946	1 005
Total (net) current financial assets	**946**	**1 505**
Impairment of current financial assets	1 767	1 767
Total (gross) current financial assets	**2 713**	**3 272**

PLN '000

CHANGE IN IMPAIRMENT ALLOWANCESON SHORT-TERM INVESTMENTS	31.12.2012	31.12.2011
Opening balance	**1 767**	**1 750**
Recognized	-	1 934
Reversed	-	(1 917)
Used	-	-
Closing balance	**1 767**	**1 767**

23 Cash and cash equivalents

PLN '000

CASH AND CASH EQUIVALENTS	31.12.2012	31.12.2011
Bank accounts	64 752	85 095
Short-term deposits	16 192	57 416
Cash in hand	193	352
Other cash	40	2 942
Cash and cash equivalents – presented in the statement of financial position	**81 177**	**145 805**
Overdraft facility	-	6 744
Cash reclassified to non-current assets held for sale *	9 740	9 983
Cash and cash equivalents – presented in the cash flow statement	**90 917**	**149 044**

**The difference between amount of Cash presented in Consolidated Cash Flow of Ciech Group for 2012 and the amount presented in Consolidated Financial Statement of Ciech Group relates to classification of Cash of Alwernia S.A. in assets for sale position.*
The difference between amount of Cash presented in Consolidated Cash Flow of Ciech Group for 2011 and the amount presented in Consolidated Financial Statement of Ciech Group relates to classification of Cash of POLFA Sp. z o.o., Ciech Finance Sp. z o.o. oraz Cheman S.A. as assets for sale.

Restricted Cash

As at 31 December 2012, Cash in amount of PLN 30 559 thousand (in 2011 - PLN 17 667 thousand) was restricted due to deposit in amount of EUR 7 475 thousand. The deposit in amount of EUR 7 000 thousand is to hedge a guarantee granted by Bank Pekao S.A. for S.C. CET Govora S.A. Guarantee was granted for CIECH S.A. request 23 January 2007 pursuant to an agreement on the provision of guarantees, to secure the performance of an obligation of US Govora S.A. and CIECH S.A. This deposit is presented as a long-term.

The effective interest rates of short-term bank deposits are similar to the nominal interest rate and fair value of short-term bank deposits is not significantly different from carrying value. Interest rates are based on WIBOR, EURIBOR and LIBOR.

24 Notes to consolidated cash flow statement

The table below presents the reason for the differences between the changes of particular items of the consolidated statement of financial position and changes resulting from the consolidated cash flows statements:

PLN '000	31.12.2012	31.12.2011
Inventory change presented in consolidated financial statement	**(77 493)**	**50 966**
Reclassification of inventories from/to non-current assets for sale	32 462	39 532

PLN '000	31.12.2012	31.12.2011
Exchange rate differences	3 525	(3 889)
Reclassifications between assets' positions	(3 704)	4 283
Inventory change in consolidated Cash-flow	**45 209**	**(90 892)**

PLN '000	31.12.2012	31.12.2011
Provision change presented in consolidated financial statement	**91 406**	**(17 858)**
Reclassification of provisions from/to liabilities related to non-current assets for sale	15 552	68
Exchange rate differences	2 558	(3 862)
Other	-	(10)
Provisions change in consolidated Cash-flow	**109 516**	**(21 663)**

PLN '000	31.12.2012	31.12.2011
Receivables change presented in consolidated financial statement	**(125 829)**	**136 530**
Change of investment receivables	14 145	(48 242)
Chanage of income tax receivables	4 322	(253)
Reclassification of receivables from/to non-current assets for sale	8 728	46 367
Exchange rate differences	24 208	(27 732)
Other	4 840	29 224
Receivables change presented in consolidated Cash-flow	**69 587**	**(135 894)**

PLN '000	31.12.2012	31.12.2011
Liabilities change presented in consolidated financial statement	**12 349**	**(326 405)**
Change of investment liabilities	16 680	(12 123)
Chnage of financial liabilities	(349 594)	481 973
Chanage of income tax liabilities	(3 548)	16 148
Reclassification of liabilities from/to liabilities related to non-current assets for sale	15 459	72 538
Exchange rate differences	157 887	(165 686)
Other	(28 232)	(18 044)
Liabilities change presented in consolidated Cash-flow	**(178 999)**	**48 401**

25 Equity

As at the date of this report, the carrying amount of the share capital of the parent, CIECH S.A. amounted to PLN 287,614 thousand and comprise the share capital from the share issues and the adjustment due to hyperinflation. As at the date of adopting the IFRS, i.e. 1 January 2004, the share capital of the Company was adjusted for hyperinflation between 1989 and 1996. The hyperinflation adjustment of PLN 24,114 thousand was charged to retained profits.

The total number of votes attributable to all issued shares of the Company, after registration of the share capital increase, is 52,699,909 and the share capital is divided into 52,699,909 ordinary bearer shares with a nominal value of PLN 5 each. All shares are fully paid up.

The share capital as at December 31st, 2012 and December 31st, 2011 included the following series of shares:

SHARE CAPITAL	31.12.2012	31.12.2011
	pcs.	*pcs.*
Ordinary bearer A series shares with a nominal value of PLN 5 each	20 816	20 816
Ordinary bearer B series shares with a nominal value of PLN 5 each	19 775 200	19 775 200
Ordinary bearer C series shares with a nominal value of PLN 5 each	8 203 984	8 203 984
Ordinary bearer D series shares with a nominal value of PLN 5 each	23 000 000	23 000 000
Ordinary bearer E series shares with a nominal value of PLN 5 each	1 699 909	1 699 909
TOTAL	**52 699 909**	**52 699 909**

As of publication date of this Report, share capital amounted to PLN 263 500 975 thousand and increased by PLN 10 as a result of issue of 2 ordinary registered F series shares.

The shares of all series are ordinary shares and do not carry by any additional rights, preferences or restrictions as to dividend distribution or return of capital.

ORDINARY SHARES – ISSUED AND FULLY PAID-UP	pcs.	w tys. zł.
As at December 31st, 2012	52 699 909	287 614
As at December 31st, 2011	52 699 909	287 614

Share premium
The share premium arose from the surplus in excess of nominal value achieved upon the issue of C, D and E series shares.

Other reserve capital
The table below presents the balances of other reserve capital, consisting of the following items:

PLN '000

OTHER RESERVE CAPITAL BY PURPOSE	31.12.2012	31.12.2011
Commercial risk fund	3 330	3 330
Fund for purchasing soda companies	15 200	15 200
Development funds	60 169	60 169
Consolidation adjustments	(1 510)	(1 510)
Other	1 332	1 332
TOTAL	**78 521**	**78 521**

Cash flow hedge
The cash flow hedge reserve reflects the valuation and settlement of hedging instruments to which the requirement of cash flow hedge accounting apply.

Net currency translation differences from investments in foreign companies
The balance of this item of equity represents exchange differences on loans recognised as net investment in a foreign entity and effective part of profit and losses from valuation of instrument hedging shares in net assets of foreign companies.

Currency translation differences (foreign companies)
The balance of this equity item is adjusted by exchange differences on the transaltion of the financial statements of foreign subsidiaries, i.e. CIECH - POLSIN PRIVATE LIMITED, S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A., Soda Deutschland Ciech Group and Ciech Group Financing AB.

Non-controlling interest
S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. has a negative equity as at 31 December 2012. The profit or loss as well as any components of other comprehensive income are attributed to the equity of the shareholders of the parent entity and to non-controlling interest, even if this attribution results in negative non-controlling interest.

Capital structure management
The Group manages its capital in order to ensure that its businesses are able to continue their activity and at the same time maximise returns for stakeholders by optimising the debt to equity ratio.

The Group's capital structure covers its debts, including bank loans and bonds presented in notes II.26, II.27 and II.30, cash and cash equivalents and equity attributable to shareholders of the parent entity, including shares issued, reserve capital and retained earnings.

Tax effect of each component of Other Comprehensive Income of the Ciech Group

	01.01.-31.12.2012			01.01.-31.12.2011		
PLN '000	**Before tax**	**Tax**	**After tax**	**Before tax**	**Tax**	**After tax**
Currency translation differences (foreign companies)	12 727	-	12 727	(16 056)	-	(16 056)
Cash flow hedging	13 373	(2 540)	10 833	(9 471)	1 799	(7 672)
Net currency translation differences (investments in foreign companies)	(19 852)	(599)	(20 451)	31 955	-	31 955
Other net comprehensive income	**6 248**	**(3 139)**	**3 109**	**6 428**	**1 799**	**8 227**

Income tax and reclassification adjustments in total other comprehensive income

Other comprehensive income before tax *PLN '000*	change in the period	**01.01-31.12.2012**	change in the period	**01.01-31.12.2011**
Currency translation differences (foreign companies)	-	**12 727**	-	**(16 056)**
- remeasurement for the current period	12 727	-	(16 056)	-
Net currency translation differences (investments in foreign companies)	-	**(19 852)**	-	**31 955**
- change resulting from the change in exchange rate for the period	(19 852)	-	31 955	-
Cash flow hedging	-	**13 373**	-	**(9 471)**
- remeasurement at fair value in the period	9 692	-	(5 065)	-
- reclassification of recognised of profit/loss presented to the income statement	3 681	-	(4 406)	-
Income tax attributable to other components of other comprehensive income	-	**(3 139)**	-	**1 799**
- for the current period	(2 440)	-	962	-
- reclassification adjustment to the income statement	(699)	-	837	-
Other comprehensive income after tax	-	**3 109**	-	**8 227**

26 Non-current liabilities

PLN '000

NON-CURRENT LIABILITIES	31.12.2012	31.12.2011
Loans, borrowings and other debt instruments	**1 291 660**	**190 916**
Loans and borrowings	-	190 916
Debt securities issued	1 291 660	-
Other non-current liabilities	**122 213**	**88 104**
Assignment of receivables	20 212	29 647
Subsidies	44 032	44 514
PUT options	8 176	8 834
Financial instruments liabilities	-	4 876
Liabilities to silent partners	49 058	-
Other financial liabilities	257	233
Other	478	-
TOTAL	**1 413 873**	**279 020**

PLN '000

REMAINING REPAYMENT TERM FROM REPORTING DATE OF NON-CURRENT LIABILITIES	31.12.2012	31.12.2011
Between 1 and 3 years	80 437	217 609
Between 3 and 5 years	325 477	25 948
Over 5 years	1 007 959	35 463
TOTAL	**1 413 873**	**279 020**

27 Information about significant financial liabilities

Information about the financial ratio covenants included in loan agreements
As at 31 December 2012, no loan agreement was called to maturity and there were no violations of payment terms for repayment of capital or interest due in relation to to financial liabilities recognised in the consolidated statements of financial position in the period covered by these financial statements.

Debt financing of the Group
Debt financing of the Group in the form of bonds and loans is composed of:
- bonds issued by Ciech Group Financing AB (publ) - as at 31 December 2012, outstanding debt of EUR 245 million (i.e. PLN 1 001 609 thousand)
- bonds issued by CIECH S.A. (as at 31 December 2012, outstanding debt of PLN 320 million,
- loans provided to CIECH S.A. under a revolving credit facility agreement dated 6 November 2012 in amount up to PLN 100 million - as at 31 December 2012, outstanding debt of 0 zł.

Issue on 28 November 2012 foreign bond by Ciech Group Financing AB (publ) – subsidiary of CIECH S.A.

On 28 November 2012, Ciech Group Financing AB (publ) issued secured bonds amounting to EUR 245,000 thousand. The bonds were offered and sold in accordance with Rule 144 A and Regulation S of the US Securities Act.
Below is the information about the issue:
- issue value : EUR 245 000 000
- nominal value of one bond: 100 000 EUR
- type of bonds:: global note
- yield rate (annual): fixed as 950 basis points
- yield payment: every six months
- maturity period: 7 years (November 30th, 2019).

Funds from the issue, were earmarked primarily for the repayment of loans granted to CIECH S.A. in accordance with the Loan Agreement of February 10th, 2011 and repayment of loans granted to Sodawerk Stassfurt GmbH & Co. KG and Sodawerk Holding Stassfurt GmbH.
The Foreign bonds were also be secured with guarantees granted by CIECH S.A and selected subsidiaries in Poland, Germany, Romania under the Indenture Agreement of November 28th, 2012. Under the Indenture Agreement, each guarantor fully, unconditionally and irrevocably guarantees, as the main debtor, to each bondholder of foreign bonds on the rule of precedence total and immediate execution of all obligations of the issuer of bonds, including payment of the principal, premium, if there is any, as well as yield on account of bonds, as well as other obligations of the issuer with respect to the bondholders of foreign bonds and the trustee.

The Foreign bonds were also be secured with parallel debt ("Parallel Debt", created under the Agreement Between Creditors, in accordance with the description below) and material collateral established by CIECH S.A. as well as selected CIECH S.A. subsidiaries in Poland, Germany, Romania and Sweden.
The bonds were admitted to trading on the Luxembourg Stock Exchange.

Issue on December 5th, 2012 of series 01 and 02 bonds governed by the law of Poland in the amount of PLN 320,000,000

On December 5th, 2012, CIECH S.A. issued secured bearer bonds governed by the Polish law, denominated in PLN:

- Series 01 of the total nominal value of PLN 160,000 thousand with an option of an early buy-out by CIECH S.A. prior to the maturity date thereof, i.e. after 18 or 42 months after the issue date, with maturity date at December 5th, 2017;
- Series 02 of the total nominal value of PLN 160,000 thousand without an option of an early buy-out by CIECH S.A., with maturity date at December 5th, 2017.

Funds from the issue of series 01 and 02 bonds were earmarked mainly for early buyout, i.e. on December 5th, 2012, of A series bonds issued by CIECH S.A. on December 14th, 2007 (amount of PLN 285,000 thousand) and timely redemption, i.e. on December 14th, 2012, of the remaining amount of A series bonds (amount of PLN 15,000 thousand).

Series 01 bonds were issued on the following terms and conditions:

- issue value: PLN 160,000,000,
- nominal value of one bond: PLN 10,000,
- type of bonds: secured bearer bonds without the form of a document registered in the National Depository for Securities S.A.,
- yield rate (annual): WIBOR 6M plus a margin of 500 basis points,
- yield payment: every six months,
- the redemption date for Polish Bonds series 01 has been set on 60 months from the issue date of Polish Bonds, i.e. December 5th, 2017, however, Polish Bonds series 01 have an option of an early buyout by CIECH S.A.prior to the maturity date thereof, after 18 or 42 months after the issue date. They will be redeemed at nominal prices.

Series 02 bonds were issued on the following terms and conditions:

- issue value: PLN 160,000,000,
- nominal value of one bond: PLN 10,000,
- type of bonds: secured bearer bonds without the form of a document registered in the National Depository for Securities S.A.,
- yield rate (annual): WIBOR 6M plus a margin of 490 basis points,
- yield payment: every six months,
- the redemption date for Polish Bonds series 02 has been set on 60 months from the issue date of Polish Bonds, i.e. December 5th, 2017. The bonds will be redeemed at nominal prices.

The bonds series 01 and 02 are secured by sureties granted by selected subsidiaries of CIECH S.A. from Poland, Germany, Sweden and Romania. The maximum amount of the surety (with certain reservations concerning Z. Ch. „Organika-Sarzyna" SA, Alwernia S.A.) was set at the level of 155% of the total nominal value of all Polish Bonds. Sureties are unconditional and irrevocable and they cover obligations of original guarantors as well as future guarantors to make any payments on account of polish bonds to each and every bondholder of polish bonds, including in particular an obligation to pay the redemption amount of polish bonds, yields, premiums payable, interest for delays in payments as well as an obligation to pay other costs incurred by the bondholders in connection with pursuing their rights under polish bonds (including enforcement costs).
Additionally, bonds were indirectly secured by parallel debt created on the basis of the Intercreditor Agreement of November 28th, 2012 (as described below), however, the bondholders of Polish Bonds series 01 and 02 are able to use such security via a Security Agent (Powszechna Kasa Oszczędności Bank Polski SA) on the rules determined in the Intercreditor Agreement provided that they accede to the agreement.

The bonds were introduced to the Catalyst Alternative Trading System.

Super Senior Revolving Credit Facility for the amount of PLN 100,000,000 of November 6th, 2012
On November 6th, 2012, a Revolving Loan Agreement was signed by CIECH S.A. as the borrower, its subsidiaries as guarantors (Ciech Group Financing AB (publ), JANIKOSODA S.A., SODA MĄTWY S.A., Soda Polska Ciech SA., Alwernia S.A., Cheman S.A., Z. Ch. „Organika – Sarzyna" S.A., VITROSILICON S.A., TRANSCLEAN Sp. z o.o. Ciech Pianki Sp. z o.o., Soda Deutschland Ciech GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltuns-GmbH, Sodawerk Stassfurt GmbH & Co. KG) and Bank Handlowy w Warszawie S.A. ("the Loan Agent"), Bank Millennium S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., ING Bank Śląski S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. (jointly "the Lenders").

The Revolving Loan Agreement provides financing for the Group's working capital. The revolving facility may be used to:
- finance CIECH S.A.'s needs in terms of current liquidity,
- grant inter-group borrowings to companies,
- issue guarantees and letters of credit in connection with the operations of companies,
- finance recourse claims arising in connection with these guarantees and letters of credit.

The revolving loan may be used by:
- drawing tranches (in PLN),
- issuance of guarantees and letters of credit (in PLN, EUR, USD or other currency approved by the Lenders).

The maturity date of the loan was set to December 11th, 2015.

As of December, 31 2012, outstanding debt amounted to PLN 0.

The loan interest rate is variable, determined based on WIBOR plus margin plus any mandatory costs.

The revolving loan is covered by guarantee and security package that is common with the foreign and domestic bonds, i.e.
- with parallel debt established for the Collateral Agent under an agreement between the creditors,
- sureties granted by selected subsidiaries of CIECH S.A. from Poland, Germany, Romania and Sweden. The maximum amount of the surety (with certain reservations concerning Z. Ch. „Organika-Sarzyna" SA, Alwernia S.A.) was set at the level of 155% of the revolving facility's amount.

Under the Revolving Loan Agreement, CIECH S.A. and the Companies undertook to, among others, maintain levels of net financial leverage specified in the agreement (consolidated debt of the Ciech Group to consolidated EBITDA of the Ciech Group) tested in 6-month periods, starting from the period ending on June 30th, 2013.

Security of claims on account of the Intercreditor Agreement

Pursuant to the Intercreditor Agreement of November 28th, 2012, the following parallel debt was created:
- parallel debt of CIECH S.A.,
- parallel debt of the issuer of foreign bonds – Ciech Group Financing AB (publ),
- parallel debts of selected CIECH S.A.'s subsidiaries in Poland, Germany and Romania that granted sureties and guarantees.

Each parallel debt is an independent and separate claim of the Security Agent with respect to the relevant debtor. On the basis of each parallel debt, each of the entities referred to above is obliged to pay to Powszechna Kasa Oszczędności Bank Polski SA ("the Security Agent") an amount being the sum of all liabilities of this entity under basic legal relationships covered by the intercreditor agreement:

1. in the case of CIECH S.A.:

- secured bearer bonds up to PLN 320,000 thousand issued on December 5th, 2012;
- guarantees of foreign bonds; and
- the revolving loan agreement of November 5th, 2012 between Bank Handlowy w Warszawie S.A., Bank Polska Kasa Opieki SA, BRE Bank SA, ING Bank Śląski SA , Powszechna Kasa Oszczędności Bank Polski S.A., Bank Millennium S.A. and CIECH S.A. and some of the Ciech Group companies, under which the revolving loan of PLN 100,000 thousand was granted.

2. in the case of Ciech Group Financing AB (publ) – sureties for Polish bonds and sureties for the revolving loan greement;
3. in the case of guarantors – sureties for Polish bonds, guarantees for foreign bonds and sureties for the Revolving oan Agreement.

The maturity of any of the basic claims of the debtor's debt will automatically result in maturity of parallel debt in identical amount. Payment made by the entity to the Collateral Agent in respect of the parallel debt will automatically reduce the amount of the basic debt of the entity in the amount of parallel debt by that payment. Repayment of the entity's debt will automatically reduce the amount of parallel debt for the amount of such payment.

Liabilities of each debtor under the parallel debt (including Ciech SA) were secured by establishing a package of securities comprising:

1 Mortgages established on real properties of certain CIECH S.A.'s subsidiaries and CIECH S.A.,
2 Registered and financial pledges over shares in certain CIECH S.A.'s subsidiaries and Ciech Group Financing AB (publ),
3 Registered pledges over real properties and other assets of certain CIECH S.A.'s subsidiaries and CIECH S.A.,
4 Financial pledges over bank accounts of the subsidiaries and Ciech Group Financing AB (publ);
5 Registered pledges over intragroup bonds issued by CIECH S.A.,
6 Assignments of rights under insurance policies issued in relation to the assets that are subject of the security and conditional assignments of rights under intragroup borrowings and material commercial contracts of certain companies and CIECH S.A.,
7 Statements on the submission to execution by certain CIECH S.A.'s subsidiaries and CIECH S.A.,
8 Powers of attorney to access bank accounts of certain CIECH S.A.'s subsidiaries and CIECH S.A.

28 Employee benefits

PROVISIONS FOR EMPLOYEE BENEFITS	NON-CURRENT				CURRENT			
	31.12.2012		31.12.2011		31.12.2012		31.12.2011	
PLN '000	Provision for retirement benefits and service anniversary awards and disability	Other non-current provisions for employee benefits	Provision for retirement benefits and service anniversary awards and disability	Other non-current provisions for employee benefits	Provision for retirement benefits and service anniversary awards and disability	Other non-current provisions for employee benefits	Provision for retirement benefits and service anniversary awards and disability	Other non-current provisions for employee benefits
Opening balance	**62 059**	**1 104**	**65 112**	**1 279**	**7 569**	**733**	**9 030**	**934**
Raised	1 408	-	3 136	-	11 903	20 965	3 762	257
Reclassification from/to long-term/short-term provisions	(5 858)	(221)	(1 384)	(302)	2 147	4 862	1 384	302
Change of discount rate	4 054	-	437	-	377	-	1 247	-
Transfer from/to assets held for sale	(371)	-	(171)	-	(3)	-	(59)	-
Exchange differences	(351)	(68)	533	127	-	(50)	-	85
Change in the Group structure	-	-	(2 246)	-	-	-	(99)	-
Used (payment of benefits)	(368)	-	(332)	-	(7 527)	(1 288)	(7 486)	(762)
Released	(40 336)*	(492)	(774)	-	(267)	(862)	(210)	(83)
Other changes	-	-	(2 252)	-	-	-	-	-
Closing balance	**20 237**	**323**	**62 059**	**1 104**	**14 199**	**24 360**	**7 569**	**733**

**details on significant changes in employee benefits provision was presented in point II.33.*

Provisions for employee benefits include provisions for service anniversary awards and retirement benefits. Employee benefits are measured on the basis of actuarial valuations. A discount rate of 3.8% p.a. was applied in order to determine the current value of future liabilities due to employee benefits. applied discount rate is established in nominal terms. At the same time, future inflation in the amount of 2.5% per annum was taken into account. The estimated nominal growth rate of remunerations is 3% in 2013-2015 and 4.5% in the following years.

Staff turnover is established based on historic data, adjusted for employment restructuring plans. The Ciech Group does not offer employee share based programmes, retirement benefits and other benefits after termination of employment. Information about employee benefits for the key managerial personnel is presented in section II.40.5.

29 Provisions

CHANGE IN OTHER LONG-TERM PROVISIONS 31.12.2012 *PLN '000*	Provision for environmental protection
Opening balance	**52 666**
Recognition	16 330
Reclassification from/to long-term/short-term provisions	(21 729)
Change of discount rate	10 565
Reclassification to/from assets held for sale	(14 733)
Exchange differences	(1 767)
Reversal	(910)
Closing balance	**40 422**

CHANGE IN OTHER LONG-TERM PROVISIONS 31.12.2012 *PLN '000*	Provision for restructuring	Provision for environmental protection	**TOTAL**
Opening balance	**335**	**61 667**	**62 002**
Recognition	-	1 984	1 984
Reclassification from/to long-term/short-term provisions	(335)	(5 417)	(5 752)
Change of discount rate	-	(3 514)	(3 514)
Exchange differences	-	2 439	2 439
Reversal	-	(4 492)	(4 492)
Closing balance	**-**	**52 666**	**52 666**

CHANGE IN OTHER SHORT-TERM PROVISIONS 31.12.2012 *PLN '000*	Provision for restructuring	Provision for compensation	Provision for liabilities	Provision for environmental protection	Provision for bonuses	Provision for expected losses	Other provisions
Opening balance	**410**	**5 968**	**4 018**	**6 630**	**654**	**239**	**-**
Recognition	279	56 357	27 894	2 412	172	19 111	-
Reclassification from/to long-term/short-term provisions	-	-	-	21 729	-	-	-
Change of discount rate	-	-	2 042	-	-	-	140
Reclassification to/from assets held for sale	-	-	166	(524)	(87)	-	-
Exchange differences	-	-	(830)	-	-	(13)	-
Use (payment of benefits)	(348)	-	(359)	(5 174)	(202)	(225)	-
Reversal	(62)	(1 390)	(3 968)	(672)	(452)	-	-
Other	-	-	-	-	-	-	-
Closing balance	**279**	**60 935**	**28 963**	**24 401**	**85**	**19 112**	**140**

CHANGE IN OTHER SHORT-TERM PROVISIONS 31.12.2011 *PLN '000*	Provision for restructuring	Provision for compensation	Provision for liabilities	Provision for environmental protection	Provision for bonuses	Provision for costs of fixed asset liquidation	Provision for expected losses	Other provisions
Opening balance	**1 685**	**7 217**	**3 580**	**7 838**	**199**	**177**	**855**	**-**
Recognition	14	276	1 253	666	774	-	224	59
Reclassification from/to long-term/short-term provisions	335	-	-	5 417	-	-	-	-
Change of discount rate	-	-	-	1 340	-	-	-	-
Reclassification to/from assets held for sale	-	-	(166)	-	-	-	-	-
Exchange differences	-	-	319	-	-	-	54	-
Use (payment of benefits)	(1 268)	-	(874)	(8 110)	(319)	(177)	(894)	(58)
Reversal	(356)	(1 525)	(93)	(521)	-	-	-	(1)
Other	-	-	(1)	-	-	-	-	-
Closing balance	**410**	**5 968**	**4 018**	**6 630**	**654**	**-**	**239**	**-**

The most significant provisions of the Ciech Group are:

Provision for compensations:
ZACHEM Group – provision for inevitable expenditure resulting from long-term agreements – as at 31 December 2012, the provision amounted to PLN 52,269 thousand .
In connection with completion of production of chemicals in 2012 in ZACHEM SA, amount of damages that may occur due to long-term contracts concluded have been estimated. The amount of the provision for future expenses mainly consist of amounts calculated on the basis of the following agreement:

1. On 31 May 2010, PGE Zespół Elektrociepłowni Bydgoszcz S.A and ZACHEM SA signed an agreement for heat supply. Agreement provides that after 31 December 2018, either party may terminate the contract by the previous eight years notice period, unless ZACHEM SA cease its production with the use of steam, and may terminate the agreement by the three years' notice period expiring at the end of the calendar year. In the circumstances presented, assuming that the Parties will not amend this agreement as an annex or do not resolve the contract by mutual agreement of the Parties, and in making the interpretation of the contract, ZACHEM SA has the right to terminate the contract with three years' notice prior to the end of the calendar month at any time, it should be assumed that the agreement may be terminated immediately at the end of 2016. The value of PGE claims covered by provision amounts to PLN 44,016 thousand.

2. On 31 August 1999, Water Company Kapuściska and ZACHEM SA concluded an agreement to receive and treatment of sewage provided by ZACHEM SA to the sewage treatment plant "Kapuściska". Agreement sets minimum amount to be paid to so-called Water Company Kapuściska necessary to repay the SW's borrowings. As of December 31, 2012, the debt of SW Kapuściska due to the loan granted by the NFOŚiGW amounts to PLN 12,108 thousand. Guarantees issued SW Kapuściska as a hedge of the loan, limits participation rate ZACHEM SA in SW (45.4%). In addition, given the fact that the other guarantors are the City of Bydgoszcz, City Solec Kujawski and Nitro-Chem SA, the maximum potential claim against ZACHEM SA should be close to EUR 5,497 thousand, which is covered by provision.

Provision for liabilities:
In connection with ongoing litigation between the USG company and its employees a provision in the amount of PLN 23,359 thousand (including the principal amount of the claim and interest) was recognized. Detailed information on legal proceedings, see section II.34.

Provision for environmental protection, comprised of the following:

- **provision for costs of land recultivation –** in SODA MĄTWY Group provision was calculated based on planned outlays until 2042 in accordance based on an anticipated inflation rate of 2.5%, adjusted by a discount factor, calculated as the average of the discount factor at the beginning and end of every annual period. The expenditure arising therefrom will amount to between PLN 700 thousand and PLN 1,100 thousand until 2042. The amount of the respective provision recognised in the statements amounts to PLN 11,616 thousand, whereof the short-term provision amounts to PLN 1,058 thousand.
- **provision for environment reclamation** in ZACHEM S.A. calculated as the present value of future expenditure connected with repairing damages caused to the natural environment. The provision amounts to PLN 20,935 thousand.
- **provision for reclamation of land.** S.C S.C.Uzinele Sodice Govora – Ciech Chemical Group S.A. recognised a provision in the amount of PLN 688 thousand (RON 748 thousand)
- **costs of landfill reclamation** in Z.Ch. "Organika-Sarzyna" S.A. in the amount of PLN 985 thousand were calculated based on the tender cost estimate of reclamation works; it is a non-current provision. Tank reclamation is planned for 2013 and 2014, discounted for a 2.4% inflation rate.
- **costs of water and soil reclamation** in Z.Ch. "Organika Sarzyna" S.A. in the amount of PLN 6,479 thousand includes a current provision of PLN 2,306 thousand, and long-term provision of PLN 4,173thousand. The provisions were estimated based on a technical and financial project, including a schedule of works for the years 2008-2015, of expenses to be incurred, discounted for a 2.4% inflation rate.
- at the end of 2012, **Soda Deutschland Ciech Group** recognised a provision for environmental protection amounting to PLN 23,070 thousand (EUR 5,643 thousand) including:
  - ✓ mine reclamation activities in the limestone,
  - ✓ reclamation of rainwater ponds in Unseburg,
  - ✓ remains of the old limestone outcrops.

Provision for expected losses:
Furthermore, as at 31 December 2012, significant components of the provisions for compensation relates to provisions recognised by CIECH S.A. amounting to PLN 21,689 thousand related to a potential claim (principle plus interest liabilities and costs of court proceedings) pertaining to court cases described in note II.34 of these financial statements.
This item also includes a provision of PLN 2,000 thousand for a charge for not complying with the deadline for the construction of building on the real estate at ul. Powązkowska, specified in the notarial deed concerning the transfer of the land by way of perpetual usufruct.

Provisions for court proceedings of the entire Ciech Group have been described in note II.34. Provisions are estimates and therefore actual outcomes may differ.

30 Current liabilities

PLN '000

CURRENT LIABILITIES DUE TO LOANS, BORROWINGS AND OTHER DEBT INSTRUMENTS	31.12.2012	31.12.2011
Loans and borrowings	410	716 828
Debt securities issues (bonds)	6 133	300 835
TOTAL	**6 543**	**1 017 663**

The terms of transactions with related entities have been presented in the section II.40. Trade liabilities are not interest bearing. Commercial contracts concluded by the Ciech Group include different terms of payment of trade liabilities, depending on the type of transaction, market characteristics and trade conditions. The most common payment terms are: 14, 30, 60 and 90 days.

PLN '000

CURRENT TRADE AND OTHER LIABILITIES	31.12.2012	31.12.2011
Trade liabilities	521 662	588 780
Up to 12 months	*481 028*	*530 838*
Above 12 months	*40 125*	*53 544*
Prepayments received for supplies	*509*	*4 398*
Public and legal liabilities (excluding income tax)	28 464	37 477
Liabilities for purchase of property, plant and equipment	27 771	88 328
PUT options	3 386	4 120
Escrow liabilities	-	17 323
Derivative financial instruments	-	6 493
Liabilities towards employees	12 200	13 856
Assignment of receivables	8 590	9 285
Payroll liabilities	15 180	10 295
Holiday leave pay accrual	5 011	5 533
Tax and charges	1 993	4 161
Materials and energy	966	46 128
Subsidies	44 780	26 751
External services	2 617	1 754
Environmental charges	11 743	11 847
Water and sewage	5 658	4 929
Environmental protection services - reclamation costs	10 969	17 857
Domestic deposits for security	200	2 265
Factoring liabilities	31 123	31 820
Other liabilities	36 091	26 831
TOTAL	**768 404**	**955 833**

31 Finance leases

The Ciech Group uses property, plant and equipment (mainly means of transport and various types of machinery and equipment) pursuant to finance lease agreements. The agreements include the option to return, extend the agreement or to buy all or part of the equipment after the lease period. In 2012, the carrying amount of leased property, plant and equipment amounted to PLN 293,134 thousand (as at 31 December 2011 amounted to PLN 41,192 thousand). There were no contingent lease charges. Lease agreements do not contain any restrictions as to dividends, additional indebtedness or additional lease agreements.

The nominal value and the present value of minimum lease charges are as follows:

PLN '000

31.12.2012	Nominal value of minimum lease charges	Future financial costs due to financial lease	Present value of minimum lease charges
Up to 1 year	8 180	325	7 855
Between 1 and 5 years	3 333	98	3 235
TOTAL	**11 513**	**423**	**11 090**

31.12.2011	Face value of minimum lease charges	Future financial costs due to financial lease	Current value of minimum lease charges
Up to 1 year	13 819	1 233	12 586
Between 1 and 5 years	12 264	670	11 594
TOTAL	**26 083**	**1 903**	**24 180**

Sale and lease back

Additionally, in the financial statements of the Soda Deutschland Ciech Group, the power heating plant was recognised by the company as an asset subject to a finance sale-and-lease-back. The power heating plant was sold by the Soda Deutschland Group to VASA Kraftwerke Pool and then reacquired under a lease agreement. In the said relationship, the Soda Deutschland Group is the lessee of the power heating plant and VASA Kraftwerke Pool GmbH is the lessor. Therefore, the value represented by the power heating plant was recognised in the statement of financial position of the Soda Deutschland Ciech Group. The repurchase liability amounts to PLN 251,146 thousand as at 31 December 2012.

As a result of the lease agreements concluded between KWG and VASA on 31 December 2011, valuation of liabilitiy increased as compared to 31 December 2011 (PLN 156,280 thousand). Under the agreement, the total estimated value of lease obligations, in the event of failure to make early redemption of power plant, in the period 5 years is EUR 61 million.

CIECH S.A. uses tangible fixed assets, IT equipment, under a sale and lease back agreement. The agreement includes the option to return, extend the agreement or to buy all or part of the equipment after the lease period. As at 31 December 2012, the carrying amount of the leased tangible fixed assets amounted to PLN 1,968 thousand.

There were no contingent lease charges. Lease agreements do not contain any restrictions as to dividends, additional indebtedness or additional lease agreements.

SALE AND LEASE BACK LIABILITIES	31.12.2012	31.12.2011
- long-term	204 231	158 105
- short-term	48 740	803
TOTAL	**252 971**	**158 908**

32 Operating lease

The largest item subject to operating lease in the Ciech Group, in accordance with the adopted accounting principles, is the right to perpetual usufruct of land obtained by way of administrative decision. Furthermore, the Soda Deutschland Group recognises a long-term sewage system lease effective until 2095 as an operating lease. Group companies also recognise lease agreements of property and low-value tangible fixed assets, e.g. cars. Operating lease is renewable lease, making it possible to acquire an asset at its estimated market value at the end of its use. The companies are not obliged to purchase the leased assets. No conditions for extending lease agreements or purchasing the subject of lease have been included in administrative decisions concerning the right of perpetual usufruct of land. Price indexation may occur in conjunction with land revaluation.

Total amounts of future minimum lease charges are presented in the table below:

PLN '000

OPERATING LEASE LIABILITIES	31.12.2012	31.12.2011
Up to 1 year	4 151	17 447
Between 1 and 5 years	4 526	38 741
Over 5 years	54 876	71 020
TOTAL	**63 553**	**127 208**

33 Detailed information about significant impairment allowances and provisions

As at December 31th, 2012, the Ciech Group assessed the premises from both external and internal information sources, pointing to the impairment of assets. As a result of these analyses, the separate companies made estimates of recoverable value in accordance with IAS 36 "Impairment of assets", and then recognised impairment allowance described in detail below in the financial statements. Moreover, the Group analysed its assets excluded from IAS 36 for impairment. Environmental provisions, employee benfits provision and the need to make provisions in other cases have been also analyzed . In effect, appropriate amounts were entered in the consolidated financial statements.

The table below indicates the influence of one-off impairment allowance and provisions on the profit/loss on operating activities for period from Junaury 1,2012 to December 31, 2012:

Company	Title of impairment allowance/provision	Amount in PLN '000	Item in the income statement
ZACHEM S.A.	Impairment of property, plant and equipment	(108 141)	Other operating costs
ZACHEM S.A.	Impairment of intangible assets	(2 449)	Other operating costs
ZACHEM S.A.	Provision for onerous contracts	(52 269)	Other operating costs
ZACHEM S.A.	Environmental provisions	(16 529)	Other operating costs
ZACHEM S.A.	Writing down development work	(13 886)	Other operating costs
ZACHEM S.A.	Provision for sewerance payments	(20 103)	Other operating costs
Z. Ch. „Organika-Sarzyna" S.A.	Impairment of property, plant and equipment	(19 318)	Other operating costs
Z. Ch. „Organika-Sarzyna" S.A.	Impairment of intangible assets	(1 327)	Other operating costs
Alwernia S.A.	Impairment of assets held for sale	(43 714)	Other operating costs
Vitrosilicon S.A.	Impairment of non-current assets (including impairment of inventory of glass blocks)	(9 512)	Other operating costs
Grupa Soda Mątwy	Impairment of energy certificates	(22 317)	Cost of sale
Grupa Soda Mątwy	Impairment of suspended investments	(5 711)	Other operating costs
Grupa Soda Mątwy	Reversal of provision for benefits for employees	17 645	Other operating costs
CIECH S.A.	Impairment in value of investment expenditure on real estate (Powązkowska)	(4 309)	Other operating costs
CIECH S.A.	Provision for ZAP claim	(18 800)	Other operating costs

Company	Title of impairment allowance/provision	Amount in PLN ‘000	Item in the income statement
US Govora S.A.	Provision for cases in court	(23 359)	Other operating costs
Grupa SDC	Writing down of EVZA contract	(16 582)	Other operating costs
	TOTAL:	(332 698)	

ZACHEM S.A.
Due to discontinued production of TDI and ECH the company performed impairment test which resulted in a write-down of non-current assets to the amount of estimated fair value less costs to sell.
The Company's valuation was taken as a basis. The value of property, plant and equipment was set depending on the group of assets considered. For land, the amount was set at valuation level, in relation to other groups of assets, used the corresponding coefficients reflecting among other the possibility of its sales and other factors affecting the amount of the provision including the contract with BASF. The total write-down of assets amounted to PLN 110,590 thousand.
In connection with the restructuring plan of ZACHEM SA announced in December 2012, a provision for severance payments to laid-off employees in the amount of PLN 20,103 thousand has been raised. Due to the stoppage of production, the need for a provision for onerous contracts in the amount of PLN 52,269 thousand was recognized. In addition, due to lack of fund, the Company recognized write down in the amount of PLN 13,886 on development works and environment provision of PLN 16,529 thousand.

Z.Ch. „Organika-Sarzyna” S.A.
For the purpose of analyzing the profitability of the company, Z. Ch. "Organika - Sarzyna" SA divided into four business areas - department of epoxies, department of plant protection department of polyesters (in accordance with IAS 36, are a separate cash-generating units) and the area of corporate assets. Changing the approach to identify the cash-generating unit (compared to 2011 when the Company was treated as a whole) was due to the fact that the current Board of Directors decided that the previously prepared analysis of the enterprise were not sufficiently detailed to allow fair and reliable assessment of the profitability of individual areas of operations. Impairment tests of property, plant and equipment were performed for the department of epoxides, because only for this cash-generating unit, the company expects low levels of profitability in the foreseeable future. In other areas of activity there is no evidence indicating impairment. Additionaly impairment test of goodwill presented in consolidated statement was carried out resulting in no evidence indicating impairment. In the case of department of epoxides recoverable amount was the fair value of property, plant and equipment and intangible assets less costs of sale. Total write-downs of assets for the department of epoxides amounted to PLN 20,690 thousand. In addition, test for goodwill has been performed but it did not indicate the need for impairment.

Alwernia S.A.
In connection with signing the preliminary sale agreement, Alwernia SA is presented in the consolidated financial statements as an asset held for sale at fair value in accordance with IFRS 5. The fair value was determined based on the selling price. Accordingly, write-downs of assets in the amount of PLN 43,714 thousand is included in the financial statements.

Vitrosilicon S.A.
Due to the occurrence of an adverse changes in the market (in particular, the decline in demand for glass blocks and a significant decrease in sales prices for these products) and economy, the Company closed a production line for the manufacture of glass blocks. Thus impairment of assets in the amount of PLN 3,680 thousand has been recognized. In addition, in connection with the cessation of manufacture of these products, the impairment losses on inventories (finished goods and materials) in the amount of PLN 2,472 thousand has been recognized. Due to the lack of profitability and the planned sale, a write-down of Pobiedziska Department assets has been recognized (PLN 3,366 thousand). The basis for these charges was recoverable amount representing the estimated fair value of the Company's property, plant and equipment less costs of sale.

Grupa SODA MĄTWY
In the company Soda Polish Ciech SA, the value of energy certificates obtained in relation to electricity production in cogeneration has been updated. An impairment loss in the amount of PLN 22,317 thousand has been recognized on the basis of the current sales prices of such certificates. Moreover, due to the suspension until 2016, and the lack of certainty as to the possible future implementation of several investment projects, capital expenditure in the amount of PLN 5,711 thousand was written off. In addition, in connection with the termination of a Collective Bargaining Agreement there was a reversal of the provision for employee benefits in the amount of PLN 17,645 thousand.

CIECH S.A.
After analyzing held by Ciech SA investments expenditure related to land located at Powązkowska street, an allowance of PLN 4,309 thousand has been recognized. In addition, there was a reclassification of a provision in the amount of PLN 18,800 thousand previously presented at the end of 2011 as a contingent liability associated

with a claim made by Pulawy SA Nitrogen Plant arising from an alleged breach of contract of sale of shares GZNF FOSFORY Sp. of o.o.

US Govora S.A.
In connection with pending litigation between a U.S. Govora SA and its employees, and in view of the fact that the Board of Directors assesses the risk of losing the case as large, a provision in the amount of PLN 23,359 thousand has been raised (including the principal amount of the claim plus interest). Detailed information were presented in Note II.34.

Grupa SDC
As at 31 December 2012, the Group SDC reviewed the contract with the EVZA (garbage incinerator) for the supply of energy. This contract was valued and recognized as an intangible asset in the process of settlement of the acquisition of the SDC group by CIECH SA. Due to the decline in energy prices, the contract was subject to a write-down of PLN 16,582 thousand.

34 Disputed liabilities, claims and contingent positions

34.1 Significant disputed liabilities of CIECH Group

Total value of significant liabilities of Issuer and subsidiaries, pursued in all types of proceedings amounts to PLN 58,455 thousand, of which PLN 48,335 thousand is covered by provision.

The amount of claims asserted against any of the following companies is as follows:

i. CIECH S.A. – PLN 24,033 thousand;
ii. SODA POLSKA CIECH S.A. – PLN 1,188 thousand;
iii. CIECH FINANCE sp. z o.o. – PLN 140 thousand;
iv. ZACHEM S.A. – PLN 4,876 thousand;
v. S.C. UZINELE SODICE GOVORA- CIECH CHEMICAL GROUP S.A. – PLN 28,218 thousand;

Description of significant disputed liabilities:

CIECH S.A.
On December 16th, 2010, CIECH S.A. with its registered seat in Warsaw and Zakłady Azotowe „Puławy" S.A. with its registered seat in Puławy entered into a “Conditional Agreement on the Sale of Shares”. Under the Agreement, CIECH S.A. undertook to sale to ZAP shares in Gdańskie Zakłady Nawozów Fosforowych „FOSFORY" Sp. z o.o. The agreement was in principle executed by both parties, as a result of which ZAP acquired 100% shares in GZNF „FOSFORY” Sp. z o.o., held by CIECH S.A. On November 12th, 2012, the District Court in Warsaw, 16th Commercial Division, received a claim of ZAP against CIECH S.A. for the payment of PLN 18,864 on account of CIECH S.A.'s non performance of the Agreement. The basis of the claim was the breach of warranties made in the said agrement by CIECH S.A.
In this respect, ZAP demanded the amount of PLN 18,607 thousand and a reimbursement of expenses incurred by ZAP for breach of warranties , in the amount of PLN 257 thousand. The legal basis for the claims asserted by ZAP are the provisions of Article 9 of the aforementioned Agreement. ZAP’s action against CIECH SA is derived from a number of actions of Agrochem Sp. of o.o. based in Człuchów alleged by ZAP. A provision in the amount was recognized for the above claim.

US Govora S.A.
On January 10th, 2013, the Trade Unions "Sodistul” filed a claim against US Govora S.A. concerning the following:

- Payment of remuneration for the years 2010–2012 calculated based on a Social Agreement concluded in 2006 between CIECH S.A. and the Trade Union “Sodistul” in which CIECH S.A. declared assigning 16% of operating revenue for the payment of remuneration. This provision was subsequently transferred to the Collective Labour Agreement.
- Budgeting the remuneration fund in the subsequent year at the level of at least 16% of the company’s revenue.
- Increasing the number of employees to the level specified pursuant to Resolution no. 1/09.10.2009.

The law suit started on January 29th, 2013. The company applied for the defender. So far there were held three hearings – the latest on April 9th, 2013. Due to the fact that new documents connected with this case appeared, the court set another date of hearing. For the above claim provison has been recognized.

34.2 Significant disputed receivables of CIECH Group

Total value of significant disputed receivables of Issuer and subsidiaries, pursued in all types of proceedings amounts to PLN 15,159 thousand, of which PLN 6,940 thousand is covered by provision.

The amount of claims asserted against any of the following companies is as follows:

i. CIECH S.A.- PLN 141 thousand;
ii. SODA POLSKA CIECH S.A. – PLN 139 thousand;
iii. TRANSODA Sp. z o.o. – PLN 14 thousand;
iv. VITROSILICON S.A. – PLN 612 thousand;
v. ALWERNIA S.A. – PLN 331 thousand;
vi. CIECH TRADING S.A. (previously CHEMAN S.A.) – PLN 3,617 thousand;
vii. ORGANIKA SARZYNA S.A. – PLN 951 thousand;
viii. ZACHEM S.A. – PLN 1,080 thousand;
ix. TRANSCLEAN Sp. z o.o. – PLN 55 thousand;
x. S.C. UZINELE SODICE GOVORA - CIECH CHEMICAL GROUP S.A. – PLN 8,229 thousand;

34.3 Other significant claims

JANIKOSODA S.A. and SODA MĄTWY S.A.

On December 14th, 2011 a law firm Beiten Burkhardt, representing Gothear Finanzholding AG (Buyer), which in 2010 acquired shares in Polskie Towarzystwo Ubezpieczeniowe S.A. (PTU) belonging to SODA MĄTWY S.A. and JANIKOSODA S.A. (Sellers), delivered a notification of the violation of the Share Purchase Agreement. The main accusation towards the Sellers is not providing full information to the Buyer, which would allow him for a proper evaluation of operations and financial, actuarial and legal position of PTU. In the sent notification, the Buyer did not submit any claims for payment, but merely pointed out that, as a result of underestimation of the technical and insurance provisions, it might have suffered damage for which the Sellers (JANIKOSODA S.A. and MĄTWY SODA S.A.) are liable to the total amount of PLN 24,981 thousand. The Buyer declared the will to settle the case amicably. Extended consolidated quarterly report of the Ciech Group for Q4 2012 52 According to Gothaer, the basis for the responsibility is item 5.1.1 of the Share Purchase Agreement – compensation for damage resulting from untrue assurances and guarantees. Under item 5.2 of the share purchase agreement, Gothaer is entitled to demand compensation of its damage amounting to PLN 55 million in a part equal to 45.42%, i.e. in the amount of PLN 24,981 thousand. In response, the law firm handling the case (legal advisor to the Sellers in the sale of shares in PTU) acting on behalf of the Sellers, on 31 January 2012 sent the Buyer a letter containing detailed argumentation and completely rejecting the charges brought against the Sellers.
On January 23rd, 2013, JANIKOSODA S.A. and SODA MATWY S.A. received a notice from the District Court for the Capital City of Warsaw, 9th Economic Division, about the date of hearing on the motion for a conciliation hearing filed by Gothear Finanzholding AG in which the Buyer indicated the value of the subject of the action to be PLN 24,981 thousand. The hearing was scheduled for April 4th, 2013 when the conciliation was not reached.In the opinion of legal advisers appointed in this case there is low probability of winning the case by the Buyer,JANIKOSODA SA and SODA MĄTWY S.A. The statements as at December 3st, 2012 do not contain any adjustments for that reason in the form of additional provisions or additional off-balance sheet liabilities.

ZACHEM Group

On January 7th, 2013, ZACHEM S.A. was notified by the International Chamber of Commerce in Paris of the initiation of arbitration proceedings against ZACHEM S.A. by Air Products LLC and Air Products Chemicals Europe BV (Air Products). The statement of claim seeks payment of US $ 98,609 thousand and additional compensation in an amount not defined in the statement of claim Air Products based their claim on ZACHEM S.A.'s allegedly unjustified and unlawful termination of an amine (TDA) supply contract. CIECH S.A. considers the Statement of Claim to be unfounded. In CIECH S.A.'s opinion, Air Products is not entitled to pursue a claim for payment against ZACHEM S.A., because ZACHEM S.A. effectively served a notice of termination of the Contract and the Contract was terminated in accordance with the terms thereof. The reason for its termination was the cessation of supplies of amine (TDA) from the factory in Pasadena, actual transfer of TDA supply obligations to Bayer and Air Products' failure to assure ZACHEM S.A. about the possibility of subsequent performance of amine (TDA) supplies in accordance with the contract.

On March 15, 2013, ZACHEM SA sent to the International Chamber of Commerce in Paris (International Chamber of Commerce), the response to a lawsuit with Air Products' and counterclaim ZACHEM SA v Air Products (informed by the Issuer in the current report no 13/2012 of 16 March 2013). In response to the lawsuit and counterclaim, ZACHEM SA questioned Air Products statements of alleged breach of contract for supply of amines by ZACHEM SA and reported its own claim against the Air Products. ZACHEM SA calls in particular:

- statement that the Air Products breached the agrement for amines supply (TDA),
- statement that, the Air Product acted grossly negligently, willfully or in bad faith,

- warrant for Air Product to pay compensation, which amount will be settled in further stages of proceedings. ZACHEM S.A is entitled to receive compensation for violations of agreement for amine supply by Air Products (TDA)
- statement that the ZACHEM S.A. did not breach agreement for amine supply (TDA),
- statement that the Air Products is not entitled to Any claims against ZACHEM.

The Issuer believes that the request made by the ZACHEM merit consideration. As ZACHEM SA effectively terminated its amine supply (TDA) because of its obvious infringement by Air Products, the ZACHEM SA entitled to claim for damages, and the position taken by Air Products is not supported by the facts and law. Provision for Air Products claim was not recognized.

CIECH S.A.
On 25 January 2013 CIECH S.A received via the District Court for Warszawa-Śródmieście a document sent from a Federal District Court for the Eastern District of Pennsylvania containing a motion for service the CIECH S.A with a statement of claim of Air Products LLC in a case initiated by Air Products against the Issuer before the USA Court. The prayer for relief of the Statement of Claim encompasses primarily:

- holding CIECH S.A. liable to Air Products on the claims asserted in the statement of claim,
- awarding Air Products damages in an amount to be proven at trial and in excess of USD 75 thousand,
- awarding Air Products exemplary damages on account of willful and otherwise culpably wrong conduct of the CIECH S.A.

Air Products bases its claims on the assertions as to the alleged fraudulent actions of CIECH S.A. aimed at leading Air Products to price concessions concerning the amine supply contract between Air Products LLC and Air Products Chemical Europe B.V. with a subsidiary of CIECH S.A., ZACHEM S.A., and as to alleged tortious interference of CIECH S.A. in the contractual relationship between Air Products LLC and ZACHEM S.A. Air Products LLC supposedly incurred damage in the amount of US $ 16 million (equivalent of PLN 49,9 million according to the average exchange rate of the National Bank of Poland of January 25th, 2013) in form of price concessions and damage for lost profit in the amount of not less than US $ 98 million (equivalent of PLN 305,6 million according to the average exchange rate of the National Bank of Poland of January 25th, 2013).

CIECH S.A. considers the claim to be entirely unfounded. In the opinion of CIECH S.A., Air Products LLC seeks to obtain unjustified benefits relating to the termination of an amine (TDA) supply contract concluded between Air Products LLC and Air Products Chemical Europe B.V. and ZACHEM S.A. The Contract was effectively terminated by ZACHEM S.A. due to the fault of Air Products and the reason for its termination was, i.a., discontinuation of the delivery of amine (TDA) from a plant in Pasadena, actual transfer of TDA supply obligations to Bayer and failure to assure on the possibility of continuation of the delivery of amine (TDA) in accordance with the provisions of the Contract CIECH S.A. did not commit any actions alleged by the Air Products LLC in the Statement of Claim, in particular it did not conduct any illegal actions in terms of facts and business relations, covered by the Statement of Claim. Moreover, CIECH S.A. believes that the USA Court has no jurisdiction as to CIECH S.A. due to the lack of sufficient relationship between CIECH S.A. and the territory of the United States of America.

34.4 Contingent assets and other contingent liabilities including guarantees, sureties and letters of support.

The table below presents other contingent positions, including guarantees and sureties granted by the Ciech Group to other entities (from outside the Ciech Group). The description of sureties and guarantees granted to related entities (within the Ciech Group) has been included in the table “Sureties and guarantees granted”.

OTHE R OFF-BALANCE SHEET ITEMS *PLN ‘000*	**31.12.2012**	**31.12.2011**
1. Contingent assets	**18 864**	**663**
- guarantees and sureties received	-	-
- other off-balance sheet receivables (1)	18 864	663
2. Other contingent liabilities	**89 989**	**105 122**
- guarantees and sureties granted (2)	36 320	36 320
- other off-balance sheet liabilities (3)	49 931	42 493
- other (4)	3 738	26 309

(1) On 12 February 2013, in the District Court in Gdynia, IX Commercial Division, Ciech SA filed a lawsuit against GZNF “FOSFORY” Sp. z o.o.. to pay the amount of PLN 18 864 thousand in compensation for making by GZNF a potentially false statement against Ciech SA. The legal basis of CIECH S.A claim is Art. 416 of the Civil Code. The above statements made by GZNF to CIECH S.A. gave a rise of declarations of CIECH S.A to ZAP.

(2) guarantees issued by ZACHEM S.A for the obligations of Spółka Wodna"Kapuściska" in Bydgoszcz. On 31 August 1999, Spółka Wodna "Kapuściska"and ZACHEM S.A concluded an agreement to receive and sewage treatment supplied by ZACHEM S.A to the sewage treatment plant „Kapuściska”. § 3 of this agreement sets minimum amount to be paid to so-

called Water Company KAPUŚCISKA necessary to repay the SW's borrowings. As of December 31, 2012, the debt of SW Kapuściska due to the loan granted by the NFOŚiGW amounts to PLN 12 108 thousand.. Guarantees issued SW Kapuściska as a hedge of the loan, limits participation rate ZACHEM SA in SW (45.4%). In addition, given the fact that the other guarantors are the City of Bydgoszcz, City Solec Kujawski and Nitro-Chem SA, the maximum potential claim against ZACHEM SA should be close to EUR 5 497 thousand, which is covered by provision

(3) Other off-balance sheet liabilities:

- *environmental liabilities in the SDC Group – PLN 14 889 thousand.*
- *bill of exchange in blank as a collateroal collateral for the funds paid out pursuant to Grant Agreement for investmet project in Soda Mątwy Group signed with The National Fund for Environmental Protection (Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej)– PLN 23 034 thousand*
- *Penalties for USG S.A. due to late settlement of liabilities– PLN 7 936 thousand.*
- *Environmental Penalty in Soda Mątwy Group – PLN 3 900 thousand.*
- *Other– PLN 172 thousand.*

(4) Other :

- *Contingent liability related to claim made by former employee for compensation in connection with termination of the employment contract – PLN 2 219 thosuands.*
- *Liability under Operating lease agreements - Vitrosilicon S.A. – PLN 1015 thousand.*
- Other – PLN 504 thousand.

In connection with the termination of the TDI production in ZACHEM SA there is a need for the recultivation of areas under installations and areas near the plant. Due to the fact that the projected size of areas of possible contamination of land and methods of implementation of the corrective actions are not known at the reporting date, expenditure required to carry out remediation can not be valued.

According to Directive 1999/31/EC on the landfill of waste implemented into the Romanian legislation by Government Decree 349/2005, implementing resolution of the Treaty of Accession to the EU dated 31 December 2012, the USG should cease its activities related to the disposal of liquid industrial waste in landfills. Integrated Permit No. 68/2012, valid for 10 years provided that the USG will solve the problem of soda waste after 2012.
Mistake (in other EU countries, sodium waste are stored in exactly the same manner, in accordance with the requirements of BAT) related to qualification of ultrasound joints as a liquid landfill, was indicated to the environmental authorities repeatedly. The effects of this error affect the performance of not only the ultrasound, but also plants in which waste is ashes, hitting with hydraulic transport to landfill.
Environmental authorities however ruled out reopening of the Accession Treaty. The solution to this situation is going to be starting the process of closing the waste pools on the date of 01 January 2013. For this reason, the Company ordered a technical Project „Sludge ponds closing and post-closure monitoring of ultrasound - CIECH"

This Project involves following steps:

4) Raise the joint (the technology used today) in order to raise all parts of the site to a level of 231 m. According to the estimated amount of the cost, realization stage amounts to EUR 733 thousand (PLN 2,997 thousand).
5) Reclamation of reservoir B4 an estimated value of EUR 736 thousand (PLN 3,009 thousand).
6) Fill the cavities between the sludge ponds - sections I and II – and the construction of the substructure to the level of 234 m. Estimated amount for this stage is EUR 5 040 thousand (PLN 20,605 thousand).

Described steps 1,2 and 3 will be conducted within investment. Completion of step 1, enable the Company to operate, assuming current production capacity at the level of 1,200 t per day, for a period of three years. However, the implementation phase of 3rd, enable to operate even in the next 14 years, therefore 17 years of further operations should be carried out without the expense significantly influencing the financial situation of ultrasound.
By the date, the Company will undertake activities aimed at changing negative, erroneous record. Success would mean extending the life of joints for about 30 years, and the ability to reduce expenses related to the restoration of the entire surface of the landfill, which is currently estimated at EUR 29,208 thousand.

The Company submitted the propos al with the necessary opinions of the local Office for the Environment. Currently, the project is in the approval process. Management believes there is no reason why the project would be rejected. First, the whole situation is the result of an erroneous decision. Second, the company stored waste in the same way as other EU producers of soda. Third, a refusal would mean the closure of plants, including those that heat the houses.

As at 31 December 2012 Ciech S.A. issued the following letters of support:

- Letter of support (Patronatserklärung) regarding Sodawerk Staßfurt GmbH&Co. KG seated in Staßfurt ("SWS") and KWG-Kraftwerksgesellschaft Staßfurt mbH seated in Staßfurt („KWG") to Vasa Kraftwerke-Pool GmbH&Co. KG seated in Staßfurt ("VASA") relating to financial liabilities of SWS and KWG resulting from the agreement dated 16 December 2011 on lease of electrical power and heating plant concluded by SWS, KWG and VASA which include lease payments to VASA of EUR 13 million annually. In the support letter Ciech has committed to ensure that SWS and KWG will be able to fulfill their financial commitments resulting from the above mentioned agreement.

- Letter of support (Patronatserklärung) regarding KWG-Kraftwerksgesellschaft Staßfurt mbH z siedzibą w Staßfurt („KWG") to są Erdgas Mittelsachsen GmbH („EMS") oraz Stadtwerke Staßfurt GmbH ("STW") relating to liabilities of KWG resulting from the dormant shareholders' agreement dated 2 December 2011 concluded by KWG, EMS and STW based on which, among others, EMS and STW has provided equity in the amount of EUR 12 million. In the support letter Ciech has committed to ensure that KWG will be able to fulfill their financial commitments resulting from the above mentioned agreement.

- Letter of support (Patronatserklärung) regarding Sodawerk Staßfurt GmbH&Co. KG seated in Staßfurt ("SWS") to RWE Gasspeicher GmbH („RWE") relating to liabilities of SWS resulting from the agreement dated 5 May 20091 on salt caverns construction for the purpose of land gas on the mining field Stassfurt according to which SWS has received payments in the amount of EUR 34.4 million from RWE until 31 December 2012. In the support letter Ciech has committed to ensure that SWS will have sufficient financial funds in order to be able to fulfill their financial commitments resulting from the above mentioned agreement.

The amount of contingent liabilities as at 31 December 2012 was PLN 89,989 thousand, which signifies a decrease by PLN 15,133 thousand in relation to the balance as at 31 December 2011.

Changes of contingent liabilities in comparison with the position as at 31 December 2011 result mainly from:

- changing EUR exchange rate applied by Soda Deutschland Ciech to calculate, among others, the recognised a potential liability for reclamation of ponds, which will be recognised if waste management regulations become applicable,
- change in the RON exchange rate in relation to S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. for the contingent liability to CET Govora
- a decrease in Alwernia S.A.'s contingent liability due to agreements for the purchase of property, plant and equipment and intangible assets,
- a decrease in liabilities in the SODA MĄTWY Group resulting from the recognition of one of the liabilities (deferred penalty for sulphur dioxide emission) as provision, because the investment task related to that liability will not be performed until 31 December 2012, according to the last decision of WIOŚ (the Provincial Inspectorate of Environmental Protection). This penalty was paid together with interest at the end of July 2012;
- a generation of a contingent liability in relation to the project "Development of CKTI3 boiler in order to adjust EC Janikowo to environmental requirements" – the amount of PLN 9,591 thousand,
- an expiration of a contingent liability of PLN 3,339 thousand due to a final court decision, favourable to CIECH S.A., on the dismissal of charges of non-compliance by CIECH S.A. with information obligations under the agreement with AVAS regarding the purchase of S.C. Uzinele Sodice Govora – Ciech Chemical Group,
- a disclosure of a contingent liability of PLN 2,219 thousand due to a claim filed by a former employee of the Company for compensation for termination of employment,
- a reclassification as provision of the contingent liability of PLN 18,800 thousand related to the claim filed by ZA Puławy resulting from an alleged breach of provisions of the agreement on the sale of shares in GZNF FOSFORY Sp. z o.o.

34.5 Investment liabilities

All obligations under the privatization agreements relating ZACHEM SA, Z. Ch. "Organika - Sarzyna" S.A. and U.S. Govora SA were finally met.

ZACHEM S.A.

On October 30th, 2012 CIECH S.A. and the State Treasury signed an annexe no. 5 to the Agreement for sale of shares of ZACHEM S.A. of March 29th, 2006. Signed annex enabled final settlement of all CIECH S.A obligations due to the Privatisation Agreement including perform so-called guaranteed investments in ZACHEM S.A. Pursuant to the annexe no. 5 to the Privatisation Agreement, CIECH S.A. undertook, to increase the share capital of ZACHEM S.A. by PLN 230,000 thousand through an acquisition of a new issue in the increased share capital of ZACHEM S.A. (CIECH S.A. reported on increasing the share capital of ZACHEM S.A. in current report no. 38/2012. An agreement concluded by the CIECH S.A. and ZACHEM S.A. on October 11th, 2012 constitutes an integral part of the annexe no. 5 to the Zachem Privatisation Agreement. In this agreement, CIECH S.A. undertook to finance employee obligations with respect to the employees of ZACHEM S.A. to the maximum amount of PLN 33,600 thousand and finance remedying damage in the natural environment with respect to properties owned or held by ZACHEM S.A. to the maximum amount of PLN 29,300, if within 12 months of the submission of the buyer's final statement ZACHEM goes bankrupt, gets liquidated or dissolved and it is impossible to satisfy these liabilities in part or in full by ZACHEM or from its property in the course of bankruptcy or liquidation proceedings.On November 2nd, 2012, CIECH S.A. submitted the "Final Report of the Buyer for the period between December
20th, 2012 and 31 October 2012 on the performance of obligations under the Agreement for the sale of shares of ZACHEM S.A. of March 29th, 2006, i.e. the Privatisation Agreement. The Final Report of the Buyer in the scope of the performance of financial obligations was drawn up for the period between December 20th, 2006 and

June 30th, 2012, while in the scope of other obligations arising from the Privatisation Agreement for the period between December 20th, 2006 and October 31st, 2012, i.e. as of the last day of the month during which the last obligation under the Privatisation Agreement was performed.
Together with the Final Report of the Buyer, a report of the certified auditor was submitted in which the auditor verified the compliance of the statements made in the Final Report of the Buyer with facts in terms of the criteria resulting from the Privatisation Agreement. Submission of the Final Report of the Buyer is equivalent to finalising the Privatisation Agreement. The State Treasury did not exercise its right to audit the Final Report of the Buyer, to which it was authorised during 3 months from its delivery. Finalisation of the Privatisation Agreement meant, at the same time, that it is no longer necessary to obtain a consent of the State Treasury, represented by the Minister of Treasury, to close the transaction carried out under the Agreement for Sale and Transfer of TDI Assets, on the conclusion of which CIECH S.A. reported in current report no. 41/2012.

Z.Ch. „Organika – Sarzyna” S.A.
Until 31 December 2011 Ciech SA completed all other investment obligations under the Share Purchase Agreement Z. Ch. "Organika-Sarzyna" S.A.
On March 28, 2012, CIECH SA made at the Delegation of the Ministry of the Treasury in Rzeszow final report on the implementation of the Purchaser of all the conditions under the Share Sale Agreement. On April 16, 2012, a letter received from the Delegation confirmed completion of the investment obligations in matters included in the annual report of the buyer.

In accordance with their obligations under the Guarantee Social Package force in Chemical Plant "Organika-Sarzyna" S.A untill the end of 2013, it remains to complete the purchase of shares issued free of charge to eligible persons in accordance with Art. 36 of the Act of 30 August 1996 on Commercialisation and privatization of state enterprises. The request for redemption of shares may be made after the end of the statutory restrictions in the period from 1 to 30 April 2013, and the guaranteed repurchase price will be PLN 35 per share.

S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A.
According to the AVAS order dated 13 February 2013, Ciech SA received confirmation of fulfillment of all contractual obligations, authorization to waive the lien on the shares of U.S. Govora SA and was informed of discontinuation of monitoring by AVAS of privatization contract.

35 Information about agreements concluded with the entity authorised to audit the Ciech Group's consolidated financial statement

The entity authorised to audit financial statements for the period from January 1st, 2012 to December 31st, 2012 was KPMG Audyt Sp. z o.o. with its registered office in Warsaw.

On June 4th, 2011, an agreement on examination of semi-annual and audit of annual financial statements was signed with KPMG Audyt Sp. z o.o.

KPMG Audyt Sp. z o.o. is also an auditor of the most significant consolidated subsidiaries of CIECH S.A., i.e.
- ZACHEM Group,
- Soda Mątwy Group,
- Soda Deutschland Ciech Group,
- S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A.
- Z.Ch. “Organika – Sarzyna” S.A.,
- VITROSILICON Spółka Akcyjna,
- Alwernia S.A.,
- Ciech Pianki Sp. z o.o.,
- Ciech Group Financing AB.

The entity authorised to audit financial statements for the period from January 1st, 2011 to December 31st, 2011 was also KPMG Audyt Sp. z o.o. with its registered office in Warsaw.

PLN ‘000	Parent entity CIECH S.A..		Subsidiaries of the Ciech Group subject to consolidation	
	2012	**2011**	**2012**	**2011**
Audit of the annual financial statements	234*	147	956	723
Other assurance services, including review of the financial statements	1 968	124	455	519
Tax advisory services	-	-	39	12
Other services	20	-	16	9

**In case of CIECH S.A. the amount includes both audit of the annual financial statement and half-year review of financial statement.*

36 Objectives and principles in financial risk management

Quantitative and qualitative information on financial risks
The aim of financial risk management policy is to identify areas requiring risk analysis, to determine methods to identify and measure it, to determine activities undertaken in relation to identified risk areas and to define organisational solutions in the risk management process.

The Ciech Group is exposed to the following financial risks:
- customers credit reliability risk,;
- liquidity risk;
- market risk, including:
  - ✓ currency risk
  - ✓ interest rate risk, and risk of raw materials
  - ✓ product price risk.

In fulfilling its main goals, the Group aims to avoid excessive market risk. This aim is realised by identifying, monitoring and hedging cash flow fluctuation risk and monitoring the size and costs of Ciech Group debt. When assessing risk, the Group takes into account the portfolio effect resulting from the variety of conducted business activities. Risk effects are materialised in the cash flow statement, statement of financial position and the income statement of the Ciech Group.

Financial risk management covers processes of identifying, measuring and establishing the manner of responding thereto, including processes related to currency exchange rates and interest rate fluctuations. The Group monitors risk areas which are the most important for the Ciech Group's activities.

Interest rate risk
The Group finances its activity mainly through interest bearing debt, including loans and bonds. The part of the costs of interest-bearing debt are related to expenses borne by the Group being dependent on the reference rate which refers to bonds issued on 5 December 2012, with a total nominal value of PLN 320 million, a revolving loan that is made available under a credit agreement dated on November 6, 2012 in the amount of PLN 100 million, and the leasing contracts. Therefore, the Group is exposed to risk of change in finance costs due to changing interest rates on existing debt. This may result in increased financial costs and, consequently, deterioration in the Ciech Group's financial result.

In 2012, the Ciech Group benefited from the interest rate swap transaction to hedge the variable interest rate levels applicable to the calculation of interest on the loan granted to German companies of the Group with a nominal value of EUR 42 million. In connection with the repayment of the loan on 6 December 2012, the IRS contract was prematurely terminated.

The table below presents the consolidated statement of financial position items exposed to interest rate risk

PLN '000	**31.12.2012** **Total carrying amount**	**31.12.2011** **Total carrying amount**
Fixed interest rate instruments	**-**	**(11 369)**
Financial liabilities	-	(11 369)
Floating interest rate instruments	**(1 197 524)**	**(1 093 198)**
Financial assets	111 770	146 305
Financial liabilities	1 309 294	1 239 503

The table below shows the effects of a change in the interest rate by 100 basis points in relation to the floating interest rate instruments presented in the statement of financial position

PLN '000	**Income statement**		**Equity***	
	increase by 100 bp	**increase by 100 bp**		**increase by 100 bp**
31.12.2012				
Floating interest rate instruments	(11 975)	11 975	-	-
Net cash flows exposure	**(11 975)**	**11 975**	-	-
31.12.2011				
Floating interest rate instruments	(10 932)	10 932	-	-
Interest rate swap transactions	(114)	114	**-**	**-**
Net net cash exposure	**(11 046)**	**11 046**	**-**	**-**

** The influence of the financial result on equity is not taken into account.*

Currency risk
Currency risk is an integral component of commercial activity denominated in foreign currencies. Due to the nature of conducted import and export operations, the Ciech Group is subject to currency exposure related to the significant lead of export activity over import activity. Sources of currency risk which exposed companies within the Group in 2012 included: purchase of raw materials, product sales, loans and borrowings raised and cash in foreign currencies. Unfavourable changes in currency exchange rates may worsen the Ciech Group's financial results.

Foreign exchange risk analysis is focused on the level of operating cash flows. Soda Deutschland was excluded from the analysis since its functional currency is EUR and all reported operating cash flows of this company are performed in this currency, as was CIECH POLSIN Private Limited, since its functional currency is USD and all reported operating cash flows of this company are performed in this currency

In 2012, the Ciech Group did not use hedging contracts to cover currency risk. Ciech Group seeks to natural hedge our foreign currency exposure, including adjustment of currency flows arising from sales and purchases as well as strategic debt denominated in euros, in order to fit it to the expected exposure to currency risk in operations.

The tables below present the maximum exposure of financial instruments to currency risk denominated in foreign currencies:

PLN '000	**31.12.2012**	
	EUR, including:	**USD, including:**
Trade receivables	133 253	61 505
Trade liabilities	74 719	50 087
Loans and borrowings	325	-
Bonds	980 931	-
Net value	**(922 722)**	**11 418**

PLN '000	**31.12.2011**	
	EUR, including:	**USD, including:**
Trade receivables	175 480	83 935
Trade liabilities	125 947	56 716
Loans and borrowings	365 225	19 084
Net value	**(315 692)**	**8 135**

The table below presents the estimated currency exposure of the Ciech Group in Euro as at December 31st, 2012 due to financial instruments and future net operating revenues (excluding SDC figures):

Exposure to currency risk in EURO	**('000 EUR)**
Assets	
Loans granted to SDC Group sensitive to exchange rate changes	85 800
Trade and other receivables	31 449
Bank deposits	7 475
Liabilities	
Trade and other liabilities	(15 357)
Loans, borrowings and bonds	(245 000)
Forecasted future net result* in EUR (12 months)	**147 049**
Forecasted future net result* in EUR – other companies of the CIECH Group (12 months)	**(6 323)**
Total result	**5 093**

* net result = operating revenues in EUR – operating costs in EUR

The table contains an analysis of the sensitivity of individual statement of financial position items to exchange rate changes as at December 31st, 2012

Analysis of sensitivity to exchange rate changes	(PLN '000)*	Impact on Income statement	Impact from 1.01.2013 to 31.12.2013
Currency statement of financial position items (excluding borrowings)	(2 214)	(2 214)	
Loans granted sensitive to exchange rate changes	858	858	
Forecasted future net result in EUR	1 407		1 407
Total impact	**N/A**	**(1 256)**	**1 407**

** for exchange rate increase of EUR/PLN rate by 1 grosz (1/100 PLN)*

Raw material price risk

A significant portion of the Ciech Group's activity is the import and export of chemical raw materials. The raw materials markets are characterised by a cyclical nature related to fluctuations of the global economy. The growing prices of raw materials cause a decrease in margins of trade intermediaries and a decrease of demand generated by recipients. On the other hand, falling prices are usually a symptom of decreasing demand and the beginning of an economic downturn. On the domestic market, raw materials are subject to similar tendencies. The maintenance of a stable pace of economic growth and stable prices of chemical raw materials will have a positive impact on the commercial activity of the Ciech Group. Considerable fluctuations of demand and prices caused either by fast economic growth or economic stagnation will have a negative influence on the activity related to trading in chemical raw materials by the Ciech Group.

In most segments of the Ciech Group's activities goods are not subject to significant price fluctuations. Nevertheless, the organic segment is exposed to price risk. This is correlated with the condition of the global economy, the current demand and supply situation of final customers, the level of prices of basic raw materials and energy. The Ciech Group reduces price risk through regulating price policy, concluding agreements with suppliers hedging and insuraning supplies and containing an appropriate price formula.

Credit risk

Credit risk means an exposure that the borrower will not fulfil obligations stipulated in the agreement and exposing the lender to financial loss

From the Ciech Group's point of view, credit risk is linked to:
- trade receivables from customers,
- cash and bank deposits.

The Ciech Group is exposed to credit risk connected with the credit rating of customers being parties to product and goods sales transactions.
Customers' creditwothiness is assessed and appropriate collateral is obtained from the borrowers, allowing for a reduction of potential losses in the case of failure to repay the debt.
Credit risk assessment for customers is performed prior to concluding an agreement and periodically at subsequent supplies of goods, in accordance with the binding procedures
The risk of the receivables portfolio is assessed weekly. On selected markets, where more risky terms of payment are applied, the Group's companies make use of services provided by companies specialising in insuring receivables.

Credit risk connected with cash in bank and bank deposits is low as the Ciech Group enters into transaction with high-rating banks with high credit rating and stable market position.

The table below presents the maximum exposure of financial assets to credit risk as at the end of reporting period.

PLN '000	**31.12.2012**	**31.12.2011**
Cash and cash equivalents	81 177	145 805
Assets available for sale	970	1 553
Loans and receivables	499 616	544 339
TOTAL	**581 763**	**691 697**

The table below presents the maximum exposure of trade receivables and granted loans to credit risk as at the end of reporting period by operating and geographical segments.

PLN '000	**31.12.2012** **Trade receivables**	**31.12.2011** **Trade receivables**	**31.12.2012** **Loans granted**	**31.12.2011** **Loans granted**
Poland	211 582	192 877	-	500
European Union (excluding Poland)	195 102	234 293	-	-
Other European countries	44 058	35 873	-	-
Africa	34 048	34 979	-	-
Asia	9 031	35 841	-	-
Other regions	5 795	9 976	-	-
TOTAL	**499 616**	**543 839**	**-**	**500**

PLN '000	**31.12.2012** **Trade receivables**	**31.12.2011** **Trade receivables**	**31.12.2012** **Loans granted**	**31.12.2011** **Loans granted**
Soda Segment	253 552	251 092	-	-
Organic Segment	174 026	189 319	-	-
Agrochemical segment	9 662	26 251	-	-
Silicates and Glass segment	50 844	51 592	-	-
Other activity	11 532	25 585	-	500
TOTAL	**499 616**	**543 839**	**-**	**500**

The table below presents trade receivables by age from maturity date.

PLN '000	**31.12.2012**	
	Total gross value of receivables	**Impairment loss**
Not overdue	399 326	3 759
Up to 1 month	82 731	47
1 to 3 months	16 968	1 368
3 to 6 months	4 950	1 569
6 months to 1 year	4 974	3 010
Over 1 year	41 170	40 748
TOTAL	**550 118**	**50 502**

PLN '000	**31.12.2011**	
	Total gross value of receivables	**Impairment loss**
Not overdue	464 361	7 443
Up to 1 month	61 255	617
1 to 3 months	16 407	335
3 to 6 months	7 650	1 073
6 months to 1 year	5 720	2 795
Over 1 year	46 622	45 912
TOTAL	**602 015**	**58 176**

As at the end of reporting date, granted loans were not subject to impairment.

According to the Ciech Group's companies, assets that are not overdue or subject to impairment are of high credit quality. The value of other financial assets exposed to credit risk is similar to their carrying amount.

Liquidity risk
The Ciech Group is exposed to risk connected with maintaining liquidity due to the considerable share of external financing (due to bond issued,overdraft facilities, working capital facilities and lease agreements) in relation to

operating results, the limited ability to obtain new financing due to the existing high level of indebtedness and the risk of losing the existing long-term financing as a result of violating covenants stipulated in the loan agreements.

The following measures are applied to reduce liquidity risk:

- current monitoring of liquidity of the Ciech Group's companies,
- monitoring and optimization of the level of working capital,
- adjusting the level and schedule of capital expenditure,
- intragroup borrowings and sureties for the liabilities of the Group's companies.
- current monitoring of the fulfilment of loan agreements covenants, including maintenance of current and forecasted financial ratios stipulated in loan agreements,

In order to reduce liquidity risk, the process of refinancing and Group's debt consolidation continued in 2012. In December 2012, the Company refinanced of existing bank loans and issued bonds and replaced them with bonds with 5-year (in the case of Polish bonds) and 7-year maturity (in the case of bonds issued in foreign markets). In addition, the Group has available working capital of PLN 100 million, which is an additional source of current liquidity and working capital. Financing conditions are described in detail in Note II.27.

Liquidity risk
The table below presents financial liabilities at face value, grouped by maturity.

31.12.2012 *PLN '000*	**Carrying amount**	**Contractual cash flows**	**Less than 6 months**	**6-12 months**	**1-3 years**	**3-5 years**	**Over 5 years**
Financial liabilities measured at the fair value through profit and loss:	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- derivatives with negative value	-	-	-	-	-	-	-
Other financial liabilities:	**1 879 850**	**1 879 850**	**512 433**	**15 314**	**60 442**	**316 040**	**975 621**
- trade liabilities	521 662	521 662	466 117	15 314	40 231	-	-
- loans and borrowings	410	410	410	-	-	-	-
- bonds	1 297 794	1 297 794	6 133	-	-	316 040	975 621
- assignment of receivables	28 861	28 861	8 650	-	20 211	-	-
- factoring	31 123	31 123	31 123	-	-	-	-
Financial lease liabilities	**11 090**	**11 090**	**4 919**	**2 936**	**2 844**	**391**	**-**
Financial sale and lease back liabilities	**252 971**	**252 971**	**23 951**	**24 789**	**204 231**	**-**	**-**
Total financial liabilities	**2 143 911**	**2 143 911**	**541 303**	**43 039**	**267 517**	**316 431**	**975 621**

31.12.2011 *PLN '000*	**Carrying amount**	**Contractual cash flows**	**Less than 6 months**	**6-12 months**	**1-3 years**	**3-5 years**	**Over 5 years**
Financial liabilities measured at the fair value throughprofit and loss:	**11 369**	**11 369**	**3 401**	**3 092**	**4 876**	**-**	**-**
- derivatives with negative value	11 369	11 369	3 401	3 092	4 876	-	-
Other financial liabilities:	**1 878 286**	**1 878 286**	**1 234 522**	**366 287**	**254 442**	**18 916**	**4 120**
- trade liabilities	588 780	588 780	535 237	-	36 980	16 563	-
- loans and borrowings	914 888	914 888	657 253	66 319	184 444	2 353	4 120
- bonds	300 835	300 835	867	299 968	-	-	-
- assignment of receivables	42 363	42 363	9 345	-	33 018	-	-
- factoring	31 820	31 820	31 820	-	-	-	-
Financial lease liabilities	**24 180**	**24 877**	3 699	9 473	10 361	1 344	-
Financial sale and lease back liabilities	**158 908**	**158 908**	-	803	158 105	-	-
Total financial liabilities	**2 072 743**	**2 073 441**	**1 241 542**	**379 655**	**427 784**	**20 260**	**4 120**

Detailed information concerning revenues and costs pertaining to financial instruments, recognised in the income statement, has been presented in section II.7.

Risk management principles

CIECH S.A. actively manages operational and financial risk, striving to reduce the fluctuation of cash flows and maximise the Company's market value.

CIECH S.A.'s policy assumes natural hedging of imports and exports and hedging of up to 70% of net exposure to currency risk and 100% exposure to interest rate risk.

There were no concluded futures contracts to hedge foreign exchange risk, interest rate risk and commodity price risk in 2012

Cash management

CIECH S.A. cooperates with service providers (banks) of high credit rating and with substantial experience in the cash management area. Allocation of financial resources to the Group companies is performed through the use of intra-group loans, dividends payout and increase of share capital in subsidiaries.

37 Financial instruments

The main financial instruments disclosed in the statement of financial position of the Ciech Group as at December 31st, 2012 include:

- **Financial assets:**
  - short-term deposits,
  - cash,
  - stock and shares in unrelated entities,
  - trade receivables.

- **Financial liabilities:**
  - bank loans,
  - liabilities from debt securities – national and abroad bonds
  - trade liabilities
  - finance lease agreements,
  - sale-leaseback agreements.

Carrying amount

31.12.2012 *PLN '000*	*Nota*	**Cash**	**Financial assets available for sale**	**Investments held to maturity date**	**Financial assets at fair value through profit or loss**	**Loans and receivables**	**Financial liabilities at fair value through profit or loss**	**Financial liabilities at amortised cost**	**Financial liabilities excluded from IAS 39**	**Hedging instruments**	**Total**
		Categories of financial instruments									
Categories of financial instruments											
Cash and cash equivalents	*23*	81 177	-	-	-	30 594	-	-	-	-	**117 771**
Shares		-	970	-	-	-	-	-	-	-	**970**
Trade receivables	*21*	-	-	-	-	499 616	-	-	-	-	**499 616**
Receivables from factoring	*19*	-	-	-	-	45 265	-	-	-	-	**45 265**
Trade liabilities	*32*	-	-	-	-	-	-	521 662	-	-	**521 662**
Loans and borrowings	*26,32*	-	-	-	-	-	-	410	-	-	**410**
Debt securities issues -bonds	*26,32*	-	-	-	-	-	-	1 297 794	-	-	**1 297 794**
Liabilities from factoring	*32*	-	-	-	-	-	-	-	31 123	-	**31 123**
Assignment of receivables	*32*	-	-	-	-	-	-	28 861	-	-	**28 861**
Finance lease liabilities	*33*	-	-	-	-	-	-	-	11 090	-	**11 090**
Liabilities from sale-leaseback agrements	*33*	-	-	-	-	-	-	-	252 971	-	**252 971**

Selected trade receivables in Ciech Group are subject to factoring. This is factoring with the assumption of insolvency risk *del credere*, whereby the factor takes full responsibility in relation to the Company for the debtor fulfilling all obligations..
For one of the factors there is the right to further assign the acquired claims, but only after obtaining prior written approval of the Company (to be valid). As formulated in the context of the agreement, the Company retains control of the asset. As a consequence it is not derecognised from the consolidated statement of financial position.

Categories of financial instruments

31.12.2011 *PLN '000*	*Note*	**Cash**	**Financial assets available for sale**	**Investments held to maturity date**	**Financial assets at fair value through profit or loss**	**Loans and receivables**	**Financial liabilities at fair value through profit or loss**	**Financial liabilities at amortised cost**	**Financial liabilities excluded from IAS 39**	**Hedging instruments**	**Total**
Categories of financial instruments											
Cash and cash equivalents	*23*	145 805	-	-	-	17 700	-	-	-	-	**163 505**
Shares		-	1 553	-	-	-	-	-	-	-	**1 553**
Trade receivables	*21*	-	-	-	-	543 839	-	-	-	-	**543 839**
Loans granted	*22*	-	-	-	-	500	-	-	-	-	**500**
Receivables from factoring	*19*	-	-	-	-	38 676	-	-	-	-	**36 676**
Trade liabilities	*32*	-	-	-	-	-	-	588 780	-	-	**588 780**
Loans and borrowings	*26,32*	-	-	-	-	-	-	914 488	-	-	**914 488**
Debt securities issues -bonds	*26,32*	-	-	-	-	-	-	300 835	-	-	**300 835**
Liabilities from factoring	*32*	-	-	-	-	-	-	-	31 820	-	**31 820**
Assignment of receivables	*32*	-	-	-	-	-	-	38 993		-	**38 993**
Finance lease liabilities	*33*	-	-	-	-	-	-	-	24 180	-	**24 180**
Hedging derivatives presented as financial liabilities	*26,32*	-	-	-	-	-	11 369	-	-	-	**11 369**
Liabilities from sale-leaseback agrements	*33*	-	-	-	-	-	-	-	158 908	-	**158 908**

Fair value

The table below presents the fair value of financial instruments.

	Carrying amount	Fair value	Carrying amount	Fair value
PLN '000	**31.12.2012**		**31.12.2011**	
Cash	81 177	81 177	145 805	145 805
Listed stocks and shares	-	-	-	-
Unlisted stocks and shares*	970	-	1 553	-
Loans granted	-	-	500	500
Trade receivables	499 616	499 616	543 839	543 839
Factoring	45 265	45 265	38 676	38 676
Other financial assets	-	-	-	-
Assets by category	**627 028**	**626 058**	**730 373**	**728 820**
Loans and borrowings	410	410	914 488	914 488
Debt securities issues	1 297 794	1 408 590	300 835	300 835
Trade liabilities	521 662	521 662	588 780	588 780
Liabilities due to evaluation of derivatives.	-	-	11 369	11 369
Finance lease liabilities	11 090	11 090	24 180	24 180
Assignment of receivables	28 861	28 861	38 993	38 993
Factoring	31 123	31 123	31 820	31 820
Financial liabilities	**1 890 940**	**2 001 736**	**1 910 464**	**1 910 464**

**The value of stocks and shares not listed on active markets, classified as financial assets available for sale, have been recognised at purchase price less impairment write-offs since, in the opinion of the Ciech Group, it is impossible to perform a fair evaluation and to establish the fair value of those assets*

The fair value of financial assets and liabilities correspond to the amounts for which these instruments may be exchanged in a market transaction between well informed parties. The following assumptions were made in establishing the fair value:

- cash, trade receivables and liabilities are not measured at fair value - it is assumed that the carrying amount is the closest to fair value due to the short maturities of these instruments,
- fair value of financial assets and liabilities recognized in the statement of financial position at amortized cost, for which no active market exists, was established as the present value of future cash flows, discounted at market interest rate.

Revenues, costs, profit and loss recognised in the income statement by the category of financial instruments

01.01.-31.12.2012 *PLN '000*	*Note*	**Cash**	**Financial assets available for sale**	**Assets held to maturity**	**Financial liabilities at the fair value through profit or loss**	**Loans and receivables**	**Financial liabilities at amortised cost**	**Financial liabilities due to factoring and liabilities excluded from IAS 39**	**Hedging instruments**	**Total financial instruments**
Interest income/costs, including income/costs calculated by using the effective interest rate method	*7*	2 259	-	-	-	2 700	(167 797)	(24 087)	-	(186 925)
Exchange profit/loss	*7*	-	-	-	-	-	(23 158)	(1 229)	-	(24 387)
Impairment losses recognised	*7*	-	-	-	-	(10 416)	-	-	-	(10 416)
Reversal of impairment losses	*7*	-	-	-	-	5 058	-	-	-	5 058
Income/ costs on account of evaluation and use of derivatives	*7*	-	-	-	(4 086)	-	-	-	-	(4 086)
Profit/ (loss) on the disposal of financial instruments	*7*	-	(1 551)	-	-	755	-	-	-	(796)
Total net profit/(loss)		**2 259**	**(1 551)**	**-**	**(4 086)**	**(1 903)**	**(190 955)**	**(25 316)**	**-**	**(221 552)**

01.01.-31.12.2011 *PLN '000*	*Note*	**Cash**	**Financial assets available for sale**	**Assets held to maturity**	**Financial liabilities at the fair value through profit or loss**	**Loans and receivables**	**Financial liabilities at amortised cost**	**Financial liabilities due to factoring and liabilities excluded from IAS 39**	**Hedging instruments**	**Total financial instruments**
Interest income/costs, including income/costs calculated by using the effective interest rate method	*7*	8 589	-	-	-	2 620	(117 981)	(5 165)	-	(111 937)
Exchange profit/loss	*7*	-	-	-	-	-	5 050	672	-	5 722
Impairment losses recognised	*7*	-	-	-	-	(11 294)	-	-	-	(11 294)
Reversal of impairment losses	*7*	-	-	-	-	4 200	-	-	-	4 200
Income/ costs on account of evaluation and use of derivatives	*7*	-	-	-	3 155	-	-	-	-	3 155
Profit/ (loss) on the disposal of financial instruments	*7*	-	(904)	-	-	307	-	-	-	(597)
Total net profit/(loss)		**8 589**	**(904)**	**-**	**3 155**	**(4 167)**	**(112 931)**	**(4 493)**	**-**	**(110 751)**

Fair value hierarchy

The following table present information on financial instruments measured at fair value, grouped according to a three tier hierarchy:
- Level 1 - fair value based on market listing, stock exchange prices (unadjusted), offered for identical assets or liabilities on active markets
- Level 2 - the Ciech Group measures derivatives at fair value by using measurement models for financial instruments and applying generally available interest rates, currency exchange rates, etc.
- Level 3 - fair value established on the basis of various evaluation techniques which are not based on observable market inputs

PLN '000	31.12.2012			31.12.2011		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities	-	-	-	-	**11 369**	**-**
Hedging instruments	-	-	-	-	11 369	-
Total	-	**-**	-	-	**11 369**	-

The Ciech Group is unable to provide a credible valuation of the fair value of owned stocks and shares in companies which are not listed on active markets, classified as financial assets available for sale with a carrying amount as at December 31st, 2012 of PLN 970 thousand (PLN 1,533 thousand as at December 31st, 2011). Consequently, they are recognised in the statement of financial position at purchase price less impairment write-offs.

Below is the summary of securities held by the Ciech Group:

Shares (other than those accounted for by the equity method): *PLN '000*	**31.12.2012**	**31.12.2011**
Not listed on a stock exchange	970	1 553
Total securities	**970**	**1 553**

38 Derivatives

The table below presents financial instruments held for trading.

	Fair value of instruments with maturity date:					Fair value	
PLN '000	**Up to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**	**Assets**	**Liabilities**
31.12.2012							
Total derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**
31.12.2011							
Interest rate instruments							
IRS transactions	1 700	4 792	4 876	-	11 369	-	11 369
Total derivatives	**1 700**	**4 792**	**4 876**	**-**	**11 369**	**-**	**11 369**

As at the reporting date, CIECH Group is not party to any active derivatives which would hedge currency risk.

39 Financial instruments assigned for hedge accounting

The table below presents a summary of specific groups of relationships assigned for hedge accounting:

Hedged risk	Type of hedge	Hedged item	Hedging instrument
Currency risk EUR/PLN	Cash flow hedging	Future cash flows due to realisation of revenues from sales denominated or indexed to the EUR exchange rate	• Liabilities due to loans denominated in EUR • Other financial instruments as liabilities denominated in EUR • Bonds issued in EUR
Currency risk EUR/PLN	Net investment hedge	The hedged position is net investment in the subsidiary.	• Bonds issued in EUR

Detailed information concerning instruments assigned for hedge accounting is provided in the table below:

FINANCIAL INSTRUMENTS		TRANSACTION DETAILS		CASH FLOW HEDGING					
					Cash flow occurrence				
Borrowings / bonds issued	Other financial liabilities	Transactions assigned for hedge accounting	Fair value as at the reporting date	Nature of hedged risk	Forecast period of cash flow occurrence	Expected date of impact on the financial result	Amount recognised in equity (after income tax) as at 31.12.2012	Amount derecognised in equity and recognised in the income statement (after income tax) in the period 01.01-31.12.2012	Inefficiency recognised in the income statement
EUR '000			*PLN '000.*				*w tys. zł*		
	7 475	CIECH S.A. Financial liability in EUR	(30 561)	Currency risk (PLN/EUR)	Up to 09.01.2015	do 09.01.2015	(3 586)	(1 679)	-
	216	S.C Uzinele Sodice Govora S.A.	(565)	Currency risk (PLN/EUR)	Up to 16.04.2013	do 16.04.2013	12	(222)	-
	53	S.C Uzinele Sodice Govora S.A.	(218)	Currency risk (PLN/EUR)	Up to 16.02.2013	do 16.02.2013	(26)	(173)	-
	119	S.C Uzinele Sodice Govora S.A.	(485)	Currency risk (PLN/EUR)	Up to 16.10.2013	do 16.10.2013	(57)	(74)	-
	-	S.C Uzinele Sodice Govora S.A.	-	Currency risk (PLN/EUR)	Up to 16.12.2012	do 16.12.2012	-	(131)	-
-		CIECH S.A. - Borrowing liability	-	Currency risk (PLN/EUR)	Up to 06.12.2012	do 06.12.2012	-	(509)	- -
-		S.C Uzinele Sodice Govora S.A.- Borrowing liability	-	Currency risk (PLN/EUR)	Up to 06.12.2012	do 06.12.2012	-	(193)	- -
175 000		CIECH S.A. - Bonds liability	(715 435)	Currency risk (PLN/EUR)	after 01.01.2019	po 01.01.2019	6 379	-	-
						TOTAL	**2 722**	**(2 981)**	**-**
Hedge accounting recognised in Equity - "Exchange differences on net investment in a foreign operation"									
70 000		CIECH S.A. – Liabilities due to bonds issued	(286 174)	Currency risk (PLN/EUR)	after 01.01.2019	after 01.01.2019	2 551	-	-
							5 273		

The aim of the Group when taking the decision concerning the implementation of the principles of cash flow hedging was to limit the influence of changes to the fair value of derivatives on the income statement through reflecting their hedging nature in the financial statements.

The result of the measurement of effective derivative transactions assigned for hedge accounting is reclassified from equity to the income statement upon the execution of the hedged item and recognition of its effect in the income statement.

In the reporting period, there were no instances of a failure to realise a future transaction subject to cash flow hedging. Other relationships (not listed in the table above) were cancelled and settled in the previous reporting period in connection with a new hedged position.

The revenues from sales assigned for hedge accounting are considered highly probable. Their occurrence is anticipated in the Group's Financial Plan. These are also transactions with regular customers of the Group's companies, which add substance to the probability of occurrence.
The effect of the effective part of cash flow hedging in was presented in the statement of changes in equity of the Ciech Group.

40 Information on transactions with related entities

40.1 Transactions with related entities in total

Transactions between the parent CIECH S.A. and its subsidiaries subject to consolidation were eliminated during consolidation and have not been presented in this Note.
Detailed information about transactions between the Ciech Group and other related entities have been presented below:

Transactions between consolidated entities and other related entities

PLN '000		Revenues from sales of products and services	Revenues from sales of goods and materials	Other operating income	Financial income	Purchase of products, and materials	Purchase of services	Other operating costs	Financial expenses	Receivables, loans granted, etc.	Write-downs on receivables and loans	Liabilities, loans received, etc.
Unconsolidated associates	**2012**	2 319	35 971	8	81	1	2 498	4	-	2 792	1 407	366
	2011	3 427	38 543	55	262	645	4 087	155	912	4 746	155	848
Unconsolidated subsidiaries	**2012**	328	26 750	2 006	563	1 168	10 269	-	45	2 605	-	2 057
	2011	1 800	32 833	834	754	2 060	14 199	-	813	4 692	-	5 580

Terms of transactions with related entities

Sales to and purchases from related entities are realised at market prices. Overdue liabilities and receivables are not secured and are settled in cash or by set-off. Receivables from related entities have not been secured by any guarantees granted or received besides described below. Information about impairment write-downs of receivables from related entities has been presented in the section II.21.

In 2012 (and in the comparative period) there were only typical transactions between the companies of the Ciech Group, related to current activity of the parent, CIECH S.A., and its subsidiaries.

40.2 Significant transactions entered into by Companies or subsidiaries with related entities on other than market conditions

In 2012, there were no significant transactions with related entities in the Ciech Group on other than market conditions.

40.3 Transaction with State Treasury Companies

As at December 31st, 2012, the State Treasury held a significant share and was able to control CIECH S.A. Owing to the State Treasury control of CIECH S.A. State Treasury Companies (as listed by the Ministry of Treasury) fulfil the definition of related entities.
The Company's Management Board has assumed that costs of collecting information of such transactions exceed the potential benefits to be gained by the users of these consolidated financial statements and besiedes the transactions described in Note II.40.4., the amounts involved in transactions with State Treasury Companies do not have a significant impact on these statements.

40.4 Description of significant relationships and transactions with related parties

Transactions with S.C. CET Govora S.A.

On 27th December 2006 U.S. Govora and S.C. CET Govora S.A. (hereinafter “GMT" - the Romanian company owned owned by the state - holds 5.5% of share in U.S. Govora), signed an agreement for the supply of thermal energy (hereinafter the "Agreement for the supply of energy"),pursuant to which the S.C. CET Govora S. is obliged to provide U.S. Govora with thermal energy at prices negotiated for the year. The agreement expires on 31 December 2016, whilst it is the possibility to extend it for a period of five years at the request of U.S. Govora.
U.S. Govora Company may terminate the agreement upon 30 days' notice.
On 23th January 2007, Bank Pekao SA issued guarantee to S.C. CET Govora S.A. in respect of the obligations of Ciech S.A. resulting from the assignment of receivables of 8th January 2007 and related to the Agreement on the supply of energy in amount of EUR 18,1 million.
The guarantee amount was reduced and as at 31st December 2012 amounted to EUR 7.5 million and cash collateral was estabilished in the amount of EUR 7.5 million.
In 2012, payments were made according to the above Agreement for the supply of energy in the amount of RON 106.88 million, including RON 95,62 million resulting from the current payments and RON 11,26 million regarding former liability. As at 31st December 2012, amounts owed to S.C. CET Govora S.A under above agreement is approximately RON 73.83 million, including RON 53.17 million regarding former liability.

Transactions with AVAS
On October 26th, Ciech S.A. purchased shares of US Govora. Due to the fact that the previous owner of U.S. Govora purchased the shares of U.S. Govora from Romanian government agency - AVAS ("AVAS"), Ciech S.A. was obliged to execute the agreement (the "Agreement on the privatization of AVAS").
As at December 31, 2012, AVAS was the owner of approximately 0.68% of the shares of U.S. Govora. Subject to the terms of the privatization of AVAS by Ciech was the necessary condition to approve the purchase of US Govora shares by AVAS. After the initial share purchase Ciech SA purchased from AVAS additional shares of U.S. Govora, thereby Ciech S.A. increased its stake in share capital of U.S. Govora to 92.9% as at December 31, 2012. According to the letter dated 13 February 2013, AAAS – Asset Administration Office in Romania (formerly AVAS) has confirmed the execution investment commitments by the U.S. Govora and compliance with other obligations from the Agreement. AAAS approved the release of a lien on the shares of U.S. Govora held by Ciech SA - approved the termination of the Agreement on registered pledge and termination of the monitoring AVAS privatization agreements with AVAS

Transactions with the Agency of Industrial Development (Agencja Rozwoju Przemysłu)
In December 2010, the company Alwernia SA concluded an agreement with the Agency of Industrial Development (Agencja Rozwoju Przemysłu - a company owned 100% by the State Treasury) a loan agreement in the amount of PLN 10 million granted to Alwernia SA to finance capital expenditures related to the construction of a new production line. As at December 31, 2012, the remaining principal amount of the loan is PLN 8.8 million. The loan bears interest at the rate of WIBOR 3M plus margin. Under the terms of the agreement Alwernia SA secured repayment of the loan, establishing collateral in specific assets which value must be at least 150% of the loan.

Agreement on the privatization of Sarzyna
In December 2006 Ciech S.A. purchased part of shares of Z. Ch. "Organika - Sarzyna" SA from Nafta Poland S.A. (the company owned by State Treasury) under the share purchase agreement dated 29 March 2006 (hereinafter "Agreement on the privatization of Sarzyna").
State Treasury approved all the rights and obligations of the company Nafta Poland SA under the Agreement on the privatization Sarzyna. After the initial purchase of shares, Ciech SA purchased batches of additional shares of Z. Ch. "Organika - Sarzyna" S.A. from employees and from State Treasury (in the emission-kind contribution),

which increased the Ciech total percentage of share capital in Z. Ch. "Organika - Sarzyna" SA to 98.85% as at 31 December 2012.
The main obligations of the Ciech S.A. under the Agreement on privatization of Sarzyna was to make specific investments in Z. Ch. "Organika - Sarzyna" SA (which has been completed). On 16 April 2012, State Treasury Branch in Rzeszów adopted a final report on the implementation of these commitments and comfirmed their fulfillment by Ciech S.A.
Social Guarantee package in Z. Ch. "Organika - Sarzyna" is still valid and remains in force until 31 December 2013- Ciech SA is obliged to purchase of shares from eligible employees in 2013 (the last part).

Agreement on the privatization of Zachem
Ciech S.A. was also a party of the agreement on the privatization of ZACHEM SA with the State Treasury.
In December 2006, the Company acquired under the Agreement on privatization of ZACHEM the first batch of shares from Nafta Poland SA,(the company owned by State Treasury).
State Treasury approved all the rights and obligations of Nafta Poland S.A. under the Agreement on the privatization of ZACHEM.
After the initial purchase of shares, Ciech SA acquired additional shares of ZACHEM S.A. from the State Treasury and the employees (including the acquisition described below under the Agreement for the acquisition of shares and contribution), which increase the overall percentage in share capital of ZACHEM SA to 99% as at 31 October 2012. The main obligations of Ciech SA under the Agreement on the privatization of ZACHEM S.A. included a specific investment, adherence to conditions related to employees and employment and restrictions on the sale of shares and assets.
In November 2, 2012, Ciech S.A. submitted a report to the State Treasury confirming compliance with obligations under the Agreement on the privatization of ZACHEM S.A. which terminate this Agreement.
Under the terms of Annex No. 5 The Minister of State Treasury was able to verify the report within three months from the date of submission, and if it ithe report is inaccurate, and Ciech SA commitments under the Agreement on the privatization of ZACHEM S.A. have not been met, he had the opportunity to claim the payment of penalties. The State Treasury does not exercise that option.

Agreement for the acquisition of shares and contribution (relates to 2011)
On July 27, 2011 Ciech S.A. signed an agreement with the State Treasury to purchase shares and contributions in kind (hereinafter referred to as the "Agreement for the acquisition of shares and contribution").Pursuant to this agreement State Treasury purchased 1 699 909 ordinary bearer shares of series E in the increased share capital of Ciech SA nominal value of PLN 5 z each and the total nominal value of PLN 8 499 545. The issue price was 26.06 zł per share, and the State Treasury provide to Ciech SA an in-kind contribution of (a) 571 826 shares of ordinary bearer of series A with a nominal value of PLN 2.30 each and the total nominal value of PLN 1 315 199,80, representing 25.01% of the share capital of Alwernia SA, (b) 762 224 ordinary bearer shares series A with a nominal value of PLN 10.0 each and the total nominal value of PLN 7 622 240 zł, representing 5.15% of the share capital of ZACHEM SA, and (c) 429 388 ordinary bearer shares of series A with a value of PLN 10,00 each and the total nominal value of PLN 4 293 880,00, representing 5.06% of the share capital Z. Ch. "Organika - Sarzyna" SA.

40.5 Transactions concluded with key managerial personnel

Key managerial personnel comprises persons who are authorised to and are responsible for direct planning, managing and controlling the activities of the parent.

Remuneration of the Management Board of CIECH S.A.
The following table presents the amount of remuneration and additional benefits paid to particular Members of the Management Board (in office in 2012) by CIECH S.A. and subsidiaries in 2012.

31.12.2012 *PLN '000*	**Base remuneration**	**project bonus, profit bonus**	**Severance pay**	**Non compete**	**Remuneration due to membership in Supervisory Boards and due to other functions performed in the Ciech Group's companies**	**Total**
Dariusz Krawczyk	**576**	**-**	-	-	**-**	**576**
Andrzej Kopeć	**367**	**-**	-	-	**-**	**367**
Artur Osuchowski	**612**	**19**	-	-	**167**	**798**
Andrzej Bąbaś	505	19	306	102	**93**	**1 025**
Ryszard Kunicki	790	40	948	158	**107**	**2 043**
Rafał Rybkowski	505	19	306	102	**127**	**1 059**
TOTAL	**3 355**	**97**	**1 560**	**362**	**494**	**5 868**

31.12.2011 *PLN '000*	Base remuneration	Semi-annual bonus*, project bonus, profit bonus	Severance pay	Non compete	Remuneration due to membership in Supervisory Boards and due to other functions performed in the Ciech Group's companies	Total
Andrzej Bąbaś	**480**	**361**	-	-	**396**	**1 237**
Ryszard Kunicki	**948**	**778**	-	-	**332**	**2 058**
Artur Osuchowski	**612**	**401**	-	-	**328**	**1 341**
Rafał Rybkowski	**480**	**361**	**-**	**-**	**273**	**1 114**
Robert Bednarski	-	-	-	306	-	306
Marcin Dobrzański	-	59	-	180	-	239
TOTAL	**2 520**	**1 960**	**-**	**486**	**1 329**	**6 295**

* semi-annual bonus of up to 100% of six-month remuneration in the amount determined by the Supervisory Board was applicable for the members of the Management Board in 2010, the bonus for H2 2010 was paid in 2011

Members of the Management Board are employed based on employment contracts. In accordance with the binding Resolution of the Supervisory Board of CIECH S.A., the Members of the Management Board are entitled to:

- monthly remuneration determined in individual employment contracts;
- a special bonus in the amount determined by the Supervisory Board;
- annual bonus determined in individual employment contracts.

Remuneration of the Supervisory Board of CIECH S.A.
PLN '000

First name and surname	Remuneration received from CIECH S.A. for 2012	Remuneration received from CIECH S.A. for 2011
Ewa Sibrecht-Ośka	134	129
Przemysław Cieszyński	112	108
Arkadiusz Grabalski	89	86
Zygmunt Kwiatkowski	61	-
Maciej Lipiec	100	-
Waldemar Maj	89	86
Mariusz Obszyński	85	-
Sławomir Stelmasiak	89	86
Dariusz Krawczyk	99	-
Krzysztof Salwach	5	86
Jacek Goszczyński	5	86
TOTAL	**868**	**667**

Members of the Supervisory Board, pursuant to a resolution of the Extraordinary General Meeting, receive monthly remuneration amounting to:

- Chairman of the Supervisory Board – 300%
- Deputy Chairman of the Supervisory Board – 250%
- Other Members of the Supervisory Board – 200% of the average monthly remuneration in enterprise sector, including profit distribution in the month preceding the calculation

41 Information on events occurring after the balance-sheet day

- On January 21st, 2013, the District Court, 13th Economic Division, registered the reduction in share capital of JANIKSODA S.A. On January 25th, 2013, the reduction in share capital of SODA MĄTWY S.A. was registered and that was the date, on which the spin-off by separation of JANIKOSODA S.A. and SODA MĄTWY S.A. was registered in the National Court Register (KRS) and, consequently, the date of the spin-off of soda divisions andtheir incorporation with CIECH S.A. The spin-off by separation was executed under Article 529 § 1 item 4) of theCommercial Companies Code by transferring part of assets of the divided companies, i.e. SODA MĄTWY S.A.and JANIKOSODA S.A. to CIECH S.A. as the acquiring company. At the same date, the court registered theincrease in share capital of CIECH S.A. by two registered shares granted to minority shareholdersJANIKOSODA S.A. and SODA MĄTWY S.A. for 1 share of JANIKSODA S.A. and 1 share of SODA MĄTWYS.A. that were cancelled as a result of the registration of spin-off by separation.The settlement of the merger made in 2013 had a positive impact on the financial result of CIECH S.A. in the amount of over PLN 200 million. The settlement of the merger generated also a deferred tax asset amounting to approx. PLN 63 million. The profit/loss on the merger will be recognised in the financial statements for 2013.

- On 25 January 2013 CIECH S.A received via the District Court for Warszawa-Śródmieście a document sent froma Federal District Court for the Eastern District of Pennsylvania containing a motion for service the CIECH S.A
  with a statement of claim of Air Products LLC in a case initiated by Air Products against the Issuer before the USA Court. The prayer for relief of the Statement of Claim encompasses primarily:
  - ✓ o holding CIECH S.A. liable to Air Products on the claims asserted in the statement of claim,
  - ✓ o awarding Air Products damages in an amount to be proven at trial and in excess of US $ 75 thousand,
  - ✓ o awarding Air Products exemplary damages on account of willful and otherwise culpably wrong conductof the Issuer.

  According to a copy of the Statement of Claim serviced to the Issuer, Air Products bases its claims on the assertions as to the alleged fraudulent actions of CIECH S.A. aimed at leading Air Products to price concessions concerning the amine supply contract between Air Products LLC and Air Products Chemical Europe B.V. with a subsidiary of CIECH S.A., ZACHEM S.A., and as to alleged tortious interference of CIECH S.A. in the contractual relationship between Air Products LLC and ZACHEM S.A. Air Products LLC supposedly incurred damage in the amount of US $ 16 million (equivalent of PLN 49.9 million according to the average exchange rate of the National Bank of Poland of January 25th, 2013) in form of price concessions and damage for lost profit in the amount of not less than US $ 98 million (equivalent of PLN 305.6 million according to the average exchange rate of the National Bank of Poland of January 25th, 2013). CIECH S.A. considers the claim to be entirely unfounded. In the opinion of CIECH S.A., Air Products LLC seeksto obtain unjustified benefits relating to the termination of an amine (TDA) supply contract concluded between Air Products LLC and Air Products Chemical Europe B.V. and ZACHEM S.A. The Contract was effectively terminated by ZACHEM S.A. due to the fault of Air Products and the reason for its termination was, i.a.,discontinuation of the delivery of amine (TDA) from a plant in Pasadena, actual transfer of TDA supply obligations to Bayer and failure to assure on the possibility of continuation of the delivery of amine (TDA) in accordance with the provisions of the Contract CIECH S.A. did not commit any actions alleged by the Air Products LLC in the Statement of Claim, in particular it did not conduct any illegal actions in terms of facts and business relations, covered by the Statement of Claim. Moreover, CIECH S.A. believes that the USA Court hasno jurisdiction as to CIECH S.A. due to the lack of sufficient relationship between CIECH S.A. and the territory of the United States of America.

- On January 31, 2013 CIECH S.A. and Alwernia Invest Sp. z o.o. entered into a preliminary agreement for the sale of 2,277,431 shares representing 99.62% of the share capital of CIECH S.A.'s subsidiary, Alwernia S.A.The preliminary share sale agreement is conditional and depends on consent of UOKiK (Office of Competitionand Consumer Protection) and repayment of borrowings granted by CIECH S.A. to Alwernia S.A. accounting forapproximately PLN 14.2 million. The Company's share sale price accounts for US $ 13.4 million. The part of the price will be split into instalments including the interests for deferred payments.

- On February 12th, 2013, in the District Court in Gdynia, 9th Economic Division, CIECH S.A.'s claim against GZNF„FOSFORY" Sp. z o.o. was filed for the payment of PLN 18,864 thousand as a compensation for potentially false representations made by GZNF to CIECH S.A. The legal basis for the claim asserted by CIECH S.A. are theprovisions of Article 416 of the Civil Code. The aforementioned representations made by GZNF towards CIECH S.A.were the basis of warranties made by CIECH S.A. towards ZAP.

- On February 26th, 2013, a subsidiary of Ciech S.A., Cheman S.A. changed its name to Ciech Trading SA.

- On January 7, 2013, ZACHEM S.A a subsidy of CIECH S.A.. was notified by the International Chamber of Commerce in Paris of the initiation of arbitration proceedings against ZACHEM S.A. by Air Products. The statement of claim seeks payment of US $ 98,609 thousand and additional compensation in an amount not defined in the statement of claim. Air Products based their claim on ZACHEM S.A.'s allegedly unjustified and unlawful termination of an amine (TDA) supply contract. CIECH S.A. considers the Statement of Claim to be unfounded. In CIECH S.A.'s opinion, Air Products is not entitled to pursue a claim for payment against ZACHEM S.A., because ZACHEM S.A. effectively served a notice of termination of the Contract and the Contract was terminated in accordance with the terms thereof. The reason for its termination was the cessation of supplies of amine (TDA) from the factory in Pasadena, actual transfer of TDA supply obligations to Bayer and Air Products' failure to assure ZACHEM S.A. about the possibility of subsequent performance of amine (TDA) supplies in accordance with the contract.

- W dniu 15 marca 2013 roku ZACHEM S.A. przesłał do Międzynarodowej Izby Handlowej w Paryżu (International Chamber of Commerce), odpowiedź na pozew Air Products wraz z pozwem wzajemnym ZACHEM przeciwko Air Products (o czym Emitent informował w raporcie bieżącym nr 13/2012 z dnia 16 marca 2013 roku). W odpowiedzi na pozew i w pozwie wzajemnym ZACHEM S.A. zakwestionował twierdzenia Air Products dotyczące rzekomego naruszenia umowy dostawy aminy (TDA) przez ZACHEM S.A. i zgłosił własne roszczenia odszkodowawcze wobec Air Products.

- On March 15, 2013, ZACHEM SA sent to the International Chamber of Commerce in Paris, the response to a lawsuit of Air Products' and counterclaim ZACHEM SA against Air Products (informed by the Issuer in the current report no 13/2012 of 16 March 2013). In response to the lawsuit and in counterclaim, ZACHEM SA questioned Air Products statements of alleged breach of contract for supply of amines (TDA) by ZACHEM SA and reported its own claim against the Air Products.

42 Information about significant events from previous years, recognised in the financial statements for the financial years

No other events concerning prior years and recognised in the financial statements for the financial year occurred.

43 Other information that may have a significant impact on the assessment of the Ciech Group's financial and asset situation or its financial result

No other events that may have a significant impact on the Ciech Group's financial and assets situation or its financial result occurred in the reporting period.

44 Reconciliation of equity presented in the previously published financial statements with the currently presented financial information

Investment property at fair value - starting from January 1st, 2012, the Management Board of CIECH S.A. changed the accounting principles concerning investment property valuation from valuation according to the historic cost to valuation according to the fair value. In that position were presented investment property and also operating lease agreements. The profit or loss resulting from the change in fair value of an investment property affects the net profit or loss in the period in which this change occurred and is recognised under other operating revenues/costs.

Presentation of energy certificates – the change concerns the recognition of certificates of origin of energy obtained in connection with the production of energy in cogeneration as inventories.

The impact of changes in principles applied while preparing the financial statements to the data as at December 31st, 2011 is presented below.

PLN '000	**31.12.2011 previously reported in the annual statements**	investment property	Presentation of energy certificates	**31.12.2011 currently reported**
Tangible fixed assets	2 217 219	1 501	-	2 218 720
Right of perpetual usufruct	129 491	(73 213)	-	56 278
Investment property	7 084	80 403	-	87 487
Total fixed assets	**2 677 201**	**8 691**	**-**	**2 685 892**
Inventory	335 591	**-**	21 028	356 619
Trade and other receivables	840 586	**-**	(21 028)	819 558
Total current assets	**1 389 304**	**-**	**-**	**1 389 304**
Total assets	**4 066 505**	**8 691**	**-**	**4 075 196**
Retained earnings	495 365	7 040	-	502 405

PLN '000	31.12.2011 previously reported in the annual statements	investment property	Presentation of energy certificates	31.12.2011 currently reported
including net financial result	*1 501*	-	-	*1 501*
Equity attributable to shareholders of the parent	**1 310 111**	**7 040**	**-**	**1 317 151**
Non-controlling interest	(2 020)	-		(2 020)
Total equity	**1 308 091**	**7 040**	**-**	**1 315 131**
Deferred tax liability	119 015	1 651	-	120 666
Total non-current liabilities	**683 563**	**1 651**	**-**	**685 214**
Total current liabilities	2 074 851	-	-	2 074 851
Total liabilities	**2 758 414**	**1 651**	**-**	**2 760 065**
Total equity and liabilities	**4 066 505**	**8 691**	**-**	**4 075 196**

The impact of changes in principles applied while preparing the financial statements to the data as at December 31st, 2010 is presented below.

PLN '000	31.12.2010 Presented as comparative in the Consolidated Annual Report of the Ciech Group for 2011	Investment property	Presentation of energy certificates	31.12.2010 currently presented
Fixed assets				
Tangible fixed assets	2 063 540	1 989	-	2 065 529
Right of perpetual usufruct	134 181	(73 213)	-	60 968
Investment property	5 920	81 747	-	87 667
Total fixed assets	**2 456 399**	**10 523**	**-**	**2 466 922**
Total current assets				
Inventory	297 233	-	8 420	305 653
Trade and other receivables	731 412	-	(8 420)	722 992
Non-current assets held for sale	257 820	(1 832)	-	255 988
Total current assets	**1 472 617**	(1 832)	**-**	**1 470 785**
Total assets	**3 929 016**	**8 691**	**-**	**3 937 707**
Retained earnings	494 304	7 040	-	501 344
Equity attributable to shareholders of the parent	**817 851**	**7 040**	**-**	**824 891**
Non-controlling interest	32 619	-	-	32 619
Total equity	**850 470**	**7 040**	**-**	**857 510**
Deferred tax liability	106 401	1 651	-	108 052
Total non-current liabilities	**961 333**	**1 651**	**-**	**962 984**
Total current liabilities	2 117 213	-	-	2 117 213
Total liabilities	**3 078 546**	**1 651**	**-**	**3 080 197**
Total equity and liabilities	**3 929 016**	**8 691**	**-**	**3 937 707**

45 Reconciliation of financial data presented in the consolidated financial statements for the fourth quarter of 2012 and presented now

As of the publication date of Ciech Group's consolidated financial statements for 2012, audit of financial statements of all entities and groups of lower level consolidated in financial statemenof Ciech Group have been completed. Adjustments entered in these statements affected consolidated data of Ciech Group as at 31 December 2012 currently presented as compared to the data previously published in the report for the fourth quarter of 2012.

Below is a list and description of entered adjustments:

1. **Adjustment of the value of assets** – in annual financial statements enclosed the valuation of investment property to fair value as at31 December 2012 and estimated write-downs of property, plant and equipment.
2. **Adjustment of** deferred tax - recognition of deferred tax assets in ZACHEM S.A. on the redemption of the loan from CIECH S.A and the closing of the transaction with BASF.
3. **Adjustments of provisions** – recognition of additional provision for US Govora S.A liabilities in connection with pending litigation between the Company and its employees. Moreover, the additional provision for compensations in ZACHEM Group have been made.
4. **Grant from NCBiR**– the adjustment results from the fact, that subsidy from National Research and Development Centre is considered to be non-refundable.
5. **Presentation adjustment of hedge accounting –** in annual report, there has been change of presentation of effective portion of the hedge of shares in net assets of foreign entities. In the fourth quarter it was presented as a capital for hedge accounting. Now, it is recognized in position - exchange rate differences on net investments in foreign operations.
6. **Presentation adjustment of lease** – because of the significance of the amount of obligation under finance lease and lease-back, it has been presented as separate items at the Group's statement of financial position level and not as so far as other liabilities
7. **Other adjustments** – relate to reclassifications items of assets and changes of consolidation adjustments.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	data previously reported in IV quarter 2012 report	Assets impairment allowances	deferred tax adjustment	provision adjustment	Zachem NCBiR donation	hedge accounting presentation change	lease presentation change	other adjustments	data presented in current report
Fixed assets, including:	**2 526 406**	**4 692**	**18 859**	-	-	-	-	**(4 193)**	**2 545 764**
Tangible fixed assets	2 113 316	(13 921)	-	-	-	-	-	-	2 099 395
Investment property	94 405	18 613	-	-	-	-	-	-	113 018
Other long-term investments	48 854	-	-	-	-	-	-	(4 193)	44 661
Deferred income tax assets	13 025	-	18 859	-	-	-	-	-	31 884
Total current assets, including:	**1 178 037**	-	-	-	-	-	-	**4 234**	**1 182 271**
Trade and other receivables	705 095	-	-	-	-	-	-	41	705 136
Assets classified as held for sale	107 607	-	-	-	-	-	-	4 193	111 800
Total assets	**3 704 443**	**4 692**	**18 859**	-	-	-	-	**41**	**3 728 035**
Equity									
Share capital	287 614	-	-	-	-	-	-	-	287 614
Own shares	0	-	-	-	-	-	-	-	-
Share premium	507 835	-	-	-	-	-	-	-	507 835
Capital related to assets classified as held for sale	0	-	-	-	-	-	-	-	-
Cash flow hedge	5 273	-	-	-	-	(2 551)	-	-	2 722
Financial assets revaluation capital	0	-	-	-	-	-	-	-	-
Fixed assets revaluation capital	0	-	-	-	-	-	-	-	-
Other reserve capitals	78 521	-	-	-	-	-	-	-	78 521
Net currency translation differences (investments in foreign companies)	(11 606)	-	-	-	-	2 551	-	-	(9 055)
Currency translation differences (foreign companies)	(53 384)	-	-	417	-	-	-	-	(52 967)
Retained earnings	52 451	4 646	31 764	(22 683)	5 666	-	-	(514)	71 330
Equity attributable to shareholders of the parent company	**866 704**	**4 646**	**31 764**	**(22 266)**	**5 666**	-	-	**(514)**	**886 000**
Non-controlling interest	(4 599)	46	321	(1 634)	57	-	-	(3)	(5 812)
Total equity	**862 105**	**4 692**	**32 085**	**(23 900)**	**5 723**	-	-	**(517)**	880 188
Non-current liabilities, including:	**1 799 717**	**0**	**(13 226)**	**0**	**0**	-	-	-	**1 786 491**
Sale-and –lease-back liabilities	-	-	-	-	-	-	204 231	-	204 231
Lease liabilities	-	-	-	-	-	-	3 235	-	3 235
Other long – term liabilities	329 679	-	-	-	-	-	(207 466)	-	122 213
Deferred tax provision	117 396	-	(13 226)	-	-	-	-	-	104 170
Current liabilities, including:	**1 042 621**	-	-	**23 900**	**(5 723)**	-	-	**558**	**1 061 356**
Liabilities due to loans, borrowings and other debt instruments	6 458	-	-	-	-	-	-	85	6 543
Sale-and –lease-back liabilities	-	-	-	-	-	-	48 740	-	48 740
Lease liabilities	-	-	-	-	-	-	7 855	-	7 855

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	data previously reported in IV quarter 2012 report	Assets impairment allowances	deferred tax adjustment	provision adjustment	Zachem NCBiR donation	hedge accounting presentation change	lease presentation change	other adjustments	data presented in current report
Trade and other liabilities	830 249	-	-		(5 723)	-	(56 595)	473	768 404
Provisions (short-term provisions for employee benefits and other provisions)	148 574	-	-	23 900	-	-	-	-	172 474
Total liabilities	**2 842 338**	-	**(13 226)**	**23 900**	**(5 723)**	-	-	**558**	**2 847 847**
Total Equity and Liabilities	**3 704 443**	**4 692**	**18 859**	-	-	-	-	**41**	**3 728 035**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	data previously reported in IV quarter 2012 report	Assets impairment allowances	deferred tax adjustment	provision adjustment	Zachem NCBiR donation	hedge accounting presentation change	lease presentation change	held for sale reclass	data presented in current report
Net revenue from sales	4 377 952	-	-	-	-	-	-	-	4 377 952
Cost of sales	(3 781 457)	-	-	-	-	-	-	-	(3 781 457)
Gross profit/loss on sales	**596 495**	-	-	-	-	-	-	-	**596 495**
Other operating revenue	223 592	(92 301)	-	-	-	-	-	-	131 291
Selling costs	(276 375)	-	-	-	-	-	-	-	(276 375)
General and administrative expenses	(202 401)	-	-	-	-	-	-	(15)	(202 416)
Other operating costs	(525 543)	96 993	-	(22 307)	5 723	-	-	(204)	(445 338)
Operating profit/loss	**(184 232)**	**4 692**	-	**(22 307)**	**5 723**	-	-	**(219)**	**(196 343)**
Financial income	10 096	-	-	-	-	-	-	-	10 096
Financial expenses	(269 344)	-	-	(2 042)	-	-	-	(298)	(271 684)
Net financial income/expenses	**(259 248)**	-	-	**(2 042)**	-	-	-	**(298)**	**(261 588)**
Share in net profit of subsidiaries valued under the equity method	744	-	-	-	-	-	-	-	744
Profit/loss before tax	**(442 736)**	**4 692**	-	**(24 349)**	**5 723**	-	-	**(517)**	**(457 187)**
Income tax	(9 946)	-	32 085			-	-		22 139
Net profit/loss	**(452 682)**	**4 692**	**32 085**	**(24 349)**	**5 723**	-	-	**(517)**	**(435 048)**
Profit/loss on sales related to discontinued operations	(2 663)	-	-	-	-	-	-		(2 663)
Net profit / loss for the period	**(455 345)**	**4 692**	**32 085**	**(24 349)**	**5 723**	-	-	**(517)**	**(437 711)**
including:									
Net profit/loss attributable to shareholders of the parent	(449 463)	4 645	31 764	(22 683)	5 666	-	-	(513)	(430 584)
Net profit/loss attributed to non-controlling interest	(5 882)	47	321	(1 666)	57	-	-	(4)	(7 127)

Statement of the Management Board

These consolidated financial statements of the Ciech Group were approved by the Management Board of the Company at its registered office on April 19th, 2012.

Warsaw, April 19th, 2012

Signed on the Polish original

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Dariusz Krawczyk - President of the Management Board of CIECH Spółka Akcyjna

Signed on the Polish original

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Andrzej Kopeć – Member of the Management Board of CIECH Spółka Akcyjna

Signed on the Polish original

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Artur Osuchowski – Member of the Management Board of CIECH Spółka Akcyjna

Signed on the Polish original

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Katarzyna Rybacka – Chief Accountant of CIECH Spółka Akcyjna