

**Assessment of CIECH S.A.'s standing in 2009
conducted by the Supervisory Board of CIECH S.A.
for the Ordinary General Meeting of CIECH S.A.,
including the internal control system
and the system for managing the Company's material risks**

Acting pursuant to rule III.1.1) of the Code of Best Practice for WSE Listed Companies (effective as of 1 January 2008), which should be applied by companies listed at the Warsaw Stock Exchange, the Supervisory Board presents to the Ordinary General Meeting of CIECH S.A. a brief assessment of the Company's standing in 2009, including the internal control system and the system for managing the Company's material risks.

1. Assessment of the Company's standing in 2009

In 2009, CIECH S.A. generated a net result amounting to PLN -125,767 thousand, the balance sheet total amounted to PLN 1,977,009 thousand and net cash increased by PLN 16,497 thousand. CIECH S.A.'s consolidated net sales revenue in 2009 amounted to PLN 1,901,077 thousand.

CIECH S.A.'s sales revenues in 2009 amounted to PLN 1,901,077 thousand and were lower than those of 2008 by 7%. The revenues were adversely affected by the economic downturn on the chemical market and the decrease in prices in the organic segment.

The soda segment recorded an increase in prices at the beginning of the year but in the second half the prices returned to the level of 2008. Combined with the decrease in currency exchange rates (in particular EUR/PLN) over the entire year, these factors resulted in a drop in revenues by PLN 153 million.

In 2009, operating profit amounted to PLN 147,139 thousand and was higher by more than PLN 1,361 thousand than that recorded in 2008. EBIT was adversely affected by the negative balance of other operating activities (PLN -15,432 thousand), which was mainly attributable to the recognition of a write-down on investment property amounting to PLN 11,492 thousand in connection with the planned demolition of the building in ul. Powązkowska. The EBIT margin amounted to 7.7%, compared to 7.2% in 2008. The margin's increase is mainly linked to the increase in gross sales profit due to the drop in the sales share of less profitable products in the agricultural chemicals segment and a temporary increase in the prices of soda products in H1 2009.

In 2009, the Company disclosed a gross loss of PLN 113,555 thousand, which is a decrease of PLN 48,416 thousand in comparison to 2008. The gross loss was mainly the result of:

- a) interest paid on loans (PLN 64,350 thousand) – greater use of overdrafts,
- b) write-down on borrowings to US Govora (PLN 137,518 thousand),
- c) foreign exchange losses (PLN 139,214 thousand).

The positive contributors to the gross profit were as follows:

- a) core business (gross sales profit amounting to PLN 335,115 thousand),
- b) interest received (PLN 23,762 thousand),
- c) measurement of financial instruments in the amount of PLN 43,775 thousand, compared to the previous year's level of PLN -234,075 (this amount also includes the adjustment of an error resulting from the incorrect application of IAS 39, amounting to PLN -70,934 thousand; for details, see section 37 of the notes to the financial statements),
- d) dividends received (PLN 24,844 thousand).

The decrease in gross profit in comparison to the previous year is mainly the result of a greater negative balance of interest paid and received, amounting to PLN 20,101 thousand, and the negative balance of FX gains/losses in transactions, while in the previous year this balance was positive (a change by PLN -241,561 thousand compared to the previous year).

As of 31.12.2009, equity amounted to PLN 517,096 thousand, which is a PLN 72,254 thousand decrease in comparison to the balance as of the end of 2008. The decrease in equity is the result of the generated net loss (PLN 125,767 thousand), less the positive effect of including in the equity a valuation of some effective instruments for hedge accounting, amounting to PLN 36,913 thousand, and an increase in revaluation capital of PLN 16,600

thousand.

As of 31 December 2009, CIECH S.A.'s total long-term and short-term liabilities amounted to PLN 1,459,913 thousand, which is an increase in liabilities by 2% in comparison to the previous year's level. This increase was mainly attributable to higher trade liabilities, in particular those due to companies of the Ciech Group. At the end of 2009, the balance of bank loans, borrowings and other debt instruments amounted to PLN 904,153 thousand and increased by PLN 43,853 thousand in comparison to the previous year. At the same time, the loan structure changed: long-term loans grew by PLN 126,394 thousand to PLN 426,196 thousand.

Net debt (financial liabilities less cash) at the end of 2009 amounted to PLN 857,708 thousand and increased over the year by PLN 29,493 thousand. As of 31 December 2009, the financial leverage ratio (defined as net debt in relation to the sum of net debt and equity) was 62%.

The debt rate (calculated as the relation of long-term and short-term liabilities to total assets) increased over 12 months of 2009 from 70.9% to 73.8%. The ratio's level confirms that CIECH S.A. has increased its borrowing.

The acquisitions in 2006 and 2007 that led to an increase in the assets of CIECH S.A. (in particular, the acquisition of Soda Deutschland Ciech Group GmbH) were financed through an investment loan and a bond issue. As a result, debt ratios increased.

The CIECH Group continues the reorganisation programme of S.C. Uzinele Sodice Govora Ciech Chemical Group SA (USG). The programme's main focus was to improve the current cost efficiency of production as well as the production efficiency and stability in the long term by completing investment projects. In the opinion of the Management Board, the implementation of a restructuring programme adapted to the company's financial capabilities will bring positive results for USG in the coming years.

In particular, the Supervisory Board focused its attention in 2009 on the restructuring of the CIECH Capital Group's debt.

In April 2010, the process of refinancing the Group's debt was completed (without the German company). During negotiations between the banks and CIECH S.A., short-term standstill agreements were in force. As a result, on 26 April 2010, a loan agreement was signed by CIECH S.A., as the borrower, its subsidiaries, as guarantors, and a bank consortium (Bank Polska., Kasa Opieki SA Bank Handlowy w Warszawie SA, BRE Bank SA, Powszechna Kasa Oszczędności Bank Polski SA, ING Bank Śląski SA, Bank Millennium SA and DNB Nord Polska). In addition, the restructuring of German companies was completed.

The Supervisory Board would like to point out that, as a result of the optimisation of business processes in the Ciech Capital Group, which was initiated by the parent company (including the consolidated purchase of electricity in a TPA system, and optimising current facilities maintenance and renovation costs), major synergies were achieved, allowing the Group's operating costs to be substantially reduced. The Management Board of CIECH S.A., pursuant to the assumptions of the applied strategy, expects that in 2010 the results will be better than those produced in 2009, both in terms of revenues, EBITDA and net profit. However, the most important tasks for the CIECH Group in 2010 will be restructuring, including a further reduction of costs, and divestments.

CIECH S.A., as the Ciech Group's parent company, is implementing a number of strategic initiatives, including investments in non-current assets and divestments in non-core businesses, the sale of non-production property and minor acquisitions, which should allow the Group to increase its production potential and, as a result, grow revenues and profits.

Obtaining the syndicated loan should improve the Company's financial situation. The Supervisory Board believes that the risks related to CIECH S.A.'s uncertain financial situation will be mitigated. Consolidating the debt paves the way for negotiating the terms of mid-term financing.

2. Assessment of CIECH S.A.'s internal control system

Establishing an effective internal control system is the responsibility of the Company's Management Board.

In the opinion of the Supervisory Board, the existing control system of the CIECH Group is continuously improved, delivers an independent assessment of the defined standards and streamlines the whole Group's operation.

CIECH S.A.'s Internal Control System includes functional control by the management of individual organisational units of CIECH S.A. and other employees as part of their duties. Another element of the internal control system is institutional control exercised by the Control and Internal Audit Department, which provides independent advice and assessment of the effectiveness of CIECH S.A.'s management processes, helping the CIECH Chemical Group achieve its long-term goals and tasks.

The main objective of internal functional control is to ensure the correctness, reliability and punctuality of the performed operations, as well as to prevent and identify any irregularities and malpractice in the operation of the CIECH Group's organisational units. As part of functional control, a given organisational unit's risks or the risks related to a product are identified, and efforts are made to keep such risks at a level defined by CIECH S.A. In practice, functional control is exercised by every employee as part of their duties, based on the defined procedures.

The purpose of institutional control, i.e. internal audit, which is exercised by the Control and Internal Audit Department, is to audit the correctness, legality and reliability of operations performed by individual organisational units of CIECH S.A. and to assess compliance of actions taken with internal procedures. The internal audit also verifies the effectiveness of functional control and identifies any instances of mismanagement and malpractice in different areas.

The Control and Internal Audit Department fulfils its tasks according to an annual control plan approved by the President of the Management Board and conducts additional current audits of particular issues, as ordered by CIECH S.A.'s Management Board. To a great extent, the controlled areas involve major risks to the CIECH Group's business.

3. Assessment of CIECH S.A.'s risk management system

The Company's Management Board is responsible for introducing rules for risk management in the Company and for implementing the risk management process.

In the Supervisory Board's opinion, the Company's risk management system is effective and ensures an optimal level of material risks to which the Company is exposed as part of its business.

The key objective of the CIECH Group's risk management system is to ensure financial security and operational efficiency, allowing the CIECH Group to generate profits and continuously grow value for its shareholders. The principal objective of the system for managing the business risk is to lay a foundation for introducing risk management methods, procedures, requirements and reports required for keeping the CIECH Chemical Group's risk at an acceptable level.

The risk management process in the CIECH Chemical Group has been designed to facilitate the identification of potential threats and to ensure the achievement of the CIECH Chemical Group's strategic goals. The risk management system covers all materials risks to which the Company is exposed as part of its business operations. The consequences of business decisions are analysed for the materiality of the risk related to such decisions. Keeping the risk at an acceptable level helps define the respective risk management method. Risk management supports decision making by identifying areas with a potentially adverse effect on goodwill.

CIECH S.A. actively manages operational and financial risk, aiming to reduce the fluctuation of cash flows and maximise the Company's goodwill.

The policy assumes natural hedging of imports and exports and hedging of up to 70% of net exposure to currency risk. The instruments used in hedging the aforesaid exposures in 2009 were FX forwards and option-related strategies.

In the group of financial risks, the major risks for the CIECH Group are the following:

1. FX risk,
2. credit risk,
3. liquidity risk.

Re 1

The FX risk is an intrinsic component of running business operations denominated in foreign currencies. Due to the nature of its import and export operations, CIECH is subject to FX exposure connected with considerable surplus of exports over imports. The sources of the FX risk to which the Company was exposed

in 2009 included: purchase of raw materials, product sale, loans raised and borrowings granted as well as cash in foreign currencies.

CIECH applies natural hedging consisting in balancing inflows and outflows in foreign currencies and uses derivatives in order to reduce the FX risk.

The Company has used hedging transactions to reduce the influence of exchange rate fluctuations on the profit and loss account. In 2009, option transactions were used to realise cash flow hedging transactions.

Re 2

In 2009, the Company granted borrowings amounting to PLN 48,271 thousand (including FX losses on measurement, amounting to PLN 5,916 thousand). S.C. Uzinele Sodice Govora Ciech Chemical Group S.A. was granted a borrowing amounting to PLN 45,190 thousand (EUR 11,000 thousand).

In 2009, the method of presenting the advance granted in 2008 to the Romanian company for the delivery of goods amounting to PLN 43,096 thousand was changed (including FX difference due to measurement, amounting to PLN 571 thousand), which, as of 31 December 2009, amounts to EUR 10,490 thousand. CIECH S.A. still awaits the realisation of the advance for the delivery of goods by the Romanian company.

In the comparative period, the Company granted borrowings amounting to PLN 69,567 thousand (including FX differences due to measurement, amounting to PLN 59,982 thousand). In the comparative period, the Company granted borrowings amounting to PLN 386,790 thousand, of which PLN 340,996 thousand (EUR 95,100 thousand) were borrowed to a subsidiary, Soda Deutschland Ciech GmbH.

CIECH S.A. is exposed to the credit risk connected with the credit rating of customers being parties to product and goods sales transactions. This risk is reduced through internal procedures for determining loan limits for customers and through management of trade receivables (the Company mainly applies letters of credit, bank guarantees, mortgages and insurance as collaterals). Customers' credit rating is assessed and appropriate collaterals are obtained from the borrowers, allowing for a reduction of potential losses in the case of failure to repay the debt. The credit risk assessment for customers is performed prior to concluding an agreement and cyclically at subsequent supplies of goods, in accordance with the binding procedures. The risk of the receivables portfolio is assessed weekly. On certain markets where more risky terms of payment are applied, the Company uses services provided by companies specialising in insuring receivables.

A vital factor limiting loan risk is a considerable diversification of customers for goods sold by the Company.

Re 3

CIECH S.A. is exposed to liquidity risk due to a high portion of short-term borrowing (overdraft facilities and working capital loans), limited opportunities to obtain new funding given the high level of existing debt as well as the risk of failure to maintain existing long-term funding as a result of violation of obligations laid down in the loan agreement.

The following measures are applied to reduce the liquidity risk:

- regular monitoring of the Company's liquidity,
- monitoring and optimising working capital,
- adjusting the level and schedule of capital expenditures,
- in-group borrowings and sureties of the Group companies' liabilities.

Surplus is allocated to safe financial instruments with high liquidity (short-term bank deposits) and used to fund operating activities.

In 2009, CIECH S.A.'s investment requirements were financed from the company's own funds.

To reduce the risk related to borrowing, in 2009, the process aimed at refinancing and consolidating debt continued. In August 2009, a status quo agreement was concluded with the banks financing CIECH and the Ciech Group, under which the banks undertook to continue their involvement with CIECH and the Ciech Group over the agreement's duration.

In consideration of the above, the Supervisory Board believes that the internal control system and the risk management system in the CIECH Group are important elements of the Group's management system, allowing it to operate in a more safe and stable manner, and to achieve its long-term strategic goals. The presented standards are

applied in all companies of the Group.

To sum up, CIECH S.A.'s Supervisory Board gives a positive assessment of the Company's and the Capital Group's growth perspectives.

Chairwoman of CIECH S.A.'s Supervisory Board

Ewa Sibrecht - Ośka

A handwritten signature in black ink, appearing to read 'Ewa Sibrecht - Ośka', written in a cursive style.