



# **MANAGEMENT BOARD REPORT**

## **ON ACTIVITIES OF THE CIECH GROUP AND CIECH S.A. IN 2020**

We are providing a courtesy English translation of our Management Board Report on activities of the CIECH Group and CIECH S.A. which was originally written in Polish. We take no responsibility for the accuracy of our translation. For an accurate reading of our Management Board Report on activities of the CIECH Group and CIECH S.A., please refer to the Polish language version of our Management Board Report on activities of the CIECH Group and CIECH S.A.

## LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD OF CIECH S.A.



Dear Sir or Madam,

Summing up 2020, on behalf of all Employees and the Management Board of the CIECH Group, I can proudly state that we overcame the challenges we faced in the previous 12 months. None of us expected to be faced with such a scale of economic uncertainty, sudden decisions to cease economic operations on a scale that had not been observed in modern history, or disruptions in global supply chains. Many of us had serious concerns for the health and life of our loved ones. Therefore, before I go on to present our achievements, I would like to express my appreciation and sincere gratitude to the employees of our Group. In this difficult period, also in personal terms for many of us, our team showed commitment and responsibility. Despite the complications and obstacles, we managed to complete or achieve significant progress in the implementation of our strategic projects and ventures. The fruit of this hard work will be shown in the financial and non-financial results of the CIECH Group in the near future.

Our financial results in this difficult year prove the fundamental strengths of our business:

- Net profit amounted to PLN 128 million and increased by approx. 17% compared to the previous year,
- (Adj.) EBITDA reached the level of PLN 613 million (from continuing operations, excluding the result of CIECH Soda Romania), slightly more than last year, despite unprecedented disturbances in the global economy for most of the year,
- In terms of expenditure response, we managed to maintain the (Adj.) EBITDA margin at last year's level of above 20%. We reduced our operating expenses by PLN 90 million or 12% compared to the previous year. We assume that some of these savings will be permanent.
- We managed to maintain high cash efficiency of our business – in 2020, cash flow from operating activities exceeded PLN 767 million, i.e. increased by PLN 232 million compared to 2019. This entails that we were able to finance almost all of our investments from the 2020 current operations.
- We managed to maintain the level of debt, calculated according to the definition under loan agreements, at a safe level of 2.45 times EBITDA.

Achievement of such good results was possible due to our consistently implemented development strategy and business flexibility, as well as the decisive measures taken by us in the extraordinary circumstances of 2020. In the first place, we took care of the health of our employees, by introducing safe operating procedures in our production plants and equipping our employees with personal protective equipment. We manufactured some of such equipment ourselves - such as disinfecting fluid from our plant in Nowa Sarzyna or protective masks whose production began in Bydgoszcz at the end of the year. With the principles introduced by us we were able to maintain business continuity in each area, and despite the occurrence of infections, our production plants themselves did not become “infection hotspots”.

At the same time, we took care of the financial stability of the Group and the quality of our results. Analysing the detailed information about our operating segments, you can observe healthy foundations that enabled us to achieve very good results in 2020, the foundations that constitute a solid basis for the growth of our business and the company's value in the near future.

In the soda segment, despite the very challenging market, we managed to maintain the sales level of our key product - our revenues from soda ash sales decreased only by approx. 2% year-on-year, which confirms our market position and the strength of our customer portfolio, in particular, if we compare this result with the sales volumes generated by our competitors.

Our revenues from the sale of sodium bicarbonate increased by 16% year-on-year, to PLN 193 million. This is mainly the result of the production from our new Stassfurt installation. Already on a full scale, in Stassfurt we produce the highest-quality pharmaceutical grade sodium bicarbonate, whose purity and other chemical and physical parameters have been confirmed, among others, by the GMP API certification.

The salt business saw a particularly difficult year behind it, due to the problems of the HoReCa industry, which is one of its main recipients. Sales in this business fell by 7% year-on-year, to approx. 184 million. However, the most important activity in this area was the construction of an effective, modern and automated evaporated salt plant in Stassfurt. It is our largest investment in history and one of the largest foreign investments of Polish companies in general. In spite of successive lockdowns, cross-border transfer difficulties and lengthened administrative procedures, we were able to continue construction work. When you read these words, the construction phase is being completed and individual installations are being commissioned. Any moment soon, we will obtain the first lump of high-quality salt from the production line. After full production

capacity has been reached and all products have been launched for sale, including salt for pharmaceutical applications, the plant should generate an EBITDA of approximately EUR 25 million per annum.

In the segment of plant protection product sales, we recognised record increases. Revenues in this segment increased by almost 25% year-on-year, to approx. PLN 366 million, and (Adj.) EBITDA by as much as 37%, i.e. to PLN 41 million. This is the result of consistently introduced changes in the organisation and management of this segment, as well as better adaptation of our product offer to market requirements. At last, the sale of plant protection products is realising its potential and we hope for a further increase in its contribution to the Group's results. We continuously carry out intensive research work to ensure that our products respond to customer needs and regulatory trends. This gave rise, among others, to the development of an innovative and patented substance under the technical name of BGT<sup>®</sup>, which maintains effectiveness comparable to the most commonly used products, while reducing the dose of the active substance. We are continuously changing and modernising the market of plant protection products, digitising it and introducing automated solutions that facilitate collaboration with our distributors and users of our products. These activities are carried out with a view to improving the efficiency of planning and managing the availability of our products, which translates into maximising the generated results and our ability to take advantage of business opportunities, as well as improving communication with our end customers.

Our other businesses also had a successful period. EBITDA of the Foam business increased by over 22% y/y, to over PLN 37 million, while EBITDA of the Silicates remained at last year's level of PLN 26 million, and in Packaging it increased by 23%, to PLN 22 million. The sale of CIECH Resins should also be mentioned here - in the middle of 2020, we executed an agreement to sell this business to a Polish industry investor for around PLN 160 million and with an EV/EBITDA multiplier of 7.6. We finalised this transaction in the first quarter of 2021, and its finalisation is an element of our strategy that assumes building the Group's value through changes in its asset portfolio and focusing on businesses with the best prospects and a leading market position.

As one of the challenges for the future lying in the foreground, we see the need to accelerate the path to decarbonisation. The chemical industry we are a part of emits large volumes of greenhouse gases for technological reasons; thus we feel responsible to future generations to slow down and ultimately stop climate changes. We intend to reduce our CO<sub>2</sub> emissions by approx. one-third over the next five years - the details of our commitments and the ways in which we plan to achieve them will be presented in the second quarter of 2021.

We are optimistic about the coming quarters. Although the global situation continues to be uncertain and some risks persist, we can see that our hard work from 2020 and previous years is paying off. The situation on the soda ash market is stable, and we expect growth along with the upward movement of the value chain, especially in the area of sodium bicarbonate, where the new installation will be operating all year round. We will begin the sale of the salt from the new plant, although of course, we will not be able to achieve the full scale of the contribution until next year. We continue to develop the plant protection product (PPP) business and we intend to continue harvesting the fruit of its optimisation and expansion, both in terms of products and geography. We observe favourable trends on the polyurethane foams market that will enable us to achieve record financial results. We are developing the silicate business - we assume that at the end of the year we will launch a new sodium silicate production furnace, which will rapidly boost our revenues and strengthen CIECH's position of a leader in the supply of sodium silicates for promising branches of modern and innovative economy. We will continue to maintain cost discipline and flexibly respond to any changes in the environment. Effects will also be achieved with organisational changes and the development of our corporate culture - incl. the implementation of an integrated performance management system, development and automation of business intelligence reporting and digitisation of subsequent processes. We are certain that it will bring benefits to all our stakeholders and increase the value of our company in the long term.

Once again, I would like to thank all our employees, customers, shareholders and all our who made it possible for the CIECH Group, despite the demanding environment, to record yet another optimistic year of development and make yet another step in its transformation into a modern and competitive chemical holding.

I hope reading our report proves pleasant to you all.

Yours sincerely,



Dawid Jakubowicz  
President of the Management Board of CIECH S.A.

## LETTER FROM THE CHAIRMAN OF THE SUPERVISORY BOARD OF CIECH S.A.

Dear Sir or Madam,



**Sebastian Kulczyk**  
Chairman of the Supervisory  
Board of CIECH S.A.

2020 will be remembered mainly because of the COVID-19 pandemic and the global economic crisis related to it. Although we observed disruptions in global supply chains and deterioration of the economic climate, the CIECH Group managed to implement all its key strategic assumptions for 2019–2021. On behalf of the Supervisory Board of CIECH S.A., I would like to thank the employees and the Management Board for their extraordinary effort, engagement and hard work.

Responsibility and efficient management enabled the Group to quickly and flexibly adapt to the new volatile and unpredictable business conditions. CIECH plants, which have a crucial role in the operation of numerous industries, maintained their continuity of production, and most importantly, a high level of safety of their employees and employment stability. I am very pleased with the fact that in these demanding times, the Group proved to be a reliable and trustworthy partner for its customers, employees and local communities. At the same time, it showed a high standard of communication with the capital market and its shareholders, taking particular care of transparent information in the conditions of pandemic-related uncertainty.

We are entering the next step of implementation in the transformation of CIECH into a modern, competitive entity. Particular emphasis is placed on improving efficiency, using our in-house innovative solutions, developed together with the world of science, as well as building a friendly work environment and caring for natural resources and protecting the climate. The economic and epidemiological crisis did not manage to slow down the processes initiated before the pandemic, including the construction of the most modern European evaporated salt plant in Germany or the implementation of the Group's goals in terms of energy transformation and decarbonisation of production processes.

Business ought to be at the fore when it comes to the process of changing the world around us. Accordingly, as the Supervisory Board, we will continue to consistently support any initiatives and operations in line with the idea of sustainable development.

The Group's products make their footprint on each continent, finding application in numerous key sectors of the economy. Our everyday life would be rather difficult to imagine without the products provided by CIECH. At the same time, while professionally combining business and science, CIECH successfully implements its further development investments in Poland and abroad. Thus, it strengthens itself as the ambassador of the Polish modern economy and improves the rank of Polish private capital on the international arena.

All these positive trends have created the foundation for the further development of the entire Group. In this report you will find a summary of changes related to CIECH's transformation and their subsequent effects. I would like to invite you to read the Annual Report for 2020.

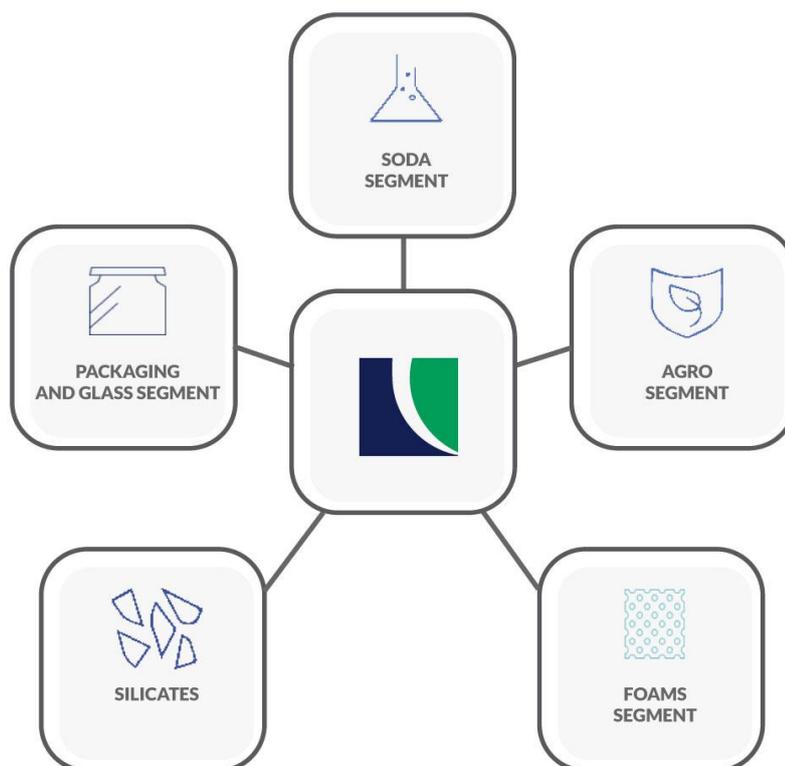
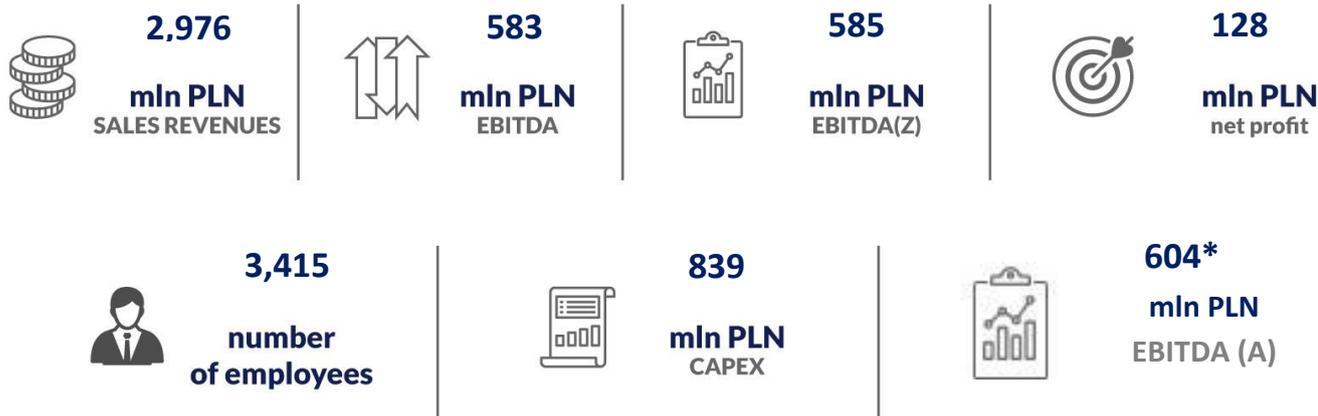
Yours sincerely,



Sebastian Kulczyk

Chairman of the Supervisory Board of CIECH S.A.

# CIECH GROUP IN 2020



## KEY EVENTS IN THE CIECH GROUP IN 2020

- Making a decision and launching the process of sale of CIECH Żywiec Sp. z o.o. (finalization of sales in the first quarter of 2021).
- Continuation of investment in the evaporated salt plant in Germany.
- Review of options in the Group's asset structure.

\* Aggregate data for continued and discontinued operations

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# **OPERATING ACTIVITIES**

of the CIECH Group



# 1. CIECH GROUP'S OPERATING ACTIVITIES

## 1.1 MAJOR EVENTS AND ACHIEVEMENTS IN 2020

### Demerger of CIECH Sarzyna S.A.

On 2 January 2020, the District Court in Rzeszów, 12<sup>th</sup> Commercial Division of the National Court Register, registered the demerger of CIECH Sarzyna S.A. The demerger was made through the spin-off of Resins Segment to CIECH Żywiec Sp. z o.o. The Demerger is aimed at achieving the key objective under the Strategy, i.e. creating an effective and diversified chemical holding company that generates positive value for shareholders in the long term. The demerger allows for further steps in the ongoing review of strategic options for Resins Segment. At the same time, following the registration of the demerger, the District Court registered the increase of the share capital of CIECH Żywiec Sp. z o.o. from PLN 56 thousand by PLN 3,678 thousand, i.e. to PLN 3,734 thousand, through the creation of 73,567 new shares with a nominal value of PLN 50 per share. These shares were allotted to CIECH S.A.

### Sale of an organised part of the enterprise

On 7 January 2020 the Extraordinary Shareholders' Meeting of CIECH R&D Sp. z o.o. adopted resolution on the sale to CIECH Żywiec Sp. z o.o. of an organized part of the enterprise constituting an organisationally, functionally and financially separated set of tangible and intangible assets (including liabilities) of CIECH R&D Sp. z o.o. intended for the performance of specific economic tasks related to carrying out activities in the area of implementation of new products related to production of unsaturated polyester resin products, saturated polyester resin products, epoxy resin products and a complementary products, as well as the rights resulting from the employment relationships, including working positions related to the above activities. The value of the organized part of the enterprise was measured based on a valuation prepared by an independent appraiser and amounts to PLN 1,988 thousand.

### Appointment of a Supervisory Board Member

On 23 January 2020, the Extraordinary Shareholders' Meeting of CIECH S.A. appointed Mr Łukasz Rędziniak as a new member of the Supervisory Board of CIECH S.A.

### Cooperation agreement

On 7 February 2020, a term sheet was signed and an agreement with regard to cooperation in the development of design documentation for the water and brine pipelines between CIECH and Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. The term sheet and the agreement are related to the letter of intent signed on 5 December 2019 by CIECH and GAZ-SYSTEM with regard to their cooperation in the implementation of an investment involving construction by GAZ-SYSTEM of a salt mine, with an underground gas storage facility at the Damasławek salt dump, along with the Linear Infrastructure, and cooperation in the supply of brine to the CIECH Soda Polska S.A. production facilities. The execution of the term sheet and the agreement is yet another step towards ensuring diversified

sources of brine supply to the CIECH Soda Polska S.A.'s production facilities in the long term. Detailed information on the agreement is provided in current report No 10/2020.

### Signing of letter of intent

On 28 February 2020, a letter of intent was signed between CIECH Soda Polska S.A. and REMONDIS Energy & Services Sp. z o.o. (REMONDIS) on their cooperation in the implementation of the investment project, consisting in the construction by REMONDIS of an incineration plant for municipal waste or waste of municipal origin. The electricity and heat generated in the process of thermal waste transformation will be supplied by REMONDIS to CIECH Soda Polska S.A. The cooperation is aimed at reducing the heat price and increasing the availability of the heat source at the CIECH Soda Polska S.A.'s plant. CIECH S.A. assumes that the collection of heat and electricity from the Incineration Plant will have a positive impact on the consolidated financial results of the CIECH Group by reducing the price of steam, i.e. a key raw material/ingredient in the production of soda ash. In addition, as a result of the cooperation between the Parties, the CIECH Soda Polska S.A.'s production plant would be able to reduce CO<sub>2</sub> emissions. The project will be implemented and fully financed by REMONDIS. However, CIECH Soda Polska S.A. will provide the necessary organisational, technical and formal assistance in implementing the Project. The commencement of the Project and cooperation between the Parties, depends on the fulfilment of certain conditions, including:

1. entry of the Incineration Plant on the list to be published by the Minister competent for the environment in the form of a regulation;
2. conclusion by the Parties of an agreement for the receipt of electricity and heat, under which the Parties will define the financial and any other conditions related to supplies.

Upon the execution of the Letter of Intent, the Parties intend to negotiate the Agreement. In the event that the Incineration Plant is not entered on the said List by 31 December 2020, the Letter of Intent shall expire on that date. The objective of the Parties is to commence the supply of heat and electricity to CIECH Soda Polska S.A. by 2026 at the latest. The parties assume that CIECH Soda Polska S.A. will be collecting heat for a period of approximately 25 years. As estimated by CIECH Soda Polska S.A., the minimum value of the Agreement over a 25-year period will be approximately PLN 350 million. CIECH S.A. expects the cooperation consisting in the heat supply from the Incineration Plant to be analogous to solutions already functioning in the CIECH Group, where similar cooperation exists between CIECH Soda Deutschland GmbH&Co.KG and a heat supplier from the REMONDIS Group. Detailed information is provided in current report No 11/2020.

On 31 December 2020, the aforementioned letter of intent expired.

On 26 March 2021, a new letter of intent was signed on the continuation of cooperation in the construction of waste incineration plants, and details are provided in the current report No. 9/2021.

#### Use of available financing

In the first quarter of 2020, all funds available under the revolving credit lines made available to CIECH S.A. under the agreement with the consortium of banks of 9 January 2018 and the facility agreements of 18 April 2019 were disbursed:

- ✓ 17 February 2020 – disbursement of the amount of PLN 60,000 thousand – funds disbursed to finance the Group's current liquidity needs,
- ✓ 19 March 2020 and 23 March 2020 - disbursement of the amount of PLN 442,788 thousand - funds disbursed in order to maximize the level of available liquidity and minimize the risk of unavailability of financing in connection with the growing uncertainty of economic developments due to the COVID-19 epidemic.

The current debt balance is reported in Section 3.5.7.

#### Letter of intent concerning the construction of a waste treatment installation

On 23 March 2020, a letter of intent was signed between CIECH S.A., CIECH Soda Polska S.A., Budimex S.A., EEW Energy from Waste GmbH, EEW Energy from Waste Polska sp. z o.o., FBSerwis S.A. and the Municipality of Janikowo, on their cooperation in the implementation of the investment project, consisting in the construction by EEW, EEW Polska and FBSerwis of a thermal waste treatment installation. The primary objective of the installation will be to supply CIECH Soda Polska S.A.'s production plant, located in Janikowo, with thermal energy (process steam). For details on the planned project, see current report No 13/2020.

#### Voluntary redundancy programme

On 25 March 2020, a decision was made to implement, as of 1 April 2020, the Voluntary Redundancy Programme with regard to employees of CIECH Soda Romania S.A. and the CIECH S.A. Branch in Romania, and to launch, as of 27 March 2020, the collective redundancy procedure with regard to employees of CIECH Soda Romania S.A. For details, see current report No 14/2020.

#### Agreement for the execution of a significant project

On 2 April 2020, as part of a significant investment project, involving the construction of an evaporated salt production plant in Stassfurt in Germany, a subsidiary of CIECH S.A. – CIECH Salz Deutschland GmbH – signed an agreement with Adamietz Sp. z o.o. with its registered office in Strzelce Opolskie, for the execution of design, construction and assembly works aimed at constructing the facilities making up the Project. The total value of the Agreement is EUR 44,100 thousand. CIECH Salz Deutschland GmbH is a special purpose vehicle and a wholly-owned subsidiary of CIECH S.A., which took over the salt business in Germany from CIECH Soda Deutschland GmbH & Co.KG.

#### Reverse factoring agreements

On 7 April 2020, CIECH S.A. and its subsidiaries: CIECH Sarzyna S.A., CIECH Pianki Sp. z o.o., CIECH Soda Polska S.A. and CIECH Vitrosilicon S.A. entered into a supplier financing agreement (reverse factoring agreement) with BNP Paribas Faktoring sp. z o.o. The conclusion of the Agreement fits in well with the CIECH Group's policy aimed at limiting risks related to the current market situation. Reverse factoring is to ensure an improvement in the companies' liquidity. For details on the agreement, see current reports No 17/2020 and 21/2020.

#### Appointment of a Member of the Management Board

On 20 April 2020, the Supervisory Board of CIECH S.A. appointed Mr Jarosław Romanowski as a Member of the Management Board of CIECH S.A.

#### Resignation of a Supervisory Board Member

On 20 May 2020, Mr Tomasz Mikołajczak resigned as Member of the Supervisory Board of CIECH S.A. Mr Tomasz Mikołajczak served as Vice-Chairman of the Supervisory Board of CIECH S.A.

#### Appointment of a Supervisory Board Member

On 21 May 2020, the Annual Shareholders' Meeting of CIECH S.A. appointed Mr Martin Laundenbach as a new member of the Supervisory Board of CIECH S.A.

#### Consent to raising financing

On 21 May 2020, the Annual General Meeting of CIECH S.A. gave its consent to CIECH S.A. or its subsidiaries raising financing through the issue of bonds by CIECH S.A. or its subsidiaries on international markets or the Polish market, contracting credit facilities, contracting loans, incurring debt in any other form or by combining various financing instruments, provided however that the claims of entities providing such financing may be subordinated to the claims of creditors of CIECH S.A.'s existing debt. The total amount of additional financing will not exceed PLN 500 million or its equivalent in other currencies. For details, see current report No 24/2020.

#### Authorisation to purchase CIECH S.A.'s treasury shares

On 21 May 2020, the Annual General Meeting of CIECH S.A. authorised the Management Board of CIECH S.A. to purchase fully paid shares issued by CIECH S.A. ("Treasury Shares") from one or more of CIECH S.A.'s shareholders. Treasury Shares may be acquired in particular for the purpose of:

- ✓ their cancellation by way of reduction of the share capital of CIECH S.A.,
- ✓ their resale against remuneration;
- ✓ using them to acquire or exchange shares or interest in any other companies.

The total number of Treasury Shares purchased will not be greater 7.7million shares of CIECH S.A., representing approx. 14.61% of the share capital, provided however that under no circumstances will the total number of Shares purchased be greater 20% of CIECH S.A.'s share capital, taking into account

the nominal value of any other treasury shares that have not been sold by CIECH S.A. The purchase price per a Treasury Share will not be lower than PLN 1 or higher than PLN 45. The maximum amount of remuneration for shareholders will not be higher than PLN 346.5 million for a total of up to 7.7 million Treasury Shares. The authorisation for the Management Board to purchase Treasury Shares covers a period of 2 years. For details, see current report No 24/2020.

#### **Sale of shares in CIECH Żywiec Sp. z o.o.**

On 20 July 2020, CIECH S.A. and LERG S.A. entered into a preliminary agreement for the sale of 74,677 shares representing 100% of the share capital in CIECH Żywiec Sp. z o.o. On 20 July 2020, the Supervisory Board of CIECH S.A. adopted a resolution approving the conclusion of the Transaction in question. The value of the Transaction, taking into account, among others, the share purchase price, is approximately PLN 160 million. Detailed information on the transaction is provided in current report No 27/2020.

On 1 March 2021, the agreement for the sale of 100% of shares in CIECH Żywiec Sp. z o.o. to LERG S.A. was finalised. The value of the Agreement (equal to the enterprise value, EV), taking into account, inter alia, the share sale price, is approximately PLN 160 million. The final price of the Shares being sold will be determined in accordance with the rule arising from the Agreement. Detailed information is provided in current report No 4/2021.

#### **Planned refinancing of debt**

On 28 December 2020, the Management Board of CIECH S.A. made a decision to begin (together with some of subsidiaries) negotiations concerning a new facilities agreement with selected banks and financial institutions in order to obtain new financing. At present, the Management Board of CIECH S.A. provides for the following basic terms and conditions of such new financing:

- (a) total amount: PLN 2,115 million (or its equivalent);
- (b) currency: PLN and/or EUR;
- (c) term: 5 years;
- (d) form: amortised term facility (PLN 560 million), non-amortised term facility (PLN 1,305 million) and revolving credit facility (PLN 250 million);
- (e) required financial ratios (covenants): maintaining the threshold level of the financial ratio (net debt to operating result plus amortisation/depreciation (EBITDA) at a level not exceeding 4.0x);
- (f) interest rate: variable interest rate determined on the basis of the WIBOR/EURIBOR base rate plus margin, the level of which depends on the level of the net debt to operating result plus by amortisation/depreciation (EBITDA);
- (g) purpose: to refinance the existing financial debt of the, to finance the refinancing expenses, and to finance the general corporate objectives of CIECH S.A. and certain companies from its Group. The Refinanced Debt includes facilities with a total value of approx. PLN 2,102 million.



## 1.2 CHARACTERISTICS OF THE CIECH GROUP

The CIECH Group is an international, professionally managed group with a well-established position of a leader of the chemical sector in Central and Eastern Europe. It manufactures products which are used in the production of articles necessary in everyday life of people all over the world – state-of-the-art products of the highest, world quality. Taking advantage of the support of a reliable strategic investor – Kulczyk Investments – it implements the strategy of global development.

The CIECH Group is a global concern focused on prospective markets.

The core sales market for the CIECH Group is the European Union, including mainly Poland, Germany and Central Eastern European countries. Products manufactured by the CIECH Group are also exported to overseas markets.



FIGURE 1: KEY OPERATING SEGMENTS AND MAJOR CATEGORIES OF CIECH GROUP PRODUCTS

	SODA SEGMENT	AGRO SEGMENT	FOAMS SEGMENT	SILICATES SEGMENT	PACKAGING SEGMENT
COMPANIES	CIECH CIECH Soda Polska Ciech Soda Deutschland Ciech Salz Deutschland CIECH Soda Romania	CIECH CIECH Sarzyna Proplan	CIECH CIECH Pianki	CIECH CIECH Vitrosilicon CIECH Soda Romania	CIECH CIECH Vitrosilicon
PRODUCTS SERVICES CONCERNED	soda ash evaporated salt sodium bicarbonate energy	agro products – crop protection chemicals	polyurethane foams	sodium and potassium silicates	lanterns and jars
CUSTOMERS	glass, food and detergent industry pharmaceutical industry households	agriculture	furniture industry households	chemical industry detergent industry dyeing industry households	food industry, households
MARKETS	global	global	global	global	global

Products of the CIECH Group are manufactured in 8 production plants. Four largest production plants (2 in Poland, 1 in Germany and 1 in Romania) operate in the Soda Segment and manufacture soda ash and soda derivatives; the plant in Romania produces glassy sodium silicate and sodium water glass. The remaining 4 plants operating in the Agro, Foams, Silicates and Packaging Segments are located in Poland. Soda production at the Romanian plant was suspended in the third quarter of 2019 (for more information, see current report No 40/2019). In addition, Proplan outsources product formulation and packaging services to two plants.

Strategic distribution of the Group's plants enables optimisation of logistics efforts and expansion of the distribution network which is of particular importance in the area of the Soda Segment's products. Plants in Poland and Germany guarantee access to key markets and stability of supplies in Europe.

FIGURE 2: KEY COMPANIES OF THE CIECH GROUP

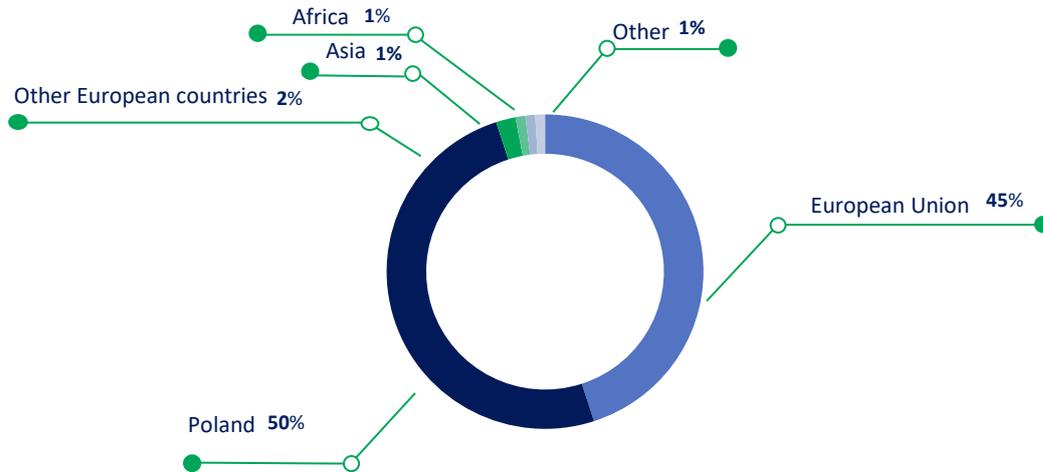


The CIECH Group is the exclusive Polish exporter of:

- Soda ash,
- Sodium bicarbonate,
- Calcium chloride.

The CIECH Group is the largest producer of sodium carbonate in the CEE region and the second largest in Europe.

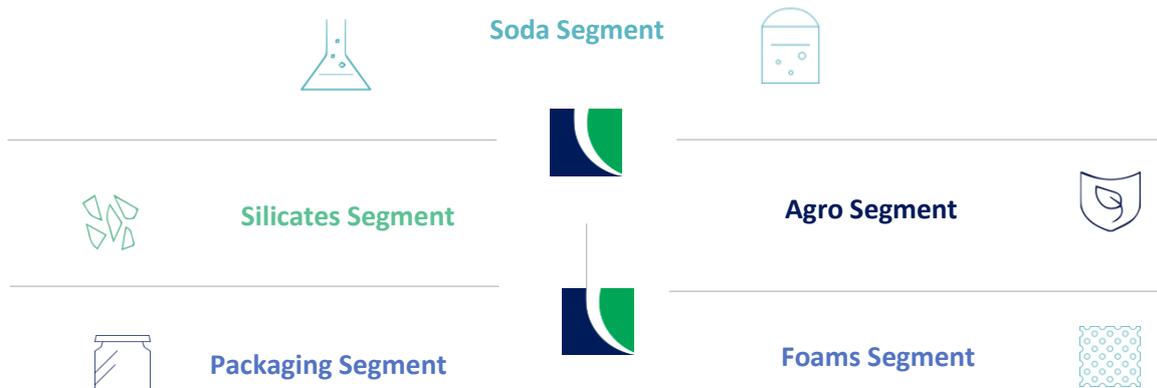
FIGURE 3: GEOGRAPHICAL STRUCTURE OF THE CIECH GROUP'S REVENUES IN 2020



Source: In-house analysis

### 1.3 OPERATING SEGMENTS

Following the organisational changes, activities of the CIECH Group are focused on five key segments which ensure a diversification of its business\*.



\*CIECH Żywiec Sp. z o.o. was earmarked for sale in 2020, and the company sale agreement was finalised on 1 March 2021. In the CIECH Group's consolidated financial statements for 2020, the Resins Segment's operations are reported as discontinued operations.

**SODA SEGMENT**

Soda ash | Sodium bicarbonate | Salt

**70%** | of the CIECH Group's revenues in 2020

Soda is one of the basic semi-finished products (raw materials) of modern chemistry that finds wide application in the industry.

The Soda Segment is an area with the largest share in the Group's financial performance. In 2020, it accounted for over 87% of adjusted EBITDA (adjusted by one-off events). The CIECH Group is focused on expanding its business potential and creating competitive advantages which result from, among other aspects, the Group's strong position on key markets and relations with customers, increase in production capacity, wide range of soda products, extension of the sodium bicarbonate portfolio and optimal distribution of production plants.

The Soda Segment also includes the operations of CIECH Cargo Sp. z o.o., which renders rail transport services, mainly to the companies within the Segment.

There are two basic soda production methods: synthetic method – the Solvay method (soda ash) and natural – mining method (trona). The Solvay method underwent several modifications, of which the most popular is the Hou method, used by certain production companies in China. The CIECH Group produces soda using the Solvay method.

**Soda ash**

Soda ash is one of the basic raw materials for the glass manufacturing industry — about one half soda ash produced worldwide is used for the production of glass. It is also used for the production of washing and cleaning products, in metallurgy and chemical industry, among others, to produce certain types of mineral fertilizers as well as dyes and pigments. There are two basic types of soda ash:



Dense soda – used primarily in the production of glass.



Light soda – used primarily in the production of granular detergents.

The main difference between light and dense soda is the bulk density (1 tonne of light soda is of higher volume than 1 tonne of dense soda), and the basic chemical characteristics are identical. The type of product purchased by customers depends primarily on the technology they use and on their individual preferences.

The CIECH Group produces both types of soda, adapting the production structure to the customers' expectations.

The CIECH Group sells soda ash both in bulk, as well as packed in big and smaller bags. The products sold in bulk are transported to the customer in specialist tankers or railway wagons, and the packed products – by road or railway transport. Soda ash is also transported by ship, either in bulk or in packages, usually loaded into containers.

Soda ash is used primarily in production of:

- flat glass,
- glass packaging and glassware,
- detergents.

This product has also technical application, other chemical applications, treatment plants, mineral extraction.

**Sodium bicarbonate**

Sodium bicarbonate is used mainly in production of animal feed (as an acidity regulator), food (among others as an ingredient of baking powder and sparkling drinks), pharmaceuticals (e.g. for dialysis, effervescent tablets and pharmaceuticals), detergents and cosmetics, and for purifying exhaust fumes.



Food grade soda – a product that finds many uses in the food industry and in households, and which meets the requirements of special regulations (e.g. IFS certification).



Feed soda – an animal feed ingredient intended for feed manufacturers and private farmers.



Pharmaceutical-grade soda – its acid neutralisation action, potential binding with other chemicals and cleaning properties help pharmaceutical grade soda find widespread use in the pharmaceutical sector.



Pharmaceutical-grade dialysis soda – a specially purified soda grade with specific granulometric parameters and complying with requirements set out in special regulations (including API, GMP+ certification).



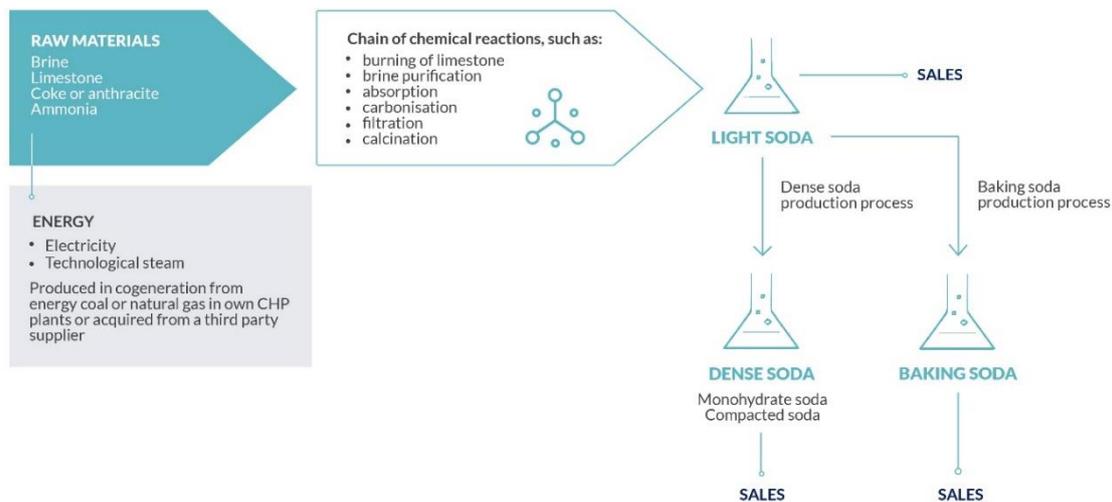
Industrial-grade soda – a product widely used in many branches of industry, including: in the production of detergents, in paper industry, flue gas desulphurization industry and chemical industry.

### Production processes in the Soda Segment

The production of soda in the CIECH Group is the responsibility of the following three companies: CIECH Soda Polska S.A. (plants in Janikowo and Inowrocław), CIECH Soda Deutschland GmbH & Co. KG (Stassfurt) and CIECH Soda Romania S.A. (Ramnicu Valcea – production suspended in September 2019). Soda ash is produced in all plants and sodium bicarbonate – in Inowrocław and Stassfurt.

Presented below is a simplified schematic diagram of the soda ash and sodium bicarbonate production process.

FIGURE 4: SODA PRODUCTION PROCESS



Main raw materials used in the production process in Soda Segment include limestone, salt brine, ammonia, furnace fuel (coke or anthracite) and heat.

The soda ash production plants are located in close proximity to limestone and brine suppliers (due to the high transportation costs of these raw materials in comparison with their price). The production plant located in Germany uses also own deposits of brine and limestone.

Coke is the so-called furnace fuel, used to burn limestone and produce CO<sub>2</sub>. Coke is usually supplied based on short- or long-term contracts. In the soda production process, coke can be replaced with anthracite which is slightly less efficient, but also cheaper than coke. The Group can use a mixture of both fuel types, i.e. coke and anthracite. Prices and availability on the market are the main factors determining which raw material is used.

The largest component of manufacturing costs in the production process is heat energy in the form of technological steam – production plants in Poland and Germany have their own CHP plants, and the Romanian company bought it from a third party supplier. Key energy-producing raw materials used by the Group’s CHP plants include: hard coal (plants in Inowrocław



and Janikowo) and natural gas (plant in Stassfurt). Hard coal is supplied under both short-term and long-term contracts with fixed price or price indexed to various indices, and the price formula for gas supplied in Germany is based on market prices for this raw material (in the case of options - on prices from option contracts).

The Soda Segment is intensely developed by the Group. In 2015 and 2016, a key project, Soda +200, was completed. It consisted in increasing the production capacity of the soda plant in Inowrocław by 200 thousand tonnes per year (ended in the first quarter of 2016). In addition, in 2020 the Group completed a multi-year project to increase its sodium bicarbonate production capacity at its German plant. Currently, CIECH's plant in Germany can produce up to 50,000 tonnes of top quality sodium bicarbonate, with an overall capacity of 110,000 tonnes per year.

Further development of activities in the Soda Segment will take place mainly through continuation of optimisation activities with regard to production capacity, as well as the growth of product quality and concentration on more processed products. At the same time, the Group will improve the quality of service of its current clients and conduct intensive activities to attract new customers.

FIGURE 5: CIECH GROUP'S SODA PLANTS AND KEY MARKETS

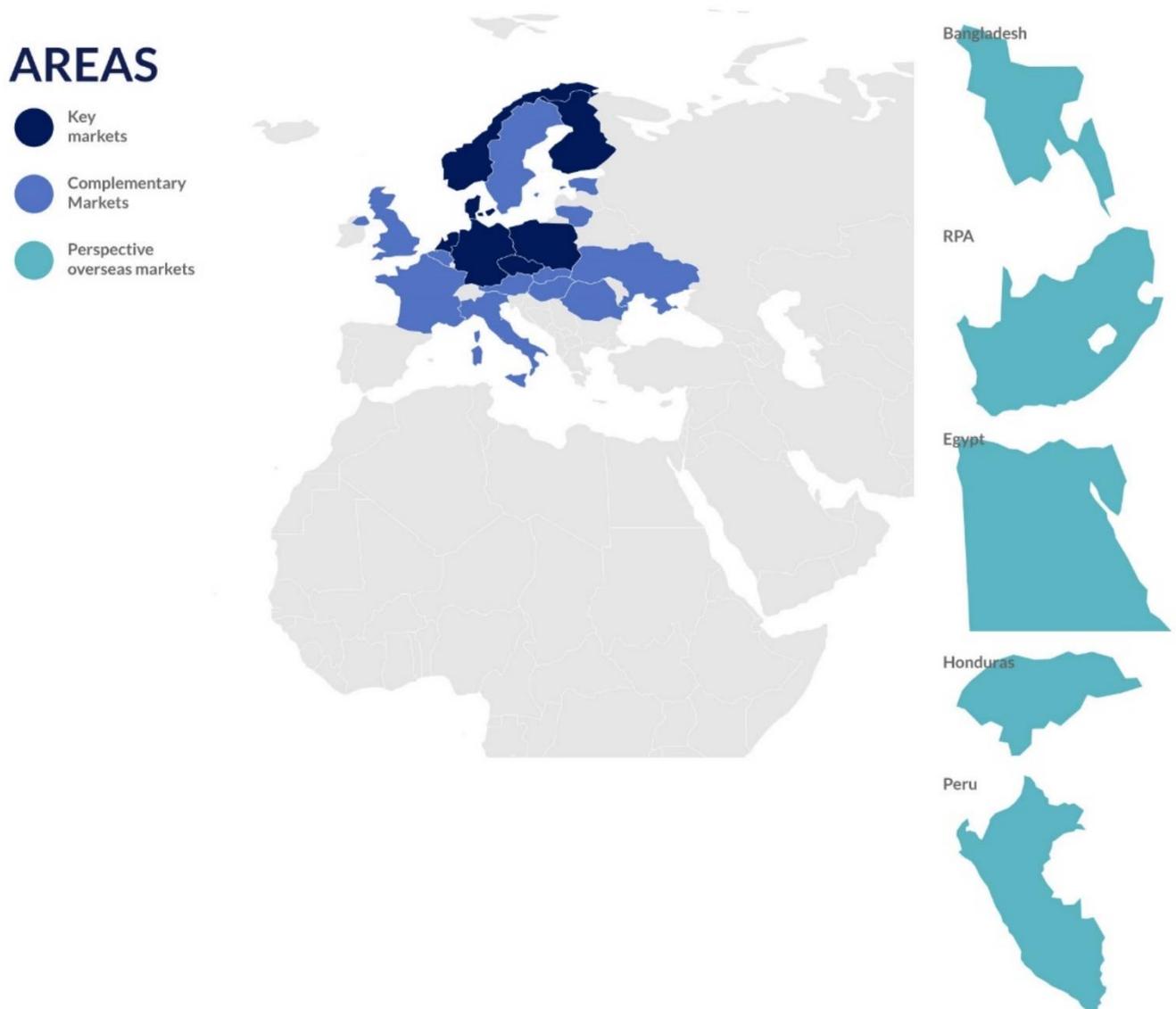




FIGURE 6: PRODUCTION CAPACITY OF THE CIECH GROUP'S SODA PLANTS

SODA ASH



SODIUM BICARBONATE\*



\*The plant is currently in hibernation.

\*Sodium bicarbonate is produced from soda ash, therefore the calculation of total production capacity of the CIECH Group should take into account the soda ash production capacity only – these two items should not be added up.

Salt



Among various types of salt, the most popular are evaporated salt which is produced by, among other companies, the CIECH Group, sea salt and rock salt. Evaporated salt is widely used in chemical industry (electrolysis, detergent and dye production), food industry, as well as water treatment and softening.

In 2020, the CIECH Group continued the investment in the evaporated salt plant in Germany whose production capacity is planned at around 450 thousand tonnes of salt per year, which allows almost doubling the production capacity of CIECH Group's evaporated salt.

Salt products of the CIECH Group

Dry salt:

- **Table salt and iodised table salt** – produced from the saline solutions generated by the wet mining of natural rock salt beds, through the extraction of brine. Table salt contains a minimum of 99.9% of sodium chloride and finds widespread use in the food industry. The CIECH Group sells salt primarily in 1 kg bags, under the brand name of Sól Kujawska and under private label brands of discounts and retail chains, as well as in larger, 25 kg packaging for production facilities
- **Salt without anti-caking agent** – used in food production (mainly products manufactured on the BIO market - this product does not contain an anti-caking agent).
- **Salt tablets** – used in water purification systems, e.g. to regenerate ion exchangers and multi-functional filter softeners that filter out water hardness contributors (i.e. calcium and magnesium). The key recipients of salt tablets produced by the CIECH Group include: households (private water purification systems), housing associations (water purification for new residential estates), industry (water purification for factories), as well as by such entities as swimming pools or hospitals. The CIECH Group sells salt tablets both in Poland (where it holds a majority share of the market) and abroad, systematically increasing its market share.
- **Feed salt and salt licks** – used in agriculture and for production of animal feeds which, owing to the salt content, perfectly supplement the diet of livestock, especially ruminants, with minerals. The salt content perfectly supplements the diet of livestock, especially ruminants, with minerals. CIECH's salt products also used in emergency feeding of forest animals since they improve assimilation of potassium, magnesium and calcium. Fodder-grade salt is sold in the GMP+ chain.





- **Pickling salt** – nitrite salt (for pickling) is an essential additive used in the production of raw and cured meats. Pickling is one of the oldest forms of food preservation – preservation using salt.
- **Granulated salt** – used by households (dishwashers). Granulated salt extends dishwasher life.
- **Industrial salt** – one of the components used in the manufacture of detergents, washing powders and dyes. The product finds widespread use in electrolysis and the production of soda.

At present, the CIECH Group is focused on expanding the range of specialised products in the dry salt portfolio, focusing on increasing production capacity, developing new products and new sales directions.

Salt products are supplied to most European countries. The key export markets are: Germany, Czech Republic, Slovakia, Hungary, Sweden, Belgium, Lithuania, Latvia, Ukraine, Italy, France.

### Salt production process

Evaporated salt is produced from the saline solutions generated by the wet mining of natural rock salt beds.

FIGURE 7: SALT PRODUCTION PROCESS

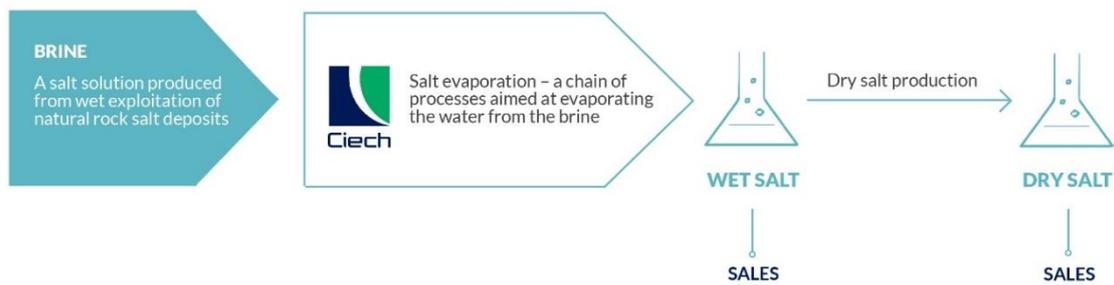


FIGURE 8: SALT PRODUCTION IN THE CIECH GROUP AND KEY MARKETS

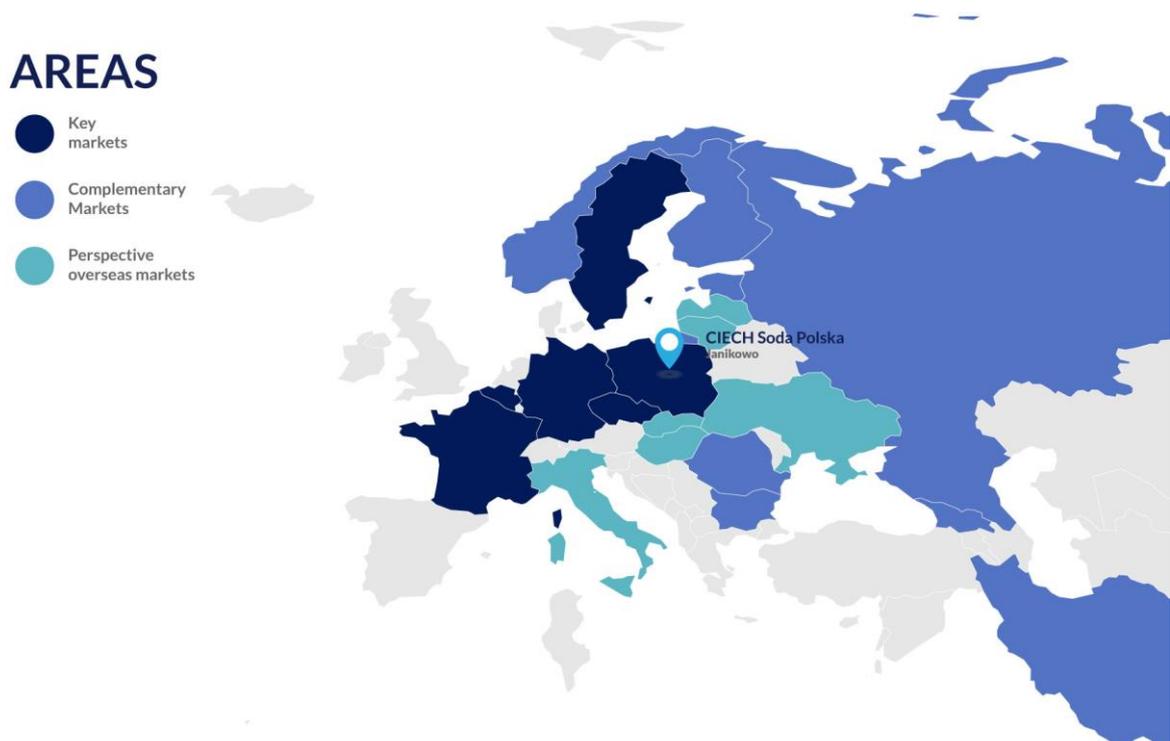




FIGURE 9: PRODUCTION CAPACITY OF THE CIECH GROUP'S PLANTS – SALT



**New salt factory in Stassfurt (Germany)**

From mid-2021, a new salt factory is to start operating in Stassfurt, near Magdeburg (Germany), which will ultimately produce approx. 450 tonnes of evaporated salt per year, thanks to which the CIECH Group will be among the largest producers of evaporated salt in Europe. The target production parameters are planned to be achieved by the end of the third quarter of 2021.

The brewhouse in Stassfurt will be one of the most modern facilities of this type in Europe. The production of evaporated salt in the new plant will be carried out with the use of a different technology than in the Polish salt factory CIECH. Instead of steam heated evaporators as part of MEE (Multiple-Effect Evaporation) technology, a fully automated production line based on MVR (Mechanical Vapor Recompression) technology was used, in which water is evaporated through the supply of compressed steam. The technology based on Boyle's physical law generates significant savings and increases the efficiency of salt production.

The solutions applied in Stassfurt also include the use of an effective, low-emission source of thermal energy (an efficient gas-fired CHP plant) and effective management of thermal energy in the production process, confirmed by the ENEV certificate. In addition, the electricity used in the brewhouse will come from 100% from renewable energy sources.

In addition, the plant has been equipped with an optimal system for managing production waste, which will be discharged to an underground storage site. The new CIECH factory will also be equipped with a modern, fully automated high-bay warehouse.

The advantage of the German location of the new salt production plant is the availability of its own sources of raw materials (brine), a low-emission and effective source of energy and a very convenient location, enabling expansion on attractive Western European markets. After reaching the target annual production volume, the CIECH Group will join the strict group of European evaporated salt producers, with an established position in Central Europe and Scandinavia and with the prospect of expansion into the markets of Western Europe. The plant will employ about 100 people.

 <p><b>AGRO SEGMENT</b> Crop protection products</p>	<p><b>12%</b>   of the CIECH Group's revenues in 2020</p>
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The CIECH Group is the largest domestic producer of crop protection chemicals and the leader in the market of herbicides. The Agro Segment is the second largest pillar of the business activity of the CIECH Group. In 2020, it generated 7% of adjusted EBITDA (adjusted for one-off events). Products falling within this segment are manufactured by the following two companies: CIECH Sarzyna S.A. and Proplan Plant Protection Company, a supplier of crop protection products.



### Crop protection products

The company that specialises in the production and distribution of crop protection chemicals (herbicides, fungicides, insecticides, growth regulators and seed treatment) is CIECH Sarzyna S.A., a Polish company. Full range of products of the CIECH Group's AGRO area includes over 150 items of different chemical, application and packaging forms appropriate for their target market and use. The most famous trademarks from the AGRO area include: CHWASTOX, Agrosar, Tarcza Łan Extra, Labrador Extra, Nikosar, Prokarb. In addition to European markets, it also supplies to markets in Asia, Australia, North Africa, Latin America and Canada.

In Poland, thanks to the intensive new product registration program (6 new developed brands) and the intensification of marketing and sales activities in 2020, the market share of CIECH Sarzyna according to PSOR (Polish Plant Protection Association) increased by 1.3 pp to 6.1%.



Responding to the challenges related to the European Green Order and the Strategy from Field to Table, CIECH Sarzyna in 2020 worked on the introduction to the Polish market in 2021, as well as to the main European and world markets in the following years, a new innovative and unique product based on glyphosate produced in BGT (Better Glyphosate Technology). Thanks to this technology, it is possible to obtain the same effectiveness in controlling annual and perennial weeds with a reduction of up to 50% of the active substance per hectare. This project addresses directly the expectations arising from the Field to Table Strategy aimed at the development of sustainable agriculture in Europe.

In 2020, there was further consolidation of the operations of CIECH Sarzyna S.A. and Proplan in the area of production, marketing and sales activities for key markets and process optimisation to achieve synergies in building intellectual property.

	<p><b>FOAMS SEGMENT</b> Polyurethane foams</p>	<p><b>9%</b> of the CIECH Group's revenues in 2020</p>
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### Polyurethane foams

The CIECH Group is one of the largest suppliers on the domestic market of polyurethane foams (PUR foams). Foams Segment generated 7% of adjusted EBITDA (adjusted for one-off events) in 2020.

Flexible polyurethane foams are used mainly in production of upholstered furniture and sleeping mattresses.

To a lesser extent, they are used in the automotive industry, construction industry and textile industry.



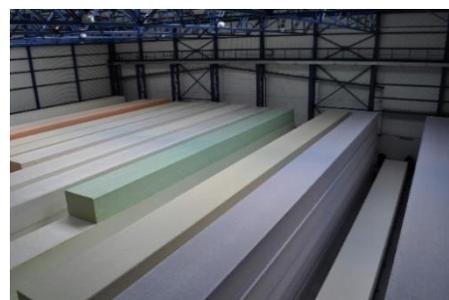
CIECH Pianki Sp. z o.o. has many years of experience in the production and sale of

flexible PUR foams. It is one of the largest elastic foam producers in Poland.

Recipients of the company's products include the largest furniture and mattress manufacturers in Poland and Europe. Because of physical and mechanical properties (low specific gravity) PUR foams are sold primarily on local markets. In Poland, the consumption of flexible polyurethane foams is associated largely with the national furniture industry and its high position in the international markets

which is consistently strengthening and the value of export of Polish furniture keeps growing.

In response to the growing demand caused by the COVID-19 pandemic, the Company decided to purchase an installation for the production of protective masks. In December 2020, the sale of the highest quality FFP2 respirators, in accordance with the European standard EN 149: 2001 and the approval of the Polish Institute of Hygiene, was launched. The full capacity of the production line amounts to approx. 10 million pieces per year.



**SILICATES SEGMENT**

Silicates | Water glass

**6%**of the CIECH Group's  
revenues in 2020

In 2020, Silicates Segment generated more than 4% of adjusted EBITDA (adjusted for one-off events).

The CIECH Group manufactures sodium and potassium silicates. Both types of silicates are produced in two forms – solid, offered under the brand name of VITROSIL (glassy sodium and potassium silicate) and liquid, offered under the brand name of VITROLIQ (sodium water glass and potassium water glass).



Sodium silicates are used for production of precipitated silica (about 37% of consumption in Europe, used mainly in the tire and beauty product industries), detergents (about 17%), paper, zeolites and in other industries. After expanding the production capacity of sodium silicate in the Żary and Iłowa plants, CIECH Vitrosilicon S.A. is currently the third largest manufacturer of sodium silicate in Europe and the leader in the sales of this raw material.

Potassium silicates are used in the production of welding electrodes, construction chemicals, including paints and silicate plaster. For the purpose of continued development of this Segment, the CIECH Group concentrates on the use of new applications of silicates and development of high-margin products.

Silicates Segment also includes the Ramnicu Valcea plant in Romania, which has capacity to produce glassy sodium silicates and sodium water glass. Soda and sand are the main raw materials used.

**PACKAGING SEGMENT**

Glass products

**2%**of the CIECH  
Group's revenues  
in 2020

In 2020, Packaging Segment generated nearly 4% of adjusted EBITDA (adjusted for one-off events).

CIECH Vitrosilicon S.A. specialises in the manufacturing of lanterns for vigil lights and is recognised as the leader of the Polish market. The full range covers approx. 160 designs, including lanterns for jar candles and custom designs, dedicated to individual customers. The Company offers a wide and diversified range of lanterns for vigil lights, including lanterns in the smallest and largest sizes and with a very diverse design. The company is also the only Polish producer of COMFORT-type jars with glass cover and fastening clamps. On a small scale, the Company also produces standard Twist-off jars for the food processing industry.

**OTHER ACTIVITIES SEGMENT**

Services | Distribution | Sale and management of real property

Other Activities Segment covers mainly services rendered outside the CIECH Group and goods sold mainly by CIECH S.A. and CIECH Trading Sp. z o.o., as well as foreign companies outside the scope of key segments of the Group.

CIECH Trading Sp. z o.o. is a distributor of raw materials, chemical products and reagents. It supplies raw materials to many branches of the industry. A large section are products for household, cosmetic and pharmaceutical use; for milk and sugar industries, as well as the feed industry and selected branches of the heavy industry, including galvanising plants, smelters, coke plants and foundries. It also supplies water treatment and sewage treatment plants, as well as manufacturers of tires, paints and varnishes.

In addition to trading activities, this Segment also includes companies that support the Group's operations in terms of, among others, sale and management of real property (CIECH Nieruchomości Sp. z o.o.) and financing activities.



### Operating segments of CIECH S.A.

CIECH S.A., as the Parent Company of the CIECH Group, holds shares in subsidiaries assigned to individual segments described above. In addition to support services provided to these companies, CIECH S.A. also carries out operating activities in the following segments:

**Soda Segment** – CIECH S.A. sells the majority of soda segment products manufactured by the CIECH Group companies. Key products of this Segment include: light and dense soda ash, sodium bicarbonate, evaporated salt and calcium chloride.

**Agro Segment** – in 2020 CIECH S.A. was the supplier of raw materials to Polish companies operating within the Agro Segment.

**Foams Segment** – in 2020 CIECH S.A. was the supplier of raw materials to Polish companies operating within the Foams Segment.

**Silicates Segment** – CIECH S.A. sells the Silicates and Glass segment products manufactured by CIECH Soda Romania S.A. Key products in this group include glassy sodium silicate and sodium water glass.

### Seasonality and cyclicity of activity of the CIECH Group

Seasonality associated with periodic demand and supply fluctuations has little impact on the CIECH Group general sales trends. Products clearly influenced by seasonality are crop protection chemicals. Most crop protection chemicals are used in the first half of the year, during the period of intensive plant growth. However, sales of these products take place mainly in the 4<sup>th</sup> quarter of the preceding year. For other products, the Group's revenues and financial results are not influenced by any significant seasonal fluctuations over the year.

## 1.4 SIGNIFICANT AGREEMENTS AND TRANSACTIONS

On 7 February 2020, a term sheet was signed and an agreement with regard to cooperation in the development of design documentation for the water and brine pipelines between CIECH and Operator Gazociągów Przemysłowych GAZ-SYSTEM S.A. The term sheet and the agreement are related to the letter of intent signed on 5 December 2019 by CIECH and GAZ-SYSTEM with regard to their cooperation in the implementation of an investment involving construction by GAZ-SYSTEM of a salt mine, with an underground gas storage facility at the Damasławek salt dump, along with the Linear Infrastructure, and cooperation in the supply of brine to the CIECH Soda Polska S.A. production facilities. The execution of the term sheet and the agreement is yet another step towards ensuring diversified sources of brine supply to the CIECH Soda Polska S.A.'s production facilities in the long term. Detailed information on the agreement is provided in current report No 10/2020.

On 2 April 2020, as part of a significant investment project, involving the construction of an evaporated salt production plant in Stassfurt in Germany, a subsidiary of CIECH S.A. – CIECH Salz Deutschland GmbH – signed an agreement with Adamietz Sp. z o.o. with its registered office in Strzelce Opolskie, for the execution of design, construction and assembly works aimed at constructing the facilities making up the Project. The total value of the Agreement is EUR 44,100 thousand. CIECH Salz Deutschland GmbH is a special purpose vehicle and a wholly-owned subsidiary of CIECH S.A., which took over the salt business in Germany from CIECH Soda Deutschland GmbH & Co.KG.

On 7 April 2020, CIECH S.A. and its subsidiaries: CIECH Sarzyna S.A., CIECH Pianki sp. z o.o., CIECH Soda Polska S.A. and CIECH Vitrosilicon S.A. entered into a supplier financing agreement (reverse factoring agreement) with BNP Paribas Faktoring Sp. z o.o. The conclusion of the Agreement fits in well with the CIECH Group's policy aimed at limiting risks related to the current market situation. Reverse factoring is to ensure an improvement in the companies' liquidity. For details on the agreement, see current reports No 17/2020 and 21/2020.

### Transactions with related parties other than on an arm's length basis

CIECH Group's companies, to the best of their knowledge and belief, did not conclude significant transactions on the terms other than market ones. Sales to and purchases from related entities are realised at market prices that reflect market conditions.

For a description of transactions concluded between related parties, see note 9.3. to the Consolidated Financial Statements of the CIECH Group for 2020 and note 9.3 to the Financial Statements of CIECH S.A. for 2020.



## EXTERNAL ENVIRONMENT

## 2. EXTERNAL ENVIRONMENT

### 2.1.1 FACTORS WITH MAY IMPACT ON THE CIECH GROUP'S ACTIVITIES

The CIECH Group business is largely based on the production and sales of chemical products used as raw materials and semi-finished goods for the purposes of a wide range of industries, including the glass, detergent, furniture, automotive, construction, food, agricultural, pharmaceutical, chemical and consumer goods industries. The demand for the CIECH Group customers' products depends on a number of factors, including general economic conditions.

Costs of labour and energy, interest rates and other macroeconomic factors also have a significant impact on the Group's operations. Due to the fact that a significant portion of the Group's revenue and expenses is generated in foreign currencies, changes in exchange rates also affect its financial performance.

The volume and profitability of the CIECH Group companies' sales depend, among other factors, on these variables as well as on the overall economic situation in Poland, Europe, and worldwide.

#### **Situation in industries of recipients of products of the Group in Poland**

Poland is the largest sales market of the CIECH Group. The direct, most important domestic recipients of the Group's products include: glass industry, chemical and plastic products industries, furniture, agriculture, construction, food industry. The development of these sectors of the economy depends on the economic situation in Poland.

According to the data of the Central Statistical Office, the sold industrial output at constant prices during 12 months of 2020 decreased by 1.0% year on year (in 2019 — an increase by 4.0%). After 12 months of 2020, the relevant dynamics of production in the industries of significant importance to the Group's activities (as receiving or target markets) were: manufacture of motor vehicles (decrease by 13.5%); manufacture of furniture (increase by 1.0%, including furniture for sleeping — decrease by approx. 6% in terms of volume); construction and assembly production (decrease by 2.2%); manufacture of food (increase by 1.0%); manufacture of rubber and plastic products (increase by 1.3%); manufacture of chemicals and chemical products (increase by 2.8%, with a decrease in current prices by 1.2%).

Over the past few years, the Polish economy has been growing at a GDP growth rate of 4%-5%, which is clearly faster than the average for the European Union. In view of the crisis related to the COVID-19 pandemic, a sharp drop in national GDP is estimated for 2020 by 3.5%-4% (3.6% according to European Commission projections). The economic recovery is expected as early as 2021 with growth rates of 3% (+3.1% according to the EC). Similar trends should be expected in the chemical industry which usually develops similarly to the economy as a whole.

#### **Economic situation in Europe and in the world**

The activity of the CIECH Group is based, in a considerable part, on the sales of chemical products on foreign markets. The level of profitability on sales depends on the global economic situation in Europe and in the world. Global economic downturn usually results in the fall of the demand for raw materials on global markets and hence on the amount of export turnover of the Group.

In 2020, as a result of the COVID-19 pandemic, there was a global crisis not witnessed in the last few decades. According to analyses by the International Monetary Fund, last year was marked by a much larger fall in global GDP (-3.5%) compared to the 2008-2009 crisis (-0.1% in 2009). According to the IMF, highly developed countries recorded similar or even lower dynamics (Eurozone — 7.2%; USA — 3.4%; Japan — 5.1%). Of all large economies, only China experienced GDP growth (+2.3%). In other developing countries that are important for global growth, sharp declines in GDP have been recorded: India (-8.0%), Mexico (-8.5%), Brazil (-4.5%), Russia (-3.6%). Significant declines were also estimated for ASEAN countries (-3.7%). However, IMF predicts that a visible return to growth can be expected as early as in 2021, with global GDP growth rate of 5.5%.

In turn, for the European Union itself (27), a similar sequence of GDP changes is expected, but with greater fluctuations (according to the European Commission's forecast: -6.3% in 2020; +3.7% in 2021).

The EU chemical industry also did not resist the general crisis of 2020, as its products are sold to virtually all other industries and branches of the economy. Preliminary estimates by the European Chemical Industry Council (CEFIC) indicate that chemical production in the EU27 fell by 1.9% last year. This result was probably also influenced by a certain positive factor related to the fact that the efforts to extinguish the COVID-19 pandemic require continuity or increase in the production of certain chemicals (not all sectors of the chemical industry were affected by significant declines). For 2021-2022, CEFIC already predicts positive chemical production growth rates of 2%-3% per annum.

The year 2020 has also been very severe for the European construction sector. According to Euroconstruct's preliminary estimates, construction output in Western and Central Europe fell by around 8% (especially in countries such as the UK, France, Spain and Italy). Relatively smaller declines were reported in Central Europe (-2% in Poland). The European sector is expected to return to growth relatively quickly from 2021 (mainly in the countries most affected by last year's crisis; however, much more slowly in Central Europe).

TABLE 1: OTHER FACTORS AFFECTING THE CIECH GROUP'S ACTIVITIES

Factors	Description
Economic situation on raw material market	<p>Due to the fact that costs of raw materials account for a large share of total costs of the Group, the situation on key raw material markets (availability and price) significantly affect the CIECH Group's activities and financial performance. Price and availability of raw materials depends largely on economic and political developments across the globe.</p> <p><b>Hard coal</b> – situation on the market depends on a number of macroeconomic factors. The largest producer of hard coal in the European Union is Poland, but EU's import of coal (primarily from Russia, Columbia, USA, South Africa and Australia) is nearly two times higher than production. Most of the coal imported to the EU is power coal, i.e. coal used by the CIECH Group in the production of process steam and electricity in soda plants in Poland. Despite the fact that the Group buys it usually from Polish mines, the price of thermal coal for the CIECH Group in a long term depends on the European and global situation in the area of demand and supply.</p> <p><b>Gas</b> – the main energy resource used by the combined heat and power plant at the Stassfurt plant. The situation on the gas market depends on many factors, such as the price of oil, demand for gas due to the current weather conditions and the current share of gas in the energy mix. CIECH Energy Deutschland GmbH burns two types of natural gas, from local sources and imported. Gas imports to Germany are from Russia, Norway and the Netherlands. In the gas combustion process, steam and electricity are generated, which is also sold outside the Group. Gas supplies are realized on the basis of bilateral delivery contracts, long-term contracts or short-term purchases (spot).</p> <p><b>Process steam</b> – this form of heat energy was used by CIECH Soda Romania S.A. in the production process of soda ash and liquid silicates, the company bought it from an external supplier. At the end of the first half of 2019, the agreement was terminated and the production of soda in the Romanian plant was suspended in the third quarter.</p> <p><b>Furnace fuel (coke/anthracite)</b> – coke prices depend primarily on prices of coking coal, from which it is produced. The largest global producer of coke is China which, at the same time, is one of the largest consumers of this raw material. In Europe, coke is produced mainly in Poland, Germany and the Czech Republic. In its business activity, the Group uses anthracite as a substitute for coke. The main source of anthracite for Europe is Russia. Due to relatively high prices of coke, in the first quarter of 2020 the Group used anthracite to a large extent in the furnace mixture.</p> <p>In the second quarter, the share of coke in the mix was increasing due to the reduction in the price of this fuel compared to anthracite. In the third quarter, the share of coke in the mix increased again, due to the continuing downward trend in the price of coke compared to anthracite. In the fourth quarter, the share of coke in the mix remained relatively unchanged from the third quarter.</p> <p><b>Oil-derivative raw materials</b> – used primarily in the Foams Segment, are linked to oil prices. Oil prices depend primarily on macroeconomic and political factors which translate into global demand and supply situation.</p>



Factors	Description
Exchange rates of Polish zloty (PLN) and Romanian leu (RON) to euro (EUR) and US dollar (USD)	The CIECH Group's main source of exposure to foreign currency risk is related to EUR and USD in which export sales are denominated. Weakening of PLN and RON (in which significant costs are incurred) in relation to EUR and USD (in which a material portion of sales is made) has a positive impact on the CIECH Group's financial performance. The Group applies natural hedging and hedging instruments.
Volume of chemical production capacity on markets where the CIECH Group operates	<p>In the sectors of mass chemical products, in which the CIECH Group operates, the capital expenditures are an important barrier to entry, and in the case of the Soda Segment – an access to natural resources.</p> <p>According to the information published in the past year, in the next 3-5 years, new capacities will be put into operation mainly in China and the USA. This will mainly concern natural sodium. Due to the COVID-19 pandemic and the delays observed in the launch of projects based on natural resources in the past, it is expected that the performance of these projects will be delayed.</p> <p>In general, in the long term the average annual growth rate of global soda ash capacity is expected to be similar to the growth rate of global demand.</p>
Environmental requirements	<p><b>REACH system implementation</b></p> <p>In accordance with the REACH regulation, the Group's companies selling substances in quantities exceeding 1 tonne p.a. have completed or plan to complete full registration of these substances by defined deadlines, which will enable them to continue their operations in the current scope.</p> <p><b>Emission trading system</b></p> <p>Production companies of the CIECH Group are included in the emission trading system. External analyses performed by the CIECH Group companies indicate that the amount of free CO<sub>2</sub> emission allowances in the 3<sup>rd</sup> settlement period (2013–2020) was insufficient to cover the actual demand for this type of settlement units. In addition to the direct costs connected with the purchase of CO<sub>2</sub> emission allowances, the CIECH Group companies will bear higher costs of electricity due to their assumption of the costs of purchase of emission allowances from the producers.</p>

## 2.2 CHARACTERISTICS OF THE MARKET AND POSITION OF THE CIECH GROUP

### 2.2.1 SODA SEGMENT

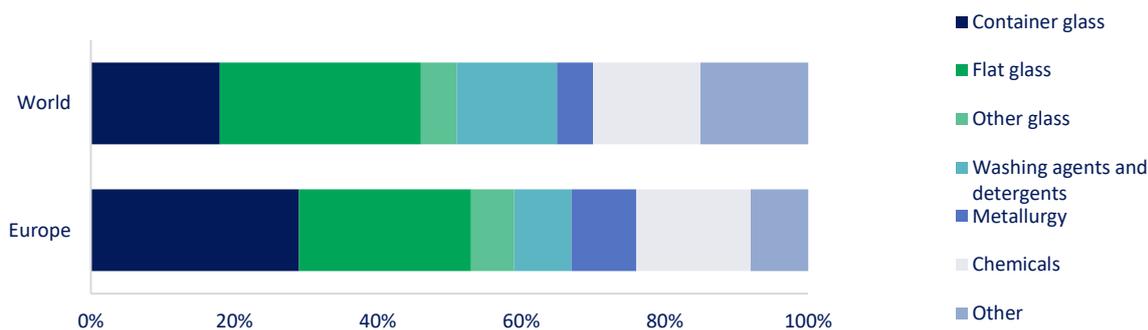


The CIECH Group ranks **second in Europe** and **first in the CEE region in terms of soda ash production potential**.

#### Soda ash

Soda ash is one of the basic raw materials for the glass manufacturing industry. It is also used for the production of washing and cleaning products, in metallurgy and chemical industry, among others, to produce silicates, sodium bicarbonate, lithium carbonate (used for battery production), as well as in the paper industry. On a global scale more than one half of the currently produced soda ash is used for the production of glass. Further recipients of soda ash include the chemical industry as well as producers of washing agents and detergents. 1/5 of available soda volumes is used by other branches of industry.

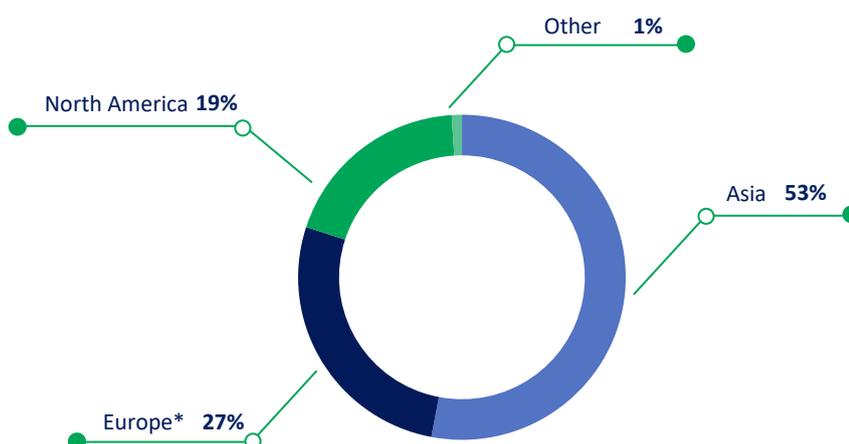
FIGURE 10: SODA ASH CONSUMPTION STRUCTURE



Source: Own compilation based on data from IHS Markit

In Europe, the share of glass manufacturers and metallurgy sector in soda ash purchases is much larger than on the global market. On the other hand, in Europe relatively lower volumes of soda are used in the production of washing agents and detergents.

FIGURE 11: PRODUCTION CAPACITIES OF SODA ASH IN THE WORLD BY REGION



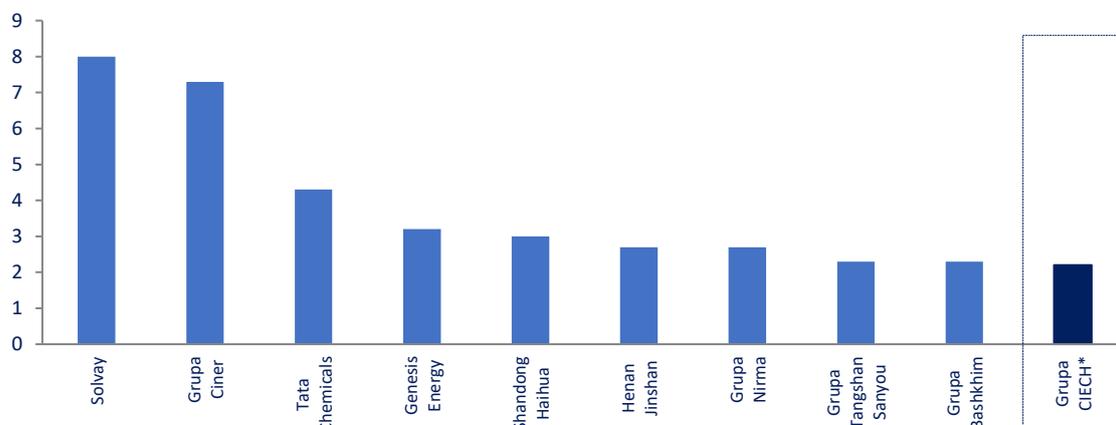
\*Europe including all of Russia and Turkey

Source: Own compilation based on data from IHS Markit

As at the end of the past year, the global production capacities of soda ash stood at approx. 72 million tonnes per year, of which over half is produced in Asia. More than a quarter of the capacity is concentrated in the European region (including Turkey and all of Russia), while the third key production region is North America, representing about 20% of the capacity. The largest soda ash producers in the world, with capacity of 3 million tonnes/year or more, are the following five companies: Solvay, Ciner Group, Tata Chemicals, Genesis Energy and Shandong Haihua. As at the end of 2020, these companies represented about 1/3 of global production capacity.

FIGURE 12: LARGEST GLOBAL PRODUCERS OF SODA ASH BY PRODUCTION CAPACITIES IN 2020

million tonnes/year



Source: Own compilation based on IHS Markit and others \*without the capacity of CIECH Soda Romania, where production was suspended in 2019.

Last year, as expected, global soda ash production capacity did not change significantly. The COVID-19 pandemic, on the other hand, contributed to delaying the implementation schedules of some projects planned for the following years. The investment plans revised in the previous year assume that significant increases in generation capacity are to be expected in 2023-2025 mainly in China and the US for projects based on natural trona deposits. On the other hand, it is worth noting that the projected long-term average annual growth rate of global capacity will be similar to the growth rate of global soda demand; i.e. at a level of 3-3.5%/year.

The main soda ash market for CIECH Group is Europe, especially Poland. The biggest producer in this region is Solvay, which owned factories in 6 locations around Europe in 2020, with total production capacities estimated at nearly 5 million tonnes/year. The second position in Europe in terms of production capacity is held by the CIECH Group. The total capacity of 2.6 million tonnes/year comes from the two operating plants in Poland (Inowrocław and Janikowo) and one in Germany (Stassfurt), as well as the hibernated facilities in Romania (Ramnicu-Valcea), where operations were suspended in September 2019.

In 2020, the Group's share of the soda ash market in Poland stood at approx. 95%, around 15% in Europe (including Russia and excluding Turkey) and approx. 3% globally (Source: own estimates based on market data compiled by IHS Markit).

European soda ash demand (including Russia, excluding Turkey) in 2020 is estimated to have decreased by around 5% to around 10.5 million tonnes as a result of the COVID-19 pandemic. However, this decline was much smaller than that recorded during the 2008-2009 crisis, when soda consumption was reduced by more than a dozen percent. In general, the European market (including Poland) is a mature market, growing at an annual rate of 2% in the long term. Growth dynamics in Central Europe is usually higher by 1-2 percentage points than in Western Europe.

The structure of soda ash consumption hasn't changed much for many years. The demand for soda ash depends mostly on the demand for flat and packaging glass. Last year, however, as a result of the COVID-19 pandemic, the glass industries' share in the overall European market declined slightly. This was due to a marked weakening of activity in the construction and automotive industries (a temporary lockdown). On the other hand, a slight increase in the share of the detergent segment was noticed.

In the next few years, significant drivers for the further growth of the soda ash market will include, among other factors, the growing interest in glass packaging (as more environmentally friendly compared to plastic substitutes) as well as growing requirements for energy efficiency of buildings and the associated trend of using 3-pane windows (instead of 2-pane ones). On the other hand, there are factors that may impede this growth: measures to increase waste recycling (including glass) and the downturn in the automotive industry responsible for a portion of demand for flat glass (exacerbated by the COVID-19 pandemic as a result of reduced mobility).



### Sodium bicarbonate

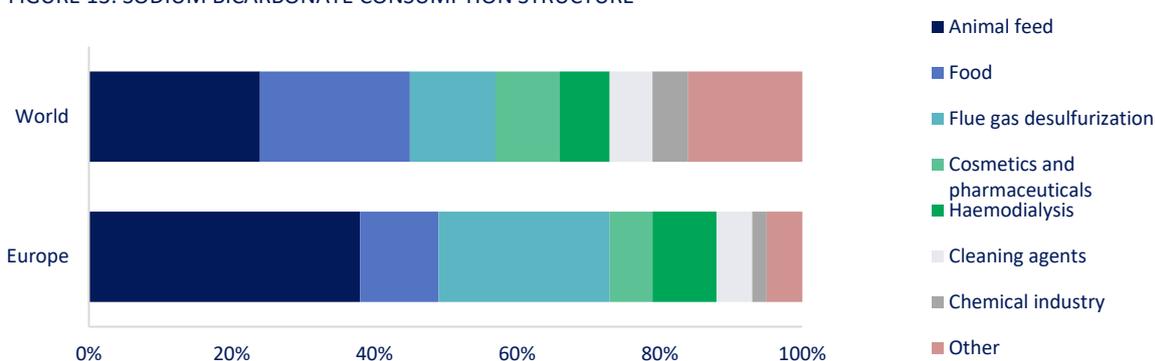


The CIECH Group is the second largest sodium bicarbonate producer in Europe.

Sodium bicarbonate is used mainly in production of animal feed (as an acidity regulator) and food (among others as an ingredient of baking powder and sparkling drinks), for purifying exhaust fumes (mainly for desulphurisation) as well as in production of pharmaceuticals, cosmetics and cleaning agents. In the chemical industry it is used for, among others, production of pigments and plastics as well as a component of fire extinguishers. The sodium bicarbonate market 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 — e.g. in haemodialysis.

In Europe, sodium bicarbonate is used mostly in production of feed and exhaust gas purification (respectively, approx. 40% and 25%). Other important segments are food production, pharmaceuticals production and hemodialysis.

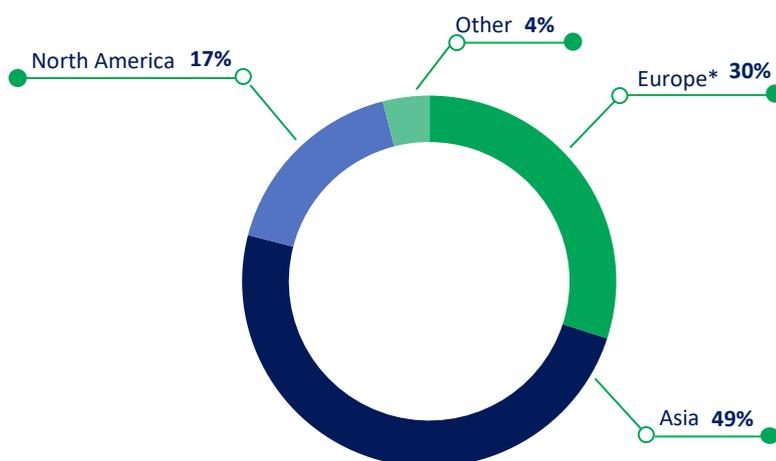
FIGURE 13: SODIUM BICARBONATE CONSUMPTION STRUCTURE



Source: Own compilation based on data from IHS Markit

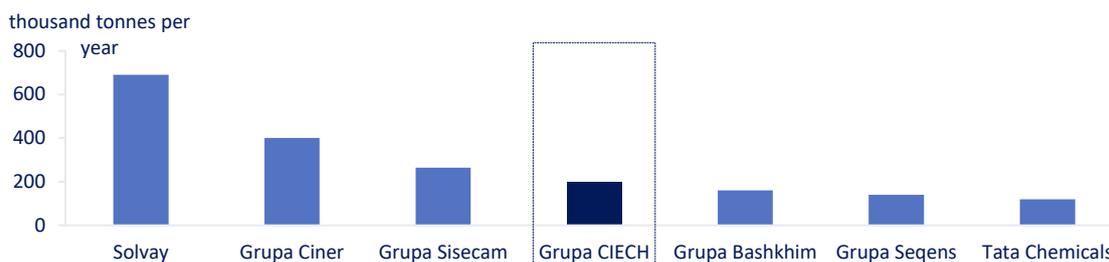
Global production capacities for sodium bicarbonate are estimated at nearly 7 million tonnes per year. Asia accounts for approx. 50% of these capacities. The share of Europe together with Russia and Turkey reaches 30% and North America – approx. 17%. In 2020, capacity additions were mainly recorded in China.

FIGURE 14: PRODUCTION CAPACITIES OF SODIUM BICARBONATE BY REGION



\*Europe together with Russia and Turkey

Source: Own compilation based on data from IHS Markit

**FIGURE 15: LARGEST PRODUCERS OF SODIUM BICARBONATE IN THE REGION COMPRISING EUROPE AND TURKEY BY PRODUCTION CAPACITY IN 2020**


Source: Own compilation based on IHS Markit and others

In the European region (including Turkey), sodium bicarbonate production capacity is estimated at around 2 million tonnes per year. The biggest producer both in Europe and globally is Solvay, owning factories in seven countries. Currently, the CIECH Group with production capacity at 200 thousand tonnes per year is the second largest producer in Europe (and fourth after Solvay, Ciner Group and Sisecam Group in the region, including Turkey).

The target market for the CIECH Group for sodium bicarbonate is Poland and the foreign markets, especially Western Europe. The share in the sodium bicarbonate market of the CIECH Group is about 11% in Europe (with Russia but without Turkey) and 3% globally. Sodium bicarbonate is produced in two soda factories of the Group: in Inowrocław and in Stassfurt. CIECH Soda Polska S.A. is the only producer of sodium bicarbonate in Poland with about 60% of the market. The CIECH Group's share in the German market is about 1/4.

Much like the soda ash markets, Polish and European markets for sodium bicarbonate are mature markets, not volatile to rapid changes, with yearly growth of 3%–4% in the past decade.

In the coming years, the highest dynamics can be expected within the scope of hemodialysis due to an increase in incidence of illnesses related with modern lifestyle in developed countries (primarily kidney diseases caused by diabetes). Due to growing requirements of environmental protection, a major increase in usage of sodium bicarbonate for fumes desulphurisation is still expected.

The animal feed segment is usually the most vulnerable to economic shifts among the target segments for sodium bicarbonate. Preliminary forecasts for the EU feed market indicate that 2021 will be quite challenging due to the constraints associated with the COVID-19 pandemic. In general, however, no major changes are yet expected in view of the global upward trend in the consumption of meat and dairy products.

An increase in sodium bicarbonate production capacity is planned for 2021, which may have a significant impact on the European market. Solvay announced for this year the completion of the expansion of its capacity in Bulgaria by 200 tt/year based on soda ash produced there (a project delayed due to the COVID-19 pandemic). This project may contribute to the periodical oversupply of the product in Europe and neighbouring regions. However, the actual significance of this project will depend on the segments to which new supplies will be directed. The activities of Solvay so far show that the new capacity can be allocated largely to flue gas cleaning (a segment with great growth prospects, e.g. in the light of increasing requirements for emissions in maritime transport – new International Maritime Organisation 2020 standards).

In 2020, the CIECH Group increased its production capacity by launching a baking soda production installation at the Stassfurt Plant. The new investment allows for the production of about 50 thousand tonnes of the highest quality product sold under the Sobic brand. In the first months of the year, the installation was commissioned, the process was optimized in order to obtain proper crystallization, achieving full efficiency in the second half of the year and stabilizing production at the level of 145 t/day of the finished product. The innovative solutions used distinguish the obtained product from the competition. The graininess and regularity of the obtained soda crystals suit the most demanding customers. These parameters are very important for hemodialysis applications.

An increase in demand for sodium bicarbonate is supported by global megatrends, including concerning environmental protection and civilization diseases.

In 2020, CIECH Soda Deutschland (CSD) obtained the prestigious GMP API<sup>1</sup> (Good Manufacturing Practice) certificate, confirming the highest quality of baking soda production used in the production of medicines. This enables a stronger entry into the promising pharmaceutical market. At the same time, CSD obtained a positive opinion of the local pharmacy office and was entered into the European EudraGMP<sup>2</sup> database as a manufacturer of baking soda as a standard for the active substance of medicinal products. It is a confirmation of the highest quality standards of production as well as exemplary physical and chemical properties of baking soda produced in our plant, which can be used in the production of drugs and medical devices.

The obtained certificate and entry into the European database of producers open up the possibility of expansion in the pharmaceutical sector. Baking soda produced in Stassfurt complies with the latest Pharmacopoeia (Pharmacopoeia Code) in the area of quality, composition and purity. This soda is characterized by the highest degree of purity and strictly defined granulometric parameters. The physical and chemical properties of this product are regulated by strict quality restrictions and are verified by regulatory authorities and customers. An additional advantage is the possibility of adjusting the product to the individual customer order in terms of the physical properties of the product.

The use of baking soda as an active substance in the European Union and the USA allows its use, among others in the production of dialysis fluids, in the treatment of cystic fibrosis (inhalation), metabolic acidosis, and also as a mild antiseptic or component of oral care products. In recent years, baking soda in the form of an active substance has also found wide application in cosmetology and dermatology, as well as in the food sector, where it can be used as an ingredient in dietary supplements and in the production of tablets and effervescent powders. Obtaining a certificate is an important and necessary step in the approval of a product by customers. Another is the final approval, which, depending on the different requirements of individual customers, may last from a few to several months.

#### Evaporated salt



The CIECH Group is the largest Polish producer of evaporated salt, with a share in the domestic production capacity of approx. 80%

Over the past few years, global salt production has been on an upward trend at an average annual rate of 1%. However, as a result of the COVID-19 pandemic, this production is likely to fall in 2020 and could be estimated at around 330 million tonnes. The long-term growth of the global market is mainly related to the growing demand for chlor-alkalis and soda ash in Asia.

The ten biggest producers (countries) are responsible for approx. 60% of global supply. There is only one European country among them (Germany with the production of several million tonnes/year). Poland (with the production of 4 million tonnes of salt per year (different types of salt)) is ranked in the second ten of the global ranking and its share in the world production definitely exceeds 1%.

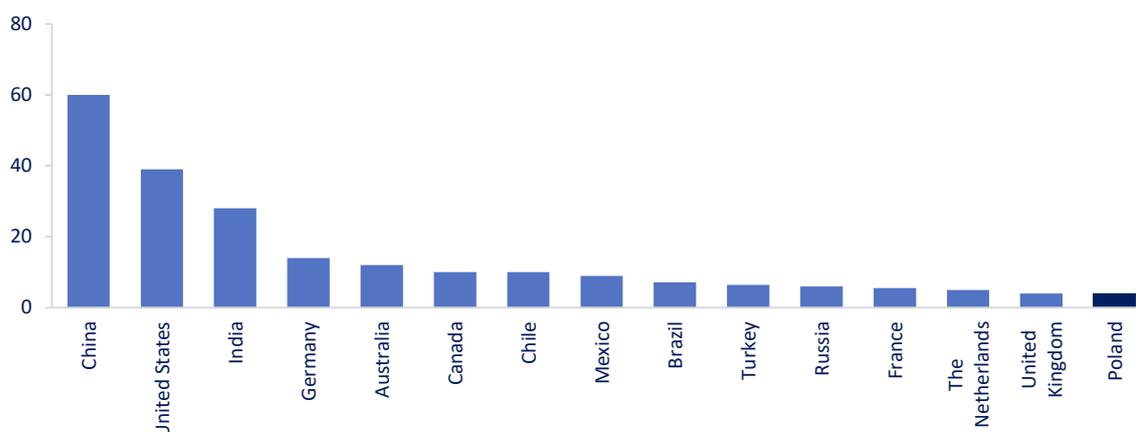
<sup>1</sup> The GMP certificate confirms that, according to EU law, the manufacturer operates in accordance with good practices in the production, transport and storage of raw materials for the pharmaceutical industry.

<sup>2</sup> The European EudraGMP database is a list of manufacturers of approved manufacturers of active substances for pharmaceutical use, coordinated by the European Medicines Agency.

FIGURE 16: MAJOR SALT PRODUCERS IN THE WORLD (INCLUDING POLAND)

Source: Own compilation based on USGS and other sources.

million tonnes/year



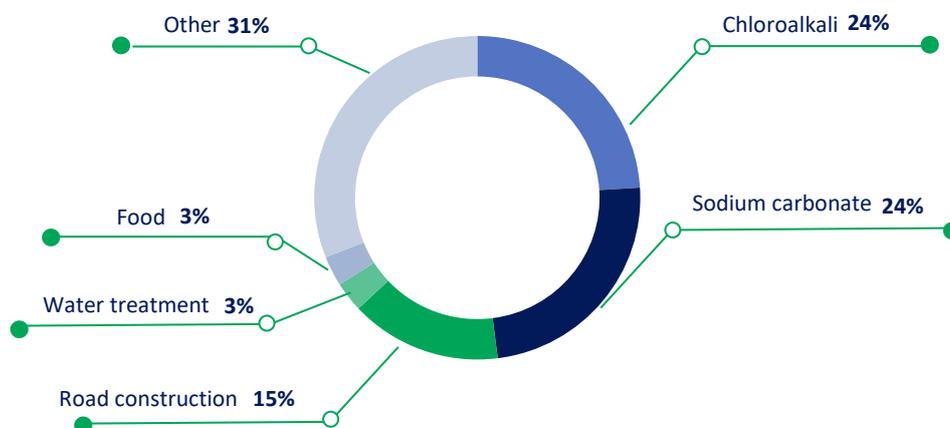
European salt production capacities are estimated at more than 100 million tonnes per year (including producers using salt only for the purposes of their own chemical production, such as Solvay and Dow Chemical). The largest producer in Europe operating in the free market is the K+S Group, with capacities of 9-10 million tonnes per year and production plants in several countries of Western Europe. Other companies with large production capacities (above 5 million tonnes per year) include a Ukrainian company, Artyomsol (around 7 million tonnes per year; capacities used recently to a small extent) and a chemical concern, Nouryon (around 6 million tonnes per year).

Salt is usually present in the European market in two forms: rock salt and evaporated salt. Evaporated salt is one of the key products of the CIECH Group, which offers it in various distribution channels. Salt produced in our plants in Janikowo is used in food, meat, chemical (e.g. in electrolysis) and many other industries. Salt tablets used in specialized installations – water treatment systems – are also an important product. Another distribution channel of growing importance for the CIECH Group are animal feed plants and large farms. It is for this branch that feed salt and salt licks are dedicated, for balancing the animal diet.

Due to advantages of evaporated salt with regards to quality parameters, chemical industry in Western Europe abandoned using of rock salt. A similar process occurred in food and households industries. Rock salt is presently used primarily in highway maintenance for winter de-icing. Evaporated salt, on the other hand, is widely used in every field of industry and in households. Its purest grade is also used in the pharmaceutical industry.

In Europe, most of salt is used in the soda ash and chlorine-alkali industries (approx. half of the demand). In recent years, much less salt has been used for highway maintenance. Globally, use of salt in highway maintenance is significant only in North America (about 1/3). In other regions of the world, chemical sector (chlorine-alkali industry and soda ash industry) is the main buyers of salt. In Asia (outside China), Latin America, Africa and the Middle East, significant volumes of salt are used for direct consumption and food production.

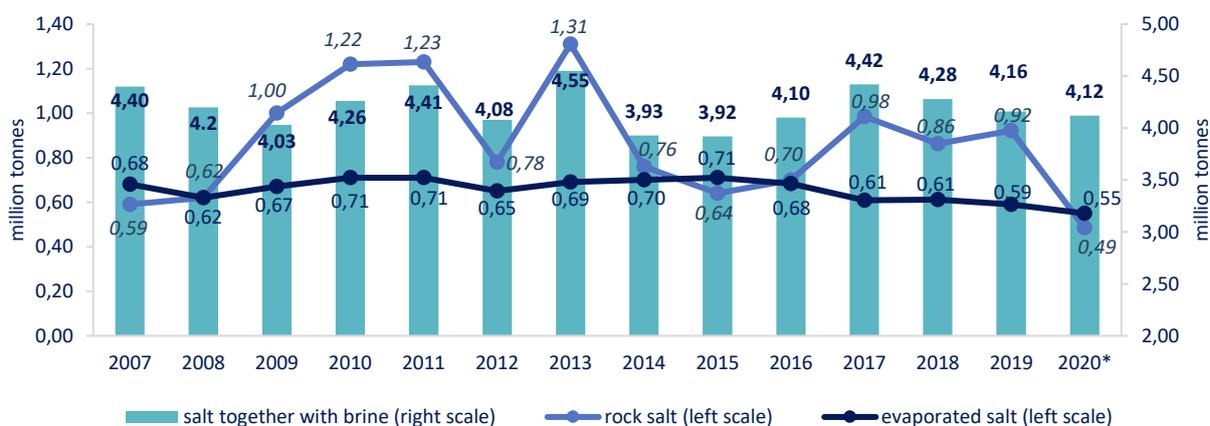
FIGURE 17: SALT CONSUMPTION STRUCTURE IN EUROPE



Source: Own estimates based on Roskill and other sources

Polish salt market structure differs from the one in Europe. Much more important is the salt used for the production of soda ash, in highway maintenance and for direct consumption, while the salt used in the chlorine-alkali industry is of lesser significance.

FIGURE 18: SALT PRODUCTION IN POLAND WITH DIVISION INTO KINDS IN THE YEARS 2007-2020



Source: Own compilation based on the Central Statistical Office; \* estimates based on preliminary data for 12 months of 2020.

Poland belongs to leading salt producers in Europe. Total production of evaporated salt, rock salt and brine in the past decade oscillated between 3.9 and 4.5 million tonnes.

Polish salt market, like Europe, is mature. The volume of evaporated salt consumption shows a slight average annual growth rate of 1%-1.5%. This growth is mainly driven by highly processed salt products, e.g. for water treatment systems and health care. On the other hand, the market of rock salt used mainly for winter road maintenance is variable. The demand for rock salt in case of atmospheric anomalies can change by several dozen percent. The CIECH Group is practically not present on the road salt market, therefore weather anomalies do not affect our sales volume. However, we play an important role in the following segments: table salt (food industry and direct consumption), water treatment systems and chemical industry (electrolysis salt).

The CIECH Group with its production capacity of 550 thousand tonnes per year is the biggest producer of evaporated salt (in its Janikowo plant) on the Polish market, with a share in domestic capacity of approximately 80%. As a result of the project implemented in Stassfurt, Germany, in 2021 the CIECH Group will increase its production capacity to 1 million tonnes/year and will be among the leading European producers of evaporated salt.



In the coming year, the directions and further development of the global salt market will be determined by general economic development (because of important role of chemical industry in salt consumption) as well as seasonal factors (due to important role of salt in road maintenance in the developed countries). Development of plants in Asia (with regard to synthetic chlorine-alkali and soda ash) will be especially important for the chemical sector. The projected average annual growth rate of salt consumption worldwide is estimated at around 2%. In Europe, the rate may be about two times lower, but in the case of evaporated salt, i.e. in the area where the CIECH Group operates, we expect the average annual market growth at about 1.5%. This is due to the well-proven quality advantage of evaporated salt over other types of salt (rock and sea salt).

Due to global economic, social or demographic trends, specialist products become more and more important in the salt industry. There is a growing awareness of the need to improve water quality – an increase in demand for salt tablets from many industries and from households is visible. In turn, increasing volumes of evaporated salt of pharmacological purity grade are used in pharmaceutical industry. Due to the development civilization diseases related to lifestyle in developed countries, expenditures on health care are growing. The quality of pharmaceuticals also improves, which determines the increase in consumption of salt used in this industry.

There is a worldwide increase in demand for specialist products of the salt industry – salt tablets for water treatment and salt used in the pharmaceutical industry.

The prospects for evaporated salt market development in Europe, including Poland, are stable. The possible quantitative increases will depend on sales dynamics in the sector of highly processed products, e.g. for water treatment systems.

## 2.2.2 AGRO SEGMENT

### Crop protection chemicals (CPC)



The CIECH Group is the largest domestic producer of crop protection products and one of the leaders in the domestic market of herbicides.

About 45% of sales of global crop protection chemicals is attributable to herbicides. Fungicides and insecticides account for about 28% and 25% of the global market value respectively.

FIGURE 19: STRUCTURE OF GLOBAL CONSUMPTION OF CROP PROTECTION CHEMICALS BY TYPE AND BY VALUE



Source: Own compilation based on Phillips McDougall.

In 2020, as in previous years, the global market for crop protection agrochemicals was dominated by several major global producers: Syngenta Group (which includes the large Adama), Bayer (following the acquisition of Monsanto), BASF, Corteva (the result of the merger of the agrochemical businesses of Dow Chemicals and DuPont) and FMC. These companies are main contributors to the world markets because they significantly influence directions of the industry development, including: development of new technologies and introduction of innovative products to the market. The total share of the aforementioned producers in the total global sales of agrochemicals is estimated at about 2/3.



It is estimated that in 2020, the value of sales in the global market of crop protection chemicals reached approx. USD 62 billion and increased by approx. 4%. The strong performance of the agrochemicals industry in the difficult year of the COVID-19 pandemic can be attributed to continued growth in demand for food with relatively less severe restrictions (related to the lockdown of economies) on agriculture as compared to other sectors of the economy. The main obstacles to agriculture were restrictions on the availability of seasonal workers (obstacles to mobility) and delays in maritime transport.

FIGURE 20: STRUCTURE OF SALES OF CROP PROTECTION CHEMICALS BY REGION (% OF VALUE)



Source: Own compilation based on Phillips McDougall.

It is estimated that Asia and Latin America are the largest regional markets of crop protection chemicals with shares in global sales amounting to approx. 30% and 27% respectively. Slightly smaller markets are Europe and North America (about 20% each). The rest of the world accounts for several percent of global consumption. Estimates for the European market in 2020 indicate that its value may have changed slightly from the previous year.

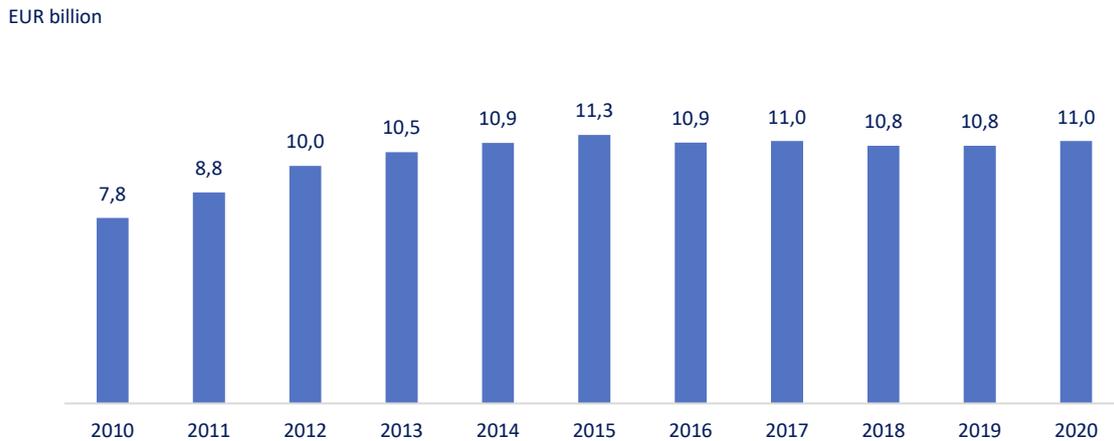
From the beginning until the half of the past decade, demand for CPC in Europe has been growing rapidly (by approx. 8% annually on average, according to the value in EUR; also as a result of the depreciation of this currency against the USD). Since 2016, European sales have remained at about EUR 11 billion, which can be attributed to the fact that Europe is a very mature market.

The activity of European agriculture in 2020 has been constrained by restrictions imposed by various governments in the fight against the pandemic (labour shortages directly in agriculture as well as in food processing) and by negative factors such as the drought at the beginning of the year and the hot summer. Positive trends include price increases for major agricultural products such as wheat, corn, rice and soybeans. This is due to rising consumption, which, with a slight increase in production, is reflected in WHO projections indicating a reduction in stocks.

In general, prospects for further development of the European market of crop protection chemicals can be assessed as positive, especially in the area of generic products manufactured by the CIECH Group.

FIGURE 21: SALES OF CROP PROTECTION CHEMICALS IN EUROPE IN 2010-2020 (preliminary estimates for 2020)

Source: Own compilation based on Phillips McDougall.



For a number of years, the biggest European markets for CPC are France, Germany, Italy, Russia, Spain, United Kingdom and Poland. However, the importance of countries such as Romania and Ukraine is also increasing.

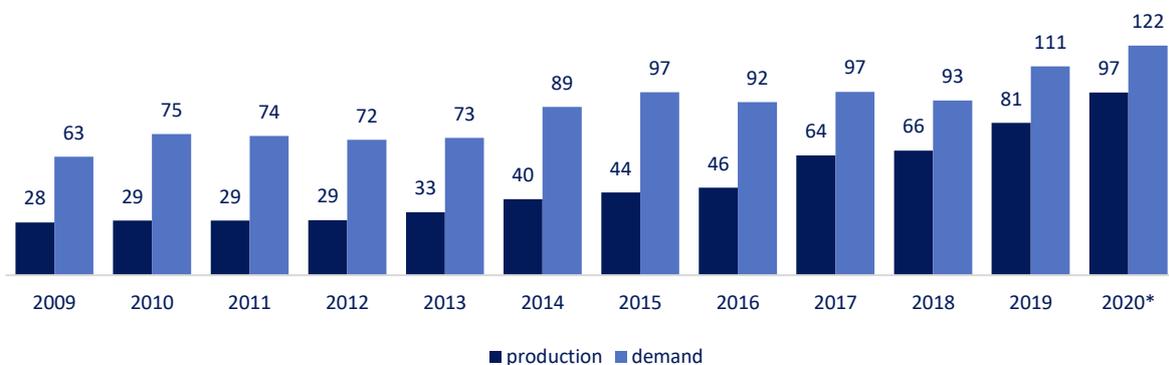
Over the past decade, the consumption of crop protection products in Poland has followed an upward trend from over 70,000 tonnes/year to around 120,000 tonnes/year, as initially estimated for the previous year. The estimated increase in tonnage in 2020 can be attributed to the relatively high level of cereal yields. Despite the overall upwards trend in local CPC production, the Polish market continues to be dominated by foreign suppliers with a very wide range of products. The reason of this is lack of sufficient offer of Polish producers, who have much less of financial resources to conduct research on new products, their registration and marketing.

The long-term growth prospects for the CPC market remain attractive, especially in terms of generic products manufactured by the CIECH Group.

The share of herbicides in the structure of CPC consumption in Poland is similar to the global one. Significantly more herbicides are used in Poland because of high percentage of grains in general cultivated area. Insecticide consumption is lower than the world average (in general, in the moderate climate zone, the pressure of diseases is much higher than that of pests – the so-called Central Zone).

FIGURE 22: VOLUME OF PRODUCTION AND CONSUMPTION OF CROP PROTECTION CHEMICALS IN POLAND IN THE YEARS 2009-2020

(in thousand tonnes)



Source: Own compilation based on the Central Statistical Office and Eurostat (\* estimates based on data after 12 months 2020)

Global concerns and several local producers are main participants in the Polish market. CIECH Sarzyna S.A. is the largest domestic producer. The company’s activity regarding crop protection chemicals is focused on the Polish market, where the CIECH Group has a share of approx. 6% (in terms of value). This share is much higher with regards to grain herbicides segment, which is the company’s main product group, and amounts to about 1/4. In 2020, the CIECH Group continued its foreign expansion in the area of agrochemicals. With the acquisition of Spanish supplier of crop protection products, Proplan, in 2018, the Group is today present in more than 50 countries worldwide. This is also due to the consistent implementation of the development strategy (in the area of plant protection), which consists in intensification of research and development activities, expansion of the product range and strengthening of the sales and marketing areas.

Over the next few years, the value of the domestic market for crop protection products should continue to grow at a fairly fast pace. In Poland, the unit consumption of active substances of CPC in kg per 1 ha of arable land and permanent crops as

The CIECH Group's development strategy in the field of crop protection products includes intensive research and development activities, the expansion of its product portfolio and progressive foreign

well as field treatments is still much lower than in many Western European countries. Moreover, it can be assumed that the relatively good economic situation of Polish farmers should be sustained due to direct subsidies received from the EU. Additionally, controversies concerning genetically modified plants (GMO) should effectively influence the higher demand level for traditional crop protection chemicals.

For the next few years, the global demand for crop protection products is also expected to continue to grow at a robust pace, with an average annual rate of 3% (in terms of value). Growth will be driven mainly by overseas markets such as Latin America, some countries in Africa and the Far East,

i.e. those where the CIECH Group is already present. In Western Europe, the market will be rather stable, while in the central and eastern regions of our continent, significant growth is still expected.

Market forecasts are based on the assumption of decreasing arable land area on the global scale, increasing population, increasing consumer purchasing power (especially in developing countries) and the resulting necessity of constant increase in the quantity and quality of yields. On the other hand, various national and international regulatory bodies, whose task is to monitor the consumption of crop protection chemicals in order to lower their negative influence on the natural environment will affect the growth in consumption of crop protection chemicals.

### 2.2.3 FOAMS SEGMENT

#### Flexible polyurethane foams (PUR)

The CIECH Group has about 16% share in the polyurethane foam market in Poland and is responsible for approx. 25% of the domestic production (except for production for own needs).

Flexible polyurethane foams are used mainly in production of furniture and sleeping mattresses, which amount to more than ¾ of consumption of this material. Another 15%–20% is used in automotive industry for production of seats and interiors. As a result, demand for foams is sensitive to economic cycles.

FIGURE 23. APPLICATION SEGMENTS OF FLEXIBLE POLYURETHANE FOAMS IN EUROPE



Source: Own compilation based on the IAL Consultants and Europur data.

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

Globally, production of flexible polyurethane foams used in furniture production is very fragmented (over a thousand producers of total production capacity of 8 million tonnes per year). Europe accounts for about 30% of this capacity, while the production capacities of Polish producers are estimated at 210-220 thousand tonnes per year. Major competitors of the CIECH Group on the Polish market are: Eurofoam, MZCh Organika, Vita Polymers and CIS. IKEA also hold large production capacities, however, they are designated mainly for internal purposes.

As a result of the COVID-19 pandemic, 2020 was a very difficult year for the flexible PUR foam industry both in Poland and worldwide. The restrictions on economic activity have resulted in periodic stoppages in furniture production and a slowdown in furniture sales. Disruptions in the raw material supply chain were an additional negative factor. Furniture production resumed in mid-year, however, allowing only a partial recovery of losses. It is estimated that over the past year as a whole, total demand for flexible PUR foam in Europe may have dropped by several percent to less than 2 million tonnes; due to lower production in the furniture and automotive industries. In Poland, due to the quite good position of the Polish furniture industry on foreign markets and the still quite good performance of furniture exports, the decrease in consumption of these foams was probably much smaller – between 5% and 10%.

The CIECH Group, through Ciech Pianki Sp. z o.o., has about 16% share in the Polish market of flexible polyurethane foams, and approx. 25% in domestic production (excluding own production).

The recovery of European demand for flexible PUR foams to pre-2020 levels is expected to take several years mainly due to the crisis in the automotive industry. However, in the furniture industry segment, within which the CIECH Group operates, the market should grow significantly faster. This will particularly be the case in our country, which has a thriving competitive furniture industry focused on further expansion of exports. The industry's performance to date has already secured it a presence in the list of the top three global exporters.

The domestic market of flexible polyurethane foams benefits from a very good position of the Polish furniture industry on foreign markets – the second largest exporter of furniture worldwide.

In response to the growing demand caused by the COVID-19 pandemic, the Company decided to purchase an installation for the production of protective masks. In December 2020, the sale of the highest quality FFP2 respirators, in accordance with the European standard EN 149: 2001 and the approval of the Polish Institute of Hygiene, was launched. The full capacity of the production line amounts to approx. 10 million pieces per year.

## 2.2.4 SILICATES SEGMENT

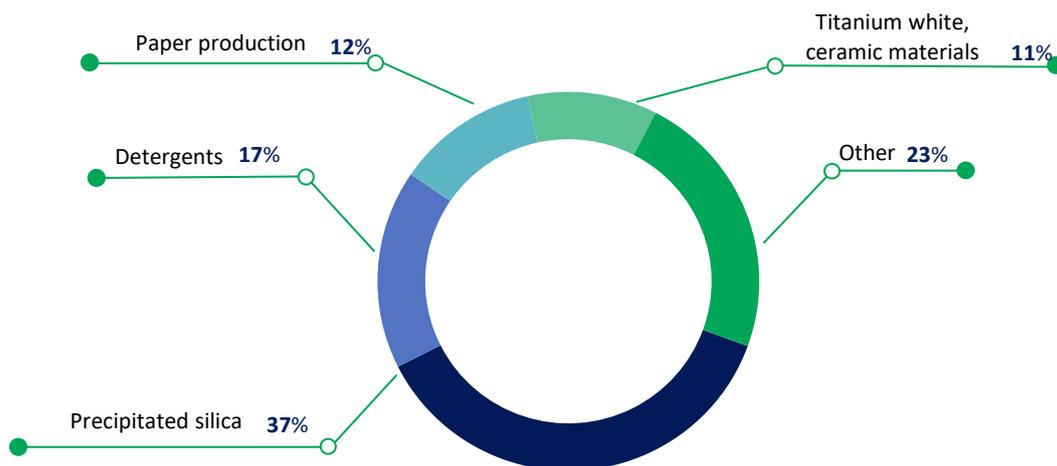
### Sodium silicates (glassy sodium silicate and sodium water glass)

Sodium silicates are manufactured in solid form (glassy sodium silicate) and in liquid form (sodium water glass usually obtained by dissolving glassy sodium silicate in water or using a direct method). The CIECH Group, through CIECH Vitrosilicon S.A. and CIECH Soda Romania S.A., manufactures and sells glassy sodium silicate as well as their solutions.

Sodium silicates are used for production of precipitated silica (nearly 40% of consumption in Europe, used mainly in the tyre and beauty product industries), detergents (more than 15%), paper, coatings based on titanium white and ceramic materials and in other industries.

In developing countries, applications related to production of detergents dominates, and the total consumption of these silica depends to a large extent on the number of citizens.

FIGURE 24: APPLICATION SEGMENTS OF SODIUM SILICATES IN EUROPE

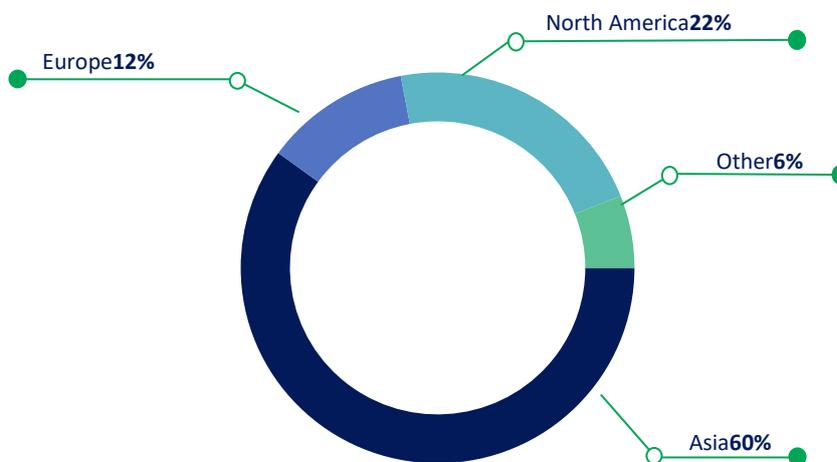


Source: Own compilation based on the IHS Markit data.

Sodium silicates are one of the most popular non-organic chemicals, and are manufactured all over the world. However, due to their relatively low price and high importance of the liquid form in trade (silicates dissolved in water), international turnovers are performed usually on a local level, i.e. only on the European continent.

The largest production capacities are located in Asia (about 60%) and the most developed regions of the world (Europe, North America) are responsible for approx. 1/3 of global production capacities in total.

FIGURE 25: GEOGRAPHIC STRUCTURE OF PRODUCTION CAPACITIES OF SODIUM SILICATES



Source: Own compilation based on the IHS Markit data.

Nominal sodium silicate production capacities in Europe are estimated at approx. 1.5 million tonnes per year. However, majority of these capacities is used by producers, who in general do not offer silicates on the free market. European production capacities are located in Western and Central Europe. PQ and BASF concerns as well as the CIECH Group, are European leaders in silicates production. Our Group's share in total production capacities in Europe is estimated at over a dozen per cent for glassy sodium silicate (third largest producer).

In 2020, due to the COVID-19 pandemic and the subsequent further deepening of the automotive crisis, there was a significant drop in demand for the largest sodium silicate segment in Europe, i.e. precipitated silica used in tyre production. Consequently, we estimate that last year the total demand for sodium silicates in the free European market (excluding own consumption) decreased to well below 400 thousand tonnes (reported in 2019).

Overall, our long-term assessment is that demand for sodium silicates in Europe should evolve at an average annual growth rate of several percent and the precipitated silica segment will continue to show above-average growth.

The CIECH Group, owing to investments in the expansion of capacity in previous years, has been strengthening its position on the free market of sodium silicates. We estimate our share in sales of silicates in Europe at approx. 35%-40%.

## Potassium silicates

Potassium silicates (in the form of glassy silicates or potassium water glass) are used as a raw material in the production of plaster and facade paints for construction, welding (production of electrodes), production of detergents, molecular sieves, fertilisers and crop protection chemicals. The European market for potassium silicate is a mature market with a small growth rate of around 1% per year. The growth of this area is positively affected by segments which are growing at above-average rates: the market for speciality detergents in liquid form and the market of molecular sieves (used for gas cleaning in various chemical processes). There are several glassy potassium silicates producers in the European market, with Van Baerle and PQ holding the dominant market share. We estimate that the production capacity in Europe is around 60 thousand tonnes per annum, including CIECH Group's capacity in CIECH Vitrosilicon of up to 3 thousand tonnes per year.

FIGURE 26: APPLICATION SEGMENTS OF POTASSIUM SILICATES IN EUROPE



Source: Own compilation based on the IHS Markit data.

## 2.2.5 PACKAGING SEGMENT

### Glass products (decorative lanterns, jars)

Glass products manufactured by CIECH Vitrosilicon (and ultimately in CIECH Vitro after the demerger of the former) are intended for niche markets: decorative lanterns are used to manufacture vigil lights; COMFORT-type jars with clamp lids and – in small volumes – twist-off jars are to be used for food products.

#### Decorative lanterns

Vigil lights are the products used mainly in Poland and in some Central European countries. Consequently, activity of the CIECH Group in this respect is focused on the domestic market. The demand for vigil lights is related to the tradition of visiting cemeteries, and sales are performed mainly around 1 November every year. Supplies of lanterns used in the production of vigil lights are delivered earlier, mainly in the second and third quarter of a year.

In Poland, there are only few producers of decorative lanterns (glass-works). At the same time, complete vigil lights are manufactured by about 300 companies that usually buy lanterns directly from producers. Major producers of decorative lanterns are: CIECH Vitrosilicon S.A. (ultimately CIECH Vitro) in Iłowa and HS Sława S.P. in Kielce.

The domestic market of decorative lanterns is estimated at about 180 million pieces per year. The CIECH Group has been the clear leader in this market for many years. The main advantages of the leader are its production potential as well as a rich and diverse product range. The market for glass lanterns is very mature and no increase in demand is expected.

#### Jars

CIECH Vitrosilicon S.A. specialises in the manufacture of COMFORT-type jars with glass lids and fastening clasps, used on niche markets (for storage of bulk products and products that do not require pasteurisation). The CIECH Group is the only producer of such jars, and sales are targeted at the domestic market and to foreign markets (approx. 15%). Competitive products on the Polish market are imported from Germany, China and Italy. The domestic market of Comfort-type jars is estimated by the CIECH Group at about 3.2 million pieces per year. The Group with a share of more than 20% is the third supplier on this market.



**CIECH GROUP'S STRATEGY**  
AND DEVELOPMENT CONDITIONS

### 3. CIECH GROUP'S STRATEGY AND DEVELOPMENT CONDITIONS

#### 3.1 CIECH GROUP STRATEGY FOR 2019-2021

The Management Board of CIECH S.A. carries out an on-going analysis of the market environment and identifies innovative solutions aimed at the building of the CIECH Group's value. Therefore, the Management Board presented the CIECH Group strategy for 2019-2021, approved by a resolution of the Supervisory Board on 5 December 2018.

According to the adopted document, the strategic objective is to maximise the CIECH Group's value, primarily by increasing competitive advantages in the key Soda Segment, continuous improvement of customer service, further investing in the development of specialist businesses in other segments, intensive use of innovations and the effects of R&D efforts to increase production efficiency and expand the product portfolio and value creation through changes in the asset portfolio.

Despite high uncertainty and volatility on the markets from the first quarter of 2020 (due to the pandemic situation), the Management Board of CIECH S.A. decided not to update the entire strategy for the period 2019-2021, because the duration and scale of the impact of the occurring demand and supply shocks are difficult to predict. The Management Board monitors and adjusts the activities of the CIECH Group to changing market conditions on an ongoing basis, and one of the Management Board's priorities in 2021 will be to develop a strategy for the period after 2021.

The CIECH Group's visions and ambition is to create real value for all stakeholders.

FIGURE 27: VISION AND AMBITIONS OF THE CIECH GROUP FOR 2019-2021



Objectives set in the CIECH Group's strategy will be implemented through:

TABLE 2: STRATEGIC OBJECTIVES - STRATEGY 2019-2021



Increasing the efficiency of the soda business, which will translate into an increase in customer satisfaction and enable the Group to increase its share in the sodium bicarbonate market and to develop the salt business by, among other things:

<p>Soda Segment</p> 	<ul style="list-style-type: none"> <li>• increasing production capacity of sodium bicarbonate and expanding the portfolio to include, among others, sodium bicarbonate for dialysis (soda),</li> <li>• a programme of continuous production efficiency improvement, also through modernisation in the area of energy (soda and salt),</li> <li>• a programme of increasing maintenance efficiency (soda and salt),</li> <li>• commencing production and sales of products from the new plant in Germany with capacity of 450 thousand tonnes by 2021, which means +75% compared to the current capacity (salt),</li> <li>• increasing the share of the Group's products in the specialist products market, including, among others, salt tablets, pharmaceutical salt and granulated salt (salt).</li> </ul>
<p>Agro Segment</p>  <p>Foams Segment</p> 	<p>Consistent strengthening of the market position in the Segments Agro and Foams through, among other things:</p> <ul style="list-style-type: none"> <li>• expanding the portfolio of active substances (increase by more than 40 substances) and new product registrations (increase by more than 200 registrations) (crop protection chemicals),</li> <li>• strengthening the position on key markets, i.e. Poland and Spain, and developing sales on other markets (crop protection chemicals),</li> <li>• increasing the share of sales outside Poland to 40% (crop protection chemicals),</li> <li>• maintaining current market position (foams).</li> </ul>
<p>Silicates Segment</p>  <p>Packaging Segment</p> 	<p>Selective strengthening of the market position through, among other things:</p> <ul style="list-style-type: none"> <li>• taking advantage of the growing silicates market,</li> <li>• maintaining current market position in glass packaging.</li> </ul>
<p>Organisational culture</p> 	<p>The HR vision involves building an environment in which the best people can grow and create a culture of effectiveness, thus implementing the Group's strategy by:</p> <ul style="list-style-type: none"> <li>• building the best teams,</li> <li>• creating a culture of continuous efficiency improvement,</li> <li>• introducing state-of-the-art performance review and career planning tools.</li> </ul> <p>The strategy for the development of a safety culture assumes co-creation by the employer and employees of a safe, healthy and people-friendly work environment through:</p> <ul style="list-style-type: none"> <li>• Leadership based on caring for people,</li> <li>• Programs supporting awareness, responsibility and commitment of each employee,</li> <li>• Systemic approach and consistency,</li> <li>• Application of modern IT tools.</li> </ul>

### 3.2 STRATEGIC ACTIVITIES IN 2020

The CIECH Group has been continuously performing its strategic activities which impact the achievement of the financial objectives and the maximisation of the Group's goodwill.

In terms of the main segments of activities of the Group, it is necessary to mention the following activities carried out in 2020:

TABLE 3: ACTIVITIES OF THE CIECH GROUP IN 2020

<p>Soda segment</p> 	<ul style="list-style-type: none"> <li>• Effective response to the economic slowdown caused by the COVID -19 pandemic, thanks to which the soda business felt the crisis (slowdown) to a lesser extent than the competition.</li> <li>• Intensification of activities in the SPOT market as an effective way to cover volumes lost due to the economic crisis.</li> <li>• Detailed and regular monitoring of customers in industries sensitive to market downturns.</li> </ul>
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<p>Soda</p>	<ul style="list-style-type: none"><li>• Taking advantage of the positive economic climate during the 2020 contracting period, efficient volume reallocation resulting in significant price increases in 2020 (above market).</li><li>• Increasing the share of in-house carriage management in sales as an integral function of the service.</li><li>• Development of logistics and post sales services.</li><li>• Inter-segment diversification through introduction of new, highly processed products into the product portfolio – implementation of an investment in pharmaceutical-grade soda.</li><li>• Relocation of sales towards higher-margin markets, especially owing to new volumes of sodium bicarbonate from Germany – more than twofold increase in sales to the haemodialysis sector, also visible increases in other sectors (pharmaceuticals, food, feed, technical).</li><li>• Expansion of sales on the Polish feed, food, technical and flue gas desulphurisation markets (sodium bicarbonate).</li><li>• These actions are still overshadowed by the situation of the Romanian plant (affected by the mining disaster at CET's lignite mine), which is still in hibernation.</li></ul>
 <p>Soda segment</p> <p>Salt</p>	<ul style="list-style-type: none"><li>• Improvement of the S&amp;OP process – demand and supply planning,</li><li>• Expansion of the product range – licks, pharmaceutical salt and salt granules,</li><li>• Increasing production capacity in the salt tablet line by investing in machinery,</li><li>• Upgrade of boilers at the CHP plant node,</li><li>• Implementation of the Food Safety System in compliance with the ISO 22000:2005 standard and its successful operation.</li></ul>
 <p>Agro Segment</p>	<ul style="list-style-type: none"><li>• Development of strategy of product portfolio expansion in the R&amp;D – AGRO area.</li><li>• Expansion of the existing product portfolio, a significant investment supporting the development of the CHWASTOX brand – obtaining full registration for all cereal crops in Poland, a significant extension of the registration in the field of weed control, essential for complete protection.</li><li>• Improved structure of the sales force in Poland and Spain.</li><li>• Intense advertising campaigns in the Distribution Channel, targeted at the end customers, i.e. farmers – supported by innovative loyalty programs.</li><li>• Intensification of new product registrations in Poland (already more than 25 different active substances, upcoming new launches in 2021), several new products to be launched in the very promising market in Romania, several new registrations in Spain and the Mediterranean countries.</li><li>• Close cooperation with suppliers of key substances and components in the most important markets (China, India).</li></ul>
 <p>Foams Segment</p>	<ul style="list-style-type: none"><li>• Increase in the range of foams produced based on existing technologies.</li><li>• Adapting foam formulations to customer requirements – certification for low emission foams according to IKEA requirements, Oeko-TEX certification; fire resistance of foams according to BS standards for the UK market.</li><li>• Purchase and commissioning of a facility for the production of protective masks and obtaining CE certification confirming the FFP2 filtration level.</li></ul>
 <p>Silicates Segment</p>	<ul style="list-style-type: none"><li>• Maintaining the leading position in the European sodium silicate market.</li><li>• Expanding the range of liquid silicates with new products dedicated to specialist applications: VITROBRUK, VITROCER, VITROTECH and VITROAGRO.</li></ul>
 <p>Packaging Segment</p>	<ul style="list-style-type: none"><li>• Maintaining the leading position on the Polish market for vigil light lanterns.</li></ul>

### 3.3 DEVELOPMENT PROSPECTS

The prospects for CIECH S.A.'s and the CIECH Group's development result both from its market position as well as the present and the forecast conditions of environment of the Group in Poland and worldwide. Key development prospects of the CIECH Group and CIECH S.A. in individual segments of its operations are discussed below. More information about market factors affecting the CIECH S.A.'s and CIECH Group's operations is provided in Chapter II of this report: External environment.

The most important economic factors in the environment of CIECH S.A. and the CIECH Group include:

- the situation on the markets of the customers of the CIECH Group - incl. in the following industries: construction, automotive, glass packaging, agriculture, plastics, chemicals and chemical products, furniture,
- conditions in commodity and financial markets (e.g. currency exchange rates),
- the economic situation of the European and world economy, in particular the level of economic activity in Europe (growth rate of industrial production in the European Union, internal demand) and the direction of changes in the GDP of the Chinese economy that is difficult to estimate,
- legal and regulatory environment.

TABLE 4: DEVELOPMENT PROSPECTS OF THE CIECH GROUP AND CIECH S.A. IN INDIVIDUAL BUSINESS SEGMENTS

Soda Segment	
Soda ash	
Key trends in the market environment	Strategic activities of the CIECH Group
<ul style="list-style-type: none"> <li>• Decline in global demand for soda ash caused by the outbreak of the COVID-19 pandemic:                             <ul style="list-style-type: none"> <li>✓ The economic downturn caused by the outbreak of the coronavirus pandemic had the most severe negative impact on flat glass production, while the detergent industry remained stable.</li> <li>✓ Weakening demand for new cars, resulting in lower demand for flat glass from the automotive sector.</li> <li>✓ Recycling of packaging glass (the threat of decreasing demand for soda in the production of glass packaging).</li> <li>✓ Decreasing demand for washing powder in favour of liquid detergents (resulting in a decrease in the consumption of soda in the detergent industry); offset by the consumption of soda ash for the manufacture of dishwasher tablets.</li> <li>✓ Growing demands for the energy efficiency of buildings that can be satisfied through, among others, improved insulation in newly-built houses (increased consumption of glass wool).</li> </ul> </li> <li>• Decline in the production of soda ash in the world, due to a slight increase in production capacity and reduced demand.</li> <li>• Increased price competition in exports.</li> <li>• Increased importance of Turkish exports outside Europe.</li> <li>• More than ten percent decrease in exports of Turkish soda to Western Europe due to a decline in demand, low profitability of exports for the local producers and a decrease in their output.</li> </ul>	<ul style="list-style-type: none"> <li>• Maintaining the presence in key European markets (Central and East Europe) despite strong competition, also from the Turkish soda.</li> <li>• Intensification of activities in the SPOT market as an effective way to cover volumes at risk due to the economic crisis.</li> <li>• Significant reduction in sales in less profitable markets (UK, Ukraine, Estonia).</li> <li>• Intensification of sales from Poland to prospective markets (Bangladesh, South Africa, Egypt, South American markets).</li> <li>• Detailed and regular monitoring of customers in industries sensitive to market downturns.</li> <li>• Further increase in the share of carriage management as an integral sales service function.</li> <li>• Building strong, long-term relationships with key customers.</li> </ul>



- Stable import of Bosnian soda to Poland, start of import of Turkish soda in the fourth quarter of 2020.
- Continued lifting of anti-dumping duties in India on goods of US, Chinese, Russian and Turkish origin.
- Ciner Group's exit from ANSAC at the end of 2020, facilitating expansion in Europe.

#### Sodium bicarbonate

##### Key trends in the market environment

- A strong price competition in the feed segment with cheaper imports from Turkey (increase in imports by several percent), Bosnia (more than twofold increase in imports) and Russia.
- Solvay announces that it will launch production of sodium bicarbonate in Devnya (Bulgaria) in the first half 2021 with a production capacity of 200 tt (a six-month delay in the project due to the outbreak of the coronavirus pandemic).
- Global megatrends supporting the increasing demand for sodium bicarbonate:
  - ✓ Increased availability of treatment through hemodialysis and the resulting increase in demand for soda used for this purpose.
  - ✓ Improving health care in developing countries – increased consumption of soda used in the pharmaceutical industry.
  - ✓ Increased regulatory requirements in the area of environmental protection – a major increase in usage of consumption for fumes desulphurisation is expected.
  - ✓ Global population growth (mainly Asia and Africa) accelerating the rate of food consumption – increased consumption of soda used in the food industry.

##### Strategic activities of the CIECH Group

- Intensification of sales of baking soda for food, feed, technical and pharmaceuticals.
- Expansion of the portfolio towards more processed products, specialised products and products that fit in with the trends related to environmental protection and demographic changes.
- Implementation of sales strategy focused on the supply of higher grades of sodium bicarbonate to customers in the pharmaceutical sector.
- Obtaining GMP API Certification for a new plant in Germany.
- Further increase in the share of carriage management as an integral sales service function.

#### Evaporated salt

##### Key trends in the market environment

- Visible slump in demand in the HoReCa sector for salt products due to the temporary closure of swimming pools, restaurants, hotels, guest houses – salt tablets, table salt, granules.
- Growing awareness of the need to improve water quality – a noticeable increase in demand for salt tablets from hospitals and similar institutions and households.

##### Strategic activities of the CIECH Group

- Planned completion of construction of the evaporated salt production plant in Germany. Planned production launch in the second quarter of 2021 (target production capacity at approximately 450,000 tonnes of salt per year).
- Expanding the product range towards speciality products (pharmaceutical salt) within the dry salt portfolio and strengthening the market position in existing markets.



Evaporated salt

Key trends in the market environment

Strategic activities of the CIECH Group

- Moderate decrease in European and global demand for salt. Most noticeable impact on road salt sales due to warming climate.

**Agro Segment**

Crop protection products

Key trends in the market environment

Strategic activities of the CIECH Group

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• Despite the cyclical weather extremes, the market for crop protection products in Poland has been growing steadily over the last 10 years, by far more than 5% annually on average. Markets in Western Europe are stable, whereas growth rates in Central and Eastern Europe are similar to those in Poland.</li> <li>• Changes in the regulations concerning registration, production and sale of crop protection chemicals.</li> <li>• Consolidation and professionalisation of farms in Poland.</li> <li>• Turmoil in global markets due COVID-19 pandemic, political uncertainty and new policies in key countries/regions (e.g. “Blue Sky” in China; “Green Order” in European Union ).</li> <li>• Consolidation of companies in the crop protection chemicals industry on a global level - implications for local businesses and turmoil associated with divestment of selected products.</li> </ul> | <ul style="list-style-type: none"> <li>• Strengthening position in key markets through the intensive expansion of the product portfolio and entering new markets. Marketing and sales activities are intensified in line with the development of the portfolio and entering new markets.</li> <li>• Anticipating and monitoring market and regulatory changes, taking appropriate steps and mitigating potential constraints on the AGRO product portfolio.</li> <li>• Implementing modern tools to support its sales team (e.g. Konektor – electronic data exchange), ensuring the capability to provide better services to customers in the distribution channel and to farmers.</li> <li>• The activities are aimed at direct access to manufacturers of key substances and components.</li> <li>• Taking advantage of opportunities for its own MCPA production.</li> </ul> |
|---|---|

**Foams Segment**

Polyurethane foams

Key trends in the market environment

Strategic activities of the CIECH Group

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Limited supply of strategic raw materials – translating into a significant increase in prices and thus significant increase in production costs.</li> <li>• Direct dependence of demand for flexible polyurethane foams on the situation in target i.e. furniture and automotive industries.</li> </ul> | <ul style="list-style-type: none"> <li>• Ensuring feedstock supply security - while maintaining cost discipline (maintaining or lowering the prices of the raw materials used) - greater fragmentation of suppliers.</li> <li>• Enhancing cooperation with existing customers and searching for new prospective customers.</li> <li>• Optimisation of the product portfolio.</li> <li>• Increasing the efficiency of processes and logistics in the plant.</li> </ul> |
|--|---|

### Silicates Segment

Key trends in the market environment	Strategic activities of the CIECH Group
<ul style="list-style-type: none"><li>• Moderate long-term increase in global demand for sodium silicates mainly due to an increase in production of precipitated silica.</li><li>• Growing global demand for the so-called green tires using precipitated silica made from sodium silicates.</li><li>• Reduced consumption of sodium silicates in the area of detergents due to the growing demand for liquid products.</li></ul>	<ul style="list-style-type: none"><li>• Capacity expansion for glassy sodium silicate from the fourth quarter of 2021.</li><li>• Focusing on the use of new applications of silicates and development of high-margin products.</li></ul>

### Packaging Segment

Key trends in the market environment	Strategic activities of the CIECH Group
<ul style="list-style-type: none"><li>• Continuous trend of rich and diverse design of lanterns for vigil lights accompanied by a simultaneous increase in the share of sales of vigil lights by retail chains.</li><li>• Persistently low level of sales prices of standard twist-off jars for the food processing market</li></ul>	<ul style="list-style-type: none"><li>• Continuous expansion of the range of lanterns for vigil lights, intensification of efforts aimed at obtaining network contracts.</li></ul>

## 3.4 RISKS TO OPERATIONS

### Risk management at the CIECH Group

The CIECH Group strives to achieve its strategic objectives without taking excessive risks. To this end, the Group has implemented a risk management system through which:

- it identifies threats to the achievement of its objectives,
- it defines proposed actions to minimise the threats and their impact on the objectives set,
- in the case of risks that have not yet been identified, allows for their proper identification and assessment.

The Risk Management System of the CIECH Group is an organised set of general principles and guidelines, defining how the risks to which the CIECH Group is exposed should be managed. The objective of the system 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 system operating within the CIECH Group is constantly developed and improved. It is an important part of supporting day-to-day operations. This process is aimed at the ongoing identification and mitigation of risks and the introduction of mechanisms through which many external risks affecting the future growth in value of the CIECH Group can be recognised, identified and appropriately managed so that they have a neutral impact on the achievement of strategic objectives.

The CIECH Group defines risk as an event, action or lack of action that will prevent the Group from achieving its objectives. Risk is therefore perceived negatively because it implies a threat to the achievement of the objectives set.

The CIECH Group's risk management system is based on the following key principles:

- each manager and employee of an organisational unit of a CIECH Group entity (including CIECH S.A., Subsidiaries) is responsible for risk management,
- risk management is a continuous process,
- a risk whose effects threaten human health and life is unacceptable,
- risks cannot be completely eliminated; they are an inherent part of the business.

The risk management process implemented in the CIECH Group is a comprehensive and corporate solution. It covers Group entities, processes and projects. It applies to all employees of the Group. This process is an instrument that supports the Management Board in day-to-day operations, while the Supervisory Board of CIECH S.A. uses it to monitor the effectiveness of the internal control and internal audit systems.

Risk management objectives in the CIECH Group are implemented through:

- systematic approach to the identification of all risks,
- supporting the allocation of resources by setting priorities for risks,
- selection and implementation of the best risk management strategy,
- risk monitoring, analysis and reporting that take into account all potential effects of existing risks.

FIGURE 28: STRUCTURE OF RESPONSIBILITIES FOR THE RISK MANAGEMENT PROCESS OF THE CIECH GROUP

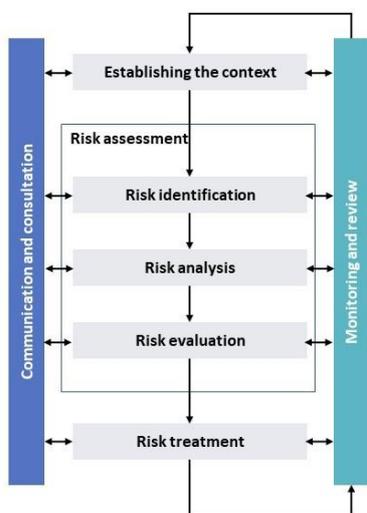


Measures taken as part of the CIECH Group's risk management process are implemented on an ongoing and regular basis. Risk is managed in a two-dimensional manner - vertically and horizontally, by identifying not only risks that occur within a given entity, organisational unit or process, but also those risks whose materialisation affects various areas of the Group's operations, entities and processes from the point of view of the entire CIECH Group. Only with such a comprehensive approach to and understanding of risks, is it possible to manage risks effectively and efficiently and deliver tangible benefits to the Group.

As regards responsibility for the risk management process, a special role in the process is assigned to the key participants in the process, which are the Management Board of CIECH S.A., the Executive Committee, the management personnel and the Chief Risk Officer. The correctness and effectiveness of the risk management system implemented is monitored by the Supervisory Board and the Audit Committee on the basis of, among other things, information from the Management Board of CIECH S.A. on current risks and their management methods.

The risk management process at the CIECH Group has been defined and implemented in accordance with the "International Standard ISO 31000:2018 Risk Management".

FIGURE 29: DIAGRAM OF THE CIECH GROUP'S RISK MANAGEMENT PROCESS



By referring to the ISO 31000 standard, the CIECH Group risk management process formally regulates the approach to the activities of identifying, analysing, assessing, managing, monitoring and communicating risks in the CIECH Group.

It is CIECH Group's aspiration to be perceived by its stakeholders as a transparent organisation with a high awareness and understanding of risks that may affect the achievement of objectives. Hence the comprehensive approach to risk management, focused on identifying events that may prevent objectives from being met.

As an element of the Group's value creation, the risk management process focuses on the following risk categories which are essential for achieving the Group's objectives:

- Risks associated with the loss of human health and life,
- Operational risks that may affect the continuity of production processes,
- Legal risks,
- Compliance risks,
- Regulatory risks,
- Strategic risks related to the impact of the environment on the CIECH Group,
- Reputational risks,
- Financial risks,
- Environmental risks.

The CIECH Group's attention is not limited only to the risk categories indicated above. The Group makes every effort to identify and review risk areas that are critical to the business on an ongoing basis and to mitigate them effectively through structured and implemented risk management process.

2020 was a specific year because of the global COVID-19 pandemic, which led, locally and globally, to an almost catastrophic risk (the pandemic, until it broke out, was a very low probability risk with very significant effects), the consequences of which will also be experienced in subsequent years. The COVID-19 pandemic resulted in the materialisation of risks that had not previously been identified as likely to affect the achievement of the CIECH Group's objectives in 2020.

Therefore, when presenting the list of the most significant risks related to the operation of the CIECH Group in 2020, the risks related to the occurrence of the COVID-19 virus should be indicated in the first place. In addition to the risks caused by the COVID-19 pandemic, the Group managed the identified and assessed risks arising from its operations in the current business environment.

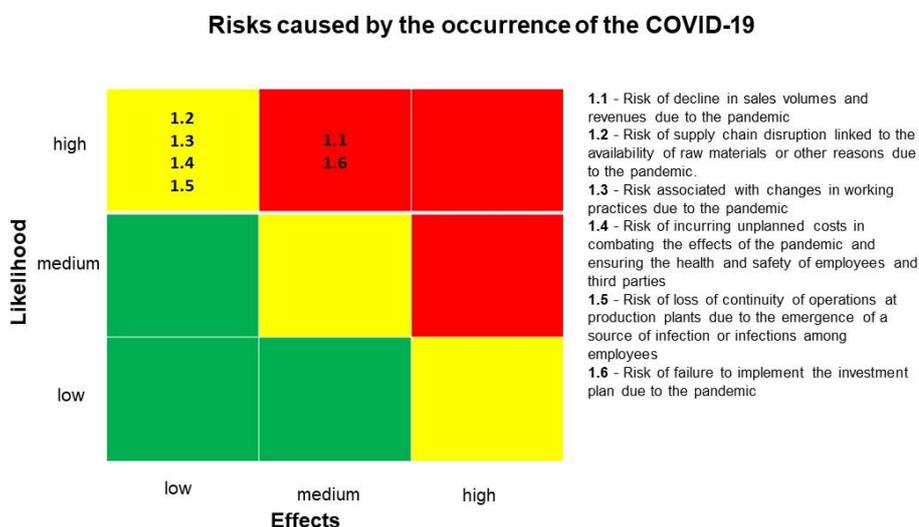
### 3.4.1 PART 1 – MOST SIGNIFICANT RISKS RELATED TO THE OPERATION OF THE CIECH GROUP CAUSED BY THE COVID-19 PANDEMIC

The identified, most significant risks caused by the occurrence of the COVID-19 pandemic in 2020 affected virtually all areas of operations of the CIECH Group. The areas where the Group reported the most significant impact of the pandemic were as follows:

- Demand for key products of the CIECH Group,
- Availability of raw materials,
- Human resources management,
- Safety understood as ensuring the health and life safety of employees and others in relation to the epidemic emergency,
- Maintenance and ensuring the continuous operation of production plants,
- Timely completion of Projects.

The following Risk Map presents the most significant risks associated with the CIECH Group's operations caused by the COVID-19 pandemic in 2020:

FIGURE 30: RISKS ASSOCIATED WITH THE OCCURRENCE OF COVID-19



Below is a detailed summary of the most significant risks associated with the COVID-19 pandemic in 2020:

<b>Risk 1.1</b>			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Soda Segment</li> <li>• Foams Segment</li> <li>• Silicates Segment</li> </ul>
Risk of decline in sales volumes and revenues due to the pandemic			
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	High	High	
<b>Risk description and corrective measures taken:</b>			
The negative consequences of the COVID-19 pandemic were experienced by all segments of the CIECH Group's operations. The most significant effects of the pandemic in the form of a decline in sales volumes and revenues were observed in the following segments:			
<ul style="list-style-type: none"> <li>• <b>Soda Segment</b> – the soda segment reported a decline in sales and production compared to 2019 as a result of the COVID-19 pandemic. This was due to the freezing of economies in Poland and in European countries. Production plants of the CIECH Group did not suspend production in view of the prevailing restrictions, however, due to the restrictions imposed and limited customer demand, they were forced to reduce their output. Sales also declined,</li> </ul>			



<b>Risk 1.1</b> Risk of decline in sales volumes and revenues due to the pandemic			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Soda Segment</li> <li>• Foams Segment</li> <li>• Silicates Segment</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	High	High	
<b>Risk description and corrective measures taken:</b>			
<p>dropping by around 10% compared to 2019. While the situation was stable until the end of the first quarter of 2020 (in fact, until the restrictions and freezing of the economies had not yet been announced), the following months, in particular April and May, saw a deterioration of performance, with sales falling by more than 20%. The second half of the year brought an improvement, with the return to normality in individual countries and the unfreezing of economies in Poland and Europe. Key customers resumed operations, but losses suffered in the second quarter could not be recovered. Despite the decline in demand for soda products, the segment continued its deliveries at predetermined prices under contracts concluded back in 2019. Strong price competition, caused by an oversupply of soda products in the market, was observed in spot transactions. Industries that were badly affected by the pandemic were the hotel and restaurant sector (HoReCa) and the automotive sector, which are of key importance to the soda segment. While the situation in the automotive industry has stabilised and begun to return to balance (car manufacturers have resumed production and restored previously limited capacity), the HoReCa sector remained frozen or operated on a limited basis in many European countries until the end of 2020, making it impossible to fulfil previous contractual obligations. The expected collapse in demand and rapid V-shaped rebound did not take place.</p> <p>As part of its remediation efforts, the Soda Segment, as soon as the first negative effects of the pandemic emerged and customer demand was reduced, took active measures to find new customers and new markets through spot transactions. Ultimately, 2020 turned out to be a weaker year than 2019. In terms of volume, there was a decline in production and sales.</p> <ul style="list-style-type: none"> <li>• <b>Foams Segment</b> – with the outbreak of the pandemic, the segment experienced a significant slump as a result of the restrictions imposed in Poland and Europe and the freezing of economies. Furniture outlets in Europe, as non-essential stores, were closed down, which also led to a temporary suspension of operations of furniture factories. This situation resulted in the decision of the Management Board of CIECH Pianki to temporarily reduce production until, as a result of the easing of restrictions in the domestic and European markets, furniture outlets, together with furniture factories, have resumed operations. The production was reduced in the spring, i.e. in March and especially in April. After this period, as a result of the easing of restrictions, the furniture sector was unfrozen. In turn, there were problems with the availability of raw materials necessary for foam production (as described in the section on a separate risk). Thanks to a strong increase in demand in the second half of the year and a shortage of raw materials, the segment's financial performance was better than expected before the pandemic, despite lower sales volumes. The collapse in foam demand in 2020 followed a V-shaped pattern so that, after a brief reduction of the plant's capacity, it was possible to restore production at standard capacity levels and resume normal operations of the plant.</li> </ul> <p>The plant in Bydgoszcz used the period of reduced production in the foam segment to carry out the necessary maintenance and upkeep work that was originally scheduled for other months of 2020. By rescheduling maintenance and upkeep work, the plant was able to operate uninterrupted following the unfreezing of the furniture industry.</p> <ul style="list-style-type: none"> <li>• <b>Silicates Segment</b> – similarly to the segments described above, the silicates segment was adversely affected by the COVID-19 pandemic, mainly due to the collapse and significant reduction of operations of customers from the automotive sector. The situation in the silicates segment was very similar to that in the foam segment - due to a significant decrease in demand for precipitated silica, one of the furnaces at the Łłowa plant was extinguished for a period of 4 months (April–July 2020). Since September, however, a U-shaped rebound has been recorded, with demand for silicates recovering with the resumption of operations by major European car manufacturers (VW Group in Germany, PSA Group in France). Following the normalisation of situation in the automotive sector, the production capacities of both plants in Łłowa and in Żary were restored. Moreover, due to the fact that some silicate producers decided to extinguish their furnaces during the period of restrictions in the first half of the year, the CIECH Group managed to win new customers.</li> </ul> <p>The silicates segment survived the period of the first wave of the pandemic in the first half of 2020, reducing production capacity while meeting its current commitments. The Group has leveraged its competitors' decisions to extinguish furnaces and shut down silicate production, thereby winning new contacts and customers. Despite this, 2020 saw a several percent decline in the volume of production and sales as compared to 2019. The rebound observed and the return to available capacity in the second half of the year did not allow the losses resulting from the reduction in demand and capacity in the first half to be fully recovered.</p>			



<b>Risk 1.1</b> Risk of decline in sales volumes and revenues due to the pandemic			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Soda Segment</li> <li>• Foams Segment</li> <li>• Silicates Segment</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	High	High	
<b>Risk description and corrective measures taken:</b>			
<ul style="list-style-type: none"> <li>• <b>Packaging Segment</b> - this segment was adversely affected by the pandemic. Compared to 2019, lower quantitative sales of glass packaging were recorded. The drop in sales was caused by the freezing of social life, including the closure of cemeteries. Moreover, an increase in competition was observed in the glass packaging market. As a result of the observed unfavorable phenomena, the Company focused its sales activities on high-margin products.</li> </ul> <p>The following segments did not experience any negative effects of the COVID-19 pandemic or experienced them to a limited extent:</p> <ul style="list-style-type: none"> <li>• <b>Agro Segment</b> – the crop protection market has proved resilient to the effects of the pandemic and has not been affected by the economic downturn. Difficulties in the area of logistics in terms of the availability of containers and the timeliness of the delivery of raw materials from Chinese producers were reported only in the first half of the year. As the segment was originally prepared for an intensive fertilizer production period in the first quarter of 2020, at the time of the outbreak of the pandemic it already had safe, high stock levels of the necessary raw materials, which prevented the interruption of fertilizer production in the first and second quarters of 2020 and allowed the segment to survive the first half of 2020 virtually without the negative effects of the economic slowdown and the freezing of economies. In subsequent quarters, logistics problems disappeared along with the unfreezing of the Chinese economy, so that there were no difficulties or problems with on-time deliveries.</li> </ul>			

<b>Risk 1.2</b> Risk of supply chain disruption linked to the availability of raw materials or other reasons due to the pandemic.			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Soda Segment</li> <li>• Agro Segment</li> <li>• Foams Segment</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Low	High	Medium	
<b>Risk description and corrective measures taken:</b>			
<p>At the outbreak of the COVID-19 pandemic and the resulting implementation of new restrictions by governments of various countries to freeze economies, the priority for the CIECH Group was to prevent the disruption of supply chains. The priority was to ensure that, despite the prevailing restrictions, the Group's production facilities maintained continuity of operations and were able to supply products to their customers on an ongoing basis. This risk affected virtually all of the Group's business segments, but to varying degrees. The Group took the necessary measures to ensure that there were no disruptions to supply chains:</p> <ul style="list-style-type: none"> <li>• <b>Soda Segment</b> – raw materials for the largest plants in Inowrocław and Janikowo are sourced from local, domestic suppliers. For this reason, ensuring continuity of transport services was a key issue. Thanks to the swift implementation of security procedures and their strict application, such as limiting contacts between employees and third parties involved in logistics and delivery processes to the necessary minimum, the segment has not recorded incidents related to the need to suspend or interrupt supply chains. Raw materials were delivered to the production facilities and products were delivered to customers on an ongoing basis without significant delays or disruptions.</li> <li>• <b>Agro Segment</b> – upon the outbreak of the COVID-19 pandemic, due to the supply of raw materials from Asian (mainly Chinese) producers, there were problems with logistics due to the closure of ports and the lack of available containers (which were trapped in closed ports in Asia). With the end of the second quarter of 2020, the situation normalised and shipments of goods from Asian ports were resumed. The agro segment avoided problems in the area of logistics because it managed to build up secure stocks of raw materials as early as the beginning of 2020, i.e. before the outbreak of the pandemic and before the closure of ports in Asia. Thus, the peak of the crop protection production campaign, which occurred in the first and early second quarter of 2020, ran smoothly.</li> </ul>			



<b>Risk 1.2</b> Risk of supply chain disruption linked to the availability of raw materials or other reasons due to the pandemic.			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Soda Segment</li> <li>• Agro Segment</li> <li>• Foams Segment</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Low	High	Medium	
<b>Risk description and corrective measures taken:</b>			
<ul style="list-style-type: none"> <li>• <b>Foams Segment</b> – the situation in the foam segment, in terms of the risk of disruption to the supply chain due to lack of availability of raw materials in the context of the COVID-19 pandemic, was complicated. On the one hand (as described in risk 1.1 above), this segment reduced production according to the decision of the Management Board at the turn of the first and second quarters, due to a slump in demand (in March, production was reduced by 70%). On the other hand, there were significant limitations in the availability and supply of raw materials (restriction and rationing of the supply of the main raw materials, i.e. polyols and TDI, by their producers). Due to limitations in the availability of raw materials, the foam segment was not able to build up a secure stock of raw materials that would ensure uninterrupted foam production at the level of the available capacity of the Bydgoszcz plant. Eventually, the shortage of raw materials turned out to be not so severe, as it occurred during a period of reduced production. The Foam Production Plant in Bydgoszcz, as part of the corrective measures taken, first attempted to find alternative suppliers of raw materials, unfortunately without the anticipated success (no alternative suppliers for TDI, unprofitable purchase of raw materials from Asia). As a result of the aforementioned slump in demand for foams, the Bydgoszcz plant survived the period of shortage of raw materials by making use of its stocks, while reducing its production volume. The resumption of supplies of raw materials and the simultaneous unfreezing of the operations of furniture outlets in Poland and Europe, as well as the unfreezing of the furniture sector, at the beginning of the second half of 2020, entailed an increase in prices of these raw materials imposed by their manufacturers. The foam segment, where the price of raw materials determines the final price of the finished product, was forced to increase the prices of its products. As a result of the developments in this sector, the foam segment, despite the decline in demand and lower production than in 2019, was able to improve its financial performance as compared to 2019, recording an increase in revenue.</li> </ul> <p>The silicates and packaging segment has not experienced incidents due to supply chain disruptions and resulting problems with the availability of raw materials.</p>			

<b>Risk 1.3</b> Risk associated with changes in working practices due to the pandemic			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Low	High	Medium	
<b>Risk description and corrective measures taken:</b>			
<p>The outbreak of the COVID-19 pandemic and the restrictions and freezes on economies introduced by the governments of many countries, aimed at limiting the spread of the disease, forced employers, including the CIECH Group, to change the manner and methods in which employees performed their work. These changes were focused on areas where it was possible to introduce solutions that would limit direct contact between employees. This applied to the greatest extent to office work.</p> <p>In order to protect the health and lives of employees, as of March 2020 the Group enabled employees to work remotely (where possible). With the introduction of the possibility of remote working, the Group has adapted its internal procedures governing the new solutions. In the case of a broad group of employees where it was not possible to work in a remote manner (production workers), the Group, in individual plants, developed and implemented the necessary changes in work regulations and schedules that reduced direct contact between shifts to the strict minimum and provided the necessary required protective measures to minimise the risk of infection and outbreaks. Contacts and access of third parties to production plants were restricted, and rapid response procedures were put in place in case workers were found to be ill or had contact with an infected person. As a result of the measures implemented, there were only single cases of infection</p>			



<b>Risk 1.3</b> Risk associated with changes in working practices due to the pandemic			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Low	High	Medium	
<b>Risk description and corrective measures taken:</b> among employees during 2020. The group has not reported any outbreaks of infections in plants that would result in the closure of the respective area or plant.			

<b>Risk 1.4</b> Risk of incurring unplanned costs in combating the effects of the pandemic and ensuring the health and safety of employees and third parties			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Low	High	Medium	
<b>Risk description and corrective measures taken:</b> <p>The outbreak of the COVID-19 pandemic affected the Group's day-to-day operations by necessitating new, unplanned expenses and costs to counteract the effects of the pandemic. All these costs were aimed at ensuring the health of employees, co-workers, business partners and other people whose presence in the production facilities was necessary to ensure the continuity of operations of the plants. The costs incurred were related to the purchase of the necessary protective measures to prevent the spread of the virus and ensure that the required sanitary regime is observed, the costs of cleaning and disinfection, tests for the presence of the virus. All unplanned costs were related to and associated with procedures put in place to minimise the risk of an infection outbreak at the facilities.</p> <p>The necessity to incur unplanned costs was related to the introduction of safety procedures such as measuring the temperature of workers, preparing and maintaining dedicated rooms in case of an outbreak of infection in the plants, preparing safe, dedicated rooms for drivers entering the plants.</p> <p>The category of previously unplanned costs that emerged due to the pandemic also includes the cost of purchasing additional laptops and other costs associated with enabling employees to work remotely.</p>			

<b>Risk 1.5</b> Risk of loss of continuity of operations at production plants due to the emergence of a source of infection or infections among employees			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Low	High	Medium	
<b>Risk description and corrective measures taken:</b> <p>The outbreak of the COVID-19 pandemic in early 2020 was a classic example of the materialisation of business continuity risk. With the pandemic and the emergence of an outbreak of infection in any of the plants, the likelihood of materialisation of the business continuity risk has increased. The occurrence of an outbreak of infection and the spread of the infection in an uncontrolled manner implies the need to limit the operations of the plant and the highly probable possibility of shutting down the production plant (either as a result of the Group's own internal decision or as a result of a decision by the epidemic authorities). A situation where production is stopped in an uncontrolled manner would involve significant financial losses for the Group, due to the shutdown and restarting of process lines.</p> <p>A key measure to minimise the risk that any of the plants would lose continuity of operations was the decision to set up a Crisis Team following the outbreak of the COVID-19 pandemic. The Crisis Team is an interdisciplinary body that has updated, developed and implemented the necessary procedures to deal with the crisis situation. Various scenarios were developed for the evolution of the pandemic and its impact on the segment and individual production plants. For each</p>			



<b>Risk 1.5</b> Risk of loss of continuity of operations at production plants due to the emergence of a source of infection or infections among employees			<b>Segments affected:</b> • All segments
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Low	High	Medium	
<b>Risk description and corrective measures taken:</b>			
<p>scenario, detailed action plans were developed and implemented during 2020 as the pandemic unfolded through the country. In addition, since the appointment of the Crisis Team, the situation has been analysed on an ongoing basis, all risks that could affect the loss of business continuity have been monitored, all incidents related to the occurrence of infections among employees and third parties have been recorded and analysed. In addition, local Crisis Teams were established within each segment of the Group. They implemented the necessary operating procedures and managed the risk on an ongoing basis based on the decisions and recommendations of the Crisis Team at the CIECH SA Group level.</p> <p>Nevertheless, the scale of materialisation of this risk in the Group, despite the centralised measures taken, varies from one segment to another and has been analysed in detail by the Group:</p> <ul style="list-style-type: none"> <li>• <b>Soda Segment</b> – a significant reduction in the operation of a particular plant is possible. Due to the fact that at least several production lines are in operation, the risk of any one plant being stopped is low. Since the outbreak of the pandemic, there has been no need to reduce or halt production processes at any of the soda segment plants.</li> <li>• <b>Agro Segment</b> – business continuity risk in this segment has been estimated to be low due to the high dispersion of production lines at the Nowa Sarzyna plant and the direct contact between employees being kept to a minimum. The risk of a simultaneous shutdown of all production lines due to an outbreak of infections is low. The activities of the Crisis Team also include monitoring and managing the crisis in the agro segment – similarly to the situation in the soda segment, crisis scenarios have been prepared, detailed action plans in case of materialisation of an epidemic scenario have been developed, and incidents and risks related to the epidemic have been monitored on an ongoing basis.</li> <li>• <b>Foams Segment</b> – business continuity risk due to cases of infections was also assessed as low, as the number of employees is kept to a minimum and there is limited direct contact between employees. If a source of infection were to occur, this could, at most, result in the current shift being recalled from the plant and production continuing by the next shift after the necessary safety procedures have been performed. The remedial actions implemented have also been initiated by the Group's Crisis Team, are focused on action plans for the outbreak scenarios developed and also include ongoing monitoring of risks and responding to incidents as they arise.</li> <li>• <b>Silicates Segment and Packaging Segment</b> – due to the nature of the production and the consequences of stopping the technological processes in an uncontrolled manner, which would occur if an outbreak of infections were detected, there would be a standstill lasting several months and the need to incur high costs to restore production. A complete overhaul of the extinguished furnace would be necessary in this situation. Due to limited direct contact between employees and adherence to the safety procedures implemented, the business continuity risk has been assessed as low – the potential occurrence of a source of infection may, as in the case of the foam segment, result in the current shift being recalled from the plant and production processes being continued by subsequent shifts, following the completion of the necessary safety procedures. The Crisis Staff, by means of the measures and action plans it develops as part of the developed scenarios for the evolution of the epidemic, manages the risks in an effective manner. Any incidents and risks that arise and could lead to a loss of continuity of plant operations are analysed and recorded. All decisions with regard to how to deal with the pandemic situation were made on an ongoing basis based on the developments in the situation and the available safety measures and procedures.</li> </ul>			



<b>Risk 1.6</b> Risk of failure to implement the investment plan due to the pandemic			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• Soda Segment</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	High	Medium	
<b>Risk description and corrective measures taken:</b>			
<p>The COVID-19 pandemic had a direct impact on the implementation of the CIECH Group's investment plan, in particular on the possibility to continue the implementation of the Group's largest project, i.e., the construction of a new saltworks in Stassfurt, Germany.</p> <p>The pandemic and the risk of a decline in the Group's volumes and revenues identified by the Group as the most significant risk required the Group to make a decision to secure, in financial terms, the ability to continue the key projects that had been started or scheduled. Secondly, the effect of the pandemic having an impact on the investment projects carried out was the restrictions and freezes imposed on the economy, which directly translated into the ability and timeliness of deliveries and the availability of workers on the construction site in Germany. Due to the pandemic, the first half of 2020 saw delays in the delivery of parts and equipment ordered for the plant under construction, as well as problems with the availability of third-party workers on the construction site. This caused the project work to be delayed relative to the original project schedule. It was necessary to introduce changes and update the deadlines for the various stages of the work, and to postpone the commissioning of the new saltworks from the first to the second quarter of 2021.</p> <p>Upon the outbreak of the pandemic, the Group decided to proceed with the project. Due to the ongoing pandemic situation and the second wave of infections (starting in October 2020), there is uncertainty with regard to the continuation of the work and its timely completion in the second quarter of 2021.</p> <p>It should be noted that the Group is making every effort to ensure that the planned and necessary projects are carried out in accordance with the original plans, developed prior to the pandemic. Starting from the end of the first quarter of 2020, when the first information about the freezing of the economy in the country appeared, the Group reviewed the projects it had planned and decided to proceed with key projects. With regard to projects that were not defined as critical, their scope and implementation schedule were revised, so as to postpone their implementation to a later period.</p>			

### 3.4.2 PART 2 – MOST SIGNIFICANT RISKS ASSOCIATED WITH THE DAY-TO-DAY OPERATIONS OF THE CIECH GROUP

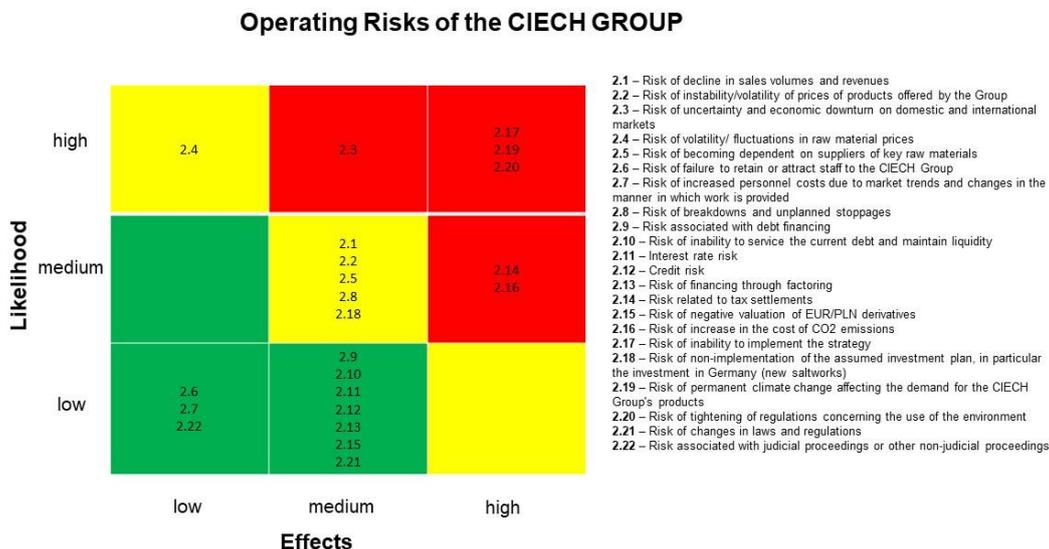
In terms of implementation of the CIECH Group's strategic objectives, the key risks that were identified and whose description has been presented in this part of the report affected the following areas:

- sales,
- purchases,
- production,
- employees,
- finance,
- strategy,
- environmental protection,
- legal and regulatory.



The following Risk Map presents the most significant risks associated with the day-to-day operations of the CIECH Group in 2020:

FIGURE 31: OPERATING RISKS OF THE CIECH GROUP



**Detailed description of the identified, most significant risks related to the operations of the CIECH Group:**

<b>Risk 2.1</b>			<b>Segments affected:</b>
Risk of decline in sales volumes and revenues			
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	Medium	Medium	
<b>Risk description and corrective measures taken:</b>			
<p>The risk of a decline in sales volumes and revenues of individual segments of the CIECH Group in 2020 was related to the outbreak of the COVID-19 pandemic and the economic slump in Poland and abroad. Therefore, in describing this risk, it is impossible not to analyse the situation of individual segments and related industries without referring to the pandemic and the measures to restore normality in individual countries. Thus, referring to the individual segments of the CIECH Group, the situation in connection with overcoming the effects of the pandemic and restoring economic growth is as follows:</p> <ul style="list-style-type: none"> <li> <b>Soda Segment</b> – as regards soda products, forecasts for 2021 are relatively optimistic, as the vast majority of industries in which the main customers of the soda segment operate have been able to restore production capacity and fulfil their contractual obligations since around mid-2020 (this applies mainly to the construction, chemical, food, pharmaceutical and automotive industries). The hotel and restaurant industry (HoReCa) which continues to operate under a strict sanitary regime in many countries (e.g. Poland) and/or is still frozen (e.g. Germany) is experiencing the greatest problems. Despite high uncertainty among the soda segment's customers, contracting for 2021 ended with a slight price reduction compared to 2020 and without any reduction in the prices of products compared to 2019. The Group operates in the spot market on an ongoing basis, looking for new customers and markets, while struggling against strong competition. The Group has big plans related to the commissioning of the new saltworks in Germany, which will significantly increase the production capacity for salt products. Due to the fact that the saltworks are located in Germany, the Group hopes to attract large customers from the local German market and to enter new European markets.             </li> </ul>			



<b>Risk 2.1</b> Risk of decline in sales volumes and revenues			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Soda Segment</li> <li>• Foams Segment</li> <li>• Agro Segment</li> <li>• Silicates Segment</li> <li>• Packaging Segment</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	Medium	Medium	
<b>Risk description and corrective measures taken:</b>			
<ul style="list-style-type: none"> <li>• <b>Foams Segment</b> – the biggest challenge for the foam segment in order to avoid decreases in sales volume and revenues is to ensure uninterrupted supply of raw materials. The monopolistic position of manufacturers of key raw materials, i.e. TDI and polyols, and the lack of prospects for a change in the balance of power in the short term, indicates a possible unfolding of a situation where continuity and stability of raw material supplies will be possible, while accepting an increase in the cost of purchasing raw materials and the need to pass the increasing costs on to customers (the price of finished products of the foam segment depends, to a large extent, on the prices of raw materials). In 2020, the reported increase in prices for key raw materials (i.e. TDI and polyols) stood at around 90%. Despite this, there was no alternative and the new rates had to be accepted by the Bydgoszcz plant and the foam segment customers. In the coming years, the options for counteracting raw material price increases and becoming independent from existing suppliers will remain limited.</li> <li>• <b>Silicates Segment</b> – the slump in the silicate market was short-lived and the situation returned to normal in the second half of the year. If the automotive industry does not experience a significant slump in demand in the coming year (there were no signs of a possible slump at the end of 2020), the Group expects an increase in sales and its market share. The Group's decision to build a new furnace at its Żary plant is evidence of the optimistic signals coming from customers of the silicates segment. This will be the largest project within this segment of the CIECH Group. The decision to launch the project was based on confirmed orders and demand from existing and new customers.</li> <li>• <b>Agro Segment</b> – in the course of day-to-day operations, the segment has experienced and must face in the coming periods an increase in the cost of raw materials and costs of transport from Asia (increase in rates). In addition, there is high competition on the artificial fertiliser market which, in the perspective of future periods, may force the Group and the agro segment to take measures to partially pass the increasing costs of raw materials and transport services to customers and the necessity to reduce margins. It should also be remembered that the fertiliser market, like the entire agricultural sector, is highly unpredictable and depends on prevailing weather conditions.</li> <li>• <b>Packaging Segment</b> – after the recorded decrease in the quantitative sale of glass packaging in 2020, at the moment of the ongoing return to normality after periods of waves of infections and lifting of restrictions, there are worrying signs that customers are highly uncertain about the future. Compared to 2019, when the packaging segment, at the end of the year, knew the needs and demand of large chain customers for packaging for the following year, 2020 ended without confirmed needs and orders from large chain customers. Customers' concerns may be due to the uncertainty about the further development of the pandemic in Poland and the unpredictability of government decisions, best exemplified by the decision to close cemeteries 2 days before the All Saints' Day on 1 November. As a result of this decision, many customers were left with unsold stocks of candles and lamps.</li> </ul>			

<b>Risk 2.2</b> Risk of instability/volatility of prices of products offered by the Group			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Soda Segment</li> <li>• Agro Segment</li> <li>• Foams Segment</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	Medium	Medium	
<b>Risk description and corrective measures taken:</b>			
<p>The following segments within the Group are most exposed to the risk of fluctuations in product prices:</p> <ul style="list-style-type: none"> <li>• <b>Soda Segment</b> – the demand-supply imbalance in 2020 caused by the COVID-19 pandemic resulted in a year-on-year decrease in sales of the segment's products (sales lower by approximately 10%). As a result of oversupply and limited demand, the Group faced strong competition. The Group's analyses indicated that, despite the existing problems of demand, the level of prices of the soda segment products offered by the Group remains within the expected market</li> </ul>			



<b>Risk 2.2</b> Risk of instability/volatility of prices of products offered by the Group			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Soda Segment</li> <li>• Agro Segment</li> <li>• Foams Segment</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	Medium	Medium	
<b>Risk description and corrective measures taken:</b>			
<p>average (despite a planned slight decrease in prices in 2021 compared to 2020). The Group has not reduced prices in 2020 in an effort to meet its financial plans. In its forecasts for the following year, the Group does not assume a reduction in the prices already obtained through contracting, recognising the possibility of implementing its sales plans based on the prices established and agreed with its partners.</p> <ul style="list-style-type: none"> <li>• <b>Agro Segment</b> – due to the increasing cost of raw materials imported from Asia and the observed increase in transport fees, the Group was forced to increase the prices of its products. Despite this, the segment increased its market share in 2020, reporting revenue growth.</li> <li>• <b>Foams Segment</b> – the price of the finished product depends heavily on the price of raw materials. Due to a 90% increase in raw material prices in 2020, the Group was forced to increase the prices of its products. This is the most exposed segment of the Group to fluctuations in raw material prices. However, the events of 2020 demonstrated that price increases for finished goods resulting from significant fluctuations in raw material prices were accepted by customers in the absence of alternatives.</li> </ul> <p>The silicates and packaging segments saw no price fluctuations for their products in 2020. There are no signs of this risk occurring next year either.</p>			

<b>Risk 2.3</b> Risk of uncertainty and economic downturn on domestic and international markets			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	High	High	
<b>Risk description and corrective measures taken:</b>			
<p>The CIECH Group business is based on the sales of chemical products used as raw materials and semi-finished goods in a wide range of industries, including the construction, glass, household chemistry, furniture, automotive, food, pharmaceutical, chemical and consumer goods industries. The demand for the CIECH Group's products is affected by global economic conditions and other factors, including energy costs and costs of labour, exchange rates fluctuations, interest rate fluctuations, and other factors beyond control of the Group. The events of 2020, in particular the COVID-19 pandemic and its economic consequences, have caused the adverse developments predicted by analysts, with regard to the coming economic downturn, to materialise already in 2020. It will take the next few years to overcome the effects of the pandemic and stabilise the world economy. In view of macroeconomic changes, the CIECH Group was forced to revise its plans and objectives for 2020.</p> <p>The COVID-19 pandemic and the resulting economic downturn accelerated changes that seemed inevitable at the beginning of 2020, but were projected over a longer horizon. This mainly concerns trends and initiatives promoting ecological solutions, protecting the environment and the rational use of natural resources. From the CIECH Group's perspective, these measures require that decisions to launch the scheduled initiatives to reduce greenhouse gas emissions, to introduce solutions for abandoning coal as the main energy raw material in production processes be accelerated. These measures remain in line with the CIECH Group's long-term plans.</p> <p>The CIECH Group strives to minimise the risk of uncertainty and economic downturn by monitoring current trends and market developments in Poland, Europe and around the world. It keeps track of important developments and circumstances that may affect the Group's operations and takes action on an ongoing basis to reduce the potential negative effects of economic changes affecting its own operations and operations of its key customers. This is why the Group has reviewed its strategic options and ongoing projects in 2020.</p>			



<b>Risk 2.4</b> Risk of volatility/ fluctuations in raw material prices			<b>Segments affected:</b> • Entire Group
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Low	High	Medium	
<b>Risk description and corrective measures taken:</b>			
<p>One of the key factors affecting the viability of production of the CIECH Group companies are the fluctuations of raw material and fuel costs, inability to retain or replace key suppliers, unexpected supply shortages or supply chain disruptions. Obtaining and maintaining attractive prices of production and energy raw materials directly affects the profit generated by the Group and is key to achieving the goals set for the Group.</p> <p>Over the last few years, we have witnessed a high volatility of raw material prices. The availability and prices of raw materials are influenced by factors that mostly are beyond the CIECH Group's control, such as market conditions, global economic climate, production constraints by the suppliers, fluctuations of oil or other commodity prices, infrastructure failures, political conditions, weather conditions, legal regulations and other. The year 2020 and the COVID-19 pandemic have further exacerbated the risk of volatility in raw material prices.</p> <p>Fluctuations in prices of key energy raw materials consumed by the CIECH Group in its day-to-day operations, in particular hard coal and coke, are driven by global trends and efforts to replace them with renewable energy sources. This means that in the long term traditional energy resources will inevitably be abandoned and replaced by carbon-free energy sources.</p> <p>Active substances, sourced mainly from Asian suppliers, forming the basis for operations of the agro segment, may be subject to future restrictions due to their potential adverse environmental impact in the process of their manufacture. Suppliers of these substances, mainly from Asia, are paying increasing attention to environmental considerations. For the CIECH Group, this will translate into reduced availability of substances and a further increase in their prices. These phenomena are not likely to happen in the next 2-3 years, but rather in the long term.</p> <p>In 2020, hard coal prices on the global market remained relatively low. Domestic coal prices available through tenders followed a downward trend. Thermal coal is used to produce steam and electricity at CIECH Soda Polska S.A.'s plants in Janikowo and Inowrocław. Prices in the coke market fell significantly in the second half of 2020 due to the sudden drop in demand caused by the pandemic, but a strong rebound of these prices was observed at the end of 2020.</p> <p>The CIECH Group minimises the risks described above by monitoring the situation on the market, negotiating conditions for subsequent periods with its current suppliers and signing long-term contracts, as well as by looking for alternative suppliers. Proactive efforts are made to minimise the adverse effects of increases in raw material prices, by, among other measures, using alternative specifications of raw materials (using anthracite as a substitute for coal), searching for new sources of supply or by replacing more expensive raw materials with raw materials that are relatively less expensive.</p> <p>All measures taken aim at limiting the impact of the increase in prices of strategic raw materials on the performance of this segment of the CIECH Group.</p>			

<b>Risk 2.5</b> Risk of becoming dependent on suppliers of key raw materials			<b>Segments affected:</b> • Soda Segment • Foams Segment
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	Medium	Medium	
<b>Risk description:</b>			
<p>Ensuring the availability of the necessary raw materials is essential for CIECH Group's production plants to ensure the continuity of production processes. Interruptions in supplies, delays or unavailability of these raw materials can lead to interruptions in production processes. For this reason, the CIECH Group is particularly committed to ensuring a continuous and timely supply of raw materials that additionally must meet high quality requirements. The following business segments of the Group are exposed to the risk of becoming dependent on suppliers of key raw materials:</p> <ul style="list-style-type: none"> <li>• <b>Soda Segment</b> – basic raw materials for the Group's key segment, namely limestone and brine (necessary for the production of soda using the Solvay method), are sourced locally from reliable suppliers with whom the Group has</li> </ul>			



<b>Risk 2.5</b> Risk of becoming dependent on suppliers of key raw materials			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Soda Segment</li> <li>• Foams Segment</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	Medium	Medium	
<b>Risk description:</b>			
<p>cooperated for many years on the basis of long-term contracts. Some production plants of the CIECH Group, in particular those manufacturing soda ash, are located in areas with a limited number of suppliers in the profitable radius. For this reason, having long-term contracts with these suppliers is essential. Due to the fact that the current long-term contract for the supply of brine to the Inowrocław and Janikowo plants will expire in the next 5 years, in 2020 the Group initiated measures to extend/renew the existing contract. Failure to reach an agreement with the current brine supplier to the plants will mean a shortage of one of the primary raw materials and could lead to the loss of soda and salt production capacity at the plants. The risk is not present in the case of the German plant, as it has its own brine and stone resources.</p> <p>Energy commodities necessary for production processes are also sourced under long-term contracts. Key terms of the supply contracts, such as price and quality, are generally flexible and can be modified under certain circumstances to better reflect current business conditions. However, there is no guarantee that this flexibility will be sufficient to adapt the contracts to current business conditions in a way acceptable for the Group. If this occurs, the Group's operations and financial position may be adversely affected.</p> <p>The greatest risk for the soda segment is therefore associated with the supply of brine, due to the fact that there is only one supplier who uses its own infrastructure and the imminent expiry of the brine supply contract. For this reason, in 2020 the CIECH Group took steps to extend/renew the brine supply contracts expiring in 2025, at the same time aiming to improve the conditions for sourcing raw material and improve supply parameters by agreeing on and carrying out the necessary upgrade work on the existing brine pipelines. In addition, the CIECH Group took steps to diversify supplies and establish cooperation with an alternative supplier.</p> <ul style="list-style-type: none"> <li>• <b>Foams Segment</b> – due to a limited number of producers of key raw materials for foam production (i.e. TDI and polyols) and unprofitability of importing raw materials from Asian markets, the foam segment relies on cooperation with European producers. In 2020, CIECH Pianki experienced periodic suspension of supplies and rationing of available raw materials. This was due to the decisions of the producers of these raw materials. In addition, there were increases in raw material prices in 2020 (of up to 90% compared to 2019). These events forced the plant to raise prices of foams for its customers.</li> </ul> <p>As part of the corrective measures taken, the Bydgoszcz plant attempted to establish cooperation with alternative producers and suppliers of the necessary raw materials from Asian markets. Unfortunately, opportunities to become independent of European producers proved to be severely limited due to high transport costs. As a result of this turn of events, the segment has started analyses with a view to expanding its storage capacity. At the end of 2020, the segment continued to work with existing producers, while accepting irregularity and rationing of supplies, along with higher prices. However, this meant that the price of the products manufactured had to be increased.</p>			

<b>Risk 2.6</b> Risk of failure to retain or attract staff to the CIECH Group			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Low	Low	Low	
<b>Risk description and corrective measures taken:</b>			
<p>Over the past few years, the labour market has been an employee's market. The consequence of this is a high likelihood of losing key employees. This applies equally to management, technical and administrative areas. In particular, the problem is intensifying with regard to employees who are qualified specialists in their fields and have unique skills in a given industry. The CIECH Group also encounters similar problems that affect its operations.</p>			



<b>Risk 2.6</b> Risk of failure to retain or attract staff to the CIECH Group			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Low	Low	Low	
<b>Risk description and corrective measures taken:</b>			
<p>Despite the pandemic and the economic slowdown in 2020, the unfavourable labour market trends for the CIECH Group as an employer, related to the loss of and difficulty in attracting qualified staff, remain present.</p> <p>The unique nature of the CIECH Group's operations and its development plans require hiring personnel with high qualifications in various domains. Ability to maintain a competitive position and implementation of business strategy depends significantly on the quality and the experience of staff. The loss of competences important for the CIECH Group or impossibility to acquire them has an effect on operating activities and may translate into the financial condition of the Group, making it impossible to achieve the business and financial objectives set for the CIECH Group.</p> <p>Due to the relatively high costs of acquiring personnel with desired competences and skills, the search for employees having appropriate experience constitutes an element of an ongoing policy of the CIECH Group. In order to minimize the effects of the risk of loss or inability to attract qualified personnel, the Group continuously improves its managerial, technical and administrative staff. In addition, the Group has implemented mechanisms to improve working and pay conditions, prepares and implements development and incentive programmes, and provides employees with a range of training courses to improve their expertise in line with the Group's business needs and the expectations of employees at various levels in the organisation.</p> <p>An essential element of personnel policy of the company is to build the image of the CIECH Group as an attractive employer for current and future employees. Therefore, the Group cooperates with selected universities and conducts, every year, apprenticeships and traineeships projects. In 2020, the CIECH Group continued to implement initiatives addressed to employees, building the CIECH Group as a friendly and desirable place to work, in order to retain employees and attract new workforce.</p>			

<b>Risk 2.7</b> Risk of increased personnel costs due to market trends and changes in the manner in which work is provided			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Low	Low	Low	
<b>Risk description and corrective measures taken:</b>			
<p>The year 2020 and the COVID-19 pandemic, as a result of the necessity to implement the necessary safety measures and sanitary regimes, have brought about changes in the way work is provided, such as remote working. The development and availability of new technological solutions enabled employees to work in this manner while increasing the flexibility and accessibility of the employee and his/her tasks. In the wake of the pandemic and the new ways of providing work, new labour regulations were introduced, sanctioning new ways for employees to perform their work. Employers were required to comply with the new regulations.</p> <p>These changes, in order to meet employees' expectations, implied that employers had to equip employees with the necessary working tools, such as laptops, mobile internet services, etc., to enable them to work remotely.</p> <p>The Group, as a socially responsible entity, also thought of the employees who, due to the nature of their work, were unable to work in a remote manner, but who ensure the continuity of operations at the production facilities. With regard to this broad group of employees, the Group, recognising their role and importance, decided to pay additional bonuses during periods of highest epidemic risk.</p> <p>Protecting the health and lives of employees and third parties is a priority for the Group. The Group has accepted the need to incur previously unplanned costs that increase safety due to the threat to health and life resulting from the pandemic. The Group enabled and introduced remote working as early as March 2020. The necessary security procedures were also implemented. Employees have been provided with the necessary tools to enable them to work remotely.</p>			



<b>Risk 2.8</b> Risk of breakdowns and unplanned stoppages			<b>Segments affected:</b> • All segments
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	Medium	Medium	
<b>Risk description and corrective measures taken:</b>			
<p>Due to the specific nature of the technological processes of the CIECH Group's production plants, maintaining the continuity of production processes is a key factor. Breakdowns are a significant threat and problem in production facilities, leading to unplanned downtime. In addition, unforeseeable fortuitous events (hidden material or technical defects) can also occur.</p> <p>In order to limit the occurrence of breakdowns and downtimes, the CIECH Group has launched and implemented a number of initiatives such as the development of detailed overhaul plans defining critical elements of the production infrastructure, plans for ongoing maintenance and monitoring of the infrastructure, implementation of diagnostic and predictive methods, introduction of additional metering. All these measures were aimed at minimising the risk of breakdowns and unplanned downtime.</p> <p>Another measure to mitigate this risk was the Group's decision to set up dedicated entities within the Group and to develop the competencies of the employees responsible for carrying out repair, maintenance and upkeep work. The new entities have increased the competence and available human resources with the necessary expertise and experience, as a result of which the Group is no longer dependent on services previously purchased from third parties.</p> <p>In addition, the Group has continuously undertaken a number of initiatives to build employee awareness in respect of physical safety as well as occupational health and safety, measures aimed at reducing the overall number of cases of unplanned downtime and breakdowns.</p> <p>Another measure implemented was the launch of efforts to build and implement a comprehensive Business Continuity Management system, implement an Asset Management System covering, in particular, production infrastructure, and an Occupational Health and Safety Management System. In 2020, the Occupational Health and Safety Management System was implemented. The implementation of the Business Continuity Plans involved defining the current risks and scenarios for loss of business continuity and commencing detailed work to implement the Business Continuity Plans.</p>			

<b>Risk 2.9</b> Risk associated with debt financing			<b>Segments affected:</b> • Entire Group • All segments
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	Low	Low	
<b>Risk description and corrective measures taken:</b>			
<p>The Group finances its activities, to a large extent, with interest-bearing debt, i.e. with loans, finance leases. As at 31 December 2020, the debt on this account amounted to approximately PLN 2,036 million.</p> <p>The CIECH Group's ability to service the debt in a timely manner depends, among other factors, on future operating activities and the ability to generate sufficiently high cash flows. In the absence of sufficient funds to service the debt, the Group may be forced to limit or postpone business activities and capital expenditures, sell assets, contract additional debt or equity financing and restructure or refinance all or part of the debt.</p> <p>Debt financing conditions contain obliging clauses and covenants. Where these clauses or covenants are violated and the effects of such violations are not remedied, the Group may be required to immediately repay the debt or a portion thereof. Restrictions contained in financing agreements may also limit the Group's ability to finance future operations and own cash requirements, to implement business undertakings.</p> <p>As at 31 December 2020, one of the two indicators under the loan agreement was not met, therefore the total value of loans made available under the above-mentioned agreements was reclassified into short-term loan liabilities. Details of this violation are presented in note 7.1 of the Consolidated Financial Statement of the CIECH Group for 2020.</p> <p>As part of the financial planning processes, the CIECH Group analyses and monitors, on a regular basis, the cash flows generated and its ability to maintain liquidity and service its debt. The Group aims at unifying the debt financing conditions,</p>			



<b>Risk 2.9</b> Risk associated with debt financing			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	Low	Low	
<b>Risk description and corrective measures taken:</b>			
<p>including the covenants applicable, to limit the risk of infringing these covenants. The observance of provisions of financing agreements and compliance with financial ratios set out therein is monitored on a regular basis. Debt financing is obtained in a controlled and coordinated manner at the Group level. The Group has implemented uniform rules for obtaining external financing in order to take into account the consolidated need for financing of the entire CIECH Group, take advantage of the economies of the scale, reduce financing costs and apply consistent limiting conditions.</p> <p>In view of the unforeseen adverse events of 2020 (COVID-19 pandemic and economic slowdown), the Group, in an effort to increase the security associated with securing debt financing for the next few years, decided to commence negotiations with financial institutions with a view to obtaining new financing in the total amount of PLN 2.1 billion. The purpose of the new financing is to raise the funds necessary to refinance the Group's existing financial debt.</p>			

<b>Risk 2.10</b> Risk of inability to service the current debt and maintain liquidity			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	Low	Low	
<b>Risk description and corrective measures taken:</b>			
<p>The ability of the CIECH Group to make scheduled payments to repay the Group's debt as well as to finance working capital and capital expenditures depends on the future operating activities and the ability to generate sufficient amounts of cash. If the CIECH Group's future cash flows from operating activities and other capital resources prove insufficient to repay liabilities timely or to satisfy liquidity related requirements, the Group may be forced to:</p> <ul style="list-style-type: none"> <li>• limit or postpone business operations and capital expenditures,</li> <li>• sell its assets,</li> <li>• obtain additional debt or equity financing,</li> <li>• reorganise or refinance all or part of the debt on or before maturity.</li> </ul> <p>As part of the financial planning processes, the Group analyses and monitors the cash flows generated and its ability to maintain liquidity and service its debt. The Group's debt financing sources are diversified in terms of creditors and maturities.</p> <p>The following measures are applied by the CIECH Group to reduce liquidity risk:</p> <ul style="list-style-type: none"> <li>• current monitoring of liquidity of the CIECH Group's companies,</li> <li>• monitoring and optimisation of the level of working capital,</li> <li>• adjusting the level and schedule of capital expenditure,</li> <li>• intragroup borrowings and sureties for the liabilities of the Group's companies,</li> <li>• current monitoring of the settlement of liabilities under the loan agreements conditions.</li> </ul>			



<b>Risk 2.11</b> Interest rate risk			<b>Segments affected</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	Low	Low	
<b>Risk description and corrective measures taken:</b>			
<p>The costs of the Group's debt depend on the reference rate. This refers to loans, factoring and some lease contracts. There is a risk of an increase of the reference rate, which may lead to increased financial costs and deterioration of the CIECH Group's financial result.</p> <p>The interest rate risk is reduced by the assets owned by the CIECH Group (bank deposits), interest bearing in accordance with variable interest rate, and by concluding hedging transactions such as cross currency interest rate swaps or interest rate swaps.</p> <p>Moreover, the risk will be kept at a low level by the CIECH Group as a result of signing a refinancing agreement with a financial institution, securing the Group's long-term financing for the following years.</p>			

<b>Risk 2.12</b> Credit risk			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	Low	Low	
<b>Risk description and corrective measures taken:</b>			
<p>The CIECH Group is exposed to credit risk of financial institutions connected with cash placed on bank accounts and deposits as well as transactions with financial institutions.</p> <p>Due to the COVID-19 pandemic, the risk of default of the counterparties has increased.</p> <p>In order to limit the credit risk of financial institutions the CIECH Group enters into transactions with high-rating banks with stable market position.</p> <p>The credit risk of the business partners is mitigated by the Group by using internal procedures to establish amounts of credit limits for customers and to manage trade receivables (the Group uses securities such as letters of credit, bank guarantees, mortgages, receivables insurance and factoring). An important part of the credit activity is assessing the customers' creditworthiness and obtaining appropriate collateral from them, thus 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 deliveries of goods in accordance with the binding procedures. In addition, due to the increase in credit risk caused by the economic downturn and the outbreak of COVID-19, the Group decided to implement a reverse factoring mechanism to secure most of the existing current liabilities.</p>			

<b>Risk 2.13</b> Risk of financing through factoring			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	Low	Low	
<b>Risk description and corrective measures taken:</b>			
<p>The economic downturn caused by the COVID-19 pandemic has significantly increased liquidity risk. In an effort to manage cash in an efficient manner, CIECH implemented a reverse factoring mechanism, thereby extending the period of repayment of its liabilities to its main suppliers. However, with the introduction of the reverse factoring mechanism, there is an increased risk arising from the termination of relationship with the factor or the occurrence of financial problems on the part of the factor, so that the Group may be forced to settle its obligations to suppliers in a shorter period of time, thus</p>			



<b>Risk 2.13</b> Risk of financing through factoring			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	Low	Low	
<b>Risk description and corrective measures taken:</b>			
<p>weakening its working capital ratios. However, this risk has been estimated by the Group as low due to the partial utilisation of the limit available with the factor, the ongoing monitoring of utilisation of the available limit and cooperation with several factors.</p> <p>With the introduction of the reverse factoring arrangement, the Group has additionally secured its current liquidity and extended its payment terms. As a result, the Group's working capital requirements decreased by PLN 112 million as at 31 December 2020.</p>			

<b>Risk 2.14</b> Risk related to tax settlements			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
High	Medium	High	
<b>Risk description and corrective measures taken:</b>			
<p>Regulations on corporate and personal income tax, value added tax, social security contributions and other taxes are subject to frequent changes in Poland. Furthermore, the applicable tax laws lack clarity, which leads to differences in opinions and diverse interpretations of tax regulations, both between various public authorities and between public authorities and businesses. In addition, over the past few years there have been changes in tax authorities' interpretations, despite the same regulations in force and after years of their application.</p> <p>Tax settlements are subject to inspection by bodies which are authorised to impose high penalties and fines, and any additional tax liabilities arising from such inspections need to be paid with interest. Consequently, tax risk in Poland is higher than in countries with more mature tax systems. The amounts presented and disclosed in the CIECH Group's financial statements may therefore increase as a result of current and future tax inspections.</p> <p>The Group recognises and measures current and deferred tax assets and liabilities in compliance with the requirements of IAS 12 Income Taxes, based on taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates, taking into consideration the assessed uncertainty related to tax settlements. Whenever there is uncertainty as to whether and to what extent a tax authority would accept a tax settlement, the Group discloses such settlement taking into consideration the assessed uncertainty.</p> <p>What is more, the lack of stability in the tax law may hinder the ability for effective future planning and implementation of business plans according to the assumptions and an increase in the tax expense may have a material adverse effect on the Group's further growth.</p> <p>The Group constantly monitors changes in the law and potential tax risks, taking steps to eliminate them or to reduce them substantially through a constant cooperation with reputable tax advisors and by official inquiries to the tax authorities.</p>			



<b>Risk 2.15</b> Risk of negative valuation of EUR/PLN derivatives			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	Low	Low	
<b>Risk description and corrective measures taken:</b>			
<p>The increase in the EUR/PLN exchange rate that occurred in the first half of 2020 mainly due to the COVID-19 pandemic (change in the EUR/PLN exchange rate from 4.2585 as at 31 December 2019 to 4.6148 as at 31 December 2020) resulted in an increase in negative valuations of derivatives that include EUR/PLN as an underlying instrument, i.e. EUR/PLN CIRS and EUR/PLN forwards. The total change in valuations of EUR/PLN-sensitive derivative instruments in 2020 amounted to PLN -20.3 million, with the change in valuation by PLN -11.2 million relating to forwards designated as hedging transactions for future revenues from sales in foreign currencies, so that the increase in the negative valuation will be offset by the higher amount of future revenues from sales in foreign currencies.</p> <p>The CIECH Group aims to naturally hedge its foreign currency exposure, including matching cash flows in given currencies resulting from sales and purchases and denomination of debts in certain currencies, in order to adjust it to the expected exposure to foreign currency risk in operating and investing activities. Moreover, the Group hedges a portion of its foreign currency exposure using derivative instruments. The Group has introduced a uniform market risk management strategy, covering, among other aspects, the currency risk management.</p>			

<b>Risk 2.16</b> Risk of increase in the cost of CO <sub>2</sub> emissions			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
High	Medium	High	
<b>Risk description and corrective measures taken:</b>			
<p>The general, current macroeconomic situation and the situation in the CIECH Group's environment indicate that, at present and in the near future, further tightening of regulations in the area of CO<sub>2</sub> emission limitations, including those resulting from the regulations making up the so-called energy and climate package of the European Union, is to be expected. The implications of the package will have a significant impact on the Group and its companies. In particular, the consistently limited pool of free CO<sub>2</sub> emission allowances means that CO<sub>2</sub> emissions in excess of the free allowances allocated to Polish facilities (as part of the National Allocation Plan) entail increasing financial expenditure on the purchase of emission allowances. Thus, the risk of a negative effect of CO<sub>2</sub> emissions trading prices on the Group's performance is increasing.</p> <p>The fact that the European Commission now regulates the carbon market through administrative measures, including introduction of the Market Stability Reserve (MSR) as of 2019 (back-loading and redemption of surplus allowances), has made the market all the more unpredictable. The classification of emission allowances as financial instruments under the MIFID II Directive, resulting in higher prices and market volatility, makes it difficult to manage this type of price risk in an optimal manner. The need to purchase CO<sub>2</sub> emission allowances at high market prices could have a negative impact on the Group's business, financial condition or results of operations.</p> <p>In order to mitigate the risk of a negative impact of CO<sub>2</sub> emissions trading prices on the Company's results, the Group monitors the emission allowances market on an ongoing basis and purchases emission allowances on a rolling basis in periods when prices are favourable.</p> <p>In addition, the CIECH Group aims to significantly reduce carbon dioxide emissions by implementing an ambitious energy strategy and working on process and energy efficiency.</p> <p>The Group has implemented a uniform Environmental Policy and strives to implement the best industry practices available.</p>			



<b>Risk 2.17</b> Risk of inability to implement the strategy			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
High	High	High	
<b>Risk description and corrective measures taken:</b>			
<p>For the CIECH Group, 2020 was the second year of implementation of the current 3-year strategy for 2019-2021. In December 2018, when the Supervisory Board approved the strategy presented by the Management Board of CIECH SA, it was intended to adapt the Group's activities to the changing environment. At the end of 2018, however, no one could have predicted the COVID-19 pandemic.</p> <p>The strategy adopted envisaged systematic business growth in individual segments of the Group and the generation of value for investors. The COVID-19 pandemic has significantly affected the operations of all the Group's segments and the ability to deliver projects that have been initiated. Despite the adverse events and effects of the pandemic that materialised in 2020, the Group did not deviate from its objectives, continuing to treat 2020 as the second year of implementation of the objectives and targets arising from the 3-year strategy. The economic downturn and uncertainty about the future and the economic situation on a macroeconomic scale with respect to the Polish, European and global economies, have increased the level of uncertainty and the risk of inability to implement the strategy for 2019-2021. Throughout 2020, the Group has made and continues to make every effort to meet the objectives arising from the strategy adopted, despite the pandemic and the uncertainty about economic developments in the following year. With the outbreak of the COVID-19 pandemic, individual entities and segments of the Group analysed in detail the long-term effects and possible scenarios of the COVID-19 pandemic in March 2020. On the basis of these analyses, the Group has reassessed its ability to achieve its current objectives. It defined the necessary measures and actions to focus the Group's efforts on the key tasks arising from the strategy. Decisions were made aimed at improving the efficiency of decision-making processes and securing the Group's liquidity which, in view of the implementation of strategic projects, was necessary in order to ensure the Group's security and stability. Having implemented the corrective measures, the CIECH Group believes that the COVID-19 pandemic and the related economic slowdown do not significantly affect the objectives and directions of development set out in the Group's Strategy. The only problem is that it may be difficult to implement them within the previously assumed deadlines.</p>			

<b>Risk 2.18</b> Risk of non-implementation of the assumed investment plan, in particular the investment in Germany (new saltworks)			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	Medium	Medium	
<b>Risk description and corrective measures taken:</b>			
<p>The effects of the COVID-19 pandemic and the resulting economic downturn, in addition to the difficulties in meeting the objectives set out in the Group's Strategy for 2019-2021 in a timely manner, also had an impact on the implementation of the investment plan, including the Group's key and largest project, namely the construction of the new saltworks in Germany.</p> <p>As part of the measures taken to minimise the risk of non-implementation of investment plans, the CIECH Group, upon the outbreak of the COVID-19 pandemic in March 2020, reviewed planned and ongoing investment projects, focusing on the implementation of the Group's key projects.</p> <p>Where possible, it revised the scopes and schedules of projects that were assessed as less critical and not having a direct impact on the Group's Strategy for 2019-2021 being implemented.</p> <p>The Group has either completed the key projects scheduled for 2020 or decided to proceed with their implementation. This also applies to the decision to continue with the key and largest project, which is the construction of the new saltworks in Stassfurt, Germany. However, due to the economic downturn and uncertainty about economic developments in the coming years, it may be necessary to postpone the final completion date. Already in mid-2020, the Group, recognising the impact of the pandemic on operations of certain suppliers and project contractors, decided to postpone the completion date from the first quarter of 2021 to the second quarter of 2021.</p>			



<b>Risk 2.19</b> Risk of permanent climate change affecting the demand for the CIECH Group's products			<b>Segments affected:</b> • Agro Segment
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
High	High	High	
<b>Risk description and corrective measures taken:</b>			
<p>Due to the increasingly noticeable adverse global effects of climate change (greenhouse effect, prolonged droughts, increasingly frequent local natural disasters), the demand for certain products from the CIECH Group's product portfolio has been changing. This is particularly true for products from the Agro segment.</p> <p>Demand for selected products is becoming less predictable due to increasingly frequent extreme events such as droughts, fires or hurricanes destroying crops in different parts of the world. As a result of these phenomena, crops are reduced or discontinued in some parts of the world, which in turn translates into lower demand for crop protection products manufactured by the CIECH Group. It should also be noted that changing weather conditions have a delayed effect on operating results, as the CIECH Group sells products to distributors who, having excessive stocks, are interested in a lower number of orders for the following period.</p> <p>In order to mitigate the adverse effects of the risk of climate change and the resulting reduction in demand for its products, the CIECH Group has initiated measures aimed at ensuring geographic diversification of customers by trying to spread sales to customers operating in different geographical areas and thus increasing the efficiency of the sales network, as well as by expanding its product range to match long-term trends in agriculture.</p>			

<b>Risk 2.20</b> Risk of tightening of regulations concerning the use of the environment			<b>Segments affected:</b> • All segments • Entire Group
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
High	High	High	
<b>Risk description and corrective measures taken:</b>			
<p>Operations of the CIECH Group's production plants are onerous and often have a negative impact on the environment. This means that the Group's companies and production plants must hold the relevant permits and environmental approvals. The plants must operate in compliance with specific laws and standards concerning the use of the environment. This applies in particular to limits on emissions of harmful substances into the air, management of water and sewage, and management of the waste generated. In addition, the CIECH Group's operations are strongly affected by dynamic changes in environmental protection regulations.</p> <p>The CIECH Group is a subject to very strict regulations, which may generate significant costs regarding compliance with those regulations. CIECH Group's companies operate under the valid permits, regarding the manner and extent of use of the environment.</p> <p>The CIECH Group's operations are significantly affected by the direction of the Energy and Climate Policy which provides for achieving zero net emissions by 2050 and requires individual member states to commit to binding and increasingly ambitious measures, including tightening the emission limit by 2030 from 30% to at least 40% of greenhouse gas emission reductions in the entire economy compared to 1990.</p> <p>In the area of regulations related to the emission trading scheme, intensive work was carried out in 2020 to update the benchmarks. In December 2020, the European Commission launched a consultation on a regulation setting revised benchmark values for the allocation of free emission allowances for the period 2021-2025. Their values will affect the calculation of the free allocation of CO<sub>2</sub> emission allowances in the period 2021-2025.</p> <p>At the same time, in 2020 work began on the 3rd update of the Water Management Plans for water bodies, which will be effective from 2022.</p> <p>In most cases, changes resulting from stricter regulations concerning the use of the environment imply the need to incur significant financial expenditure in order to comply with the new regulations and to be an organisation that is socially responsible and as environmentally neutral as possible. In view of the announcements and already apparent legislative efforts to tighten environmental regulations, the Group is aware of the upcoming changes. This implies that certain investment expenditures will have to be incurred in the coming years. And this, in turn, will have an impact on the Group's future financial performance.</p>			



<b>Risk 2.20</b> Risk of tightening of regulations concerning the use of the environment			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• All segments</li> <li>• Entire Group</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
High	High	High	
<b>Risk description and corrective measures taken:</b>			
<p>The CIECH Group, as a socially responsible entity, has planned and is taking measures to continuously improve its technological processes and facilities and to implement technology projects that will make it possible for the Group and its plants to operate in compliance with new regulations related to the use of the environment.</p> <p>Individual segments of the CIECH Group comply with standards defined by law. By introducing a uniform Environmental Policy, the CIECH Group strives to implement the best available industry practices.</p> <p>Pursuant to provisions of Directive 2010/75/EU of the European Parliament and of the Council on industrial emissions – IED, implemented in Polish law in 2014 and the adopted National Transitional Plan concerning the reduction of emissions of gaseous and particulate pollutants emitted in CHP plants in Janikowo and Inowrocław, the CIECH Group carried out the modernization of atmospheric protection equipment. It has been carrying out activities aimed at increasing the level of utilisation of raw materials in order to reduce direct CO<sub>2</sub> emissions, including the project of concentrating CO<sub>2</sub> emissions in soda production technology.</p>			

<b>Risk 2.21</b> Risk of changes in laws and regulations			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Medium	Low	Medium	
<b>Risk description and corrective measures taken:</b>			
<p>Running a business involves uncertainty. One of the external factors increasing the level of uncertainty is the frequent changes in regulations and their inconsistent interpretations which are characteristic of the Polish legal system. This may lead to a deterioration in the financial standing of the Group and its entities (the need to adapt the Group's or the Group company's operations to the requirements arising from the changes).</p> <p>At present, regulations are construed not only by Polish courts and public administration bodies, but also by courts and institutions of the European Union. Changes to existing regulations can lead to issues arising directly from the absence of a consistent interpretation of the law.</p> <p>Any amendments to or introduction of new regulations under national and EU law may affect the situation and development prospects of the Group and its segments, including financial performance. As a consequence, it will be necessary to incur additional costs to adapt the operations of the Group or Group companies to new or amended legal regulations.</p> <p>In order to reduce the risk, the Group continuously monitors changes in the applicable regulations and laws, and prepares market and business analyses based on the existing and announced regulations. The aim is to obtain information about upcoming regulatory changes well in advance and to prepare the Group and its companies to apply the laws and regulations in the correct manner as they come into force, without the risk of limiting current operations in order to adapt to new regulations.</p>			

<b>Risk 2.22</b> Risk associated with judicial proceedings or other non-judicial proceedings			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Low	Low	Low	
<b>Risk description and corrective measures taken:</b>			
<p>The CIECH Group, as part of its day-to-day operations, is exposed to diverse types of claims and legal proceedings resulting from cooperation with customers, counterparties, employees and other parties in connection with the status of a public</p>			

<b>Risk 2.22</b> Risk associated with judicial proceedings or other non-judicial proceedings			<b>Segments affected:</b> <ul style="list-style-type: none"> <li>• Entire Group</li> <li>• All segments</li> </ul>
<b>Risk assessment</b>			
<b>Effects</b>	<b>Likelihood</b>	<b>Risk level</b>	
Low	Low	Low	
<b>Risk description and corrective measures taken:</b>			
company listed on Warsaw Stock Exchange and on Frankfurt Stock Exchange. The risks derive from the restrictions and requirements to which public companies are subject in terms of trading rules, access to information, accounting and transactional transparency, etc. In relation to their activities and market position, the CIECH Group companies are subject to adversarial proceedings, including anti-trust proceedings that are a potential source of risk and can be detrimental to their interests if the final decision is unfavourable. In the future, the CIECH Group members may also become a party to legal proceedings regarding, among others, intellectual property rights, producer's liability, product guarantee, environmental or antitrust claims, or enter into settlements regarding legal proceedings and claims that may exert material adverse effect on their operating results which, however, applies equally to any other business entity.			
As part of the measures taken to minimise risk, the CIECH Group evaluates the existing legal mechanisms on an ongoing basis and introduces appropriate internal regulations aimed at eliminating or mitigating risk. In accordance with the accounting policy, provisions are created for such proceedings if it is highly probable that costs will be incurred and their amount may be reasonably assessed.			

CIECH S.A., as a holding company managing the Group, is exposed to analogous risks to its operations.

### 3.5 CORPORATE SOCIAL RESPONSIBILITY (CSR)

Equal concern for economic, social and environmental issues is an important element of the management strategy at the CIECH Group and CIECH S.A.



#### 3.5.1 CSR IN THE CIECH GROUP

Information on corporate social responsibility was presented in detail in the **Non-financial Report of the CIECH Group for 2020**.

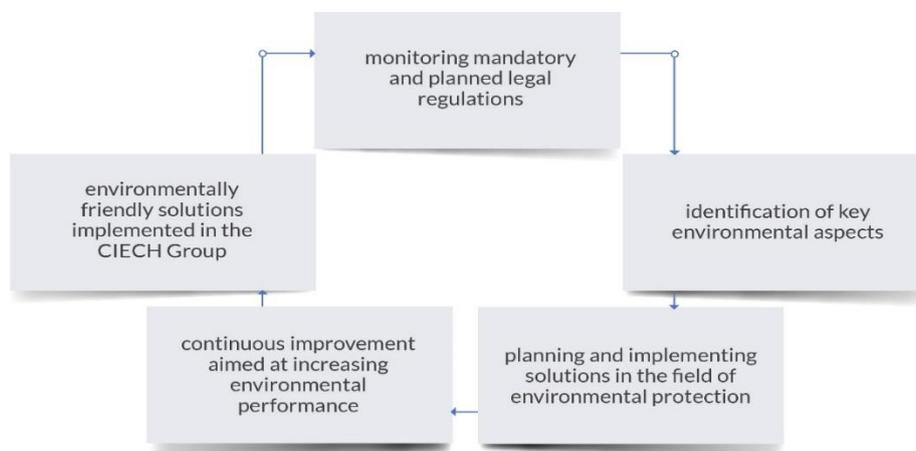
This report complements the data disclosed by the Group with environmental, social, employee and ethical issues. Key issues in the areas of environmental protection, sponsorship activities as well as research and development are presented below.

#### 3.5.2 KEY ISSUES RELATED TO ENVIRONMENTAL PROTECTION

For the CIECH Group, an important issue in the area of environmental protection is maintaining the technology regime and high quality of products, but also minimising negative impact on the environment by limiting emission of pollution to the atmosphere, waters and soil, rational waste management and optimisation of energy consumption per one tonne of the output. Environmental issues are a priority for the CIECH Group, which was reflected in the development and implementation of a Uniform Environmental Policy in 2016. Pursuant to the Policy, all companies of the Group are required to comply with applicable environmental law regulations, reduce air emissions and the amount of wastes produced, utilize natural resources

in a rational manner and combat climate changes through CO<sub>2</sub> reduction, and to maintain good social relations in communities where business activities are conducted.

FIGURE 32: ENVIRONMENTAL MANAGEMENT SYSTEM IN THE CIECH GROUP



During the last several years, the CIECH Group has implemented a number of investment projects in the Soda Segment to support the protection of atmosphere, including:

- reduction of dust emissions from the Group's CHP Plants by modernising ESPs,
- reduction of nitrogen oxide emissions from the Group's CHP Plants by constructing flue gas denitrification units,
- reduction of nitrogen dioxide emissions from the Group's CHP Plants by constructing flue gas desulfurisation units,
- a comprehensive modernisation of the dust removal system at the Lime Furnace Facility in Janikowo.

At present, the Group continues to carry out further projects in the scope of, among others, reduction of CO<sub>2</sub> emissions, reduction of energy consumption and reduction of noise emission.

In addition, in order to achieve the ambitious goal of reducing CO<sub>2</sub> emissions by 30% by 2026, a comprehensive Energy Strategy has been prepared in the CIECH Group, which includes initiatives such as:

- construction of a gas-fired heat generating unit,
- construction of a municipal waste thermal processing installation for both soda plants,
- comprehensive modernization of the existing property of the heat and power plants in Janikowo and Inowrocław, including full modernization of turbogenerators,
- or installation of photovoltaic panels in various companies of the Group.

Production plants of CIECH Group operate under required permits and administrative decisions. The majority of production companies within the CIECH Group have implemented environment management systems in conformity with ISO 14001 regulations.

The National Transitional Plan (PPK), applicable to plants that produce energy and steam (CHP plants), extended the deadline to adjust LCP (Large Combustion Plant) systems to new standards, until 30 June 2020 at the latest.

As of 1 July 2020, plants that produce energy and steam are required to observe very restrictive emission standards for dust (20-25 mg/Nm<sup>3</sup>), sulphur oxides (200-250 mg/Nm<sup>3</sup>) and nitrogen oxides (200 mg/Nm<sup>3</sup>) emissions introduced for large combustion plans (LCP).

Work is currently underway to bring steam and power generation plants into compliance with the LCP BAT Conclusions, which will come into force as of 17 August 2021. The new emission limits will be as follows: for dust – 15–20 mg/Nm<sup>3</sup>, for sulphur oxides – 130–200 mg/Nm<sup>3</sup>; and for nitrogen oxides – 150–180 mg/Nm<sup>3</sup>. In addition, for sources with a rated capacity of more than 300 MW, mercury emissions must be measured on a continuous basis.

In the area of regulations related to the emission trading scheme, intensive work was carried out in 2020 to update the benchmarks. Their values will affect the calculation of the free allocation of CO<sub>2</sub> emission allowances in the period 2021-2025. The work is expected to be completed by the end of February 2021.

#### Legal status of the use of the environment

CIECH Group's companies operate under the current administrative decisions regarding the manner and extent of use of the environment. All CIECH Group's companies operating IPPC plants received integrated permits.

**TABLE 5: LIST OF INTEGRATED PERMITS HELD BY CIECH GROUP COMPANIES**

Company	Permit for	Validity period
CIECH Soda Polska S.A. – Production Plant in Inowrocław	Integrated permit for installation to manufacture soda and soda derived products.	Indefinite
CIECH Soda Polska S.A. – Production Plant in Janikowo	Integrated permit for installation to manufacture soda and soda derived products.	Indefinite
CIECH Soda Polska S.A. – Power Plant in Inowrocław	Integrated permit for heat and power station's installation (4 OP-110 boilers).	Indefinite
CIECH Soda Polska S.A. – Power Plant in Janikowo	Integrated permit for heat and power station's installation (3 CKTI boilers and 2 OP-140 boilers).	Indefinite
CIECH Soda Deutschland GmbH & Co. KG	Integrated permit for installations to manufacture light and dense soda ash, and sodium bicarbonate.	Indefinite
CIECH Energy Deutschland GmbH	Integrated permit for heat and power station's installation.	Indefinite
CIECH Soda Romania S.A.	Integrated permit for installation to manufacture soda ash.	12.09.2022
CIECH Sarzyna S.A.	Integrated permit for installations to manufacture crop protection products (MCPA i MCPP and esters from the esterification of phenoxyacids).	Indefinite
CIECH Żywiec Sp. z o.o.	Integrated permit for installations to manufacture unsaturated and saturated polyester resins, epoxy resins, curing agents for epoxy resins, phenol-formaldehyde resins, Flodur	Indefinite
CIECH Vitrosilicon S.A. Plant in Żary	Integrated permit for installations to manufacture sodium silicate glass and potassium silicate glass.	Indefinite
CIECH Vitrosilicon S.A. Plant in Iłowa	Integrated permit for installations to manufacture water solution of sodium and potassium silicates (water glass), glass packaging and solid sodium silicate (glassy sodium silicate).	Indefinite
CIECH Pianki Sp. z o.o.	Integrated permit for the installation to manufacture PUR foams.	Indefinite

#### 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 lands. The Group incurs ongoing operating expenses and establishes provisions related to the reclamation of contaminated soil and groundwater purification. The amount of provisions for environmental liabilities in CIECH Group as at 31 December 2020 amounted to PLN 113,524 thousand and as at 31 December 2019 – to PLN 94,951 thousand.

For the fuel combustion plant in Janikowo there is a risk of fines to be paid for exceeding the permissible emission of pollutants into the air in 2011 and 2012 for boiler OP-140 No K4, in the amount of PLN 6,611 thousand together with interest due. An appeal has been lodged with the Chief Inspectorate of Environmental Protection. In addition, a decision will be issued on the obligation to pay a fine for excess NO<sub>x</sub> emissions in 2011 and 2012 for boiler OP- 140 No 5 in the amount of PLN 83 thousand, together with interest due.

In connection with the failure to comply with emission standards for fuel combustion units in CIECH Soda Polska S.A. in 2020, a fine of PLN 2,210 thousand is expected.

### EU REACH Regulation

The REACH Directive binding from 1 June 2007 concerns safe usage of chemical substances produced or imported (from countries outside EU) in quantities of 1 ton annually or more. Producers and importers who put substances to turnover in the EU customs area were obligated to complete registration.

An up-to-date information on registrations in the CIECH Group in 2020 is provided below:

#### Soda Segment;

- The REACH registration of two substances of CIECH Soda Romania S.A. was deactivated.

#### Agro Segment

- The registration documentation of one substance was updated, the tonnage of substance registrations was increased.

The registration documentation updates for 2 substances in the Soda Segment and 2 substances in the Silicates Segment are scheduled for 2021.

### Emission trading

Information on emission trading is provided in items 2.1 and 3.4 of this Report.

## 3.5.3 SPONSORSHIP AND CHARITY POLICY

Sponsorship activities of CIECH S.A. are aimed at supporting the business and strengthening the positive image of the CIECH Group. Sponsorship activities are carried out primarily in the cities, where production plants and the head office of the Group are located. Sponsorship activities involve mainly the activities supporting educational and cultural initiatives, or initiatives aimed at supporting local communities, in which the CIECH Group functions.

Charity activities of the CIECH Group are related primarily to education of children and youth, and popularisation of the chemistry knowledge (primary objective). The Group also supports local communities, inter alia, by education, donations, in particular, in the case of catastrophes and unexpected events. In 2020, these activities were mainly related to the COVID-19 pandemic, both in relation to local communities and support for the Group's employees and their families.

At the beginning of the pandemic, we provided our employees with the necessary protective measures: a disinfectant liquid produced by one of our companies (CIECH Sarzyna) and a set of protective masks. Until now, employees have access to protective measures, in particular certified protective masks, produced by one of our companies (CIECH Pianki). In addition, we provided several hundred tablets to support remote learning for children from large families of our employees. We also provided financial and material support (mattresses, medical coveralls, visors) to local hospitals. At the end of 2020, we decided to donate 250,000 certified FFP2 face masks, produced by CIECH Pianki, for the organization of the 29th Final of the Great Orchestra of Christmas Charity.

## 3.6 RESEARCH AND DEVELOPMENT

The CIECH Group consistently implements innovations in key areas of its operations. The activities taken are focused on the development and improvement of products for key markets, improvement of existing production processes as well as implementation of innovative technologies. The CIECH Group has the ambition to become a leader among the most advanced chemical groups in Poland and worldwide. In the CIECH Group, research and development activities are concentrated in CIECH R&D Sp. z o.o., that has coordinated and carried out research and development activities for the Group's production companies. As a result of the implementation of the CIECH Group Strategy for 2019-2021, the research and development activities of Ciech R&D in the area of manufacturing and products of the Group's companies were transferred to production companies in 2020.

The CIECH Group collaborates with universities and experts in the area of innovation and development, and a part of project implemented is co-financed from EU funds as well as from domestic and regional support funds.

#### **Achievements in research and development**

The Group runs a number of R&D projects in virtually all segments. These projects are implemented with the use of various support programmes. More than a dozen projects at various stages of completion are underway in the Group's key segment, the Soda Segment. These projects aim to improve process efficiency and reduce environmental impact.

#### **Cooperation with universities and institutes**

In 2020, the CIECH Group implemented research, development and innovation projects in cooperation with renowned universities and institutes, including:

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##### **Universities**

- Warsaw University of Technology
- Wrocław University of Technology
- Nicolaus Copernicus University in Toruń
- RWTH Aachen University
- AGH University of Science and Technology of Kraków

##### **Institutes**

- New Chemical Syntheses Institute
  - Institute For Chemical Processing of Coal – ICHPW in Zabrze
  - Institute of Industrial Organic Chemistry – IPO in Warsaw
  - Institute of Ceramics and Building Materials
-



**FINANCIAL POSITION**  
OF THE CIECH GROUP AND CIECH S.A.

## 4. FINANCIAL POSITION OF THE CIECH GROUP AND CIECH S.A.

### 4.1 PRINCIPLES FOR DRAWING UP THE ANNUAL FINANCIAL STATEMENTS OF THE CIECH GROUP AND CIECH S.A.

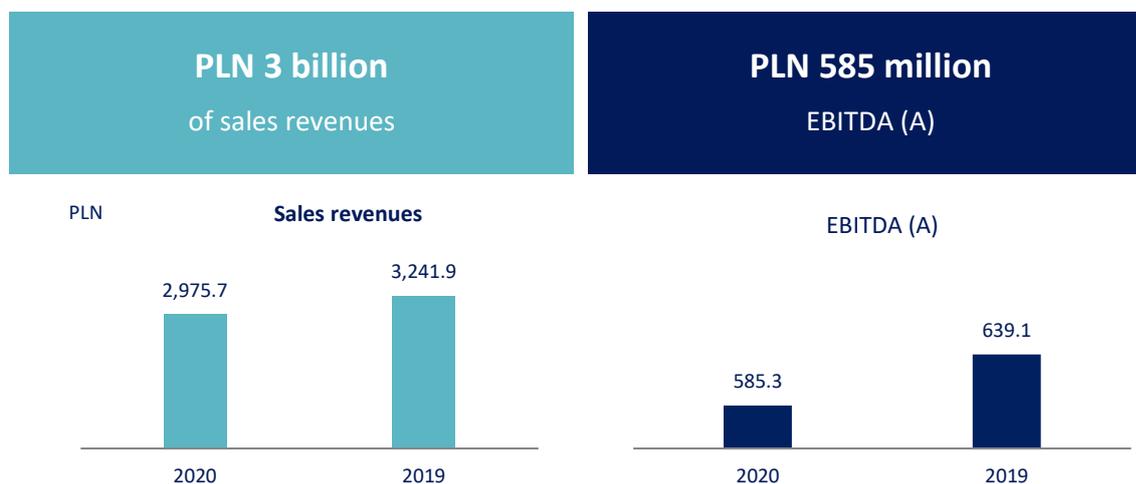
The consolidated financial statements of the CIECH Group and separate financial statements of CIECH S.A. have been prepared in accordance with accounting principles consistent with the International Financial Reporting Standards (IFRS) that were approved by the European Union (EU) and were effective as at 31 December 2020.

The consolidated financial statements of the CIECH Group and separate financial statements of CIECH S.A. have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss, available-for-sale financial assets, and investment real property at fair value.

The consolidated financial statements of the CIECH Group and separate financial statements of CIECH S.A. give a fair view of the financial and economic position of the CIECH Group and CIECH S.A. as at 31 December 2020, results of their operations and cash flows for the year ended 31 December 2020. The consolidated financial statements of the CIECH Group and separate financial statements of CIECH S.A. were prepared on a going concern basis. As at the date of approval of the consolidated financial statements of the CIECH Group and separate financial statements of CIECH S.A., no facts or circumstances are known that would indicate any threat to the CIECH Group and CIECH S.A. continuing as going concerns. References to accounting policies applied in the preparation of the consolidated financial statements of the CIECH Group and separate financial statements of CIECH S.A. have been presented, respectively, in notes: 1.4 to the Consolidated financial statements of the CIECH Group and 1.4 to the Separate financial statements of CIECH S.A.

### 4.2 REVIEW OF KEY ECONOMIC AND FINANCIAL FIGURES CONCERNING THE CIECH GROUP

In 2020, the CIECH Group generated for continuing operations:



In 2020, the Group's results were most significantly shaped by:

**Positive developments:**

- The immediate reaction to the economic slowdown caused by the outbreak of the COVID-19 pandemic allowed to achieve good results compared to the competition. A number of actions were taken, including:
  - in improving the product mix, focusing on high-margin products,
  - optimization of fixed costs and working capital,
  - for taking action and ensuring external, long-term financing of the Group,
  - taking measures to secure the financial liquidity of the Group and individual segments, through the implementation of reverse factoring mechanisms,
  - verification and implementation of more restrictive principles of credit policy for recipients,
  - conducting a review of investment projects and focusing on the implementation of projects that have a direct impact on the continuity of operating activities of the segments and the Group, while postponing the deadlines for the implementation of projects of lower priority for the Group's operations,
  - reviewing the terms and conditions of existing insurance policies and extending the duration of policies under pre-pandemic conditions, anticipating the instability and uncertainty of the insurance market as to further developments and expected rate increases,
  - conducting an analysis of the availability of the necessary raw materials in the initial stage of the pandemic and ensuring the availability of raw materials during the freezing of the global economy (mainly in the Foam and Agro Segments),
  - implementation of business continuity plans and safety procedures to minimize the risk of outbreaks of infection in the Group's plants, thanks to which the plants continued their production and operations without disruptions throughout the pandemic,
  - quick adaptation of the Group to a pandemic situation and quick transition to flexible forms of work, reducing the risk of infections, without adversely affecting the effective conduct of current operating activities,
  - taking actions and strategic decisions accelerating the reduction of greenhouse gases by the Group and accelerating the decarbonisation of the production processes of the soda segment.
- In the Soda Segment, effective contracting for 2020 and intensification of activities on the SPOT market.
- Intensification of direct relations with key customers of the Soda Segment, thanks to which it was possible to make contacts at predetermined prices and conclude new contracts for the next period at the level of prices from before the pandemic.
- Introducing new, highly processed products to the offer - investment in pharmaceutical-quality dialysis soda.
- Increase in salt prices.
- Increase in the prices of foams (but with a simultaneous increase in the prices of raw materials).
- Entering new areas of activity and taking advantage of the pandemic situation to start the production of protective masks.
- Taking a number of initiatives to build internal competences and build own resources in the area of maintenance in order to reduce the risk of loss of business continuity of production plants due to failures and downtime.

**Negative developments:**

- The outbreak of the COVID-19 pandemic resulting in:
  - A drop in global demand for soda ash, among other things,
  - Disruption of the supply chain resulting in limited availability and higher prices of raw materials (PUR foams, crop protection products).
- Worldwide uncertainty about the further development of the pandemic and its impact on the global economy.
- Continued hibernation of the Romanian plant.
- Continuing high prices for EUA certificates.
- Sustained strong position of Turkey in the global soda market.



In 2020, the CIECH Group generated sales revenues from continuing operations in the amount of PLN 2,975,733 thousand and adjusted EBITDA of PLN 585,332 thousand. Net profit on continuing operations reached PLN 123,184 thousand, net cash increased by PLN 144,884 thousand and total assets amounted to PLN 5,707,733 thousand as at the end of 2020.

In 2020, CIECH Żywiec Sp. z o.o. was intended for sale in connection with the conclusion of a preliminary sales agreement with LERG S.A., and its data and results of the CIECH Group companies (including CIECH S.A.) obtained from transactions with an entity recognized in discontinued operations are disclosed as discontinued operations. EBITDA for discontinued operations for 2020 amounted to PLN 19,693 thousand and increased by 4,204 thousand compared to 2019, when it was PLN 15,489 thousand. The net result on discontinued operations amounted to PLN 4,846 thousand for 2020 and PLN 3,822 thousand for the comparable period.

#### Forecast performance of the CIECH Group

The CIECH Group did not publish any forecasts for 2020.

### 4.2.1 STATEMENT OF PROFIT OR LOSS OF THE CIECH GROUP

TABLE 6: CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	2020	2019*	Change 2020/2019
<b>CONTINUING OPERATIONS</b>			
Sales revenues	2,975,733	3,241,862	(8.2%)
Cost of sales	(2,345,067)	(2,529,174)	7.3%
<b>Gross profit/(loss) on sales</b>	<b>630,666</b>	<b>712,688</b>	<b>(11.5%)</b>
Selling costs	(173,146)	(237,639)	27.1%
General and administrative expenses	(170,624)	(197,848)	13.8%
Other operating income/expense	(36,928)	(23,725)	(55.7%)
<b>Operating profit/(loss)</b>	<b>249,968</b>	<b>253,476</b>	<b>(1.4%)</b>
Net financial income/expenses	(61,674)	(83,933)	26.5%
Share of profit of equity-accounted investees	(161)	1,106	-
Income tax	(64,949)	(65,390)	0.7%
<b>Net profit/(loss) on continuing operations</b>	<b>123,184</b>	<b>105,259</b>	<b>17.0%</b>
<b>DISCONTINUED OPERATIONS</b>			
Net profit/(loss) on discontinued operations	4,846	3,822	26.8%
<b>Net profit / (loss) for the period</b>	<b>128,030</b>	<b>109,081</b>	<b>17.4%</b>
including:			
Net profit/(loss) attributed to non-controlling interest	(1,247)	(1,278)	2.4%
Net profit/(loss) attributable to shareholders of the parent company	129,277	110,359	17.1%
EBITDA from continuing operations	583,248	553,470	5.4%
Adjusted EBITDA from continuing operations**	585,332	639,070	(8.4%)

\*Restated data. For detailed information on restatement and discontinued operations, see Notes 1.5.1 and 5.13 to Consolidated Financial Statements of the CIECH Group for 2020.

\*\*Principles of calculating EBITDA and adjusted EBITDA have been described in section "Ratio calculation methodology".

#### Sales revenues

Consolidated sales revenues net from continuing operations of the CIECH Group for 2020 amounted to PLN 2,975,733 thousand. Compared to the previous year, revenues decreased by PLN 266,129 thousand (i.e. by 8.2%). The decrease was mainly due to the suspension of soda production at the soda plant of CIECH Soda Romania S.A. On the other hand, factors that offset this negative impact included the introduction of new products and the increase in salt prices.

### Gross profit on sales

Cost of goods sold for 2020 amounted to PLN 2,345,067 thousand, which represents a decrease by PLN 184,107 thousand (i.e. by 7.3%) compared to the cost of goods sold in 2019, amounting to PLN 2,529,174 thousand. This decrease is mainly caused by lower sales, e.g. due to the suspension of soda production at the plant in Romania.

### Operating profit/loss

Selling costs for 2020 amounted to PLN 173,146 thousand which represents a decrease by PLN 64,493 thousand (i.e. by 27.1%), compared to PLN 237,639 thousand in 2019. Selling costs accounted for 5.8% of sales revenues for 2020. This decrease is attributable, among other factors, to a lower level of sales and, consequently, to lower transport costs from the share of carriage management.

General and administrative expenses for 2020 amounted to PLN 170,624 thousand which is a decrease by PLN 27,224 thousand (i.e. by 13.8%) as compared to PLN 197,848 thousand in 2019. The decline was due to from the release of the provision for the incentive program for key management personnel, because the estimates made at the end of 2020 did not substantiate the payments from the above plan.

Other operating income for 2020 amounted to PLN 76,948 thousand which represents a decrease by PLN 34,223 thousand (i.e. by 30.8%), compared to the amount of PLN 111,171 thousand for 2019. The year-on-year change is mainly due to the fact that in 2019 the Romanian company sold its surplus CO<sub>2</sub> certificates. Moreover, due to the implementation of investment tasks aimed at improving energy efficiency in the previous periods, in 2019 CIECH Soda Polska S.A. received new energy efficiency certificates (white certificates) whose value, due to the sharp increase in the prices of the certificates on the exchange, exceeded the value of expenditure on investment projects. The surplus amounted to PLN 13.5 million (the value of certificates obtained was determined on the basis of market prices) and was recognised on a one-off basis in other operating income.

Other operating expenses for 2020 amounted to PLN 113,876 thousand which represents a decrease by PLN 21,020 thousand from 2019, when these expenses amounted to PLN 134,896 thousand. The year-on-year decrease in other operating expenses results mainly from the recognition (under expenses of 2019) of an impairment loss on fixed assets in CIECH Soda Romania S.A. in the amount of PLN 73,486 thousand, in connection with the hibernation of the plant at the end of the third quarter of 2019 and, consequently, the growing cost of idle production capacity. Operating profit for 2020 stood at PLN 249,968 thousand, whereas in the comparative period it reached PLN 253,476 thousand.

### Financing activities and net profit/loss

Financial income for 2020 amounted to PLN 58,475 thousand and recorded a decrease compared to the corresponding period of the preceding year, when it amounted to PLN 5,065 thousand.

Financial expenses for 2020 amounted to PLN 120,149 thousand and recorded an increase as compared to the preceding year, when they amounted to PLN 88,843 thousand. The increase in financial costs was mainly due to losses on derivatives.

The CIECH Group's income tax for 2020 stood at PLN 64,949 thousand. The tax for 2019 amounted to PLN 65,390 thousand. The consolidated net profit for 2020 amounted to PLN 128,030 thousand (of which PLN 129,277 thousand was a net profit attributable to the shareholders of the parent company and PLN -1,247 thousand was the loss of non-controlling shares).

**EBITDA<sup>3</sup>**

TABLE 7: CONSOLIDATED EBITDA OF THE CIECH

	2020	2019*
<b>Net profit/(loss) on continuing operations</b>	<b>123,184</b>	<b>105,259</b>
Income tax	64,949	65,390
Share of profit / (loss) of equity-accounted investees	161	(1,106)
Financial expenses	120,149	88,998
Financial income	(58,475)	(5,065)
Amortisation/depreciation	333,280	299,994
<b>EBITDA on continued operations</b>	<b>583,248</b>	<b>553,470</b>
EBITDA on discontinued operations	19,693	15,489
<b>EBITDA on continued and discontinued operations</b>	<b>602,941</b>	<b>568,959</b>

\*Restated data. For detailed information on restatement and discontinued operations, see Notes 1.5.1 and 5.13 to Consolidated Financial Statements of the CIECH Group for 2020.

EBITDA from continuing operations for 2020 amounted to PLN 583,248 thousand which represents an increase by PLN 29,778 thousand from the amount of PLN 553,470 thousand earned in 2019. EBITDA increased mainly due to higher result on other operating activities.

The EBIT margin ratio amounted to 8.4% at the end of 2020 (7.8% in the preceding year) and the EBITDA margin ratio amounted to 19.6% (17.1% in the preceding year). The adjusted EBIT margin ratio amounted to 8.5% at the end of 2020 (10.5% in the preceding year) and the adjusted EBITDA margin ratio was similar to a year ago and amounted to 19.7%.

EBITDA on discontinued operations constitutes the EBITDA results of CIECH Żywiec Sp. z o.o. (intended for sale in connection with the conclusion of a preliminary sales agreement with LERG S.A.) and EBITDA of the CIECH Group companies (including CIECH S.A.) obtained from transactions with CIECH Żywiec Sp. z o.o.

**Adjusted EBITDA**

Adjusted EBITDA<sup>4</sup> is another additional ratio of operating performance. Adjusted EBITDA is EBITDA adjusted for costs/revenues that were classified by the management as one-off due to their nature. Adjusted EBITDA is a key ratio used in the Group to assess its performance.

TABLE 8: ADJUSTED EBITDA OF THE CIECH GROUP

	2020	2019*
<b>EBITDA on continued operations</b>	<b>583,248</b>	<b>553,470</b>
One-offs including:	2,084	85,600
Impairment (a)	3,597	72,938
Cash items (b)	(6,324)	(913)
Non-cash items (without impairment) (c)	4,811	13,575
<b>Adjusted EBITDA from continuing operations</b>	<b>585,332</b>	<b>639,070</b>
Adjusted EBITDA on discontinued operations	18,883	15,148
<b>Adjusted EBITDA on continued and discontinued operations</b>	<b>604,215</b>	<b>654,218</b>

\*Restated data. For detailed information on restatement and discontinued operations, see Notes 1.5.1 and 5.13 to Consolidated Financial Statements of the CIECH Group for 2020.

<sup>3</sup>EBITDA is the net profit/loss for a financial year plus income tax plus a share in net profit of subordinated entities evaluated with the equity method plus financial costs/income plus profit/loss on sale of a discontinued operation plus amortisation and depreciation. EBITDA is not a liquidity ratio or business performance ratio calculated in accordance with IFRS. EBITDA should be viewed as a supplement not as a substitute for the business performance presented in accordance with IFRS. EBITDA is a useful ratio of the ability to incur and serve debt. 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 EBITDA of other companies.

<sup>4</sup>Other companies may calculate adjusted EBITDA in a manner different from the manner applied by the CIECH Group. Adjusted 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.

(a) Impairment losses are associated with the recognition/reversal of impairment write-downs of assets value.

(b) Cash items include, among others, profit/loss of the sale of property, plant and equipment and other items (including fees and compensations received or paid).

(c) Non-cash items include: fair value measurement of investment properties, environmental provisions, provisions for liabilities and compensation, costs of unused production capacity, costs of development activities written-off and other items (including extraordinary costs and other provisions).

## 4.2.2 FINANCIAL PERFORMANCE BY OPERATING SEGMENT OF THE CIECH GROUP

During 2020, the CIECH Group's activities were focused on five operating Segments: Soda, Agro, Foams, Silicates, Packaging. Additionally, financial performance reported includes figures for the "other operations" segment, corporate functions and consolidation exclusions. The structure of sales revenues, by business segment, has not changed significantly in comparison with 2019. Invariably, the largest share in revenues was attributed to the sales of Soda Segment products (soda ash, sodium bicarbonate and salt), i.e. 70%.

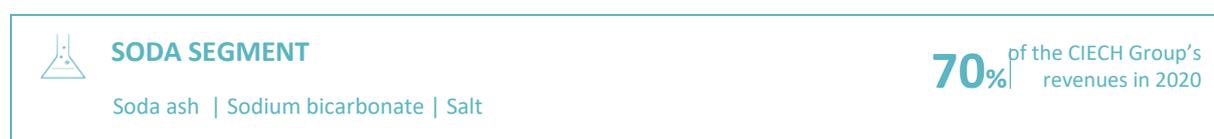
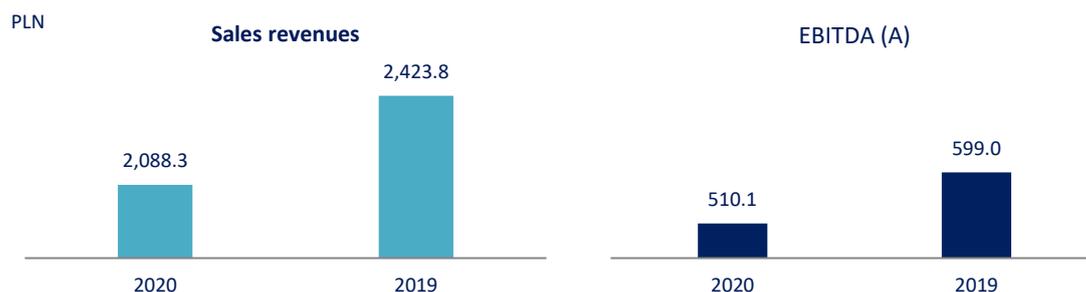


FIGURE 33: REVENUES AND ADJUSTED EBITDA IN THE SODA SEGMENT OF THE CIECH GROUP



In 2020, the Group's results in the Soda Segment were most significantly shaped by:

### Positive developments:

- Intensification of activities in the SPOT market as an effective way to cover volumes lost due to the economic crisis.
- Detailed monitoring of customers in industries sensitive to market downturns.
- Taking advantage of the positive economic climate during the 2020 contracting period, efficient volume reallocation resulting in significant price increases in 2020 (above market).
- Increasing the share of own transport in sales as an integral function of the service.
- Inter-segment diversification through introduction of new, highly processed products into the product portfolio – implementation of an investment in pharmaceutical-grade soda.
- Expansion of sales on the Polish feed, food, technical and flue gas desulphurisation markets (sodium bicarbonate).
- Stable increase in salt sales prices.
- Increasing production capacity in the salt tablet line by investing in machinery.
- Expansion of the salt product range – licks and salt granules.

### Negative developments:

- Decline in global demand for soda ash caused by the outbreak of the COVID-19 pandemic.
- Increased price competition in exports.
- Increased importance of Turkish exports outside Europe.
- A strong price competition in the feed segment with cheaper imports from Turkey (increase in imports by several percent), Bosnia (more than twofold increase in imports) and Russia.

- Continued lifting of anti-dumping duties in India on goods of US, Chinese, Russian and Turkish origin.
- Recycling of packaging glass, which results in lower demand for soda and thus glass packaging production in the market.
- Continued hibernation of the Romanian plant.
- Continuing high prices for EUA certificates,
- Problems with maintaining a high capacity utilisation rate – breakdowns resulting in temporary disruptions in the continuity of process steam supply and brine supply interruptions – mainly in the second part of 2020.
- Visible slump in demand in the HoReCa sector for salt products due to the temporary closure of swimming pools, restaurants, hotels, guest houses – salt tablets, table salt, granules.

TABLE 9: THE CIECH GROUP'S PERFORMANCE IN THE SODA SEGMENT

	2020	2019*	Change 2020/2019	Change %	% of total revenues in 2020	% of total revenues in 2019
<b>Sales revenues</b>	<b>2,088,270</b>	<b>2,423,767</b>	<b>(335,497)</b>	<b>(13.8%)</b>	<b>70.1%</b>	<b>74.7%</b>
Dense soda ash	1,159,682	1,316,420	(156,738)	(11.9%)	39.0%	40.6%
Light soda ash	269,129	444,555	(175,426)	(39.5%)	9.0%	13.7%
Salt	183,468	197,732	(14,264)	(7.2%)	6.2%	6.1%
Sodium bicarbonate	193,001	166,374	26,627	16.0%	6.5%	5.1%
Energy	146,955	140,469	6,486	4.6%	4.9%	4.3%
Calcium chloride	17,809	26,402	(8,593)	(32.5%)	0.6%	0.8%
Other products	60,999	60,917	82	0.1%	2.0%	1.9%
Revenues from inter-segment transactions	57,227	70,898	(13,671)	(19.3%)	1.9%	2.2%
<b>Gross profit /(loss) on sales</b>	<b>451,473</b>	<b>571,545</b>	<b>(120,072)</b>	<b>(21.0%)</b>		
<b>EBITDA</b>	<b>506,852</b>	<b>511,936</b>	<b>(5,084)</b>	<b>(1.0%)</b>		
<b>Adjusted EBITDA</b>	<b>510,090</b>	<b>599,034</b>	<b>(88,944)</b>	<b>(14.8%)</b>		

\*Restated data. For detailed information on restatement and discontinued operations, see Notes 1.5.1 and 5.13 to Consolidated Financial Statements of the CIECH Group for 2020.

Sales in the Soda Segment for 2020 amounted to PLN 2,088,270 thousand which represents a decrease by PLN 335,497 thousand (i.e. by 13.8%) as compared to sales for 2019, amounting to PLN 2,423,767 thousand. The decrease was mainly due to the suspension of soda production at the Romanian company, CIECH Soda Romania S.A. This was offset by a moderate increase in demand for soda, increase in salt sales prices and introduction of new products.

The gross profit on sales in the Soda Segment for 2020 amounted to PLN 451,473 thousand compared to PLN 571,545 thousand for 2019. The detailed reasons for the changes are described above.

In 2019, EBITDA in the Soda Segment was significantly affected by the recognition of an impairment loss on fixed assets in CIECH Soda Romania S.A. due to the discontinuation of soda production at this plant. The impairment loss amounted to PLN 73.5 million.

	<b>AGRO SEGMENT</b> Crop protection products	<b>12%</b> of the CIECH Group's revenues in 2020
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FIGURE 34: REVENUES AND ADJUSTED EBITDA IN THE AGRO SEGMENT OF THE CIECH GROUP



In 2020, the Group's results in the **Agro Segment** were most significantly shaped by:

**Positive developments:**

- Consistent commercial policy maintained throughout the year: stable conditions for distribution, rebuilding cooperation with key distributors, elimination of so-called oscillators at retail shop level.
- Substantial improvement of the S&OP (Sales and Operations Planning) process and strengthening the control of the purchasing process that is correlated with sales.
- Weather conditions in first quarter and the end of third quarter characterised by high humidity affected the growth of weeds and the spread of fungal diseases, resulted in increased sales of herbicides and fungicides. In addition, uncertainty as to further developments related to COVID-19 contributed to high pre-orders for Chwastox in November and December 2020.
- Increase in sales of products from Nowa Sarzyna (record market share since 2014) due to securing an adequate level of raw materials, protective and preventive measures with regard to production and due to logistical problems of competitors (delays in deliveries from Asia due to COVID-19).
- New registrations and label extensions in, among others, southern European countries.

**Negative developments:**

- Availability problems and delays in the supply of raw materials and products from China due to the ongoing COVID-19 pandemic.
- Delays in new product registrations – the result of a slowdown in the work of authorities and companies involved in testing new products both in Poland and across the European market, in Thailand and in Brazil.
- The drought in Poland at the end of second quarter and the beginning of third quarter caused significant drops in sales (there was no need to use herbicides and fungicides).
- Sales and logistics constraints in southern European countries and Australia caused by COVID-19 (delays in deliveries or cancellation of some deliveries).

TABLE 10: THE CIECH GROUP'S PERFORMANCE IN THE AGRO SEGMENT

	2020	2019*	Change 2020/2019	Change %	% of total revenues in 2020	% of total revenues in 2019
<b>Sales revenues</b>	<b>366,174</b>	<b>293,426</b>	<b>72,748</b>	<b>24.8%</b>	<b>12.3%</b>	<b>9.0%</b>
Agro products	365,490	292,920	72,570	24.8%	12.3%	9.0%
Revenues from inter-segment transactions	684	506	178	35.2%	0.0%	0.0%

	2020	2019*	Change 2020/2019	Change %	% of total revenues in 2020	% of total revenues in 2019
Gross profit /(loss) on sales	81,071	62,729	18,342	29.2%		
EBITDA	37,930	29,603	8,327	28.1%		
Adjusted EBITDA	41,128	30,028	11,100	37.0%		

\*Restated data. For detailed information on restatement and discontinued operations, see Notes 1.5.1 and 5.13 to Consolidated Financial Statements of the CIECH Group for 2020.

Sales in the Agro Segment for 2020 amounted to PLN 366,174 thousand which represents an increase by PLN 72,748 thousand (i.e. by 24.8%) as compared to sales for 2019, amounting to PLN 293,426 thousand.

The gross profit on sales in the Agro Segment for the year ended 31 December 2020 amounted to PLN 81,071 thousand and was higher than in 2019. Adjusted EBITDA increased by PLN 11,100 thousand from 2019. The detailed reasons for the changes are described above.



**FOAMS SEGMENT**  
Polyurethane foams

**9%** | of the CIECH Group's  
revenues in 2020

FIGURE 35: REVENUES AND ADJUSTED EBITDA IN THE FOAMS SEGMENT OF THE CIECH GROUP



In 2020, the Group's results **in the Foams Segment** were most significantly shaped by:

**Positive developments:**

- Attracting significant new customers characterised by high purchasing potential and an impeccable payment history.
- Implementation of viscoelastic foams with improved physical and mechanical parameters.
- Diversification of components used in foam production.

**Negative developments:**

- Decreased availability and higher prices of strategic raw materials, resulting in limited production of PUR foams.
- As a result of COVID-19, supply chain disruptions and periodic restrictions on the operation of furniture outlets in Western Europe.

TABLE 11: THE CIECH GROUP'S PERFORMANCE IN THE FOAMS SEGMENT

	2020	2019*	Change 2020/2019	Change %	% of total revenues in 2020	% of total revenues in 2019
Sales revenues	267,815	259,247	8,568	3.3%	9.0%	8.0%
Polyurethane foams	267,733	259,166	8,567	3.3%	9.0%	8.0%
Revenues from inter-segment transactions	82	81	1	1.2%	0.0%	0.0%



	2020	2019*	Change 2020/2019	Change %	% of total revenues in 2020	% of total revenues in 2019
Gross profit /(loss) on sales	45,627	37,346	8,281	22.2%		
EBITDA	37,633	30,575	7,058	23.1%		
Adjusted EBITDA	37,494	30,570	6,924	22.6%		

\*Restated data. For detailed information on restatement and discontinued operations, see Notes 1.5.1 and 5.13 to Consolidated Financial Statements of the CIECH Group for 2020.

Sales in the Foams Segment for 2020 amounted to PLN 267,815 thousand which represents an increase by PLN 8,568 thousand (i.e. by 3.3%) as compared to sales for 2019, amounting to PLN 259,247 thousand.

The gross profit on sales in the Foams Segment for the year ended 31 December 2020 amounted to PLN 45,627 thousand compared to PLN 37,346 thousand for the year ended 31 December 2019.



**SILICATES SEGMENT**  
Water glass | Silicates

**6%** | of the CIECH Group's  
revenues in 2020

FIGURE 36: REVENUES AND ADJUSTED EBITDA IN THE SILICATES SEGMENT OF THE CIECH GROUP



In 2020, the Group's results in the Silicates Segment were most significantly shaped by:

**Positive developments:**

- Achieving higher selling prices for silicates compared to 2019 due to a change in sales structure.
- Optimisation of the production process in order to reduce the level of the technical cost of production.

**Negative developments:**

- Lower sales of silicates in terms of volume and value due to the pandemic situation in Poland and worldwide (COVID-19).
- Competition in the liquid sodium silicate market, mainly due to significant underutilisation of production capacity and falling soda lye prices.

**TABLE 12: THE CIECH GROUP'S PERFORMANCE IN THE SILICATES SEGMENT**

	2020	2019*	Change 2020/2019	Change %	% of total revenues in 2020	% of total revenues in 2019
<b>Sales revenues</b>	<b>172,081</b>	<b>176,514</b>	<b>(4,433)</b>	<b>(2.5%)</b>	<b>5.8%</b>	<b>5.4%</b>
Sodium silicates	163,773	169,824	(6,051)	(3.6%)	5.5%	5.2%
Potassium silicates	8,079	6,153	1,926	31.3%	0.3%	0.2%
Revenues from inter-segment transactions	229	537	(308)	(57.4%)	0.0%	0.0%
<b>Gross profit /(loss) on sales</b>	<b>39,220</b>	<b>37,637</b>	<b>1,583</b>	<b>4.2%</b>		
<b>EBITDA</b>	<b>26,067</b>	<b>23,026</b>	<b>3,041</b>	<b>13.2%</b>		
<b>Adjusted EBITDA</b>	<b>25,964</b>	<b>25,815</b>	<b>149</b>	<b>0.6%</b>		

\*Restated data. For detailed information on restatement and discontinued operations, see Notes 1.5.1 and 5.13 to Consolidated Financial Statements of the CIECH Group for 2020.

Sales in the Silicates Segment for 2020 amounted to PLN 172,081 thousand which represents a decrease by PLN 4,433 thousand (i.e. by 2.5%) as compared to sales for 2019, amounting to PLN 176,514 thousand. This decrease was driven by lower sales of sodium silicates.

The gross profit on sales in the Silicates Segment for 2020 amounted to PLN 39,220 thousand compared to PLN 37,637 thousand for the year ended 31 December 2019.



**PACKAGING SEGMENT**  
Glass products

2%

of the CIECH  
Group's revenues  
in 2020

**FIGURE 37: REVENUES AND ADJUSTED EBITDA IN THE PACKAGING SEGMENT OF THE CIECH GROUP**


In 2020, the Group's results in the Packaging Segment were most significantly shaped by:

**Positive developments:**

- Change in the packaging product structure towards higher margin products and achievement of higher sales prices.
- Optimisation of the raw material mix to improve quality and reduce costs, as well as reducing waste.
- 

**Negative developments:**

- Lower sales of glass packaging in terms of volume and value due to the pandemic situation in Poland.
- Increased competition in the glass packaging area of the market, which resulted in a narrowing of the product range in the group of jars and lanterns and a focus on high-margin products.

TABLE 13: THE CIECH GROUP'S PERFORMANCE IN THE PACKAGING SEGMENT

	2020	2019*	Change 2020/2019	Change %	% of total revenues in 2020	% of total revenues in 2019
<b>Sales revenues</b>	<b>67,054</b>	<b>69,206</b>	<b>(2,152)</b>	<b>(3.1%)</b>	<b>2.3%</b>	<b>2.4%</b>
Glass packaging	67,051	69,205	(2,154)	(3.1%)	2.3%	2.1%
Revenues from inter-segment transactions	3	1	2	200.0%	0.0%	0.3%
<b>Gross profit /(loss) on sales</b>	<b>23,002</b>	<b>20,030</b>	<b>2,972</b>	<b>14.8%</b>		
<b>EBITDA</b>	<b>20,608</b>	<b>19,067</b>	<b>1,541</b>	<b>8.1%</b>		
<b>Adjusted EBITDA</b>	<b>22,020</b>	<b>17,954</b>	<b>4,066</b>	<b>22.6%</b>		

\*Restated data. For detailed information on restatement and discontinued operations, see Notes 1.5.1 and 5.13 to Consolidated Financial Statements of the CIECH Group for 2020.

Sales in the Packaging Segment for 2020 amounted to PLN 67,054 thousand which represents a decrease by PLN 2,152 thousand (i.e. by 3.1%) as compared to sales for 2019, amounting to PLN 69,206 thousand.

The gross profit on sales in the Packaging Segment for 2020 amounted to PLN 23,002 thousand compared to PLN 20,030 thousand for the year ended 31 December 2019.



#### OTHER ACTIVITIES SEGMENT

Services | Distribution | Sale and management of real property

Sales in the Other activities segment for 2020 amounted to PLN 127,882 thousand which represents a decrease by PLN 25,255 thousand (i.e. by 24.6%) as compared to sales for 2019, amounting to PLN 102,627 thousand.

The gross profit on sales in the Other activities segment for the year ended 31 December 2020 amounted to PLN 10,267 thousand compared to PLN 8,007 thousand for the year ended 31 December 2019.

### 4.2.3 ASSET POSITION OF THE CIECH GROUP

TABLE 14: BASIC CONSOLIDATED BALANCE SHEET DATA

	31.12.2020	31.12.2019*	Change 2020/2019
<b>Total assets</b>	<b>5,707,733</b>	<b>5,046,545</b>	<b>13.1%</b>
Total non-current assets	4,251,347	3,734,291	13.8%
Total current assets	1,456,386	1,312,254	11.0%
Inventory	348,989	455,704	(23.4%)
Current receivables	481,678	538,898	(10.6%)
Cash and cash equivalents	443,886	299,580	48.2%
Short-term financial assets	19,863	17,282	14.9%
Non-current assets held for sale	161,970	790	20402.5%
<b>Total equity</b>	<b>2,118,538</b>	<b>1,976,779</b>	<b>7.2%</b>
Equity attributable to shareholders of the parent	2,120,615	1,977,796	7.2%
Non-controlling interest	(2,077)	(1,017)	(104.2%)
Total non-current liabilities	401,146	1,970,287	(79.6%)
Total current liabilities	3,188,049	1,099,479	190.0%

\*Restated data. For detailed information on restatement and discontinued operations, see Notes 1.5.1 and 5.13 to Consolidated Financial Statements of the CIECH Group for 2020.

### Assets

As at the end of December 2020, the Group's non-current assets amounted to PLN 4,251,347 thousand. As compared to the balance as at 31 December 2019, the value of non-current assets increased by PLN 517,056 thousand. This change was mainly driven by further investments in non-current assets in companies, including the construction of the saltworks in the German company, CIECH Salz Deutschland GmbH.

The Group's current assets amounted to PLN 1,456,386 thousand as at 31 December 2020.

Compared to the end of December 2019, the value of current assets increased by PLN 144,132 thousand.

This change resulted from, among other factors:

- higher balance of cash accumulated in companies. In the first quarter of 2020, all funds available under the revolving credit lines were disbursed, funds disbursed in order to maximize the level of available liquidity and minimize the risk of unavailability of financing in connection with the growing uncertainty of economic developments due to the COVID-19 epidemic. In the third and fourth quarters of 2020, one of the credit lines was repaid, but compared to the balance as at the end of 2019, the utilisation of the revolving credit lines is more than PLN 300 million higher,
- lower balance of trade receivables,
- higher balance of factoring receivables which have not been settled as at the balance sheet date,
- higher balance of public-law receivables,
- decrease in inventories resulting mainly from a decrease in inventories in the Agro Segment.

Moreover, current assets include assets held for sale in connection with the planned sale of CIECH Żywiec Sp. z o.o. On this account, the value of the company's total assets as at 31 December 2020, amounting to PLN 163,957 thousand, was reported in this item. For details of the planned transaction, see Section 1.1 hereof.

### Capital resources

The sources of liquidity include cash flows generated from operating activities, cash from the sale of assets, cash from EU grants for capital expenditure, cash available due to the revolving credit facility agreement and overdraft facilities. The Group also uses factoring agreements.

### Liabilities

As at 31 December 2020, the CIECH Group's liabilities (non-current and current) amounted to PLN 3,589,195 thousand, which is an increase compared to the end of December 2019 by PLN 519,429 thousand (i.e. by 17%).

The debt ratio amounted to 62.9% as at 31 December 2020 (at the end of December 2019 to 60.8%). The consolidated net debt of the Group amounted to PLN 1,670,632 thousand as at 31 December 2020 and increased in comparison to the balance as at the end of December 2019 by PLN 148,271 thousand. The higher level of this indebtedness was influenced by the greater use of available credit limits and the high level of negative valuation of financial instruments.

### Debt instruments currently used

The Group's sources of debt financing include: term loan, revolving credit, overdraft as well as lease liabilities. Additional information about the management of financial resources is provided in Section 4.6.

## 4.2.4 CASH POSITION OF THE CIECH GROUP

TABLE 15: CONSOLIDATED CASH FLOWS OF THE CIECH GROUP

	01.01.-31.12.2020	01.01.-31.12.2019	Change 2020/2019
Net cash from operating activities	767,186	535,433	43.3%
Net cash from investment activities	(833,999)	(410,912)	(103.0%)
Net cash from financial activities	211,697	(17,172)	-
<b>Total net cash flows</b>	<b>144,884</b>	<b>107,349</b>	<b>35.0%</b>
Free cash flow	(66,813)	124,521	-

In 2020, total net cash flows were positive and amounted to PLN 144,884 thousand. Compared to the same period of the previous year, the cash flows generated by the Group were higher by PLN 37,535 thousand. Cash flows from operating activities amounted to PLN 767,186 thousand and increased as compared to the same period in 2019 by PLN 231,753 thousand.

In 2020, the net cash flows from investing activities were negative, which was mainly the result of expenses for an investment programme implemented by the Group. The net cash from financing activities was positive and amounted to PLN 211,697 thousand. In comparison to 2019, they were higher by PLN 228,869 thousand. The balance of cash from financing activities resulted mainly from funds obtained from credit facilities and repayment of lease liabilities.

TABLE 16: ABILITY TO GENERATE CASH FLOWS OF THE CIECH GROUP

	01.01.-31.12.2020	01.01.-31.12.2019
Financial surplus ((net profit/(loss) on continuing operations + depreciation)	466,639	419,579
Other adjustments to net profit/(loss) on continuing operations	(53,220)	60,014
<b>Adjusted financial surplus (1+2)</b>	<b>413,419</b>	<b>479,593</b>
Change in working capital	353,767	55,840
<b>Net cash from operating activities (3+4)</b>	<b>767,186</b>	<b>535,433</b>
Net cash from investing activities	(833,999)	(410,912)
<b>Free cash flow (5+6)</b>	<b>(66,813)</b>	<b>124,521</b>

In 2020, the CIECH Group generated negative free cash flows i.e. it was unable to finance its capital expenditure with cash flows from operating activities.

#### 4.2.5 SELECTED FINANCIAL RATIOS AND WORKING CAPITAL OF THE CIECH GROUP

##### Liquidity of the CIECH Group

Liquidity ratios as at 31 December 2020 dropped significantly as compared to their level as at 31 December 2019. The current ratio, calculated as the ratio of total current assets to total current liabilities, amounted to 0.46 as at 31 December 2020, while the quick liquidity ratio amounted to 0.35. It is related to the failure to meet the level of the ratio under the loan agreement, described in Note 7.1 to the Consolidated Financial Statements of the CIECH Group for 2020.

TABLE 17: LIQUIDITY RATIOS OF THE CIECH GROUP

	31.12.2020	31.12.2019
Wskaźnik bieżącej płynności	0.46	1.19
Wskaźnik szybkiej płynności	0.35	0.78

##### Working capital of the CIECH Group

As at the end of 2020, working capital, defined as the difference between current assets and short-term liabilities, adjusted by relevant balance sheet items (cash and cash equivalents and short-term loans) was negative and amounted to PLN 197,269 thousand, which is a decrease by PLN 226,919 thousand compared to the end of 2019.

TABLE 18: WORKING CAPITAL OF THE CIECH GROUP

	31.12.2020	31.12.2019
1. Current assets, including:	1,456,386	1,312,254
Inventory	348,989	455,704
Trade receivables and services and advances for deliveries	203,249	295,534
2. Cash and cash equivalents and short-term investments	463,749	316,862
<b>3. Adjusted current assets (1-2)</b>	<b>992,637</b>	<b>995,392</b>
4. Current liabilities, including:	3,188,049	1,099,479
Trade liabilities and advances taken	492,999	397,426



	31.12.2020	31.12.2019
5. Short-term credits and other current financial liabilities*	1,998,143	133,737
<b>6. Adjusted current liabilities (4-5)</b>	<b>1,189,906</b>	<b>965,742</b>
<b>7. Working capital including short-term credits(1-4)</b>	<b>(1,731,663)</b>	<b>212,775</b>
<b>8. Working capital (3-6)</b>	<b>(197,269)</b>	<b>29,650</b>
<b>9. Trade working capital</b>	<b>59,239</b>	<b>353,812</b>

\* Other short-term financial liabilities include current lease liabilities + current derivative liabilities + factoring liabilities.

Trade working capital is the difference between current assets (trade receivables and inventory) and trade liabilities. The recorded levels of working capital and trade working capital vary due to a number of factors such as the change in the scale of business, changes in key suppliers' payment terms, foreign exchange rates, the Group companies' strategic decisions regarding inventory maintenance and the seasonal nature of operations (in particular in the crop protection chemicals business).

The large decrease in the level of trade working capital from PLN 353,812 thousand in 2019 to the level of PLN 59,239 thousand at the end of 2020 (a change by PLN 294,573 thousand), was affected mainly by three initiatives. First, the Group companies negotiated shorter payment terms with recipients and longer payment terms to suppliers. Secondly, the companies from the Group benefited from higher factoring limits on receivables, and also introduced the use of a completely new instrument, which is reverse factoring, which gave a significant benefit at the end of the year. Third, a significant reduction in the level of inventories, mainly in the Agro Segment.

In order to ensure adequate financial liquidity, the Group has the access to a revolving credit facility and factoring limits.

Due to the failure to meet the level of the ratios, described in point 7.1 of the Consolidated Financial Statements of the CIECH Group, long-term liabilities due to loans were reclassified to short-term liabilities.

The significant decrease in the level of working capital was mainly due to the repayment of trade receivables to the Group companies, an increase in cash held in accounts and an increase in trade liabilities.

### The CIECH Group's profitability ratios

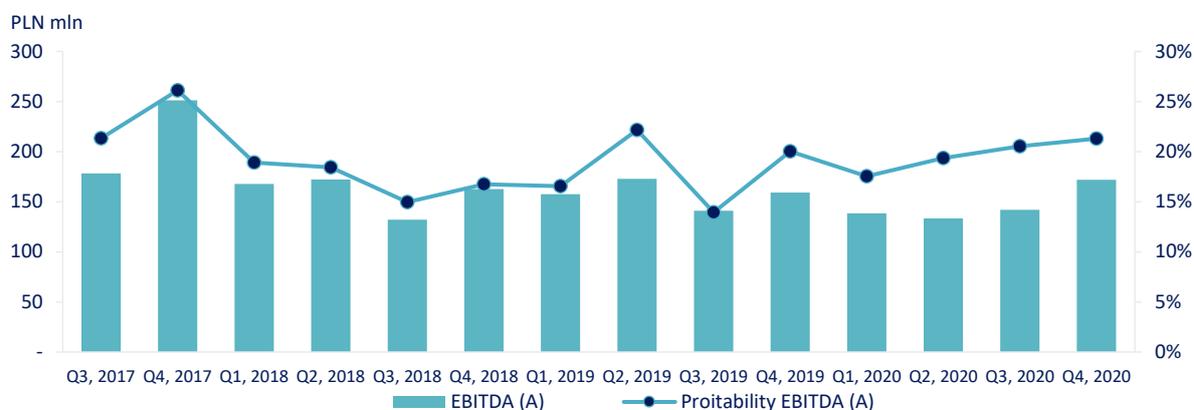
In 2020, most profitability ratios of the CIECH Group in respect of the continuing operations increased or remained relatively flat as compared to 2019.

TABLE 19: THE GROUP'S PROFITABILITY RATIOS

	2020	2019	Change 2020/2019
<b>CONTINUING OPERATIONS</b>			
Gross return on sales	21.2%	22.0%	(0.8) p.p.
Return on sales	9.6%	8.6%	1.0p.p.
EBIT margin	8.4%	7.8%	0.6p.p.
EBITDA margin	19.6%	17.1%	2.5p.p.
Adjusted EBIT margin	8.5%	10.5%	(2.0) p.p.
Adjusted EBITDA margin	19.7%	19.7%	(0.0) p.p.
Net return on sales (ROS)	4.1%	3.2%	1.1p.p.
Return on assets (ROA)	2.2%	2.2%	(0.0) p.p.
Return on equity (ROE)	5.8%	5.3%	0.5p.p.
Earnings/(loss) per share (in PLN) from continuing operations	2.36	2.02	0.34

\* Principles of calculating EBITDA and adjusted EBITDA have been described in section "Ratio calculation methodology".

**FIGURE 38: PROFITABILITY LEVELS OF THE CIECH GROUP**



EBITDA (A) – adjusted EBITDA – excluding one-off events reported in particular quarters.

### Indebtedness

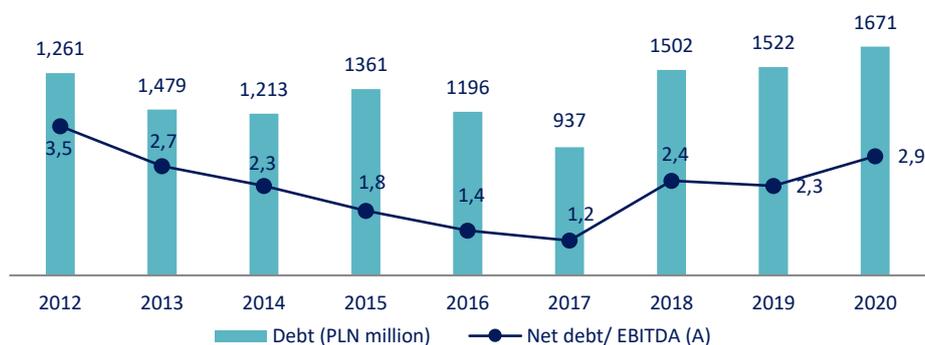
The debt ratio increased in comparison to December 2019 and amounts to 62.9%. Consequently, the relative level of net debt (net financial liabilities in relation to EBITDA) increased as compared to the end of 2019.

**TABLE 20: THE CIECH GROUP'S DEBT RATIOS**

	31.12.2020	31.12.2019	Change 2020/2019
Debt ratio	62.9%	60.8%	2.1 p.p.
Long term debt ratio	7.0%	39.0%	(32.0) p.p.
Debt to equity ratio	169.4%	155.3%	14.1 p.p.
Equity to assets ratio	37.1%	39.2%	(1.9) p.p.
Gross debt	2,114,518	1,821,941	16.1%
Net debt	1,670,632	1,522,361	9.7%
EBITDA annualized*	583,248	553,470	5.4%
Adjusted EBITDA (annualised)*	585,332	639,070	(8.4%)
Net debt / EBITDA annualized	2.9	2.8	6.3%
Net debt / Adjusted EBITDA (annualised)	2.9	2.4	22.3%
Gross debt / EBITDA annualised	3.7	3.3	10.1%
Gross debt / Adjusted EBITDA (annualised)	3.7	2.9	26.7%
Net debt according to Facilities Agreement	1,531,317	1,442,713	6.1%
Adjusted EBITDA (annualised) according to Facilities Agreement	625,396	659,101	(5.1%)
Net debt/ Adjusted EBITDA (annualised) according to Facilities Agreement	2.45	2.2	11.9%

\*Principles of calculating EBITDA and adjusted EBITDA have been described in section "Ratio calculation methodology".

FIGURE 39: DEBT OF THE CIECH GROUP (IN PLN MILLION) AND NET DEBT/EBITDA (A) RATIO



The ratio "Net debt/Adjusted EBITDA (annualized) in accordance with the Facilities Agreement" is calculated on the basis of the following principles:

- net debt in accordance with the Facilities Agreement do not include, inter alia, liabilities related to contracts classified as operating lease (before the implementation of IFRS 16 "Leasing") in the amount of PLN 110 million and do not include liabilities due to negative valuation of financial instruments in the amount of PLN 58 million,
- adjusted EBITDA in accordance with the Facilities Agreement takes into account EBITDA for continued and discontinued operations in the total amount of PLN 604 million, and is adjusted by, inter alia, write-offs on receivables and inventories in the amount of approx. PLN 19 million.

The ratio calculated on the basis of the definitions in the Facilities Agreement is 2.45 as at 31 December 2020 and is lower by 0.45 compared to the ratio calculated in the consolidated financial statements.

#### 4.2.6 GROUP'S PERFORMANCE IN THE 4<sup>TH</sup> QUARTER OF 2020

 TABLE 21: CIECH GROUP'S PERFORMANCE IN THE 4<sup>TH</sup> QUARTER OF 2020

	01.10.-31.12.2020	01.10.-31.12.2019**/**
<b>CONTINUING OPERATIONS</b>		
Sales revenues	804,165	734,056
Cost of sales	(619,927)	(559,588)
<b>Gross profit/(loss) on sales</b>	<b>184,238</b>	<b>174,468</b>
Other operating income	35,757	40,276
Selling costs	(55,576)	(51,365)
General and administrative expenses	(23,448)	(48,856)
Other operating expenses	(70,676)	(27,042)
<b>Operating profit/(loss)</b>	<b>70,295</b>	<b>87,481</b>
Financial income	28,262	(7,471)
Financial expenses	(40,441)	(36,095)
<b>Net financial income/(expenses)</b>	<b>(12,179)</b>	<b>(43,566)</b>
Share of profit / (loss) of equity-accounted investees	(237)	139
<b>Profit/(loss) before tax</b>	<b>57,879</b>	<b>44,054</b>
Income tax	(5,336)	(17,490)
<b>Net profit/(loss) on continuing operations</b>	<b>52,543</b>	<b>26,564</b>
<b>DISCONTINUED OPERATIONS</b>	-	-
Net profit/(loss) on discontinued operations	(702)	2,385
<b>Net profit / (loss) for the period</b>	<b>51,841</b>	<b>28,949</b>
including:		
Net profit/(loss) attributable to shareholders of the parent company	52,001	29,435



	01.10.-31.12.2020	01.10.-31.12.2019**/**
Net profit/(loss) attributed to non-controlling interest	(160)	(486)
<b>Earnings per share (in PLN):</b>		
Basic	0.98	0.55
Diluted	0.98	0.55

\*Unaudited data

\*\*Restated data. For detailed information on discontinued operations, see Notes 1.5.1 and 5.13 to the Consolidated Financial Statements of the CIECH Group for 2020.

In the fourth quarter of 2020, the CIECH Group achieved a lower operating profit compared to the corresponding period of 2019, recording a decrease by PLN 17,186 thousand. The lower level of sales was mainly due to the market factors described in section 4.2.2. On the other hand, positive foreign exchange differences had a positive impact on the financial activity and net result, which meant that the net result for the fourth quarter was higher than in the corresponding period of the previous year by PLN 22 892 thousand.

### 4.3 REVIEW OF KEY ECONOMIC AND FINANCIAL FIGURES CONCERNING CIECH S.A.

During 2020, CIECH S.A. generated net profit from continuing operations of PLN 154,834 thousand, net cash increased by PLN 90,953 thousand and total assets as at the end of 2020 amounted to PLN 4,357,634 thousand.

#### Forecast performance of the CIECH S.A.

CIECH S.A. did not publish any forecasts for 2020.

#### 4.3.1 STATEMENT OF PROFIT OR LOSS OF CIECH S.A.

TABLE 22: STATEMENT OF PROFIT OR LOSS OF CIECH S.A.

	01.01.-31.12.2020	01.01.-31.12.2019*	Change 2020/2019
<b>CONTINUING OPERATIONS</b>			
Sales revenues	1,654,075	2,085,515	(20.7%)
Cost of sales	(1,409,843)	(1,748,689)	19.4%
<b>Gross profit/(loss) on sales</b>	<b>244,232</b>	<b>336,826</b>	<b>(27.5%)</b>
Selling costs	(108,042)	(177,464)	39.1%
General and administrative expenses	(64,322)	(76,984)	16.4%
Other operating income/expense	(7,786)	21,962	-
<b>Operating profit/(loss)</b>	<b>64,082</b>	<b>104,340</b>	<b>(38.6%)</b>
Net financial income/expenses	113,808	(25,229)	-
Income tax	(23,056)	(26,695)	13.6%
<b>Net profit/(loss) on continuing operations</b>	<b>154,834</b>	<b>52,416</b>	<b>195.4%</b>
<b>DISCONTINUED OPERATIONS</b>			
Net profit/(loss) on discontinued operations	453	8,020	(94.4%)
<b>Net profit / (loss)</b>	<b>155,287</b>	<b>60,436</b>	<b>156.9%</b>
EBITDA from continuing operations	82,921	117,773	(29.6%)
Adjusted EBITDA from continuing operations**	81,905	113,954	(28.1%)

\* Data restated. Detailed information on discontinued operations is provided in Note 5.9 to the Financial Statements of CIECH S.A. for 2020.

\*\*Principles of calculating EBITDA and adjusted EBITDA have been described in section "Ratio calculation methodology".

## Sales revenues

Net sales revenues of CIECH S.A. from continuing operations for 2020 amounted to PLN 1,654,075 thousand. Compared to the previous year, revenues decreased by PLN 431,440 thousand (i.e. by 20.7%). The changes were mainly due to market factors.

The **positive** contributors to the presented sales revenues were as follows:

- successful contracting of soda prices for 2020 and intensification of activities in the SPOT market,
- inter-segment diversification through introduction of new, highly processed products into the product portfolio – implementation of an investment in pharmaceutical-grade soda,
- stable increase in salt sales prices,
- increasing the share of own transport in sales.

The **negative** contributors to the presented sales revenues were as follows:

- decrease in sales volumes of soda ash and salt due to the outbreak of the COVID-19 pandemic
- further hibernation of the soda plant in Romania.
- lower sales of raw materials for the production and crop protection chemicals, resins and PUR foams.
- increased price competition in exports.

TABLE 23: CIECH S.A.'S SALES BY BUSINESS SEGMENT

	2020	2019*	Change 2020/2019	Change %	% of total revenues in 2020
<b>Soda segment, including:</b>	<b>1,407,865</b>	<b>1,773,696</b>	<b>(365,831)</b>	<b>(20.6%)</b>	<b>85.1%</b>
Dense soda ash	814,859	985,772	(170,913)	(17.3%)	49.3%
Light soda ash	227,365	410,357	(182,992)	(44.6%)	13.7%
Salt	190,410	200,990	(10,580)	(5.3%)	11.5%
Sodium bicarbonate	105,770	98,702	7,068	7.2%	6.4%
Calcium chloride	18,111	26,174	(8,063)	(30.8%)	1.1%
Other goods and services	51,350	51,701	(351)	(0.7%)	3.1%
<b>Agro segment, including:</b>	<b>106,351</b>	<b>133,587</b>	<b>(27,236)</b>	<b>(20.4%)</b>	<b>6.4%</b>
Raw materials for production of plant protection products	98,137	129,381	(31,244)	(24.1%)	5.9%
Other goods and services	8,214	4,206	4,008	95.3%	0.5%
<b>Foam segment, including:</b>	<b>100,511</b>	<b>138,584</b>	<b>(38,073)</b>	<b>(27.5%)</b>	<b>6.1%</b>
Raw materials for the production of polyurethane foams	96,928	137,111	(40,183)	(29.3%)	5.9%
Other goods and services	3,583	1,473	2,110	143.2%	0.2%
<b>Silicates segment, including:</b>	<b>30,828</b>	<b>29,780</b>	<b>1,048</b>	<b>3.5%</b>	<b>1.9%</b>
Sodium silicates	11,279	10,436	843	8.1%	0.7%
Other goods and services	19,549	19,344	205	1.1%	1.2%
<b>Packaging segment, including:</b>	<b>194</b>	<b>-</b>	<b>194</b>	<b>-</b>	<b>0.0%</b>
Container glass	194	-	194	-	0.0%
<b>Other segment, including:</b>	<b>8,326</b>	<b>9,868</b>	<b>(1,542)</b>	<b>(15.6%)</b>	<b>0.5%</b>
Revenues from third parties	8,326	9,868	(1,542)	(15.6%)	0.5%
<b>TOTAL</b>	<b>1,654,075</b>	<b>2,085,515</b>	<b>(431,440)</b>	<b>(20.7%)</b>	<b>100.0%</b>

\* Data restated. Detailed information on discontinued operations is provided in Note 5.9 to the Financial Statements of CIECH S.A. for 2020.

#### CIECH S.A.'s sales in the Soda Segment

Sales in the Soda Segment for the year ended 31 December 2020 amounted to PLN 1,407,865 thousand, which is a decrease by PLN 365,831 thousand, compared to sales for the year ended 31 December 2019 which amounted to PLN thousand. The decrease was mainly caused by lower sales of soda ash due to the suspension of production at CIECH Soda Romania S.A.

#### CIECH S.A.'s sales in the Agro Segment

Sales in the Agro Segment for the year ended 31 December 2020 amounted to PLN 106,351 thousand, which is a decrease by PLN 27,236 thousand, compared to sales for the year ended 31 December 2019 which amounted to PLN 133,587 thousand. The decrease was caused by lower sales of raw materials for the production crop protection products.

#### CIECH S.A.'s sales in the Foams Segment

Sales in the Foams Segment for the year ended 31 December 2020 amounted to PLN 100,511 thousand, which is a decrease by PLN 38,073 thousand, compared to sales for the year ended 31 December 2019 which amounted to PLN 138,584 thousand. The decrease resulted primarily from lower sales of raw materials for the production of polyurethane foams.

#### CIECH S.A.'s sales in the Silicates Segment

Sales in the Silicates Segment for the year ended 31 December 2020 amounted to PLN 30,828 thousand, which means a decrease as compared to the previous year by PLN 1,048 thousand.

#### CIECH S.A.'s sales in the Packaging Segment

Sales in the Packaging Segment for the year ended 31 December 2020 amounted to PLN 194 thousand; in the comparable period, there were no sales in the Packaging Segment.

#### Cost of sales

Cost of goods sold from continuing operations for the year ended 31 December 2020 amounted to PLN 1,409,843 thousand, which is a decrease by PLN 338,846 thousand (or 19.4%) compared to PLN 1,748,689 thousand in the cost of goods sold in 2019. The decrease was caused by lower sales of soda from the Group and lower sales of raw materials for the Agro and Foams Segments.

#### Gross profit on sales

TABLE 24: CIECH S.A.'S GROSS PROFIT ON SALES BY BUSINESS SEGMENT

	2020	2019*	Change 2020/2019
Soda Segment	225,103	324,361	(30.6%)
Agro Segment	7,153	4,202	70.2%
Foams Segment	7,301	5,355	36.3%
Silicates Segment	3,125	2,320	34.7%
Packaging Segment	8	-	-
Other	1,542	588	162.2%
<b>Gross profit /(loss) on sales</b>	<b>244,232</b>	<b>336,826</b>	<b>(27.5%)</b>

\* Data restated. Detailed information on discontinued operations is provided in Note 5.9 to the Financial Statements of CIECH S.A. for 2020.

#### Soda Segment

The gross profit on sales from continuing operations in the Soda Segment for the year ended 31 December 2020 amounted to PLN 225,103 thousand compared to PLN 324,361 thousand for the year ended 31 December 2019. The decrease was mainly caused by lower sales of soda as a result of the suspension of production at CIECH Soda Romania S.A. and the impact of the COVID-19 pandemic.

#### Agro Segment

The gross profit on sales from continuing operations in the Agro Segment for the year ended 31 December 2020 amounted to PLN 7,153 thousand compared to PLN 4,202 thousand for the year ended 31 December 2019.

#### Foams Segment

The gross profit on sales from continuing operations in the Foams Segment for the year ended 31 December 2020 amounted to PLN 7,301 thousand compared to PLN 5,355 thousand for the year ended 31 December 2019.

#### Silicates Segment

The gross profit on sales from continuing operations in the Silicates Segment for the year ended 31 December 2020 amounted to PLN 3,125 thousand compared to PLN 2,320 thousand for the year ended 31 December 2019.

#### Packaging Segment

The gross profit on sales from continuing operations in the Packaging Segment for the year ended 31 December 2020 amounted to PLN 8 thousand; in the comparative period, there were no sales in the Packaging Segment.

#### Operating profit

Other operating income from continuing operations for 2020 amounted to PLN 5,590 thousand which represents a decrease by PLN 21,311 thousand compared to the amount of PLN 26,901 thousand for 2019.

The year-on-year decrease is due to the recognition of an amount of PLN 17,612 thousand in other operating expenses in 2019, representing the value of the deferred payment for the acquisition of Proplan. EUR 4,136 thousand of discounted conditional deferred payment which depended on Proplan's results for 2018 and 2019, was payable respectively in 2019 and 2020 (the estimation of nominal payments at the moment of acquisition of control was EUR 4,270 thousand). However, due to the fact that Proplan failed to achieve financial results allowing for payment of this part of consideration for the acquisition of Proplan Plant Protection Company, S.L., the value of this deferred payment was recognised on a one-off basis in the comparative period as other operating income in the amount of PLN 17,612 thousand.

Selling costs from continuing operations for 2020 amounted to PLN 108,042 thousand which represents a decrease by PLN 69,422 thousand (i.e. by 39.1%), compared to thousand in 2019. This decrease was mainly due to lower transport costs resulting from lower sales volume.

General and administrative expenses from continuing operations for 2020 amounted to PLN 64,322 thousand which means that decreased as compared to the amount of PLN 76,984 thousand in 2019.

Other operating expenses for 2020 amounted to PLN 13,376 thousand which is an increase by PLN 8,437 thousand from PLN 4,939 thousand in 2019. The increase was mainly driven by an impairment loss on trade receivables.

Operating profit from continuing operations for 2020 reached PLN 64,082 thousand, while in the comparable period it amounted to PLN 104,340 thousand.

#### Financing activities and net profit/loss

Financial income from continuing operations for 2020 amounted to PLN 286,286 thousand and increased from PLN 86,107 thousand reported in the previous year. In 2020, financial income was positively driven by higher dividends received from subsidiaries.

Financial expenses from continuing operations for 2020 amounted to PLN 172,478 thousand and recorded an increase as compared to the preceding year, when they amounted to PLN 111,336 thousand. The increase in financial expenses was mainly driven by a loss on derivative instruments.

CIECH S.A.'s separate net profit for 2020 amounted to PLN 155,287 thousand and was higher by 94,851 thousand than the net profit for 2019. The increase in net profit compared to 2019 is mainly attributable to the net financial income (in 2020 CIECH S.A. received over PLN 180 million in dividends from its subsidiaries). The net profit was negatively affected by weaker results from primary operating activities, related in part to the impact of the COVID 19 pandemic on the market.

**EBITDA<sup>5</sup>**

TABLE 25: CIECH S.A.'S EBITDA

	2020	2019*	Change 2020/2019
Net profit/(loss) on continuing operations	154,834	52,416	195.4%
Income tax	23,056	26,695	(13.6%)
Financial expenses	172,478	111,336	54.9%
Financial income	(286,286)	(86,107)	(232.5%)
Amortisation/depreciation	18,839	13,433	40.2%
<b>EBITDA from continuing operations</b>	<b>82,921</b>	<b>117,773</b>	<b>(29.6%)</b>

\* Data restated. Detailed information on discontinued operations is provided in Note 5.9 to the Financial Statements of CIECH S.A. for 2020.

EBITDA from continuing operations in the year ended 31 December 2020 amounted to PLN 82,921 thousand, which represents a decrease by PLN 34,852 thousand, compared to PLN 117,773 thousand for the year ended 31 December 2019. EBITDA was affected by lower level of operating activity related, inter alia, with no soda production from the plant in Romania, the sale of which was handled by the CIECH S.A. branch.

**Adjusted EBITDA<sup>6</sup>**

TABLE 26: ADJUSTED EBITDA OF CIECH S.A.

	2020	2019*
<b>EBITDA on continued operations</b>	<b>82,921</b>	<b>117,773</b>
One-offs including:		
Cash items (a)	840	(40)
Non-cash items (without impairment) (b)	(1,856)	(3,779)
<b>Adjusted EBITDA from continuing operations</b>	<b>81,905</b>	<b>113,954</b>

\* Data restated. Detailed information on discontinued operations is provided in Note 5.9 to the Financial Statements of CIECH S.A. for 2020.

(a) Cash items include, among others, gain/loss on the sale of property, plant and equipment and other items (including fees and compensations received or paid).

(b) Non-cash items include: provisions for liabilities, compensation and other provisions.

<sup>5</sup>EBITDA is the net profit/loss for a financial year plus income tax plus costs/financial income plus profit/loss on sale of a discontinued operation plus amortisation and depreciation. EBITDA is not a liquidity ratio or business performance ratio calculated in accordance with IFRS. EBITDA should be viewed as a supplement not as a substitute for the business performance presented in accordance with IFRS. EBITDA is a useful ratio of the ability to incur and serve debt. 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 EBITDA of other companies.

<sup>6</sup>Adjusted EBITDA is another additional ratio of operating performance. Adjusted EBITDA is EBITDA adjusted for costs/revenues that were classified by the management as one-off due to their nature. We believe that adjusted EBITDA is an important ratio when estimating and measuring the Company's recurring business performance. Other companies may calculate adjusted EBITDA in a manner different from the manner applied by CIECH S.A. Adjusted 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.

### 4.3.2 ASSET POSITION OF CIECH S.A.

TABLE 27: SELECTED BALANCE SHEET DATA OF CIECH S.A.

	31.12.2020	31.12.2019	% Change 2020/2019	Change in value 2020/2019
<b>Total assets</b>	<b>4,357,634</b>	<b>3,889,932</b>	<b>12.0%</b>	<b>467,702</b>
Total non-current assets	2,633,932	2,517,014	4.6%	116,918
Total current assets	1,723,702	1,372,918	25.6%	350,784
Inventory	6,394	30,694	(79.2%)	(24,300)
Current receivables	232,895	378,010	(38.4%)	(145,115)
Cash and cash equivalents	265,287	169,983	56.1%	95,304
Short-term financial assets	1,189,162	794,231	49.7%	394,931
Non-current assets held for sale	29,964	-	-	29,964
<b>Total equity</b>	<b>1,593,768</b>	<b>1,463,206</b>	<b>8.9%</b>	<b>130,562</b>
Total non-current liabilities	40,973	1,632,936	(97.5%)	(1,591,963)
Total current liabilities	2,722,893	793,790	243.0%	1,929,103

#### Assets

As at the end of 2020, the CIECH S.A.'s non-current assets amounted to PLN 2,633,932 thousand. As compared to the balance as at 31 December 2019, the value of non-current assets increased by PLN 116,918 thousand. This increase resulted from higher balance of loans advanced to subsidiaries.

CIECH S.A.'s current assets amounted to PLN 1,723,702 thousand as at 31 December 2020. Compared to the end of December 2019, the value of current assets increased by PLN 350,784 thousand. This increase resulted from higher balance of loans advanced to subsidiaries. The decrease in short-term receivables was due to, among other things, a lower balance of trade receivables resulting from lower sales of goods and the repayment of receivables by companies from the Group.

#### Liabilities

As at 31 December 2020, liabilities (non-current and current) of CIECH S.A. amounted to PLN 2,763,866 thousand, which is an increase compared to the end of December 2019 by PLN 337,140 thousand. This increase was mainly driven by new credits and loans.

The debt ratio amounted to 63.4% as at 31 December 2020 (at the end of December 2019 to 62.4%). CIECH S.A.'s standalone net debt amounted to PLN 2,067,732 thousand as at 31 December 2020 and decreased from the end of December 2019 by PLN 283,640 thousand.

The significant change between long-term and short-term debt resulted from failure to meet one of the ratios in the loan agreement, and therefore the total value of loans made available on the basis of the above-mentioned contracts has been reclassified into short-term loan liabilities. Detailed information on the ratios included in the loan agreements is described in point 7.1 of the Consolidated Financial Statement of the CIECH Group.

#### Capital resources and debt instruments

The sources of liquidity include cash flows generated from operating activities, cash from the sale of assets, cash available due to the revolving credit facility agreement and overdraft facilities. The Company also uses factoring agreements.

#### Debt instruments currently used

CIECH S.A.'s sources of debt financing include, among others, a term loan, revolving credit and working capital facilities.

### 4.3.3 CASH POSITION OF CIECH S.A.

TABLE 28: CIECH S.A.'S CASH FLOWS

	01.01.-31.12.2020	01.01.-31.12.2019	Change 2020/2019
Net cash from operating activities	66,310	(62,551)	-
Net cash from investment activities	(303,166)	135,380	-
Net cash from financial activities	327,809	42,089	678.8%
<b>Total net cash flows</b>	<b>90,953</b>	<b>114,918</b>	<b>(20.9%)</b>
free cash flows	(236,856)	72,829	-

In 2020, total net cash flows were positive and amounted to PLN 90,953 thousand. Compared to the same period of the previous year, the cash flows generated by CIECH S.A. were lower by PLN 23,965 thousand. Cash flows from operating activities were positive and amounted to PLN 66,310 thousand. They increased as compared to the same period in 2019 by PLN 128,861 thousand.

In 2020, the net cash flows from investing activities were negative. Investment outflows were higher than investment inflows by PLN -303,166 thousand. Disbursements of loans advanced to subsidiaries had the main impact on net cash flows from investment activities.

The net cash from financing activities was positive and amounted to PLN 327,809 thousand. As compared to the corresponding period of 2019, they were higher by PLN 285,720 thousand. These activities were mainly affected by cash related to the disbursement of credit lines and funds obtained from the cash pooling arrangement.

#### Ability to generate cash flows

In 2020, CIECH S.A. generated negative free cash flows due to the fact that the amount of capital expenditure was higher than the cash flows from operating activities. The high level of investment expenditure is mainly attributable to loans advanced to subsidiaries.

TABLE 29: CIECH S.A.'S ABILITY TO GENERATE CASH FLOWS

	01.01.-31.12.2020	01.01.-31.12.2019
Financial surplus ((net profit/(loss) on continuing operations + depreciation)	174,126	73,869
Other adjustments to net profit/(loss) on continuing operations	(206,637)	(89,109)
<b>Adjusted financial surplus (1+2)</b>	<b>(32,511)</b>	<b>(15,240)</b>
Change in working capital	98,821	(47,311)
<b>Net cash from operating activities (3+4)</b>	<b>66,310</b>	<b>(62,551)</b>
Net cash from investing activities	(303,166)	135,380
<b>Free cash flow (5+6)</b>	<b>(236,856)</b>	<b>72,829</b>

### 4.3.4 SELECTED FINANCIAL RATIOS AND WORKING CAPITAL OF CIECH S.A.

#### Profitability ratios of CIECH S.A.

TABLE 30: CIECH S.A.'S PROFITABILITY RATIOS

	2020	2019	Change 2020/2019
<b>CONTINUING OPERATIONS</b>			
Gross return on sales	14.8%	16.2%	(1.4) p.p.

	2020	2019	Change 2020/2019
Return on sales	4.3%	4.0%	0.3.0p.p.
EBIT margin	3.9%	5.0%	(1.1) p.p.
EBITDA margin	5.0%	5.6%	(0.6) p.p.
Adjusted EBIT margin*	3.8%	4.8%	(1.0) p.p.
Adjusted EBITDA margin*	5.0%	5.5%	(0.5) p.p.
Net return on sales (ROS)	9.4%	2.5%	6.9p.p.
Return on assets (ROA)	3.6%	1.3%	2.3p.p.
Return on equity (ROE)	9.7%	3.6%	6.1p.p.
Earnings/(loss) per share (in PLN) from continuing operations	2.94	0.99	1.95

\*Principles of calculating EBITDA and adjusted EBITDA have been described in section "Ratio calculation methodology".

### CIECH S.A.'s liquidity and working capital

Liquidity ratios as at 31 December 2020 significantly decreased as compared to their level as at 31 December 2019. It is related to the failure to meet the level of the ratio specified in the loan agreement. The current ratio, calculated as the ratio of total current assets to total current liabilities, amounted to 0.63 as at 31 December 2020.

TABLE 31: CIECH S.A.'S LIQUIDITY RATIOS

	31.12.2020	31.12.2019
Current ratio	0.63	1.73
Quick ratio	0.63	1.69

### CIECH S.A.'s working capital

As at the end of 2020, working capital, defined as the difference between current assets and current liabilities, adjusted by relevant balance sheet items (cash and cash equivalents and short-term loans) was negative and amounted to PLN 173,072 thousand, which is a decrease by PLN 125,378 thousand compared to the end of 2019.

TABLE 32: CIECH S.A.'S WORKING CAPITAL

	31.12.2020	31.12.2019
1. Current assets, including:	1,723,702	1,372,918
Inventory	6,394	30,694
Trade receivables and services and advances for deliveries	170,758	287,389
2. Cash and cash equivalents and short-term investments	1,454,449	964,214
<b>3. Adjusted current assets (1-2)</b>	<b>269,253</b>	<b>408,704</b>
4. Current liabilities, including:	2,722,893	793,790
Trade liabilities and advances taken	332,006	385,748
5. Short-term credits and other current financial liabilities*	2,280,568	337,392
<b>6. Adjusted current liabilities (4-5)</b>	<b>442,325</b>	<b>456,398</b>
<b>7. Working capital including short-term credits(1-4)</b>	<b>(999,191)</b>	<b>579,128</b>
<b>8. Working capital (3-6)</b>	<b>(173,072)</b>	<b>(47,694)</b>
<b>9. Trade working capital</b>	<b>(154,854)</b>	<b>(67,665)</b>

\* Other current financial liabilities include current derivative liabilities + lease liabilities + factoring liabilities + cash pooling liabilities.

Trade working capital is the difference between current assets (trade receivables and inventory) and trade liabilities. The recorded levels of working capital and trade working capital vary due to a number of factors such as the change in the scale of business, changes in key suppliers' payment terms, foreign exchange rates, the Company's strategic decisions regarding

inventory maintenance. In order to ensure adequate financial liquidity, the Company has the access to a revolving credit facility and factoring limits. The significant decrease in the level of working capital was mainly due to the repayment of trade receivables by the subsidiary CIECH Sarzyna S.A.

The largest change between long-term and short-term debt resulted from failure to meet one of the ratios in the loan agreement, and therefore the total value of loans made available on the basis of the above-mentioned contracts has been reclassified into short-term loan liabilities. Detailed information on the ratios included in the loan agreements is described in point 7.1 of the Financial Statements of CIECH S.A.

#### Indebtedness

In 2020, the debt ratio increased in comparison to December 2019 and amounts to .

TABLE 33: CIECH S.A.'S DEBT RATIOS

	31.12.2020	31.12.2019	Change 2020/2019
Debt ratio	63.4%	62.4%	1%
Long term debt ratio	0.9%	42.0%	-41%
Debt to equity ratio	173.4%	165.8%	8%
Equity to assets ratio	36.6%	37.6%	-1%

#### 4.3.5 CIECH S.A.'S PERFORMANCE IN THE 4<sup>TH</sup> QUARTER OF 2020

TABLE 34: CIECH S.A.'S PERFORMANCE IN THE 4<sup>TH</sup> QUARTER OF 2020

	01.10.-31.12.2020*	01.10.-31.12.2019*/**
<b>CONTINUING OPERATIONS</b>		
<b>Sales revenues</b>	<b>414,956</b>	<b>448,217</b>
Cost of sales	(346,801)	(328,681)
<b>Gross profit on sales</b>	<b>68,155</b>	<b>119,536</b>
Other operating income	(65)	22,067
Selling costs	(31,529)	(36,517)
General and administrative expenses	(1,195)	(10,897)
Other operating expenses	491	(2,304)
<b>Operating profit</b>	<b>35,857</b>	<b>91,885</b>
Financial income	176,072	17,942
Financial expenses	(57,195)	(22,126)
<b>Net financial income/(expenses)</b>	<b>118,877</b>	<b>(4,184)</b>
<b>Profit before tax</b>	<b>154,734</b>	<b>87,701</b>
Income tax	(22,026)	(20,681)
<b>Net profit on continuing operations</b>	<b>132,708</b>	<b>67,020</b>
<b>DISCONTINUED OPERATIONS</b>	-	-
Net profit/(loss) on discontinued operations	2,415	2,746
<b>Net profit for the year</b>	<b>135,123</b>	<b>69,766</b>
including:		
Net profit attributable to shareholders of the parent company	135,123	69,766
Net profit/(loss) attributed to non-controlling interest	-	-
<b>Earnings per share (in PLN):</b>		
Basic	2.57	1.33
Diluted	2.57	1.33
<b>Earnings per share (in PLN) from continuing operations:</b>		

	01.10.-31.12.2020*	01.10.-31.12.2019**/**
Basic	2.52	1.27
Diluted	2.52	1.27

\*Unaudited data

\* Data restated. Detailed information on discontinued operations is provided in Note 5.9 to the Financial Statements of CIECH S.A. for 2020.

In the fourth quarter of 2020, CIECH S.A. recorded a decrease in operating profit by PLN 56,028 thousand compared to the corresponding period of 2019, while the level of net profit is higher, mainly due to higher proceeds from financing activities. The net results of CIECH S.A.'s operations in the fourth quarter of 2020 were driven by a higher result on financing activities, among others from dividends received from subsidiaries.

## 4.4 INVESTING ACTIVITIES OF THE CIECH GROUP

### Investments implemented in 2020

The CIECH Group has and constantly updates its capital expenditure program for production facilities in order to develop or maintain the current levels of production in particular plants and their expansion, as well as to fulfil the conditions related to customers' requirements and new legal regulations. Capital expenditure incurred by the Company and its subsidiaries is primarily intended to replace worn-out equipment and to modernise facilities in order to improve energy efficiency, reduce emissions, streamline the automation and control process, streamline management processes, as well as to seek new development opportunities.

Investment outlays on key tasks incurred by the CIECH Group companies in 2020 amounted to approx. PLN 757 million. In total, expenditure on investment activities amounted to PLN 839 million and included the purchase of intangible assets and tangible fixed assets, expenditure on development work and expenditure on the purchase of CO<sub>2</sub> certificates. Major capital expenditures were spent on several large-scale projects, including the construction of a salt plant in Stassfurt, development of new products in the Agro Segment. Furthermore, in 2020 CIECH Soda Polska S.A. finalised the implementation of large projects relating to the modernisation of the energy area to improve the efficiency and effectiveness of the energy area (replacement and modernisation of turbine generators, modernisation of boilers). Expenditure in the R&D area in 2020 was primarily focused on the registration of new active substances and crop protection products based on those substances. Other investment expenditures were incurred mainly in relation to modernisation and replacement projects which aimed at improving and retaining the production capacity as well as improving the production efficiency of the plants.

Decisions relating to executing development projects are made on the basis of a detailed analysis of each task, including analyses of investment effectiveness and ratios such as: the internal rate of return (IRR), net present value (NPV) and payback period. Key projects implemented in 2020 are presented below:

TABLE 35: KEY INVESTMENT PROJECTS OF THE CIECH GROUP IMPLEMENTED IN 2020

	Investment project	Implementation status in 2020
	<b>Development investments in the Soda Segment – CIECH Soda Deutschland</b> The Stassfurt plant is implementing a two-stage project to build a facility for the production of a highly specialised product, i.e. soda for dialysis. In 2017, key tender procedures were completed, technological and construction designs were prepared and a number of administrative decisions were obtained. Construction started in 2018, construction of the facility was completed in 2019. In 2020, the facility was ramped up to assumed production levels.	<b>Project completed - nominal capacity achieved.</b>
	<b>Salt – increase of production capacity</b> In 2018, the planning phase was completed and the implementation phase of the Group's largest project in the salt area – the construction of the plant in Strassfurt – commenced. The project is scheduled to be completed in 2021.	<b>Project in implementation.</b>
	<b>R&amp;D projects</b> In 2020, the CIECH Group incurred significant expenditures on R&D activities:	<b>Projects in implementation.</b>

Investment project	Implementation status in 2020
<ul style="list-style-type: none"><li>• registrations of new active substances used in the production of crop protection chemicals and products based on these active substances,</li><li>• installation for the recycling of CO<sub>2</sub> back into the production process</li><li>• Construction of the Research and Development Centre in Nowa Sarzyna</li></ul>	
<p><b>Energy Project Package</b></p> <p>In 2018, the implementation of a multi-annual investment programme in the energy area was commenced. Replacement and modernisation projects implemented under the programme will contribute to increasing the efficiency and reliability of energy generation sources, especially in the Inowrocław and Janikowo plants (replacement of coal mills, modernisation and replacement of boilers, modernisation and replacement of turbines).</p>	<b>Project in implementation.</b>

As part of the investment expenditure plan for 2021, the CIECH Group assumes further implementation of the aforementioned projects, execution of new development projects that are currently in the preparatory phase and execution of new tasks aimed at restoring and increasing the production capacity of individual plants. The most important projects include the construction of a salt plant in Stassfurt, construction of a furnace for the production of glassy sodium silicate in Żary, continuation of tasks related to restoration and upgrade of assets in the soda area, as well as the upgrade of the energy area (upgrade of boilers and turbines, replacement of lighting with LEDs). The CIECH Group will also continue a number of R&D activities aimed at increasing the efficiency of technological processes in the area of production and implementing modern products responding to the growing needs of the market (pharmaceutical-grade sodium bicarbonate, as well as work on the extension and optimisation of the agro product portfolio). The CIECH Group is also working on new development projects. The implementation of these projects will depend on business decisions taken on an individual basis.

#### Evaluation of the ability to complete investment plans in relation to owned assets

The CIECH Group's investment policy has been updated to include new task planning and implementation principles and is always adapted to the current ability to acquire capital so that it fully covers the planned material and capital investment. The sources of financing of investing activities in the CIECH Group are as follows:

- cash flows from operating activities,
- external sources of funding in the form of bank loans,
- external sources of funding in the form of European Union funds.

#### 4.5 STATE AID USED

In 2020, the CIECH Group companies continued publicly subsidised projects launched in previous years. Particularly intensive work was carried out by CIECH Salz Deutschland GmbH as part of the project to build a new salt production plant in Stassfurt, Germany (over EUR 11 million in funding awarded in 2017).

In June 2020, CIECH R&D Sp. z o.o. settled the project "Development by CIECH R&D sp. z o.o. in cooperation with Nicolaus Copernicus University in Toruń (subcontractor) of a globally innovative technology for ammonia brine carbonation allowing the increase of sodium efficiency in the soda ash production process". CIECH R&D Sp. z o.o. received over PLN 370 thousand as the last tranche of the subsidy. A project aimed at reversing CO<sub>2</sub> in the soda production process was also implemented by CIECH R&D Sp. z o.o. for another year. The work carried out in 2020 resulted in the receipt of a refund in the amount of over PLN 330 thousand. The project will be continued in 2021. The company also continued the implementation of the project entitled "Establishment of a Research and Development Center of Ciech R&D Sp. z o.o.". The financial and material settlement of the aforementioned project will be carried out in 2021.

Smart Fluid Sp. z o.o. continued to carry out R&D works aimed at verifying in real conditions the thesis about the possibility of using shear thickened liquids for large-scale, economically viable production of material, which is a semi-finished product for manufacturers of widely understood clothing / protective elements / sports accessories. The work completed allowed the company to receive a refund of more than PLN 440 thousand from a subsidy granted in the amount of more than PLN 5 million.

CIECH Soda Polska S.A. received a positive decision regarding the change of the commencement date of the project aimed at the development and implementation of anomaly detection methods and algorithms, predictive and prescriptive algorithms and the development of a neural metamodel to optimise processes at some nodes of the soda ash production plant. The project will be launched in 2021, rather than in 2020, as originally planned. The company has also submitted an application for subsidy for the project entitled "Construction of a Gas and Steam Complex together with a recovery boiler on the premises of the Inowrocław Plant". The requested subsidy amount is over PLN 30.2 million.

## 4.6 FINANCIAL RESOURCE MANAGEMENT

### 4.6.1 EXTERNAL DEBT FINANCING OF THE GROUP

The CIECH S.A.'s debt financing is secured mainly through loans made available to CIECH S.A. under the Facilities Agreement dated 9 January 2018:

1. The Facilities Agreement signed with a consortium of banks dated 9 January 2018:
  - o term loan in the amount of PLN 1,212,520 thousand and EUR 30,000 thousand (the total amount of the loan as at 31 December 2020 was PLN 1,350,964 thousand),
  - o revolving credit facility granted to CIECH S.A. in the amount of up to PLN 250,000 thousand (the amount of used credit as at 31 December 2020 was PLN 0 thousand).
2. Overdraft facilities up to PLN 100,000 thousand and EUR 10,000 thousand under agreements dated 28 and 29 August 2018 (as at 31 December 2020, the amount used was PLN 43,095 thousand),
3. Revolving credit facilities up to PLN 392,788 thousand and EUR 25,000 thousand, under three agreements dated 18 April 2019 (as at 31 December 2020, the amount used was PLN 508,158 thousand).

The total value of facilities available under the aforesaid agreements is PLN 2,255,269 thousand; the limits are drawn down in the amount of PLN 1,902,217 thousand.

#### Facilities Agreement

On 9 January 2018, an annex amending and restating the facilities agreement of 29 October 2015 (the "Facilities Agreement") was signed by CIECH S.A. as the borrower, subsidiaries of CIECH S.A.: CIECH Soda Polska S.A., CIECH Sarzyna S.A. and CIECH Soda Deutschland GmbH & Co.KG, CIECH Energy Deutschland GmbH, CIECH Soda Romania S.A as guarantors ("Guarantors") and a group of commercial banks ("Creditors").

#### Facilities granted:

Under the Facilities Agreements, the Creditors granted the following facilities to the Company:

- The synthetic term loan in PLN and EUR granted by the Lenders in order to: (i) finance general corporate aims of the Company ("Term Loan"); The Term Loan was disbursed on 6 April 2018 in the amount of PLN 1,212,520 thousand and EUR 30,000 thousand
- Revolving credit facility in PLN to the total amount of PLN 250,000 thousand, granted by the Creditors in order to finance the general corporate aims and the working capital of the Group, excluding acquisitions and prepayment for the Term Loan (hereinafter referred to as the "Revolving Credit Facility", and "Facilities" jointly with the "Term Loan"). As at 31 December 2020, the amount drawn under the facility was PLN 0 thousand.

#### Interest rate:

The Term loans bear interest at a floating rate determined on the basis of the WIBOR / EURIBOR base rate, plus margin, the level of which depends on the level of the net debt to EBITDA. The current level of margin, set on the basis of financial ratios as at the end of the first half of 2020, is 1.50%.

#### Facilities repayment conditions:

The main repayment conditions of the Facilities are as follows:

- amortisation of the Term Loan in the value of 26.12% of the loan amount on 30 December 2021 and 30 September 2022, the remaining portion of the loan is to be repaid on 31 December 2022,

- repayment of the Working Capital Loan with the lapse of the interest period selected by the Company for a given loan amount used, with mechanism of automatic revolving of the used amount for subsequent interest periods,
- cases of gross breach, allowing the creditors to request an earlier repayment of the facilities:
  - no payment of the amounts due to the Creditors;
  - violating the financial covenant provided for in the Facilities Agreement;
  - ceasing the entire business activity conducted by the Company or its important part;
  - violations of the law.
- the final date of repayment of the Term Loan and the Revolving credit facility – 31 December 2022.

#### **Information about the financial covenants included in loan agreements**

During the period covered by these financial statements, no loan agreement was called to maturity and there were no violations of payment terms for repayment of principal or interest due in relation to financial liabilities recognised in the balance sheet. Under the Facilities Agreement dated 29 October 2015 and under three revolving credit facilities agreements dated 18 April 2019, CIECH S.A. and its selected subsidiaries were obliged to, among others, maintain a certain level of:

- net leverage ratio for the Group specified in the Facilities Agreement (the ratio of the CIECH Group's consolidated net debt to consolidated EBITDA of the CIECH Group calculated according to the guidelines in the amount of at least 4.0, measured at the end of a year and first six months of a year). As at the balance sheet date, i.e. 31 December 2020, this ratio was maintained and amounted to 2.45.
- the guarantor coverage ratio (share of subsidiaries being guarantors in the consolidated EBITDA of the CIECH Group, calculated according to the guidelines) at a level of at least 80%; this ratio was not met as at the balance sheet date: the share of the subsidiaries in the consolidated EBITDA value, which are guarantors, in the Facilities Agreement did not exceed the required threshold of 80% and amounted to 76.7%. Due to the breach of the ratio and failure to repeal the breach as at the balance sheet date, the total value of loans made available on the basis of the above-mentioned agreements, was reclassified into short-term loan liabilities in accordance with IAS 1.

In connection with the occurrence of a breach of the guarantor coverage ratio, the Company asked the lenders to change the method of calculating the ratio, by: not taking into account the results of CIECH Soda Romania S.A. in the calculation. and not included in the calculation of the results of CIECH Żywiec Sp. z o.o. and for lenders waiving their rights related to the occurrence of a breach of the index. The lenders being a party to the syndicated Loan Agreement of 29 October 2015 and the lenders of the revolving loan agreements (except for Banco de Sabadell, for a EUR 25 million loan), accepted the Company's application by 31 March 2021, i.e. during the recovery period (cure period) provided for in credit agreements.

#### **Security for repayment of the facilities:**

The Facilities have been secured by sureties granted by each Guarantor, towards each of the Creditors, in the value of 125% of the maximum involvement of each Creditor in a given currency, whereas the total amount of sureties granted by each Guarantor shall not exceed 125% of the amount of Facilities.

As at 31 December 2020, facilities granted pursuant the Facilities Agreement are secured by, e.g. securities established by the Company and Guarantors, in order to secure the parallel debt created pursuant to the Intercreditor Agreement concluded on 28 November 2012 and amended on 9 January 2018, including:

- pledges (register and financial pledges in relation to the companies seated in Poland and the corresponding securities in Germany and Romania), on the shares or stocks of Guarantors,
- registered pledge on property and other assets of CIECH S.A.,
- financial pledges on the rights to the funds deposited on the bank accounts of CIECH S.A. and Guarantors (including securities corresponding to financial pledges in Germany and Romania),
- statements of submission to enforcement proceedings of CIECH S.A. and Guarantors,
- powers of attorney to the bank accounts of CIECH S.A. and Guarantors.

#### **Other essential terms of the Facilities Agreement:**

Pursuant to the Facilities Agreement, CIECH S.A. and the Guarantors are also obliged to the following:

- abiding by the limitations specified in the Facilities Agreement relating to disposal of assets, with an exception of the allowable disposals under the Facilities Agreement;
- refraining from paying a dividend in the case of exceeding the financial index specified in the Facilities Agreement;
- refraining from taking out loans or granting loans in the case of exceeding the financial index specified in the Facilities Agreement;

### Overdraft facilities

On 29 August 2018, overdraft facility agreements were signed by CIECH S.A. and Bank Millennium S.A. in the amount of PLN 50,000 thousand and EUR 10,000 thousand. At present, the agreements are valid until 27 September 2021. Drawn-down amounts of the facilities will bear interest at the 1M WIBOR and 1M EURIBOR rate, respectively, plus the bank's margin. The facility is intended to finance the Company's day-to-day operations. The facilities are secured with a package of collateral shared with the lenders of the consortium loan (agreement dated 9 January 2018) and with a surety issued by selected subsidiaries of CIECH S.A. The terms and conditions of the agreement do not differ from standard terms used facility agreements.

On 28 August 2018, an overdraft facility agreement was signed by CIECH S.A. and Bank Pekao S.A. in the amount of PLN 50,000 thousand. At present, the agreement is valid until 31 August 2021. A drawn-down amount of the facility will bear interest at the 1M WIBOR rate plus the bank's margin. The facility is intended to finance the Company's day-to-day operations. The facility is legally secured by collateral established in accordance with the Intercreditor Agreement of 28 November 2012. The terms and conditions of the agreement do not differ from standard terms used for facility agreements.

### Revolving facilities

On 18 April 2019, a facility agreement was signed by CIECH S.A. and Bank Pekao S.A. in the amount of PLN 300,000 thousand. The agreement was concluded for the period until 7 May 2022. A drawn-down amount of the facility will bear interest at the 3M WIBOR or 6M WIBOR rate plus the bank's margin. The facility is intended to finance the Company's day-to-day operations. The facility is secured with a package of collateral shared with the lenders of the consortium loan (agreement dated 9 January 2018) and with a surety issued by selected subsidiaries of CIECH S.A. The terms and conditions of the agreement do not differ from standard terms used facility agreements.

On 18 April 2019, a facility agreement was signed by CIECH S.A. and Bank BNP Paribas S.A. in the amount of PLN 92,788 thousand. The agreement was concluded for the period until 7 May 2022. A drawn-down amount of the facility will bear interest at the 1M WIBOR or 3M WIBOR or 6M WIBOR rate plus the bank's margin. The facility is intended to finance the Company's day-to-day operations. The facility is secured with a package of collateral shared with the lenders of the consortium loan (agreement dated 9 January 2018) and with a surety issued by selected subsidiaries of CIECH S.A. The terms and conditions of the agreement do not differ from standard terms used facility agreements.

On 18 April 2019, a facility agreement was signed by CIECH S.A. and Banko de Sabadell S.A., London Branch in the amount of EUR 25,000 thousand. The agreement was concluded for the period until 7 May 2022. A drawn-down amount of the facility will bear interest at the 1M EURIBOR or 3M EURIBOR or 6M EURIBOR rate plus the bank's margin. The facility is intended to finance the Company's day-to-day operations. The facility is secured with a package of collateral shared with the lenders of the consortium loan (agreement dated 9 January 2018) and with a surety issued by selected subsidiaries of CIECH S.A. The terms and conditions of the agreement do not differ from standard terms used facility agreements.

### Intercreditor Agreement

On 28 November 2012, CIECH S.A. and particular companies of the Group have concluded an intercreditor agreement ("Intercreditor Agreement"), subsequently amended on 9 January 2018, in order to, among others, establish a shared security package, regulate the relations and the possible priority between: (i) creditors and other senior creditors due to the initial loan agreement and any other loan agreements which will replace the initial loan agreement; (ii) entities who will enter into the Intercreditor Agreement as Parties of certain allowed agreements securing against risks; (iii) the Trustee acting on its own behalf and on behalf of the owners of bonds issued on foreign markets; (iv) Espirito Santo Investment Bank as the administrative agent for the purpose of the Domestic Bonds; (v) representatives of creditors and equivalent creditors; (vi) internal creditors and debtors within the group; and (vii) bank PKO BP S.A. as the Security Agent.

### Conclusion of a loan agreement

On 16 March 2021, a Loan Facility Agreement was concluded between, inter alia, CIECH S.A. (as the borrower and guarantor), its selected subsidiaries: CIECH Soda Polska S.A., CIECH Sarzyna S.A., CIECH Soda Deutschland GmbH & Co. KG, CIECH Energy Deutschland GmbH and CIECH Salz Deutschland GmbH (as borrowers and guarantors), BNP Paribas Bank Polska S.A. (as an agent), Powszechna Kasa Oszczędności Bank Polski S.A. (as a security agent) and banks: Powszechna Kasa Oszczędności Bank Polski S.A., mBank S.A., BNP Paribas Bank Polska S.A., Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland,



Bank Polska Kasa Opieki S.A., Bank Millennium S.A., Credit Agricole Bank Polska S.A., Société Générale S.A., Bank Handlowy w Warszawie S.A., Bank Ochrony Środowiska S.A. and Intesa Sanpaolo S.P.A. ARE. Branch in Poland (as lenders). The Facility Agreement provides for loans in PLN and EUR up to the total amount (expressed in PLN) of PLN 2,115,000 thousand. The agreement provides for an over 2-year grace period for the repayment of the term loan (the first repayment is required on 30 June 2023), during which the repayment of the loan principal will not be required. Detailed information on the agreement was included in the current report 7/2021.

#### 4.6.2 INTRAGROUP LOANS GRANTED

TABLE 36: SUMMARY OF LOANS GRANTED BY CIECH S.A. TO SUBSIDIARIES IN 2020

Borrower	Repayment date	As at 31 December 2020		Conditions of granting
		The amount of loan granted per agreement (in the currency in thousands)	The amount of loan disbursed in PLN '000	
CIECH Soda Deutschland GmbH & CO KG	31.12.2021	EUR 28,555	EUR 28,555/ PLN 131,778	fixed interest rate of 2.7%
CIECH Soda Deutschland GmbH GmbH & CO KG	31.12.2021	EUR 12,724	EUR 4,500/ PLN 20,767	fixed interest rate of 2.7%
CIECH Salz Deutschland GmbH*	04.10.2023	EUR 151,000	EUR 80,500*/PLN 371,491	fixed interest rate of 2.7%
CIECH Serwis i Remonty Sp. z o.o.	31.12.2021	PLN 171	PLN 171	interest at 6M WIBOR + margin of 2.4%
CIECH Services Sp. z o.o.	31.12.2021	PLN 6,000	PLN 250	interest at 6M WIBOR + margin of 2.4%
CIECH Soda Polska S.A.	31.12.2021	PLN 402,000	PLN 402,000	interest at 6M WIBOR + margin of 2.4%
Ciech Nieruchomości Sp. z o.o.	31.12.2021	PLN 31,000	PLN 31,000	interest at 6M WIBOR + margin of 2.4%

\*Value of tranches disbursed in 2020.

TABLE 37: SUMMARY OF LOANS GRANTED BY SUBSIDIARIES TO CIECH S.A. IN 2020

Lender	Repayment date	As at 31 December 2020		Conditions of granting
		The amount of loan granted per agreement (in the currency in thousands)	The amount of loan disbursed in PLN '000	
Gamma Finanse Sp. z o.o.	31.12.2021	PLN 105,000	105,000	interest at 6M WIBOR + margin of 2.4%
CIECH Vitrosilicon S.A.	31.12.2021	PLN 20,000	20,000	interest at 6M WIBOR + margin of 2.4%
CIECH Pianki Sp. z o.o.	31.12.2021	PLN 35,000	35,000	interest at 6M WIBOR + margin of 2.4%

TABLE 38: SUMMARY OF LOANS CONCLUDED BETWEEN SUBSIDIARIES IN THE CIECH GROUP IN 2020

Lender	Borrower	Repayment date	As at 31 December 2020		Conditions of granting
			The amount of loan granted per agreement (in the currency in thousands)	The amount of loan disbursed in PLN '000	
Gamma Finanse Sp. z o.o.	CIECH Sarzyna S.A.	31.12.2021	PLN 20,800	20,800	interest at 6M WIBOR + margin of 2.4%
Verbis Kappa Sp. z o.o. SKA	CIECH Sarzyna S.A.	31.12.2021	PLN 50,000	50,000	interest at 6M WIBOR + margin of 2.4%
Algete Sp. z o.o.	CIECH Sarzyna S.A.	31.12.2021	PLN 21,600	21,600	interest at 6M WIBOR + margin of 2.4%
Verbis ETA Sp. z o.o. SKA	CSP S.A.	31.12.2021	PLN 75,000	75,000	interest at 6M WIBOR + margin of 2.4%



Sureties and guarantees granted as at 31 December 2020 were described in detail in Section 4.8.

#### **4.7 MATERIAL LITIGATION PENDING BEFORE A COURT, AN APPROPRIATE ARBITRATION AUTHORITY OR A PUBLIC ADMINISTRATION AUTHORITY**

Information about material litigation pending before a court, an appropriate arbitration authority or a public administration authority is presented in Note 9.2 to the Consolidated Financial Statements of the CIECH Group for 2020 and in Note 9.2 to the Financial Statements of CIECH S.A. for 2020.

#### **4.8 INFORMATION ON CHANGES IN CONTINGENT ASSETS AND LIABILITIES OF THE CIECH GROUP**

Information on contingent assets and liabilities of the CIECH Group is presented in Note 9.2 to the Consolidated Financial Statements of the CIECH Group for 2020 and in Note 9.2 to the Financial Statements of CIECH S.A. for 2020.

#### **4.9 TRANSACTIONS WITH RELATED PARTIES OTHER THAN ON AN ARM'S LENGTH BASIS**

CIECH Group's companies, to the best of their knowledge and belief, did not conclude significant transactions on the terms other than market ones. Sales to and purchases from related entities are realised at market prices that reflect market conditions.

For a description of transactions concluded between related parties, see Note 9.3 to the Consolidated Financial Statements of the CIECH Group for 2020 and Note 9.3 of the Financial Statements of CIECH S.A. for 2020.

#### **4.10 CONTRACT WITH THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS**

Information about contracts concluded with the entity authorised to audit the consolidated financial statement is presented in note 9.4 to the Consolidated Financial Statements of the CIECH Group for 2020 and in note 9.4 to the Financial Statements of CIECH S.A. for 2020.



**ORGANISATION, MANAGEMENT,  
STRUCTURE AND  
HUMAN RESOURCES**  
IN THE CIECH GROUP

## 5. ORGANISATION, MANAGEMENT, STRUCTURE AND HUMAN RESOURCES IN THE CIECH GROUP

### 5.1 EQUITY AND ORGANISATIONAL LINKS

The CIECH Group consists of domestic and foreign manufacturing, distribution and trade companies operating in the chemical industry. The CIECH Group comprises CIECH S.A. as the parent company, and related companies located, inter alia, in Poland, Germany, Romania and Spain.

Parent company	CIECH Spółka Akcyjna
Registered office	00-684 Warsaw, Wspólna Street 62
KRS (National Court Register number)	0000011687 (District Court for the Capital City of Warsaw in Warsaw, 12 <sup>th</sup> Commercial Division of the National Court Register)
Website	www.ciechgroup.com
IR Contact	ri@ciechgroup.com

As at 31 December 2020, the CIECH Group comprised 40 business entities, including:

- parent company,
- 33 subsidiaries, of which:
  - 23 domestic subsidiaries,
  - 10 foreign subsidiaries,
- 3 domestic affiliates,
- 1 foreign affiliate,
- 1 jointly controlled domestic entity,
- 1 jointly controlled foreign entity.

The strategic and operational goals of the CIECH Group are attained via organisational structure based on vertical functions, including the function of sales, production, procurement, and support.

The parent company of CIECH S.A. has a branch in Romania, a branch in Germany, and operates through its offices in Inowrocław and Nowa Sarzyna. CIECH Trading Sp. z o.o. subsidiary has a branch in Bydgoszcz.

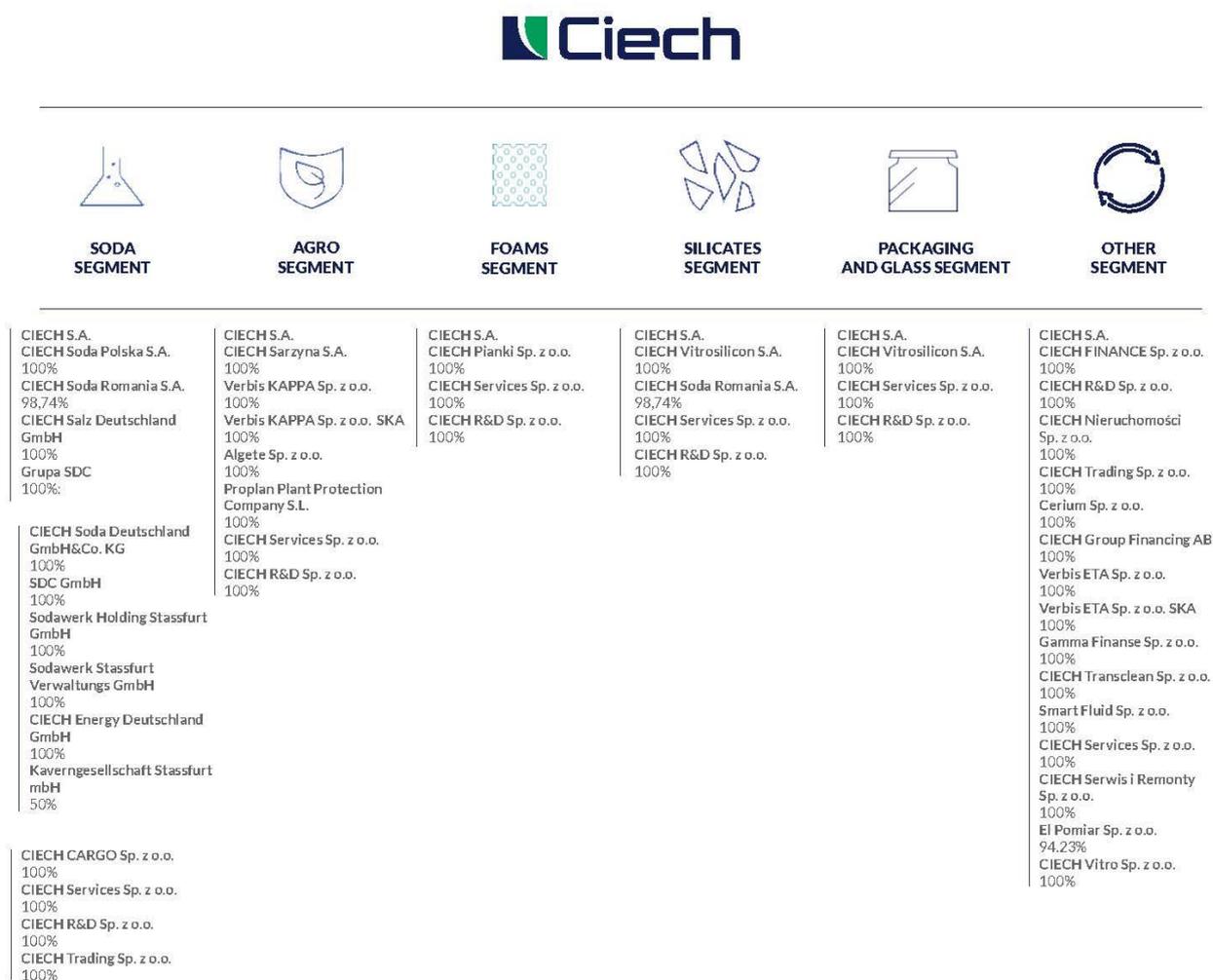
The trading activity is carried out mostly by CIECH S.A., domestic and foreign trading subsidiaries of CIECH S.A., as well as selected manufacturing companies (CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., SDC Group, CIECH Pianki Sp. z o.o.) while the manufacturing activity is carried out by production companies, subsidiaries of CIECH S.A. The production is located in 8 plants, with four largest production plants (two in Poland, one in Germany and one in Romania) operate in the Soda Segment and manufacture soda ash and soda derived products (in the case of CIECH Soda Romania S.A., the plant also manufactures products in the Silicates Segment, the soda plant in Janikowo also manufactures salt products and the plant in Germany produces electric energy sold to third parties). The remaining 4 plants operating in the Agro, Foams, Silicates and Packaging Segments are located in Poland. Soda production at the Romanian plant was suspended in the third quarter of 2019 (for more information, see current report No 40/2019).

### 5.2 SCOPE OF ACTIVITIES OF CIECH S.A. AND CONSOLIDATED ENTITIES WITHIN THE GROUP

Within the CIECH Group, the leading division of operations is the segmentation by industry which in 2020 includes the Soda Segment, Agro Segment, Resins Segment (discontinued operations), Foams Segment, Silicates Segment, Packaging Segment. A detailed description of the management segments is presented in item 1.3. The following diagram shows the structure of the CIECH Group, including fully consolidated companies or companies accounted for using the equity method in the consolidated financial statements of the CIECH Group as at 31 December 2020.



FIGURE 40: SEGMENT STRUCTURE OF THE CIECH GROUP AS AT 31 DECEMBER 2020



Detailed information about the number of shares held by CIECH S.A./the CIECH Group in the equity of individual companies, along with the consolidation methods, is presented in Note 9.5 to the Consolidated Financial Statements of the CIECH Group for 2020.

### 5.3 SCOPE OF ORGANISATION AND MANAGEMENT IN THE CIECH GROUP AND CHANGES IN 2020

The CIECH Group operates based on the Constitution of the CIECH Group ("Constitution"), adopted by the Management Board of CIECH in 2019. The Constitution is the highest-ranking internal legal act applicable to entities belonging to the CIECH Group, it is a specific agreement between the companies of the CIECH Group. The Constitution creates the foundations of the management system directing the activities of the CIECH Group to achieve the Interest of the CIECH Group. The interest of the CIECH Group is a benefit achieved not at the level of individual companies of the CIECH Group, but at the level of the CIECH Group - through the implementation of common strategic goals by CIECH, Business Units and Companies that are not part of Business Units or constitute independent Business Units. The interest of the CIECH Group is consistent with the interest of CIECH shareholders.

Constitution:

- regulates mutual relations between entities of the CIECH Group,
- indicates the sources of applicable regulations to which all entities of the CIECH Group must comply,
- sanctions the CIECH Group,
- introduces a BU-centric management model,
- it enables the adoption and implementation of Corporate Documents in the companies of the CIECH Group.

## 5.4 OWNERSHIP CHANGES

In 2020, the following changes occurred in relation to the companies in which CIECH S.A. held shares, either directly or indirectly. These changes translated into changes in the structure of the CIECH Group.

- **CIECH Żywiec Sp. z o.o.**

The Court registered the increase of the share capital of CIECH Żywiec Sp. z o.o. on 2 January 2020 and on this date CIECH S.A. became the holder of all newly created shares whilst remaining the sole shareholder of CIECH Żywiec Sp. z o.o. The share capital was increased at the Extraordinary Shareholders' Meeting of CIECH Żywiec Sp. z o.o. on 16 December 2019 which adopted a resolution on the demerger of CIECH Sarzyna S.A., following the adoption of the Demerger Plan of CIECH Sarzyna S.A., by deciding on:

- ✓ CIECH Żywiec Sp. z o.o.'s participation in the demerger of CIECH Sarzyna S.A. effected through the spin-off of an organised part of the enterprise on the terms set forth in the Demerger Plan,
- ✓ approval of the Demerger Plan of CIECH Sarzyna S.A. as agreed by the Management Board of CIECH Sarzyna S.A. on 31 October 2019,
- ✓ increase the share capital of CIECH Żywiec Sp. z o.o. from PLN 56 thousand by PLN 3,678 thousand, i.e. to PLN 3,734 thousand, through the creation of 73,567 new shares with a nominal value of PLN 50 per share and the total value of PLN 3,734 thousand. All newly created shares in the increased share capital of CIECH Żywiec Sp. z o.o. were allotted to the sole shareholder of CIECH Sarzyna S.A., i.e. CIECH S.A., in the following manner: 8,490 thousand shares in CIECH Sarzyna S.A. entitle to the receipt of 73,567 shares in CIECH Żywiec Sp. z o.o. As a result of the increase, the share capital of CIECH Żywiec Sp. z o.o. amounts to PLN 3,734 thousand and is divided into 74,677 shares with a value of PLN 50 per share and a total value of PLN 3,734 thousand.

On 20 July 2020, CIECH S.A. and LERG S.A. with its registered office in Pustków-Osiedle entered into a preliminary agreement for the sale of 74,677 shares representing 100% of the share capital in CIECH Żywiec Sp. z o.o. The value of this transaction is approx. PLN 160 million. The final sale agreement was concluded on 1 March 2020.

- **CIECH Serwis i Remonty Sp. z o.o. (until 22 April 2020: BOSTEN S.A.; from 22 April 2020 to 15 December 2020: CIECH Serwis i Remonty S.A.)**

On 31 January 2020, the Extraordinary Shareholders' Meeting of BOSTEN S.A. increased the Company's share capital by PLN 450, i.e. from PLN 100 thousand to PLN 550 thousand, by way of issue of 45,000 new C series shares with the nominal value of PLN 10 per share and total nominal value of PLN 450 thousand. The issue price of C series shares is equal to the nominal price per share and amounts to PLN 10 per share. C series shares were earmarked for acquisition by CIECH S.A. in exchange for a cash contribution of PLN 450 thousand, in a private placement. The Extraordinary General Meeting also changed the name of the company from BOSTEN S.A. to: CIECH Serwis i Remonty S.A. The court registered the share capital increase and change of the company's name on 22 April 2020. On 15 December 2020, the company was transformed from a joint stock company to a limited liability company.

- **CIECH Salz Deutschland GmbH**

On 11 December 2019, the Shareholders' Meeting of CIECH Salz Deutschland GmbH increased the share capital from EUR 25 thousand to EUR 3,025 thousand, by creating 100 new shares with a value of EUR 30 thousand per share and a total value of EUR 3 million. New shares from the increase of the share capital of Ciech Salz Deutschland GmbH were acquired by CIECH S.A. in exchange for cash. The share capital increase was registered on 5 March 2020.

- **CIECH Vitro Sp. o.o.**

On 4 January 2020, the Deed of incorporation of CIECH Vitro Sp. z o.o., with its registered office in Howa and a share capital of PLN 5 thousand, divided into 100 equal and indivisible shares with a nominal value of PLN 50 each, was drawn up. The share capital was paid in full in cash of PLN 400 thousand by CIECH SA. The share premium of PLN 395 thousand was transferred to the supplementary capital. The Company was registered by the court on 7 May 2020.

- **CIECH Trading Sp. z o.o. (former name: CIECH Trading S.A.)**

On 27 March 2020, CIECH S.A. sold to BOSTEN S.A. 100 series A registered shares in CIECH Trading S.A. with a total nominal value of PLN 900, for a total price of PLN 300.

On 30 March 2020 the Management Board of CIECH Trading S.A. notified the shareholders of its intention to adopt a resolution on the transformation of CIECH Trading Spółka Akcyjna into a limited liability company under the name of CIECH Trading Spółka z ograniczoną odpowiedzialnością and presented the Transformation Plan prepared on 30 March 2020. The court registered the transformation on 18 June 2020. On 22 June 2020, CIECH Serwis i Remonty S.A. (formerly: BOSTEN S.A.) sold 18 shares in the Company to CIECH S.A. for the total price of PLN 300 and ceased to be a shareholder of the Company.

- **Janikowskie Zakłady Sodowe JANIKOSODA Sp. z o.o. (former name: Janikowskie Zakłady Sodowe JANIKOSODA S.A.)**

On 16 June 2020, the Extraordinary Shareholders' Meeting of Janikowskie Zakłady Sodowe JANIKOSODA S.A. adopted a resolution on the transformation of Janikowskie Zakłady Sodowe JANIKOSODA Spółka Akcyjna into a limited liability company under the name of Janikowskie Zakłady Sodowe JANIKOSODA Spółka z ograniczoną odpowiedzialnością.

The share capital of JANIKOSODA Sp. z o.o. amounts to PLN 44,330 thousand and is divided into 2 shares of unequal nominal value, i.e. PLN 36,530 thousand – one share held by CIECH FINANCE Sp. z o.o. and PLN 7,800 thousand – one share held by CIECH S.A. The court registered the transformation on 2 October 2020.

On 31 December 2020, the shareholders of JANIKOSODA Sp. z o.o. entered into an agreement to sell their shares in the company to two Buyers for a total price of PLN 590 thousand, including:

- ✓ CIECH S.A. sold its 1 share, representing 17.6% of the share capital, with a nominal value of PLN 7,800 thousand, for PLN 103.84 thousand. The legal title to the share passed to the Buyers on the date of payment of the price, i.e. on 31 December 2020, and on that date CIECH S.A. ceased to be a shareholder of JANIKOSODA Sp. z o.o.;
- ✓ CIECH FINANCE Sp. z o.o. sold its 1 share, accounting for 82.4% of the share capital, with a nominal value of PLN 36,530.5 thousand, for PLN 486.16 thousand. The legal title to the share passed to the Buyers as of the date of payment of the price, i.e. on 31 December 2020, and on that date CIECH FINANCE Sp. z o.o. ceased to be a shareholder of JANIKOSODA Sp. z o.o.

- **CIECH Nieruchomości Sp. z o.o. (former name: CIECH Nieruchomości S.A.)**

On 28 May 2020, the General Meeting of CIECH Nieruchomości S.A. resolved to increase the share capital by issuing 200,008,926 series E shares with a total nominal value of PLN 4,000 thousand and an issue price equal to the nominal value of the shares. Series E shares were earmarked to and acquired by CIECH S.A. The agreement to take up series E shares was concluded on 2 June 2020. The court registered the increase of the share capital on 2 September 2020. On 2 November 2020, the Extraordinary General Meeting of CIECH Nieruchomości S.A. resolved to transform the joint-stock company into a limited liability company. The court registered the transformation on 22 December 2020. The share capital of CIECH Nieruchomości Sp. z o.o. amounts to PLN 22,148.5 thousand and is divided into 221,485 shares with a nominal value of PLN 100 per share. The shareholders of the Company are its existing shareholders, i.e.:

- CIECH S.A. – holding 220,001 shares, with a value of PLN 100 per share, with a total value of PLN 22,000.1 thousand, representing 99.33% of the share capital,

- CIECH FINANCE Sp. z o.o. – holding 1,484 shares, with a value of PLN 100 per share, with a total value of PLN 148.4 thousand, representing 0.67% of the share capital.

- **EL-POMIAR Spółka z ograniczoną odpowiedzialnością (a direct subsidiary of CIECH Soda Polska S.A.)**

On 9 December 2019, CIECH Soda Polska S.A. concluded with the Shareholders of the company El-Pomiar Sp. z o.o. holding a total of 67 shares, constituting 32.2% of the share capital of the Company, a Preliminary Agreement for the Sale of Shares in a Limited Liability Company, according to which the Shareholders being a party to the Preliminary Agreement undertook to sell their shares and to convene a shareholders' meeting in order to adopt a resolution granting consent for the sale of shares of other shareholders of the Company to CIECH Soda Polska S.A. and to conclude the Sales Agreement, provided that the conditions precedent contained therein are met. The Extraordinary Meeting of Shareholders of El-Pomiar Sp. z o.o. on 18 December 2019, adopted a resolution granting consent to all shareholders of the company to sell their shares.

The first shares were acquired under conditional sale contracts of 28 January 2020, with the proviso that the contracts are effective from the date of purchase by CIECH Soda Polska S.A. 110 shares of the Company. On 10 February 2020, CIECH Soda Polska S.A. acquired a total of 110 shares, constituting 52.9% of the share capital, thus CIECH Soda Polska S.A. became the majority shareholder of El-Pomiar Sp. z o.o.

CIECH Soda Polska S.A. acquired another 2 shares, from one share ownership was transferred to CIECH Soda Polska S.A. on 10 July 2020, and the ownership right to the second share passed on 24 July 2020, and to the third share, the ownership right to 17 November 2020. Thus, CIECH Soda Polska S.A. owns 196 shares constituting 94.23% of the share capital.

- **CIECH SERVICES sp. z o.o. – new company**

On 14 September 2020, the Deed of incorporation by CIECH S.A. of CIECH SERVICES sp. z o.o., with its registered office in Bydgoszcz and a share capital of PLN 5 thousand, divided into 100 equal and indivisible shares with a nominal value of PLN 50 each, was drawn up. The share capital was paid in full in cash of PLN 5 thousand. The new company is a special purpose vehicle and will become a shared service center. The Court registered CIECH SERVICES Sp. z o.o. on 19 October 2020.

- **CIECH Soda Romania S.A.**

On 17 September 2020, the Extraordinary General Meeting of Shareholders of CIECH Soda Romania S.A. (hereinafter referred to as "CSR") resolved to reduce the share capital by RON 325,840 thousand, i.e. from RON 525,085 thousand to RON 199,244 thousand by reducing the number of shares by 1,303,360,796 shares, i.e. from 2,100,338,803 shares to 796,978,007 shares. The capital reduction was made from the assets of each shareholder by reducing the number of shares in proportion to their shareholding. The capital reduction was based on a calculation algorithm whose application resulted in fractional figures, so by decision of the General Meeting the fractional figures were rounded down to reflect the full share. Shares arising from fractional calculation parts – mainly small shareholders, representing a total of 5,835 shares, were taken over by CSR.

The proceeds from the reduction of share capital were used to cover accumulated losses from previous years, as reported by CSR in its financial statements for the financial year ended 31 December 2019. The reduction of the share capital is effective from 15 December 2020. Following the share capital reduction, CIECH S.A.'s shareholding has not changed and amounts to 98.74%, resulting from the currently held 786,912,905 shares.

## 5.5 EMPLOYMENT STRUCTURE AND HUMAN RESOURCES

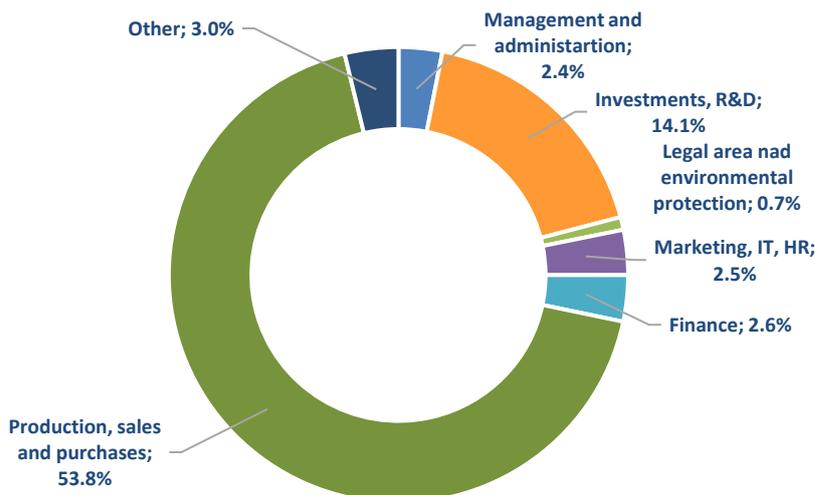
### Employment structure

As at the end of 2020, the CIECH Group (the parent company, CIECH S.A., and fully consolidated subsidiaries) employed 3,415 people (of which 341 employees in CIECH S.A.). As at the end of the comparable period, i.e. 2019, the Group employed 3,705 people (including 474 in CIECH S.A.). About 84% employees work in Poland, the majority of which is employed by the production department.

TABLE 39: EMPLOYMENT IN THE CIECH GROUP – WHITE COLLAR WORKERS AND BLUE COLLAR WORKERS

	31.12.2020/2020	31.12.2019/2019
<b>Headcount</b>	<b>3,415</b>	<b>3,705</b>
White-collar workers	1,424	1,446
Blue-collar workers	1,991	2,259
<b>Average headcount</b>	<b>3,445</b>	<b>3,826</b>
White-collar workers	1,435	1,497
Blue-collar workers	2,010	2,329

FIGURE 41: EMPLOYMENT IN THE CIECH GROUP – BUSINESS AREAS



The CIECH Group is a responsible employer and undertakes a number of actions aimed at improving the efficiency of communication with employees and enhancing their satisfaction and involvement.

#### Organizational changes in the CIECH Group

Key organisational changes in the CIECH Group:

- appointment of a new Member of the Management Board of CIECH S.A. and determination of a new division of powers of the Management Board of CIECH S.A.
- reorganisation of the Logistics / S&OP Department consisting of the elimination of the position of Logistics / S&OP Director and splitting the Department into central functions - reporting to the Member of the Management Board, and business functions - reporting to the Director of Soda Segment,
- in September 2020, the reorganisation of the CIECH Group continued, aiming to effectively separate the roles of the Head Office, Business Units and Support Functions. One of its elements was the establishment of CIECH Services Sp. z o.o. as a shared services centre whose primary objective is to centralise and standardise support functions throughout the Group, including:
  - ✓ providing support services under specified conditions and optimising the costs of operations,
  - ✓ using innovative solutions to standardise and automate processes,
  - ✓ achieving the highest possible level of internal customer satisfaction.

The intention behind all the organisational changes introduced as part of the reorganisation concept is the strategy, i.e. to create a chemical holding company based on businesses that operate independently, i.e. that have all the right resources and areas to manage their business effectively. The role of the Head Office is to set strategic directions, corporate standards, set objectives for individual businesses, allocate capital within the Group, supervise the work of its functional teams in all companies and support the desired organisational culture in the CIECH Group.



## **SHARES AND SHAREHOLDERS**

## 6. SHARES AND SHAREHOLDERS

### 6.1 SHAREHOLDER STRUCTURE OF CIECH S.A.

The shares of CIECH S.A. are listed on Warsaw Stock Exchange and on Frankfurt Stock Exchange. The share capital of CIECH S.A. amounts to PLN 263,500,965 and is divided into 52,699,909 shares with a nominal value of PLN 5 each, including:

- 20,816 A-series ordinary bearer shares,
- 19,775,200 B-series ordinary bearer shares,
- 8,203,984 C-series ordinary bearer shares,
- 23,000,000 D-series ordinary bearer shares,
- 1,699,909 E-series ordinary bearer shares.

To the best knowledge of CIECH S.A., entities holding significant blocks of shares (at least 5%) are the entities listed below:

FIGURE 42: SHAREHOLDER STRUCTURE AS AT THE DATE OF APPROVAL OF THIS REPORT



\*KI Chemistry s.à.r.l. is a subsidiary of Kulczyk Investments.



Since 2014, **the major shareholder** of CIECH S.A. is a long-term strategic investor – **Kulczyk Investments**. It is an international investment company focused on business opportunities in high growth markets.

## 6.2 CIECH S.A. ON THE STOCK EXCHANGE

### 6.2.1 CIECH S.A. ON THE WARSAW STOCK EXCHANGE

Shares of CIECH S.A. debuted on the Warsaw Stock Exchange on 10 February 2005. In February 2011, the company completed the process of issuing shares with pre-emptive rights, and as a result, it issued ordinary bearer shares, which were first quoted on 30 March 2011. Shares of CIECH S.A. are quoted on the primary market of the Warsaw Stock Exchange in the continuous trading system.

TABLE 40: BASIC INFORMATION ON THE SHARES

Name	CIECH S.A.
Abbreviated name	CIECH
Ticker	CIE
ISIN	PLCIECH00018
Bloomberg ticker	CIE PW
Reuters ticker	CIEP.WA
Listed from	10.02.2005
Number of shares	52,699,909
Free float	36.99%
Segment	Large company (capitalisation of over EUR 250 million)
Sector groups	chemicals, fertilisers and nitrogen compounds
Indices	WIG, WIG-Poland, mWIG40, mWIG40TR, WIG-CHEMIA, WIG.MS-PET, WIG-ESG, CEEplus, InvestorMS, MSCI Emerging Markets Index, FTSE Developed Small Cap Index

TABLE 41: INDICES CONTAINING CIECH S.A.'S SHARES

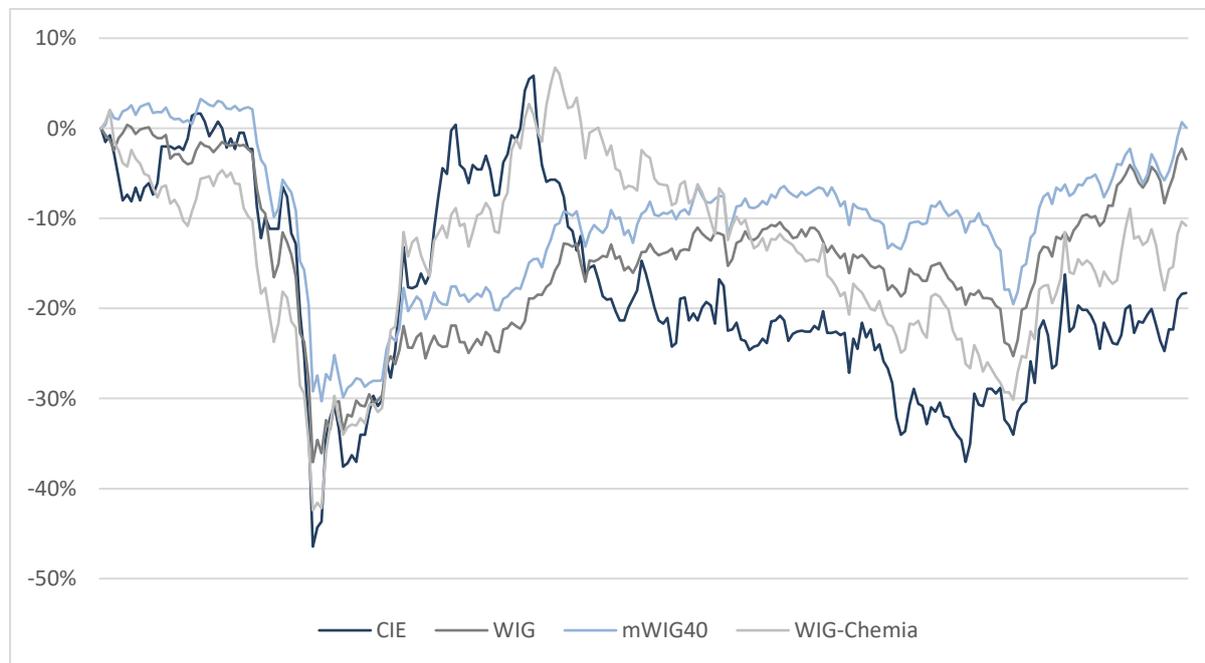
Index	Description	Share of CIECH S.A.'s shares in the index
<b>WIG</b>	WIG – an index comprised of all companies listed on the WSE Main Market which satisfy the basic eligibility criteria. The index follows the diversification principle, aimed at the limiting the share of a single company and a single exchange sector.	0.293%
<b>WIG Poland</b>	WIG-Poland – an index comprised only of shares of domestic companies listed on the WSE Main Market which satisfy the basic eligibility criteria. Both values as well as WIG-PL and WIG index participants are different.	0.301%
<b>mWIG40</b>	mWIG40 – an index comprising 40 medium size companies listed on the WSE Main Market; it is a price index which means that it is calculated taking into account prices of underlying shares, excluding dividend income.	1.461%
<b>mWIG40TR</b>	mWIG40TR – an index calculated since 18 September 2017, based on the value of a portfolio of 40 medium size companies on the WSE Main Market. Unlike mWIG40, mWIG40TR is the total return index, which means that it is calculated taking into account prices of underlying shares and dividend income. All other index construction rules are consistent with the mWIG40 index methodology.	1.461%
<b>WIGchemia</b>	WIG-CHEMIA – a sectoral index, which is comprised of companies which participate in the WIG index and are at the same time categorized as “chemistry” companies.	31.463%
WIG.MS-PET	The WIG-ESG index is published on the basis of the value of portfolio of 5 most liquid companies covering following sectors: fuels, gas and chemicals.	3.643%

Index	Description	Share of CIECH S.A.'s shares in the index
WIG-ESG	The WIG-ESG index is published based on the value of portfolio of companies recognized as socially responsible, i.e. those that comply with the principles of socially responsible business, in particular in the field of environmental, social, economic and corporate governance issues.	0.308%
CEEplus	The CEEplus index is published based on the value of the portfolio of the largest and most liquid companies listed on stock exchanges from the Central Europe region of Croatia, the Czech Republic, Poland, Romania, Slovakia, Slovenia and Hungary.	0.146%
 InvestorMS	InvestorMS – a third-party index calculated by the WSE at the request of Investors TFI S.A. The index tracks the performance of the stock of small and mid-cap companies in the investment focus of the fund Investor Top 25 Małych Spółek FIO. The InvestorMS index is the fund's investment performance benchmark. The methodology of the Investor MS index was developed jointly by the Warsaw Stock Exchange and Investors TFI S.A.	1.017%
 MSCI	MSCI Emerging Markets Index – one of the indices calculated by MSCI ESG Research. Index created for investors looking for companies whose business profile is focused on emerging markets.	<0.03%
 FTSE Russell	FTSE Developed Small Cap Index – the index includes shares of low-capitalisation companies from developed markets. The Index is part of the FTSE Global Equity Index Series (GEIS), which covers approximately 98% of the world's market capitalisation.	<0.005%

Data: WSE, MSCI, FTSE Russell

### Share prices

FIGURE 43: CHANGES IN PRICES OF CIECH S.A.'S SHARES IN 2020 IN COMPARISON WITH CHANGES IN INDICES



Source: infostrefa.com, finance.yahoo.com.

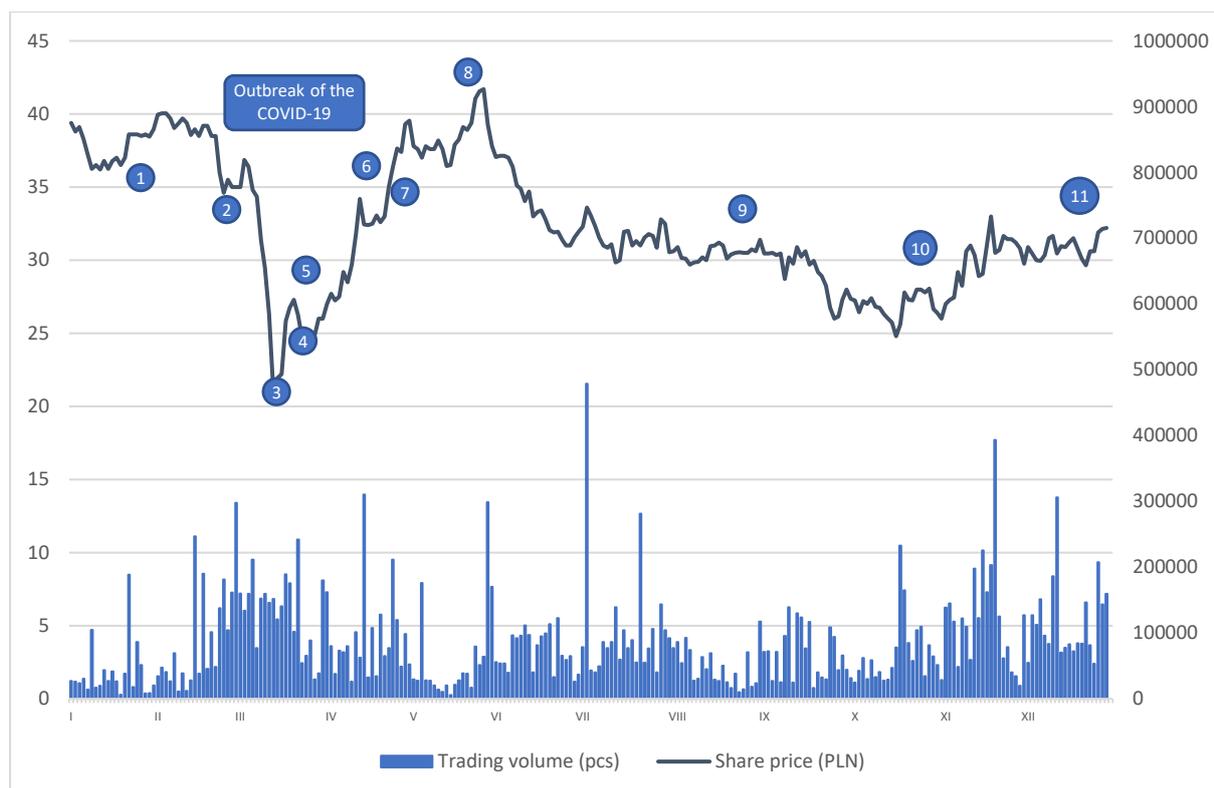
Stock market quotations in 2020 were significantly influenced by the COVID-19 pandemic and the restrictions and regulations introduced by authorities. In 2020, the main WSE index, WIG, decreased by 3% over the previous year, to 57,025.84 points. WIG20, i.e. the index that groups twenty largest companies, fell by 7.7% and stood at 1,983.98 points at the end of 2020. Over the past year, mWIG40, an index of mid-cap companies, increased (by 0.1%) to 3,976.50 points. The industry index, WIG-Chemia, dropped by 11% to the level of 7,697.82 points at the close of the last session in the year.

**PLN 1.7 billion**  
- market capitalisation of  
CIECH S.A.  
at the end of 2020

During the first two months of 2020, CIECH S.A.'s share price fluctuated between PLN 35 and PLN 40. The beginning of March and the escalation of the pandemic situation brought a collapse in world stock markets. The yearly minimum of the CIECH S.A. share price was recorded on 12 March and amounted to PLN 21.1. By the end of the year, in addition to the company's results, the global pandemic situation and restrictions imposed by local and national authorities (e.g.

lockdowns) had an impact on share prices. The highest closing price of CIECH S.A. shares in 2020 was PLN 41.7 and was recorded on 27 May. The year ended with quotations at PLN 32.2, down 18% from the first session of the year.

FIGURE 44: PRICE OF CIECH S.A.'S SHARES AND TRADING VOLUME IN 2020



Source: infostrefa.com.

- |   |  |    |   |
|---|--|----|---|
| 1 | Signing a term sheet and an agreement with the Gas Transmission Operator GAZ-SYSTEM S.A. (Current Report No. 10 of February 7)   | 7  | Ordinary General Meeting (May 21)   |
| 2 | Signing of a letter of intent by a subsidiary of the Issuer on establishing cooperation in the construction of a waste incineration plant (Current Report No. 11 of February 28)                                   | 8  | Publication of the report for the first quarter of 2020 (27 May)  |
| 3 | Information on the Voluntary Redundancy Program and group layoffs at CIECH Soda Romania and the Issuer's Branch in Romania, as well as on the continued production suspension. (Current Report No. 14 of March 25) | 9  | Publication of the report for the first half of 2020 (September 8)  |
| 4 | Publication of the 2019 Annual Report (March 31)   | 10 | Publication of the report for the three quarters of 2020 (November 18)  |
| 5 | Conclusion of an agreement regarding the implementation of a significant investment (salt works in Germany) (Current Report No. 16 of 2 April)   | 11 | Commencement of negotiations on the conclusion of a new loan agreement (Current Report No. 36 of 18 December) |
| 6 | Appointment of a Member of the Management Board - Jarosław Romanowski (RB No. 18 of April 20)  |    |   |

### Key data concerning shares of CIECH S.A.

CIECH S.A.'s shares listed on the Warsaw Stock Exchange are characterised by high liquidity. In 2020, the average number of the company's shares changing hands in a trading session was 85 thousand (vs 63.9 thousand in 2019), and the average volume of trading per session was PLN 2.7 million (compared to PLN 2.9 million in the previous year).

TABLE 42: DATA CONCERNING SHARES OF CIECH S.A. AT THE WSE

CIECH S.A.'s shares – statistics	2020	2019	2018
Number of shares	52,699,909	52,699,909	52,699,909
Closing share price as at the last quotation day in the year (PLN)	32.2	39.7	44.3
Capitalisation of the company as at the end of the year (PLN million)	1,697	2,092	2,335
Maximum price in the year (PLN)	41.7	60.55	64.5
Minimum price in the year (PLN)	21.1	30	40.3
Average trading volume per session (number of shares)	85,042	63,900	92,817
Average trading value per session (PLN)	2,702	2,859	4,913

Source: CIECH S.A., WSE data.

### 6.2.2 CIECH S.A. ON THE FRANKFURT STOCK EXCHANGE

On 23 August 2016, CIECH S.A.'s shares were admitted to trading in the Frankfurt Stock Exchange and are listed on the regulated market, in the General Standard sub-segment. The decision of the Management Board of the company was another step in the implementation of a strategy of expansion of the leading Polish chemical company in international markets.

TABLE 43: KEY INFORMATION ABOUT SHARES LISTED ON THE FRANKFURT STOCK EXCHANGE

Ticker	CHX
Listed from	23.08.2016
Number of shares	52,699,909
Market	General Standard sub-segment

### 6.2.3 INVESTOR RELATIONS

In order to pursue the highest standards of corporate governance and communication, ensure continuous and equal access to information about the Group to all stakeholders, and to meet their needs, CIECH S.A. makes various efforts in the area of investor relations. Effective communication with the equity market and the transparency thereof are among the key priorities of CIECH S.A. that contribute to its shareholder value.

Due to the epidemic, most communication efforts have migrated to remote communication channels. Both companies and investors have had to switch to new forms of contact, but experience shows that the efficiency of information exchange has been maintained.

CIECH S.A.'s key investor relations activities:

- **Direct meetings** – the company organises group meetings with the Management Board to discuss financial performance (dedicated to the Polish sell-side and buy-side). Representatives of CIECH S.A. are also available for individual meetings where required.
- **Investor conferences in Poland and abroad** – the company also actively meets with investors in Poland and abroad during conferences organised by brokers.

- **Active “Investor relations” tab on the company’s website** – the company posts information on, among others, key events and new recommendations on its website.

**Awards and distinctions received in 2020 for efforts related to communication with investors and presence in the equity market:**


CIECH S.A.'s Annual Report 2019 received an award from the monthly magazine “Rachunkowość” for the greatest progress in improving the quality of financial statements as part of the prestigious competition The Best Annual Report 2019.

**STAR OF THE YEAR in the Company category according to “Parkiet”**

During the official Parkiet Ball, organised by the publisher of the prestigious daily newspaper “Gazeta Giełdy i Inwestorów Parkiet”, CIECH S.A. was awarded the title “Star of the Year 2020” in the “Company” category. In justification, the organisers of the competition emphasised the transformation of the CIECH Group, its expansion and the fact that the company has been present on the Warsaw Stock Exchange for 15 years.

**TABLE 44: REPORTING CALENDAR OF THE CIECH GROUP AND CIECH S.A.**

Date	Interim report
22.04.2021	Consolidated and separate annual report for 2020
27.05.2021	Consolidated report for the first quarter of 2021
23.09.2021	Consolidated report for the first half of 2021
25.11.2021	Consolidated report for the three quarters of 2021

**TABLE 45: INSTITUTIONS SUBMITTING RECOMMENDATIONS FOR CIECH S.A.’S SHARES IN 2020**

Institution	Analyst	Address details
BDM	Krystian Brymora	<a href="mailto:brymora@bdm.com.pl">brymora@bdm.com.pl</a>
IPOPEMA Securities	Piotr Jusiński	<a href="mailto:piotr.jusinski@ipopema.pl">piotr.jusinski@ipopema.pl</a>
PKO BP BM	Tomasz Kasowicz	<a href="mailto:tomasz.kasowicz@pkobp.pl">tomasz.kasowicz@pkobp.pl</a>
Trigon DM	Michał Kozak	<a href="mailto:michal.kozak@trigon.pl">michal.kozak@trigon.pl</a>
BM Banku Pekao S.A.	Krzysztof Kozieł	<a href="mailto:Krzysztof.koziel@pekao.com.pl">Krzysztof.koziel@pekao.com.pl</a>
Erste Securities	Emil Popławski	<a href="mailto:emil.poplawski@erstegroup.com">emil.poplawski@erstegroup.com</a>
DM BOŚ	Łukasz Prokopiuk	<a href="mailto:l.prokopiuk@bossa.pl">l.prokopiuk@bossa.pl</a>
Santander BM	Michał Sopieli	<a href="mailto:michal.sopiel@santander.pl">michal.sopiel@santander.pl</a>
mBank BM	Jakub Szkopek	<a href="mailto:jakub.szkopek@mbank.pl">jakub.szkopek@mbank.pl</a>
WOOD & Company	Paweł Wieprzowski	<a href="mailto:pawel.wieprzowski@wood.com">pawel.wieprzowski@wood.com</a>

**Dividend**

Until the date of approval of the report for publication, the Management Board of CIECH S.A. has not adopted a resolution on the proposed distribution of the net profit for 2020.

On 21 May 2020, the Ordinary General Meeting resolved to distribute CIECH S.A.’s net profit for the financial year 2019, amounting to PLN 60,436 thousand, and to allocate the entire profit to CIECH S.A.’s supplementary capital.

TABLE 46: DIVIDENDS PAID

	2020	2019	2018
Dividend paid	-	-	395,249,000
Number of shares	52,699,909	52,699,909	52,699,909
Dividend per share – DPS (PLN) (*)	-	-	7.50
Dividend yield – DY (%) (**)	-	-	14.10

(\*) DPS: Dividend per share

(\*\*) DY: (DPS/ share price on the last day enabling the acquisition of shares with the right to dividend\*\*\*)

(\*\*\*) Share price two business days before the date of establishing the right to dividend

## 6.3 OTHER INFORMATION CONCERNING SHARES AND SHAREHOLDERS

### Issue of securities and utilisation of proceeds from issue of shares

In 2005 and 2011, CIECH S.A. issued securities. Proceeds from these issued were used for investments, debt reduction and restructuring efforts.

In 2020, the CIECH Group used no proceeds from the issue of shares.

### Purchase of treasury shares

CIECH S.A. and other entities of the CIECH Group did not hold and did not acquire any shares of CIECH S.A.

### Agreements on potential changes in the shareholder structure

In 2020, after the reporting date and prior to the date of publication of this report, no agreements were signed that could influence the changes in the proportions of shares held by current shareholders.

### Employee share schemes

In 2020, there were no employee share schemes offered in the CIECH Group.

### Number of shares of CIECH S.A. and other CIECH Group entities held by managers and supervisors of CIECH S.A.

#### Management Board of CIECH S.A.:

Mr Dawid Jakubowicz – President of the Management Board of CIECH S.A. held 21,713 shares of CIECH S.A.

Mr Jarosław Romanowski – Member of the Management Board of CIECH S.A. held 3,200 shares of CIECH S.A.

Mr Mirosław Skowron – Member of the Management Board of CIECH S.A., held 8,656 shares of CIECH S.A.

#### Supervisory Board of CIECH S.A.:

Mr Sebastian Kulczyk – President of the Supervisory Board of CIECH S.A., held indirectly 26,952,052 shares of CIECH S.A., representing 51.14% of the company's share capital.

Mr Marek Kośnik – Member of the Supervisory Board of CIECH S.A., held 3,582 shares of CIECH S.A.

#### Managing Director of CIECH S.A.:

Mr Rafał Czubiński – Managing Director of CIECH S.A. held 8,700 shares of CIECH S.A.

Other Management Board Members of CIECH S.A. and Supervisory Board Members of CIECH S.A. did not hold any shares of the Company.



## **CORPORATE GOVERNANCE**

## 7. CORPORATE GOVERNANCE

### 7.1 SET OF CORPORATE GOVERNANCE PRINCIPLES APPLIED BY CIECH S.A.

This representation is a separate part of the Director's Report of the CIECH Group and CIECH S.A. for 2020.

In 2020, CIECH S.A. was subject corporate governance principles contained in the document adopted by the Resolution No 26/1413/2015 of the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) of 13 October 2015. This set is available at the website of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) at:

[https://www.gpw.pl/pub/GPW/files/PDF/GPW\\_1015\\_17\\_DOBRE\\_PRAKTYKI\\_v2.pdf](https://www.gpw.pl/pub/GPW/files/PDF/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf)

The Management Board of CIECH S.A. represents that in the financial year ended 31 December 2020, CIECH S.A. and its authorities complied with the corporate governance rules contained in the document "Best Practice of GPW Listed Companies 2016", with exceptions described in item 7.2 below.

### 7.2 CORPORATE GOVERNANCE PRINCIPLES WHICH WERE NOT APPLIED BY THE ISSUER IN 2020

The Management Board of CIECH S.A. takes efforts to ensure the highest compliance with principles contained in the set "Best Practice of WSE Listed Companies 2016". In 2020, the Company departed from the application of 3 (three) recommendations: IV.R.2., VI.R.1. and VI.R.2, and 11 (eleven) detailed principles: I.Z.1.15., I.Z.1.17., I.Z.1.20., II.Z.10.1., II.Z.10.4., IV.Z.7., IV.Z.8., IV.Z.9., IV.Z.12., IV.Z.13., V.Z.6.

The reasons for departing from the aforementioned recommendations and detailed principles are indicated below:

TABLE 47: CORPORATE GOVERNANCE PRINCIPLES NOT APPLIED BY CIECH S.A.

Recommendation / detailed principle number	Content	Reasons for departing from the recommendation / detailed principle
<b>I. Information policy and communication with investors</b>		
	A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation:	
I.Z.1.15.	<ul style="list-style-type: none"> <li>information about the company's diversity policy applicable to the company's authorities and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website;</li> </ul>	CIECH S.A. does not find it necessary to develop and apply the diversity policy with regard to the authorities of the Company and its key managers. The fact that particular persons serve management, supervisory and key functions in the Company's structure depends mainly on their competences and experience. In the opinion of CIECH S.A., these criteria allow to select candidates who guarantee the effective implementation of the strategy and, as a result, the Company's growth and benefits for shareholders.
I.Z.1.17.	<ul style="list-style-type: none"> <li>grounds for draft resolutions of the General Meeting of Shareholders concerning the vital issues and decisions or issues and decision which may raise doubts of shareholders – on the date enabling the participants of the General Meeting of Shareholders to read them and pass the resolution having sufficient background,</li> </ul>	Such grounds will be published, if they are prepared in accordance with provisions of the law.



Recommendation / detailed principle number	Content	Reasons for departing from the recommendation / detailed principle
I.Z.1.20.	<ul style="list-style-type: none"> <li>an audio or video recording of a general meeting.</li> </ul>	<p>CIECH S.A. does not publish audio or video recordings of a general meeting on its website, because it does not record the proceedings in such form. The Company broadcasts the General Meeting in accordance with Article 406<sup>5</sup> § 4 of the Commercial Companies Code. The Company prepares and immediately publishes information required by the law on its website, among others, the contents of the resolutions taken at the General Meeting of Shareholders, enabling the investors to read the minutes.</p>

## II. The Management Board and the Supervisory Board

<p>In addition to its responsibilities laid down in the legislation, the supervisory board should prepare and present to the ordinary general meeting once per year the following:</p>		
II.Z.10.1.	<ul style="list-style-type: none"> <li>an assessment of the company's standing including an assessment of the internal control, risk management and compliance systems and the internal audit function; such assessment should cover all significant controls, in particular financial reporting and operational controls;</li> </ul>	<p>The supervisory board does not assess the company's standing. The supervisory board prepares a report on the activities of the supervisory board and on the results of the evaluation of the financial statements in terms of their conformity with the accounting books and documents as well as with the facts, and on the management board's proposals concerning the distribution of profit or coverage of loss. This report includes an assessment of the operation of the control, risk management, compliance and internal audit systems in CIECH S.A. The standing of CIECH S.A. is presented in the financial statements, assessed by the supervisory board.</p>
II.Z.10.4.	<ul style="list-style-type: none"> <li>an assessment of the rationality of the company's policy referred to in recommendation I.R.2 or information about the absence of such policy.</li> </ul>	<p>The sponsorship and charity activities performed by CIECH have no significant effect on the operational and financial situation of the Company. In the Company's opinion, the Supervisory Board does not have to prepare and present the assessment of the rationality of the policy, referred to in the recommendation I.R.2.</p>

## IV. General Meeting of Shareholders and relations with shareholders

IV.R.2.	<p>If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:</p> <ol style="list-style-type: none"> <li>1) real-life broadcast of the general meeting;</li> <li>2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;</li> <li>3) exercise of the right to vote during a general meeting either in person or through a plenipotentiary.</li> </ol>	<p>In the opinion of CIECH S.A., the shareholder structure is dispersed, but this does not justify holding general meetings using electronic communication means with the possibility of two-way communication and voting. In the opinion of CIECH S.A., the benefits of holding the meetings in such manner do not outweigh the risks it entails (e.g. no guarantee of complete security using IT systems). CIECH S.A., on the other hand, broadcasts the General Meetings.</p>
IV.Z.7.	<p>A break in the general meeting of shareholders may take place only in specific situations, each time indicated in the grounds for the resolution on the break order, prepared on the basis of reasons presented by the shareholder applying for the break.</p>	<p>In accordance with the applicable law, the break in the proceedings is decided by the vote of shareholders and this is their only instruction. Thus CIECH S.A. may not guarantee the application of the above principle each time.</p>
IV.Z.8.	<p>The resolution of the general meeting of shareholders on the order of a break explicitly indicates the date of resuming the proceedings, whereas this date may not form an</p>	<p>In accordance with the applicable law, the date of resuming the proceedings of the general meeting of shareholders is decided by vote of shareholders. Thus</p>



Recommendation / detailed principle number	Content	Reasons for departing from the recommendation / detailed principle
IV.Z.9.	<p>obstacle for most shareholders, including the minority shareholders, to participate in the proceedings.</p> <p>The Company is committed to assure that draft resolutions of the general meeting of shareholders contained the grounds, if it helps the shareholders to pass the resolution having sufficient background. If a particular item is listed on the agenda of the general meeting of shareholders on demand of the shareholder or shareholders, the Management Board or the chairman of the general meeting of shareholders asks for the grounds of the proposed resolution. In vital cases or in cases which may raise doubts of shareholders, the Company will submit the grounds, unless it will otherwise provide the shareholders with information which allow passing the resolution having sufficient background.</p>	<p>CIECH S.A. may not guarantee the application of the above principle each time.</p> <p>CIECH S.A. is committed to guarantee that in justified cases draft resolutions of the general meeting of shareholders will comprise the grounds. However, this may not be possible, for example, if the item is put on the agenda of the general meeting of shareholders by a shareholder who submitted the draft resolution without grounds, the Management Board of CIECH S.A. may not be able to submit the justification unknown to it. Therefore, the Management Board of CIECH S.A. may not guarantee that this principle will always be applied.</p>
IV.Z.12.	<p>The Management Board should provide the participants of the general meeting of shareholders with the financial performance of the Company and other significant information contained in the financial statements to be approved by the general meeting.</p>	<p>Pursuant to the applicable law, CIECH S.A. prepares the financial statements comprising information material in the opinion of the Management Board. Documents are public (available, among others, at <a href="http://www.ciechgroup.com">www.ciechgroup.com</a>) and the participants of the general meeting may read them. In addition, documents are provided to shareholders or proxies at general meetings. Additionally, the concept of “other material information” is too vague to ensure the application of this principle.</p>
IV.Z.13.	<p>In the case of a demand by the shareholder for information about the Company, the Management Board of the Company is required to reply to the shareholder’s demand or inform it about the refusal to give this information no later than within 30 days, if the Management Board took such decision pursuant to Article 428 §2 or §3 of the Code of Commercial Partnerships and Companies.</p>	<p>In accordance with the applicable law, in the course of proceedings of the general meeting of shareholders, the Management Board provides the shareholder, on its demand, with information about the Company, but only if it is justified for the purposes of the assessment of the item on the agenda, pursuant to Article 428 of the Code of Commercial Partnerships and Companies. In the opinion of CIECH S.A., if the Company undertakes to apply the aforementioned principle, it could lead to numerous frauds on the part of shareholders.</p>

**V. Conflict of interest and transactions with related parties**

V.Z.6.	<p>In its internal regulations, the Company determines criteria and circumstances, which may lead to the conflict of interest in the Company, and the rules of conduct, if the conflict of interest occurs or is likely to occur. The internal regulations of the Company comprise, among others, the methods of preventing, identifying and solving conflicts of interest, and rules for excluding a member of the Management Board or the Supervisory Board from the participation in solving the issue subject to conflict of interest or at risk of such conflict.</p>	<p>CIECH S.A. applies the CIECH Group Conflict of Interest Prevention Policy. The policy governs all issues relating to the prevention of conflicts of interest. According to the CIECH Group Conflict of Interest Prevention Policy, the CIECH Group takes all measures to prevent, report, detect and explain any cases that threaten the impartial and objective performance of professional duties for the CIECH Group due to family, financial, personal, emotional reasons, political sympathies, business interests or any other circumstances whose occurrence is or may be detrimental to the CIECH Group. The By-Laws of the Management Board of CIECH S.A. regulate the principles of excluding a member of the Management Board from participating in the consideration of a matter covered by or threatened by a conflict of interest. There is no such regulation addressed directly to the members of the Supervisory Board of CIECH S.A.; in this case, the general principles of the Policy apply</p>
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Recommendation / detailed principle number	Content	Reasons for departing from the recommendation / detailed principle
<b>VI. Remunerations</b>		
VI.R.1.	The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.	CIECH S.A. has implemented a Remuneration Policy for the members of the Management Board and Supervisory Board of CIECH S.A. The remuneration of key managers results from remuneration regulations as well as short- and long-term bonus systems. In the opinion of CIECH S.A., these regulations are sufficient.
VI.R.2.	The remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.	CIECH S.A. has implemented a Remuneration Policy for the members of the Management Board and Supervisory Board of CIECH S.A. The policy is closely linked to the company's strategy, short- and long-term objectives, long-term interests and performance. The bonus system for key managers is closely linked to the company's strategy, short- and long-term objectives, long-term interests and performance. The remuneration system for key managers is based on grade levels and pay scales prepared on the basis of salary reports. Solutions for avoiding discrimination are included in the procedure for preventing prohibited behaviour in the CIECH Group. In the opinion of CIECH S.A., these regulations are sufficient.

### 7.3 INTERNAL CONTROL SYSTEM WITH REGARD TO THE PROCESS OF PREPARING FINANCIAL STATEMENTS

The Management Board of CIECH S.A. is responsible for the internal control system in the Company and its efficiency in the process of preparing financial statements and periodical reports developed and published in accordance with the Regulation of the Minister of Finance of 29 March 2018 on current and periodical information submitted by issuers of securities and on conditions for deeming equivalent information required by the law of a Non-Member State. The Company's effective internal control and risk management system in the financial reporting process operates through:

- preparation of procedures specifying the principles and division of responsibilities for the development of financial statements, including the guarantee of their quality,
- establishment of the scope of reporting based on applicable International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) adopted 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 the CIECH Group's companies,
- semi-annual reviews and annual audits of published financial statements of CIECH S.A. and the CIECH Group by an independent auditor (external control system),
- procedures for authorization of financial statements prior to their publication.

The Management Board member responsible for financial matters supervises the process of preparing the Company's financial statements and periodical reports from the subject-matter point of view. The Accounting Department is responsible for the organization of work related to the preparation of financial statements and reports directly to the Member of Management Board of CIECH S.A. The uniformity of standards applied in the Group guarantees that all companies apply uniform accounting principles of the CIECH Group and uniform consolidation principles in accordance with 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 packages for the purpose of developing consolidated financial statements of the Group. The scope of data disclosed within the Capital Group is defined by the disclosure obligations specified in IAS/IFRS and results from them. Monitoring of changes in IAS/IFRS is conducted on an ongoing basis in order to determine the necessity for updating the scope of reporting.

In accordance with applicable regulations, the Company submits its financial statements to be reviewed and audited by the independent statutory auditor.

The Supervisory Board selects the statutory auditor from a group of reputable auditing firms, guaranteeing high standard of services and the required independence.

On 14 May 2020, CIECH S.A. signed an agreement with Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. on the review of semi-annual and audit of annual financial statements for the years 2020 and 2021.

Procedures for authorisation of financial statements prior are specified in the Company. Reports for 1<sup>st</sup> and 3<sup>rd</sup> quarter are not verified by the auditor, and prior to their publication, they are analysed by the Audit Committee of the Supervisory Board and approved by the Management Board. Semi-annual and annual periodical reports are submitted to the Supervisory Board and Company Shareholders after the conclusion of the appropriate review or audit by the auditor. Annual reports adopted by the Management Board of the Company, after being opined by the Audit Committee and assessed by the Supervisory Board, are approved by the General Meeting of Shareholders.

Prior to the publication of annual or half-year financial statements, conclusions from the audit or review of the financial statements are presented to the Audit Committee. Representatives of the Audit Committee analyse the results of the audit and review at closed meetings with the Company auditor. The statutory auditor also presents a Letter to the Management Board, which contains recommendations for the Management Boards of Group Companies based on results of the audit or review of the financial statements in a given year. The recommendations from the auditor are discussed by the Audit Committee along with the Management Board for the purpose of their implementation.

Financial data constituting the basis of financial statements and periodical reports comes from the finance and accounting system, where transactions are recorded in accordance with the Company's accounting policy (approved by the Management Board) on the basis of International Accounting Standards. The accounting records 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 inspection of reconciliation of the general ledger and subsidiary ledgers. The capabilities of the system allow it to adapt to changing accounting principles or other legal regulations on an ongoing basis. The system keeps full technical and operational documentation which is updated periodically pursuant to Article 10 of the Accounting Act of 29 September 1994 (as amended).

The access to the informational resources of the IT system is limited by appropriate authorisations for authorised employees. The employees have access only to those areas of the system that they are concerned with. The 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 effectiveness of the control and risk management procedures in the process of preparing financial statements of CIECH S.A. and the CIECH Group may be seen in the form of the high quality of these statements, as confirmed by the opinions put forth by statutory auditors from their auditing of the financial statements and by the high evaluations of the recipients of these statements. In 2020, the CIECH Group's Annual Report was once again among the winners of The Best Annual Report 2019 competition, this time receiving an accolade from the monthly magazine "Rachunkowość" for the greatest progress in improving the quality of the financial statements.

The selection of the entity authorised to audit the financial statements of CIECH S.A. and the CIECH Group is the responsibility of the Company's Supervisory Board (after prior recommendation of 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 authorised to audit financial statements may not conduct audits of the Company/Group for more than 5 subsequent years;
- the first agreement on the audit of financial statements is concluded for a period not shorter than 2 years;
- the entity authorised to audit financial statements may conduct the audit in the Company/Group again after at least 3 years from the end of the last audit, unless the duration of the audit order is 5 years, in which case the entity authorised to audit financial statements may conduct the audit in the Company/Group again after at least 4 years from the end of the last audit;
- a key statutory auditor may not perform financial audit activities in the Company/Group for a period of more than 5 subsequent years;
- a key statutory auditor may perform financial audit activities in the Company/Group again after at least 3 years from the end of the last audit.

## 7.4 SHAREHOLDERS OF CIECH S.A. HOLDING SIGNIFICANT BLOCKS OF SHARES

To the best knowledge of the Company, as at the day of approving this report, entities holding significant blocks of shares (at least 5%) are the entities listed below:

TABLE 48: SHAREHOLDERS OF CIECH S.A. HOLDING SIGNIFICANT BLOCKS OF SHARES

Shareholder	Type of shares	Number of shares	Number of votes at the General Meeting of Shareholders	Share in the total number of votes at the General Meeting of Shareholders	Stake in share capital (%)
KI Chemistry s. à r. l. with its registered office in Luxembourg*	Ordinary bearer	26,952,052	26,952,052	51.14%	51.14%
Nationale-Nederlanden Otwarty Fundusz Emerytalny**	Ordinary bearer	2,729,507	2,729,507	5.18%	5.18%
Aviva Otwarty Fundusz Emerytalny Aviva Santander ***	Ordinary bearer	3,084,470	3,084,470	5.85%	5.85%
Other	Ordinary bearer	19,933,880	19,933,880	37.83%	37.83%

\* In accordance with information dated 9 June 2014 provided by Shareholder under Article 77(7) and Article 69(1)(1) of the Act of 29 July 2005 on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies (CR 26/2014).

\*\* on the basis of the list of shareholders holding at least 5% of votes at the Extraordinary General Meeting of Shareholders of CIECH S.A. on 15 March 2021, CR 6/2021 prepared and published pursuant to Article 70(3) of the Act of 29 July 2005 on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies (Journal of Laws of 2009, No 185, item 1439).

\*\*\* on the basis of the list of shareholders holding at least 5% of votes at the Extraordinary General Meeting of Shareholders of CIECH S.A. on 15 March 2021, CR 6/2021 prepared and published pursuant to Article 70(3) of the Act of 29 July 2005 on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies (Journal of Laws of 2009, No 185, item 1439).

## 7.5 SHAREHOLDERS WITH SPECIAL CONTROL RIGHTS

As at the publication date of the financial statements, all shares of CIECH S.A. are ordinary bearer shares. The Articles of Association of CIECH S.A. does not provide for any special control rights for the shareholders.

## 7.6 RESTRICTIONS CONCERNING THE EXERCISE OF THE VOTING RIGHTS

In CIECH S.A. there are no restrictions concerning the exercise of the voting rights, such as the voting rights of holders of a specific part or number of votes, time limits concerning the exercise of voting rights, or regulations, according to which, in the case of company's cooperation, equity rights related to securities are separated from the securities themselves. Restrictions concerning the exercise of voting rights in the Company may result only from generally applicable provisions of the law.

## 7.7 RESTRICTIONS CONCERNING THE TRANSFER OF OWNERSHIP RIGHTS TO THE ISSUER'S SECURITIES

The Articles of Association of CIECH S.A. do not impose any restrictions concerning the transfer of ownership rights to securities issued by the CIECH S.A.

## 7.8 DESCRIPTION OF RIGHTS FOR MAKING DECISIONS ON THE ISSUE OR REDEMPTION OF SHARES

The rights of managers are specified by the provisions of the Code of Commercial Partnerships and Companies and Articles of Association of the Company. Managers do not hold specific rights to take the decision about the issue or redemption of shares. Decisions on the issue or repurchase of shares are within the competence of the General Meeting which may authorise the Management Board to issue and repurchase shares in the Company ("Treasury Shares") within the limits of the authorisation set by a resolution of the General Meeting.

## 7.9 PRINCIPLES OF AMENDING THE ISSUER'S ARTICLES OF ASSOCIATION

The amendment of Articles of Association of the Company is introduced under the principles specified in the provisions of the Code of Commercial Partnerships and Companies. Articles of Association do not include detailed regulations with regard to the above regulations. The amendment of Articles of Association requires a resolution of the Company's General Meeting of Shareholders and an entry in the Register of Entrepreneurs. The resolution of the General Meeting of Shareholders concerning the amendment of the Company's Articles of Association is passed by a majority of three quarters of votes. After the amendment to Articles of Association is entered into the Register of Entrepreneurs, CIECH S.A. makes a current report on this, subject available to the public. The Company's General Meeting of Shareholders may authorise the Supervisory Board to determine the consolidated text of Articles of Association.

## 7.10 CORPORATE BODIES OF CIECH S.A. AND PRINCIPLES GOVERNING THEIR OPERATION

### **General Meeting of Shareholders of CIECH S.A.**

The operations of the General Meeting of Shareholders of CIECH S.A. and its rights are governed by the Company's Articles of Association and the Regulations of the General Meeting of Shareholders of CIECH S.A. These documents are available on the corporate website of CIECH S.A.: <http://ciechgroup.com/relacje-inwestorskie/tad-korporacyjny/>.

The General Meeting of Shareholders of CIECH S.A. is held as ordinary or extraordinary meeting in accordance with the provisions of the Code of Commercial Partnerships and Companies and Articles of Association under the principles specified in the Regulations of the General Meeting of Shareholders. The General Meeting of Shareholders is convened in a manner and under principles specified in the generally applicable provisions. Announcement on convening the General Meeting of Shareholders is posted on the Company's website and communicated in a current report. The announcement is to be made at least twenty six days before the date of the General Meeting of Shareholders. The Annual General Meeting is convened by the Company's Management Board. The Supervisory Board may convene the Annual General Meeting if the Management Board does not convene it by the fixed date. The following are entitled to the right to convene an Extraordinary General Meeting:

- the Management Board,
- the Supervisory Board if it deems its convening as necessary,
- Shareholders representing at least half of the share capital or at least half of the total 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 items on the agenda of this Meeting. The demand should be reported to the Management 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:

- demand the inclusion of specific items in the agenda of the next General Meeting – such demand should be reported to the Management Board in writing or in electronic form to the e-mail address indicated on the Company's website, no later than twenty one days before the fixed date of the Meeting and is to contain substantiation or a draft of the resolution concerning the proposed item on the meeting agenda;
- submit drafts of resolutions concerning the items put on the agenda of the General Meeting or items that are to be included 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 Articles of Association of CIECH S.A. the competences of the General Meeting include in particular:

- consideration and approval of the Management Board's report on Company's activities, the financial statements for the previous year, the consolidated financial statements and the report on the capital group's activities, in which the parent company is the Company, as long as the Company prepares them, and the annual written statement of the Supervisory Board, as well as acknowledging the fulfillment of duties by Company's bodies;
- taking resolutions on the distribution of profit or covering the losses;
- adoption of Regulations of the General Meeting;
- amending the Articles of Association of the Company;
- changing the Company's business profile;
- purchase, sale or lease of, or creation of limited property rights in, the Company's enterprise or its organised part;
- appointing and dismissing the Supervisory Board members and determining the amount of remuneration for the Supervisory Board Members;
- increasing or reducing the share capital;
- passing resolutions concerning the bonds issue, including bonds exchangeable for shares;
- merger, demerger and transformation of the Company;
- dissolution of the Company;
- expressing the consent for the acquisition of shares by the Company for the purposes of their cancellation and determining the conditions of share cancellation;
- passing other resolutions provided for in the provisions of the law or in these Articles of Association.

According to § 21(2)(3) of the Articles of Association of CIECH S.A., the items 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 General Meeting and exercise the voting right in person or through a representative or a proxy. The power of attorney should be granted in writing or in electronic form. A shareholder granting or revoking the proxy for participation in the General Meeting in electronic form will inform the Company by e-mail to the address [wza@ciechgroup.com](mailto:wza@ciechgroup.com).

According to the Regulations of the General Meeting of CIECH S.A., the General Meeting is attended by the participants of the General Meeting and members of the Management Board and the Supervisory Board, in composition which allows them to provide factual answers to questions asked during the Meeting. In addition, the following persons may take part in the Meeting:

- experts, advisers and Company's employees, the presence of which is deemed purposeful by the Management Board, Supervisory Board;
- persons servicing the General Meeting;
- representatives of mass media invited by the Company's Management Board, as long as the General Meeting does not object to their presence by way of resolution;
- persons referred to Article 370 § 3 and Article 395 § 3 sentence 2 of the Code of Commercial Partnerships and Companies;
- the statutory auditor of the Company invited by the Company's Management Board.

The Chairman of the Meeting is selected from the participants of the Meeting. The Chairman directs the course of the Meeting in accordance with the adopted meeting agenda, provisions of the law, Articles of Association and Regulations of the General Meeting, ensuring an efficient course of the Meeting with respect to the rights and interests of all Shareholders.

The Chairman of the General Meeting may independently order breaks at the meeting other than the breaks ordered by the General Meeting pursuant to Article 408 § 2 of the Code of Commercial Partnerships and Companies. Breaks should be ordered by the Chairman in such a way, that the Meeting can be concluded on the day of its commencement.

Participants of the General Meeting may place substantive applications concerning the matters included in the meeting's agenda, ordinal applications and an application for convening an extraordinary general meeting.

1. Substantive motions, submitted in a written form to the Chairman of the General Meeting, may concern:

- amendments to draft resolutions,
- removal of a specific issue from the agenda,
- rearrangement of the agenda,
- appointment and removal of Supervisory Board members.

2. Procedural motions may be submitted to the Chairman of the General Meeting orally.

The Articles of Association do not provide for the possibility of participating and expressing opinion by means of electronic communication in the course of the Meeting.

Drafts of resolutions proposed for acceptance by the General Meeting are uploaded to the Company website. Resolutions of the General Meeting are adopted by an absolute majority of votes, unless the provisions of the Code of Commercial Partnerships and Companies or the Articles of Association provide for stricter terms of adoption.

The Regulations of the General Meeting of Shareholders do not provide for the possibility of voting by correspondence as referred to in Article 411 of the Code of Commercial Partnerships and Companies.

Voting is carried out by open ballot. A secret ballot is ordered in cases provided for in the Code of Commercial Partnerships and Companies and the Company's Articles of Association. A secret ballot is also ordered when a Participant in the General Meeting requests the adoption of a resolution by means of a secret ballot.

The results of the vote are announced by the Chairman of the General Meeting. Once the results of the vote are announced, the Chairman of the General Meeting allows the participants in the General Meeting to submit their objections with a brief justification to be included in the minutes on the General Meeting which are drawn-up by a notary in the form of a notarial deed.

A Participant of the General Meeting who is a member of the Company's governing authorities may take part in the vote on the acknowledgement of fulfilment of duties by other members of that authority of the Company that he/she is a member of.

### **Supervisory Board**

Pursuant to § 20(1) of the Company's Articles of Association, the Supervisory Board consists of five to nine Members appointed by the General Meeting. The number of Supervisory Board members is determined by the General Meeting by way of a resolution. The joint term of the Supervisory Board Members lasts three years.

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. The Supervisory Board appoints the Chairman of the Supervisory Board from among its members and, if necessary, his deputy and secretary. The Supervisory Board supervises the Company's operations.

The competences of the Supervisory Board include:

- 1) the assessment of the Management Board's report on the Company's activity and financial statements for the previous financial year and the consolidated financial statements and the Board's report on the activity of the Group, in which the Company is a parent company as long as the Company develops them in respect of their compliance with ledgers and documents and the factual state and Management Board's motions, concerning the distribution of profit or covering of losses and the submission to the General Meeting of an annual written report on the results of these assessments;
- 2) giving opinions on the Company's activity programs developed by the Management Board;
- 3) considering and giving opinions on matters that are to be the subject of resolutions of the General Meeting;
- 4) adopting the Supervisory Board's regulations;
- 5) approving the Management Board's regulations;
- 6) appointing and dismissing the Management Board Members, including the President of the Management Board;
- 7) determining the rules for remuneration and their levels for the Management Board Members, including the President of the Management Board;
- 8) selecting the statutory auditor to carry out an audit of the Company's financial statements and of the consolidated financial statements of the Capital Group;
- 9) granting consent to purchase or dispose of real property, perpetual usufruct right to, or interest in real property;
- 10) granting consent to dispose of rights or assume liabilities exceeding the amount of PLN 20 million, excluding:
  - a. purchase and sales of raw materials, intermediate goods, and products related to the operations of the Company;
  - b. assuming liabilities related to the main operations of the Company in the amount not exceeding 10% of the Company's equity;
  - c. activities requiring the consent of the General Meeting.
- 11) giving opinions about the candidates for the members of supervisory boards of companies, in which the Company is a partner or a shareholder;
- 12) approving drafts of annual business plans and budget of the Company, Capital Group and their amendments;
- 13) granting consent to charge assets of the Company with the amount (sum of security) exceeding PLN 10 million, in the form of one-off transaction or a series of related transactions;

- 14) granting consent to the Company's granting sureties and guarantees to entities other the subsidiaries within the meaning of the Code of Commercial Partnerships and Companies;
- 15) granting consent to make the payment of interim dividend;
- 16) granting consent to exercise by the Company of the ownership rights awarded to it as the partner and shareholder of the subsidiary, to the extent determined in item 10 above.

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 Supervisory Board Chairman's vote is decisive. According to the Articles of Association of CIECH S.A., the Supervisory Board may pass resolutions without convening a meeting, by way of written vote or vote by 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. prepares and submits a report on the Activity of the Supervisory Board for the given financial year to the Annual General Meeting of the Company. The report contains a detailed discussion on the activity of the Supervisory Board, discussion on the implementation by the Company's Management Board of action plans, the assessment of the Company's Management Board report on the activity of the Company and the CIECH Group, financial statements of the Company and the CIECH Group and the motion of the Company's Management Board concerning division of profits or covering of losses.

Having in mind 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 during the Annual General Meeting of the Company, at a time allowing CIECH S.A.'s shareholders to become acquainted with the document.

As at 1 January 2020, the Supervisory Board consisted of the following members:

- Sebastian Kulczyk – Chairman of the Supervisory Board,
- Tomasz Mikołajczak – Vice Chairman of the Supervisory Board,
- Piotr Augustyniak,
- Marek Kośnik,
- Mariusz Nowak,
- Artur Olech.

Following the resignation of Mr Mariusz Nowak from the Supervisory Board of CIECH SA as of 22 January 2020, on 23 January 2020 the Extraordinary General Meeting of Shareholders of CIECH S.A. appointed Mr Łukasz Rędziniak to the Supervisory Board of CIECH S.A.

Deputy Chairman of the Supervisory Board of CIECH S.A., Mr. Tomasz Mikołajczak, resigned as Member of the Supervisory Board of CIECH S.A. on the date of the Ordinary General Meeting of CIECH S.A., i.e. on 21 May 2020, and on this date the Ordinary General Meeting of CIECH S.A. appointed Mr. Martin Laudенbach as Member of the Supervisory Board

On 16 July 2021, the Supervisory Board appointed Mr Marek Kośnik as Deputy Chairman of the Supervisory Board.

As at 31 December 2020, the Supervisory Board consisted of the following members:

- Sebastian Kulczyk – Chairman of the Supervisory Board,
- Marek Kośnik – Deputy Chairman of the Supervisory Board,
- Piotr Augustyniak,
- Łukasz Rędziniak,
- Artur Olech,
- Martin Laudенbach.

On 16 March 2021, Mr. Piotr Augustyniak resigned from his membership in the Supervisory Board of CIECH S.A.

The body responsible for establishing the remuneration for the Supervisory Board members is the General Meeting. On 21 May 2020, the Ordinary General Meeting adopted the Remuneration Policy for the Members of the Management Board and Supervisory Board of CIECH S.A., which includes the solutions required by the Act of 29 July 2005 on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies (Journal of Laws of 2019, item 623, as amended) (hereinafter the "Act"). The Remuneration Policy of CIECH S.A. stipulates that the solutions adopted in it will contribute to the Company's business strategy and long-term interests and sustainability. In addition, the Remuneration Policy of CIECH S.A. contains an authorisation for the Supervisory Board to further specify the principles of remuneration of members of the Management Board, in accordance with the provisions set forth in the Act.

Detailed information on amounts of remuneration paid to particular Members of the Supervisory Board is provided in Note 9.3.4 to the Consolidated Financial Statements of the CIECH Group for 2020 and in Note 9.3.4 to the Financial Statements of CIECH S.A. for 2020.

Detailed information about CIECH S.A. Supervisory Board Members is presented below.

TABLE 49: CIECH S.A.'S SUPERVISORY BOARD AS AT 31 DECEMBER 2020

<b>SEBASTIAN KULCZYK</b> Chairman of the Supervisory Board of CIECH S.A. since 8 October 2015	<p>Since 2010 he has been associated with Kulczyk Investments Group, and since December 2013 he has been Chief Executive Officer of Kulczyk Investments S.A. Member of Supervisory Boards in the following companies: Polenergia S.A., Autostrada Wielkopolska S.A. and Autostrada Wielkopolska II S.A. From 2009 to 2010, he worked at an investment bank, Lazard, in London. Experienced manager of companies from the e-business sector. He also worked in the department for digital media at SonyBMG, New York. For many years, he has invested in and developed new-tech ventures.</p> <p>Sebastian Kulczyk does not conduct any activities that are competitive to the business of CIECH S.A.</p> <p>According to his representation, Mr Sebastian Kulczyk does not meet the criteria of independence within the meaning of Annex II to Recommendation of the European Commission 2005/162/EC of 15 February 2005.</p>
<b>MAREK KOŚNIK</b> Supervisory Board Member of CIECH S.A. since 28 January 2019 – Deputy Chairman of the Supervisory Board of CIECH S.A. since 16 July 2020,	<p>He is a graduate of the Faculty of Management at the University of Warsaw and MBA studies at Harvard Business School. He works in a private equity fund – CVC Capital Partners – as a Senior Managing Director with responsibility for assessing investment projects, supervising the portfolio and implementing digital strategies. In the past, he worked for such companies as Bain &amp; Company, Terra Firma Capital Partners and McKinsey &amp; Company. He has gained experience in building company strategies, investment processes, restructuring and digital transformations. An investor in new technologies projects.</p> <p>Marek Kośnik does not conduct any activities that are competitive to the business of CIECH S.A.</p> <p>According to his representation, Mr Marek Kośnik meets the criteria of independence within the meaning of Annex II to Recommendation of the European Commission 2005/162/EC of 15 February 2005.</p>
<b>MARTIN LAUDENBACH</b> Member of the Supervisory Board from 21 May 2020.	<p>Graduate of the Business Administration Faculty of the University of Mannheim. He also completed „Making Corporate Boards More Effective” course organized by Harvard Business School in Boston.</p> <p>From 2010 to 2017, he worked at Solvay Group. He oversaw the business activities of Solvay Group companies in the Asia-Pacific region. He was also a member of the management board of Vinythai Public Company (listed on the Thailand Stock Exchange, Solvay Group) and president of the management board of Solvay Polyamide &amp; Intermediates (formerly Rhodia). From 2007 to 2009, he was the CEO of Almatiss Group (leader in development, manufacture and supply of specialty alumina and alumina-based products). From 1988 to 2005, he worked for BASF Group, managing BASF's Fine Chemicals Division, among others.</p> <p>Mr Martin Laudenbach does not conduct any activities that are competitive to the business of CIECH S.A.</p> <p>According to his representation, Mr Martin Laudenbach meets the criteria of independence within the meaning of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight, and within the meaning of Annex II to Recommendation of the European Commission 2005/162/EC of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of</p>

	<p>the (supervisory) board, as well as the criteria described in the Code of Best Practice for WSE Listed Companies 2016.</p>
<b>PIOTR AUGUSTYNIAK</b> Supervisory Board Member of CIECH S.A. from 7 July 2014 till 16 March 2021	<p>Graduate of Warsaw University, Faculty of English Philology and Faculty of Management. He is entered on the list of recommended candidates for professional members of Supervisory Boards by the Polish Institute of Directors.</p> <p>Piotr Augustyniak is an independent financial advisor.</p> <p>Member of the supervisory boards of the following public companies: Asseco Poland S.A., PZ Cormay S.A. In 2013-2014, member of the supervisory board of Kopex S.A., in 2012-2017, member of the supervisory board of Mercor S.A. Member of the supervisory boards of the following non-public companies: Asseco Data Systems S.A. i Asseco International, a.s</p> <p>In 1994-2011, he was associated with Enterprise Investors (EI), a private equity fund operating in Poland as well as Central and Eastern Europe, as an analyst, investment director and vice-president. In 2006–2011, as EI partner, he was responsible for monitoring and introducing companies to the WSE and for transactions of the sale of the significant blocks of shares of EI portfolio companies on the public and private markets. He represented EI as the member of the supervisory boards of the following companies: Polfa Kutno S.A., Energoaparatura S.A., Elektrobudowa S.A., Wizów S.A., Sfinks S.A., CSS S.A., Bauma S.A., Comp Rzeszów S.A. (currently Asseco Poland S.A.), Agros Nova S.A., Teta S.A., Opoczno S.A., AB S.A., Siveco Romania S.A. (Romania), STD Donivo a.s. (Slovakia), AVG Technologies N.V. (the Netherlands).</p> <p>In the period from June to December 2001, he served the role of the President of the Management Board of Energoaparatura S.A. In 1993–1994, he was employed by the Ministry of Ownership Transformation, first as a project manager and then as a manager of the privatization team. In 1992-1993, he was employed as an assistant of the financial officer in the Ownership Transformation Foundation at the Ministry of Ownership Transformation. In 1991-1992, he worked at New York Times (Warsaw) as a translator.</p> <p>Piotr Augustyniak does not conduct any activities that are competitive to the business of CIECH S.A.</p> <p>According to his representation, Mr Piotr Augustyniak meets the criteria of independence within the meaning of Annex II to Recommendation of the European Commission 2005/162/EC of 15 February 2005.</p> <p>On 16 March 2021, Mr. Piotr Augustyniak resigned from his membership in the Supervisory Board of CIECH S.A. on 16 March 2021. Thus, as of 16 March 2021, he ceased to be a member of the Audit Committee of the Supervisory Board of CIECH S.A.</p>
<b>ARTUR OLECH</b> Supervisory Board Member of CIECH S.A. from 7 July 2014	<p>A graduate from the Faculty of Law at the University of Warsaw and from the Faculty of Finance and Banking at the Warsaw School of Economics. He attended numerous training sessions for top management, including training at the Harvard Business School, Kellogg School of Management and Chicago GSB.</p> <p>He is an expert in business process management. Founder and President of the Management Board of a technology and consulting company, hiPRO Sp. z o.o., since October 2016.</p> <p>Until August 2016, he was the President of the Management Board of Pocztove Towarzystwo Ubezpieczeń Wzajemnych S.A. and Pocztove Towarzystwo Ubezpieczeń na Życie S.A.</p> <p>President of the Management Board of Pocztove Życie Sp. z o.o. (currently: Centrum Rozliczania Ubezpieczeń Sp. z o.o.) between September 2014 and February 2015. From October 1998 to February 2014, he was a member of the Management Board of the Generali Group where, in 2008-2010, he served as the Vice President of the Management Board, responsible for life and pension insurance. In 1997-1998, he was the Director of Volkswagen Bank Polska/Volkswagen Leasing Polska-Warszawa. In 1996-1997, employed as an analyst by the Polish Institute of Management (PIM Sp. z o.o.). In 1994-1997, employed in the position of a Foundation Project Manager by CASE Consulting (Fundacja Centrum Analiz Społeczno-Ekonomicznych) in Warsaw. In 2012, he was granted the Personal Award for Top Manager in Insurance Industry (by Wprost magazine). Responsible for the project entitled: "Exit Processes in Transitional Economy" on behalf of the World Bank, implemented within CASE Consulting under the supervision of Prof. Leszek Balcerowicz.</p> <p>Artur Olech does not conduct any activities that are competitive to the business of CIECH S.A.</p> <p>According to his representation, Mr Artur Olech meets the criteria of independence within the meaning of Annex II to Recommendation of the European Commission 2005/162/EC of 15 February 2005.</p>
<b>ŁUKASZ RĘDZINIAK</b> Supervisory Board Member of CIECH S.A. since 23 January 2020	<p>Attorney-at-law, graduate of the Faculty of Law and Administration of the Jagiellonian University. Since 1996, a member of the District Bar Association in Warsaw. Since 2013, Member of the Management Board of Kulczyk Investments S.A.</p> <p>In 2004-2007 and 2013-2015, he was a Member and Secretary of the Supervisory Board of Firma Oponiarska Dębica S.A. He is the Chairman of the Board of Directors of Serinus Energy plc, and a member of the Supervisory Board of both Autostrada Wielkopolska S.A. and SCT Broker Sp. z o.o.</p>

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Independent Member of the Supervisory Board of Firma Oponiarska Dębica S.A., and a Member of the Audit Committee in this company.

In 2007–2009, Undersecretary of State in the Ministry of Justice of the Republic of Poland. Since 2009, the managing partner of the office of Studnicki Pleszka Cwiąkowski Górski Sp. K. in Warsaw. Attorney-at-law at Dewey & LeBoeuf LLP (1993 - 2007), and a partner of this law firm since 2001; attorney-at-law in an individual law firm cooperating with Dewey Ballantine Sp. z o.o. (1997 - 2000), Lawyer at Consoft Consulting Sp. z o.o. (1991–1992). In 1990–1991, a research assistant at the Faculty of Law and Administration of the Jagiellonian University.

Łukasz Rędziniak does not conduct any activities that are competitive to the business of CIECH S.A.

According to his representation, Mr Łukasz Rędziniak does not meet the criteria of independence within the meaning of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight, and within the meaning of Annex II to Recommendation of the European Commission 2005/162/EC of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board, as well as the criteria described in the Code of Best Practice for WSE Listed Companies 2016.

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### Committees of the Supervisory Board of CIECH S.A.

The following Committees operate 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 first Audit Committee of the Supervisory Board of CIECH S.A. was appointed by Resolution No 57/IV/2005 from 16 February 2005. The Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the supervision of the correctness of financial reporting of the Company, financial results of the Company, effectiveness of internal control, including internal audit and risk management, exercised by the Supervisory Board.

The Audit Committee is composed of at least three Members of the Committee, including the Chairman of the Audit Committee. A majority of Members of the Audit Committee, including its Chairman, should meet the independence criteria set forth in Article 129(3) of the Act.

According to the Audit Committee Regulations the tasks of the Audit Committee include in particular:

- a) monitoring:
  - the financial reporting process;
  - effectiveness of the internal control system, as well as risk management and internal audit systems, also with regard to financial reporting;
  - performance of financial auditing activities, in particular auditing by the audit firm, taking into consideration any applications and determinations of the Audit Oversight Commission resulting from the control carried out in the audit firm;
- b) control and monitoring of independence of the statutory auditor and the audit firm, especially, if the audit firm provides to the public interest entity services other than auditing;
- c) informing the Supervisory Board about audit results and explanation of how this audit contributed to reliability of financial reporting in the Company, as well as what was the role of the Audit Committee in the audit process;
- d) assessment of independence of the statutory auditor and expressing consent to his/her provision of permitted services other than audits in the Company,
- e) Developing a policy for selecting an audit firm to perform audits;
- f) preparation of the policy of providing acceptable services other than auditing by the audit firm conducting the audit, its affiliates and by a member of the audit firm's network;
- g) determination of the procedure of selecting the audit firm by the Company,
- h) presentation of a recommendation concerning the appointment of the audit firm to the Supervisory Board, in accordance with the policies referred to in items e) and f) above. In this recommendation, the Audit Committee:
  - i. suggests the audit firm to conduct the statutory audit;
  - ii. states that the recommendation is free of influences of third parties;
  - iii. states that the audited public interest entity did not conclude any contracts containing the clauses referred to in Article 66(5a) of the Accounting Act;

- i) in the case when the selection referred to in section 1h) not apply to extension of the contract for auditing the financial statements, the recommendation of the Audit Committee contains at least two selection options for selecting the audit firm, along with a substantiation, and indication of reasonable preference of the Audit Committee towards one of them;
- j) annual review of the internal audit schedule;
- k) assessment of the results of internal controls, including internal audits, and schedules of elimination of errors detected;
- l) reviews of material agreements concluded with related parties;
- m) preliminary assessment of the annual financial plan prepared by the Management Board as well as of the report on its implementation;
- n) submission of recommendations aimed at ensuring reliability of the financial reporting process in the Company.

The Audit Committee elects its Chairman from among its members in a secret ballot. The Chairman of the Audit Committee manages the Committee's work, supervises the preparation of agenda, organisation of document distribution and preparation of minutes of Audit Committee meetings.

In 2020, despite the COVID-19 pandemic, the Audit Committee of CIECH S.A. held 4 meetings recorded in minutes. Resolutions of the Audit Committee were adopted at meetings and by means of direct remote communication.

The Audit Committee of the Supervisory Board of CIECH S.A. submits an annual report on its activity which is a part of the Report on the activity of the Supervisory Board of CIECH S.A. provided to Shareholders during the Annual General Meeting of CIECH S.A.

As at 1 January 2020, the composition of Audit Committee was as follows:

- Piotr Augustyniak – Chairman of the Committee;
- Mariusz Nowak – Committee Member;
- Artur Olech – Committee Member.

Following the resignation of Mr Mariusz Nowak, Mr Marek Kośnik was appointed to the Audit Committee with effect from 24 February 2020.

As at 31 December 2020, the composition of Audit Committee was as follows:

- Piotr Augustyniak – Chairman of the Committee;
- Marek Kośnik – Committee Member,
- Artur Olech – Committee Member.

Mr. Piotr Augustyniak, as of 16 March 2021, ceased to be a member of the Audit Committee due to his resignation from membership in the Supervisory Board of CIECH S.A., submitted on 16 March 2021.

In connection with the resignation of Mr. Piotr Augustyniak from the membership in the Supervisory Board, on 30 March 2021 the Supervisory Board of CIECH S.A. appointed Mr. Łukasz Rędziniak to the Audit Committee.

Therefore, as at the date of publication of this Report, the composition of the Audit Committee is as follows:

- Marek Kośnik- Committee Member,
- Artur Olech - Committee Member,
- Łukasz Rędziniak - Committee Member.

Two members of the Audit Committee meet the criterion of independence.

Members of the Audit Committee who are knowledgeable about and skilled in accounting or auditing of financial statements are Mr Artur Olech, Mr Marek Kośnik and Mr Pan Łukasz Rędziniak. The professional experience of the Audit Committee Members which confirms their knowledge of and skills in the field is presented in table 51 of this report and on the CIECH S.A. website: <https://ciechgroup.com/grupa-ciech/rada-nadzorcza/>.

Members of the Audit Committee who are knowledgeable about and skilled in the field in which CIECH S.A. operates are Mr Artur Olech, Mr Marek Kośnik and Mr Pan Łukasz Rędziniak. The professional experience of the Audit Committee Members which confirms their knowledge of and skills in the field is presented in table 51 of this report and on the CIECH S.A. website: <https://ciechgroup.com/grupa-ciech/rada-nadzorcza/>.

The following policies on cooperation with the audit firm are in force at CIECH S.A.:

- *"Policy for the provision of permitted non-audit services by the audit firm conducting the audit of the financial statements"*.

In accordance with the Policy, the audit firm conducting the audit of the financial statements, its affiliates and a member of the audit firm's network may provide only permitted non-audit services specified in the Act of 11 May 2017 on statutory auditors, audit firms and public supervision that are not prohibited services within the meaning of the Act and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC. The Policy also specifies the catalogue of permitted services.

Ordering a service requires an audit firm to confirm that ordered non-audit services are not prohibited services within the meaning of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision and within the meaning of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC and that the audit firm is able to perform the services in an unobstructed manner.

The Audit Committee, having assessed the risks and safeguards of independence, consents to the provision of the permitted non-audit services.

Permitted services other than auditing of financial statements were provided to CIECH S.A. and CIECH Group companies in 2020. In each instance the Audit Committee assessed independence and consented to the provision of such services. The Audit Committee analyses reports on the audit firm's performance of permitted services.

- *"Policy and procedure of selecting the audit firm"*. The Policy defines formal conditions and criteria for the selection of the audit firm, the most important of which are:

- the selection is made by the Supervisory Board on the basis of the Audit Committee's recommendations;
- the selection is made with the rotation rules taken into account:
  - the entity authorised to audit financial statements may not conduct audits of the Company/Group for more than 5 subsequent years;
  - the entity authorised to audit financial statements may conduct the audit in the Company/Group again after at least 3 years from the end of the last audit, unless the duration of the audit order is 5 years, in which case the entity authorised to audit financial statements may conduct the audit in the Company/Group again after at least 4 years from the end of the last audit;
  - a key statutory auditor may not perform financial audit activities in the Company/Group for a period of more than 5 subsequent years;
  - a key statutory auditor may perform financial audit activities in the Company/Group again after at least 3 years from the end of the last audit.
- the first agreement on the audit of financial statements is concluded for a period not shorter than 2 years;
- the selection is made on the basis of documented qualifications and professional experience, taking into consideration the specificity and locations of businesses conducted by companies in the CIECH group, required reporting deadlines and the price offered.

On 26 March 2017, the Audit Committee of CIECH S.A., acting in accordance with the Regulations of the Audit Committee and the "Policy and procedure for the selection of the audit firm to audit the statutory financial statements of CIECH S.A. and the consolidated statements of the CIECH Capital Group" in connection with the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight, issued a recommendation regarding the selection of the audit firm - Deloitte Audyt Sp. z o.o.Sp. k., to audit the statutory financial statements of CIECH S.A. and the consolidated statements of the CIECH Group for the years 2020-2021.

On 1 April 2020, the Supervisory Board of CIECH S.A., having considered the recommendation of the Audit Committee of the Supervisory Board of CIECH S.A. and completed the selection process, selected the audit firm, Deloitte Audyt Sp. z o.o. Sp. k. to audit the statutory financial statements of CIECH S.A. and the consolidated financial statements of the CIECH Capital Group for the years 2020-2021.

#### **Remuneration Committee of the Supervisory Board of CIECH S.A.**

The first 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 of the CIECH S.A.'s Management Board members.

As at 1 January 2020, the composition of the Remuneration Committee was as follows:

- Tomasz Mikołajczak – Chairman of the Committee,
- Mariusz Nowak – Committee Member.

Member of the Remuneration Committee, Mr Mariusz Nowak, resigned from the Supervisory Board of CIECH S.A. with effect as of 22 January 2020 and ceased to be a member of the Remuneration Committee as of that date.

On 24 February 2020, the Supervisory Board of CIECH S.A. supplemented the composition of the Remuneration Committee by appointing Mr Marek Kośnik as a member of the Remuneration Committee.

Subsequently, Mr Tomasz Mikołajczak resigned as of 21 May 2020 and the Supervisory Board appointed Mr Sebastian Kulczyk to the Remuneration Committee as of 16 July 2020.

As at 31 December 2020, the composition of the Remuneration Committee was as follows:

- Sebastian Kulczyk – Chairman of the Committee,
- Marek Kośnik.

In particular the Remuneration Committee's tasks include:

- presenting the Supervisory Board with proposals of the principles of remuneration of CIECH S.A.'s Management Board members, which should account for all forms of remuneration, in particular as regards: base remuneration, remuneration system based on results, retirement system and severance payments
- presenting the Supervisory Board with regarding the amounts of remuneration for each CIECH S.A.'s Management Board member,
- presenting the Supervisory Board with drafts of agreements, regulating the performance of responsibilities CIECH S.A.'s Management Board members
- discussion (with or without the involvement of the Management Board) of all problems or reservations that may arise in matters related to the remuneration of CIECH S.A.'s Management Board
- consideration of all other matters to which the Committee or Supervisory Board has paid attention
- informing 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. elects a Chairman from among its members to manage the Committee's work.

The Remuneration Committee of the Supervisory Board of CIECH S.A. submits an annual report on its activity, which is a 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.

### **Management Board**

According to § 23(1) of the Company's Articles of Association, the Management Board consists of at least two members. The Supervisory Board appoints the Chairman of the Management Board and other Board members. The Supervisory Board determines the number of Board Members. The joint term of the Management Board members lasts three years.

The term of office of a Management Board Member expires at the close of the General Meeting approving the financial statements for the last full financial year in which the Management Board Member held his position in the Company's Management Board during the term of office for which this Member was appointed.

The Management Board's competences include all matters and economic decisions and other decisions not reserved by the regulations of the Code of Commercial Partnerships and Companies or the stipulations of the Company's Articles of Association as belonging solely to the General Meeting or Supervisory Board.

Two Board Members jointly or one Board member together with an proxy are authorized to make declarations of will and to sign them on behalf of the Company.

The current joint term of the Company's Management Board commenced on 22 June 2017. The Company applies the policy of internal distribution of powers among Board Members, in terms of managing the affairs of the Company. A detailed description of segregation of powers of individual Board Members has been specified in the resolution of the Management

Board. Within the scope of ordinary activities of the Company, each Board Member is obliged and authorised to independently manage the Company's affairs falling under his/her powers, in accordance with the distribution determined by the Management Board.

The Management Board of CIECH S.A. operates on the basis of the regulations passed by the Management Board and approved by the Supervisory Board. Resolutions of the Management Board are passed by an absolute majority of votes cast with a quorum of at least half of the Management Board members. In the case of a voting tie, the President of the Management Board has the casting vote. In accordance with the principles of best practices, Management 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's meeting protocol.

Management Board's resolutions are required only in respect of matters exceeding the scope of ordinary Company's activities including in particular:

- a) the approval and amendment of the Management Board's Regulations;
- b) the approval and amendment of the Company's Organisational Regulations;
- c) adoption of motions addressed to the Supervisory Board or the General Meeting;
- d) convening General Meetings and determining their agendas;
- e) the acceptance of annual and long-term financial plans and development strategies for the Company;
- f) the grant of proxy or general power of attorney;
- g) taking out credit and loans;
- h) granting loans and donations;
- i) the disposal of a right or assumption of a liability exceeding the amount of PLN 500 thousand, excluding purchase and sales of raw materials, intermediate goods, and products related to the operations of the Company up to the value of PLN 6 million in a single transaction or series of related transactions;
- j) application for bank guarantees, assumption of liabilities under promissory notes, the grant of all types of guarantees and the establishment of other securities.

A Management Board's resolution is also required in matters not exceeding the scope of ordinary Company's activities if its passing is requested by any of the Management Board's Members.

As of 1 January 2020, the composition of the Company's Management Board was as follows:

- Dawid Jakubowicz — President of the Management Board;
- Mirosław Skowron — Member of the Management Board.

As of 20 April 2020, the Supervisory Board of CIECH S.A. appointed Mr Jarosław Romanowski as a Member of the Management Board of CIECH S.A.

As of 31 December 2020, the composition of the Company's Management Board was as follows:

- Dawid Jakubowicz — President of the Management Board;
- Mirosław Skowron — Member of the Management Board,
- Jarosław Romanowski — Member of the Management Board.

The body responsible for establishing the principles and level of remuneration for the Management Board members is the CIECH S.A. Supervisory Board, pursuant to the Remuneration Policy for Members of the Management Board and Supervisory Board of CIECH S.A. adopted on 21 May 2020 by the Ordinary General Meeting of CIECH S.A.

TABLE 50: CIECH S.A.'S MANAGEMENT BOARD AS AT 31 DECEMBER 2020



He has completed a Program for Leadership Development (PLD) at the Harvard Business School in Boston and holds the MBA title from the Georgia State University and the University of Economy in Poznań. A graduate of the Faculty of Economy at the University of Economy in Poznań.

Mr Dawid Jakubowicz is a member of the management board of Kulczyk Investments S.A. He joined Kulczyk Investments in 2010 and has since then been responsible for the supervision of the investment portfolio. He is an esteemed expert with the international operational experience in building the value of companies from the chemical, mining, energy, automotive and new technologies sectors. Enlisted as a qualified auditor by the National Chamber of Statutory Auditors since 2014. In

**DAWID JAKUBOWICZ**

President of the Management Board of CIECH S.A. since 10 September 2018

**MIROSLAW SKOWRON**

Member of the Management Board of CIECH S.A. since 10 September 2018.

**JAROSLAW ROMANOWSKI**

Member of the Management Board of CIECH S.A. since 20 April 2020.

the past, he worked for international company KPMG Audyt, where he was responsible for audit of separate and consolidated financial statements of entities from many sectors.

Scope of responsibilities in CIECH S.A. – supervision over organisational units:

- HR and Administration Department
- Strategy Department
- Legal Department
- Compliance Department
- Internal Audit Department
- IR Director
- Corporate Supervision Department
- Strategic Organisational Project Department
- Public Relations Manager / Press Officer

Mr Mirosław Skowron graduated from the Wrocław University of Technology, completed an MBA course at the Wrocław University of Economics, holds the MBA diploma awarded by the Gdansk Foundation for Management Development, and completed a course of Strategic Leadership Academy at the ICAN Institute, organized by the Harvard Business Review.

He is an expert with many years of experience in the energy, construction and mining industries. At the CIECH Group he is responsible, among others, for issues related to production, energy and maintenance. Previously, he was among others, the president of management boards of companies such as Przedsiębiorstwo Budowy Kopalń S.A. forming a part of the KGHM Group, Polimex-Energetyka Sp. z o.o., Energa Elektrownie Ostrołęka S.A. and Energa Invest S.A., as well as PGE Elektrownia Opole S.A.

Scope of responsibilities in CIECH S.A. – supervision over organisational units:

- Investment Department (including PMO and Power Engineering)
- Asset and Safety Management Department (including OHS)
- Environmental Department
- Quality Management Department
- Strategic Investment Project Department (GRAIN)
- Operational Excellence
- Logistics / S&OP Department
- CIECH R&D.

A graduate of the Faculty of Management at the Poznań University of Economics. He has completed a number of prestigious courses in international finance, risk management and business valuation.

He is a manager with long-standing experience in management of global organizations. An expert in the field of international trade, financing and project development. For years, associated with the raw materials sector. In 2003-2006 and 2017-2020, Jarosław Romanowski served as Vice-President of the Management Board, Chief Financial Officer at Tele-Fonika Kable S.A. From 2002 to 2016, he worked for KGHM Polska Miedź S.A., holding the positions of: General Director for Finance, General Director for Sales and Hedging, and from 2013 to 2016 he was the First Vice President of the Management Board of KGHM Polska Miedź S.A.

Scope of responsibilities in CIECH S.A. – supervision over organisational units:

- Controlling Department
- Finance Management Department
- Accounting Department
- Tax Department
- Risk Department
- Branches (PL, DE, RO)
- Purchasing Department
- IT Department



### **7.11 REMUNERATION FOR THE MANAGEMENT AND SUPERVISORY BODIES**

Information on the remuneration for the management and supervisory bodies is provided in Note 9.3.4 to the Consolidated Financial Statements of the CIECH Group for 2020 and Note 9.3.4 to the Financial Statements of CIECH S.A. for 2020.

### **7.12 INFORMATION ABOUT AGREEMENTS SIGNED BETWEEN THE ISSUER AND PERSONS IN MANAGEMENT POSITIONS**

If the Employer terminates the employment contract with a member of the Management Board upon notice, the Member is entitled to compensation in the amount of six months' remuneration. The non-competition agreement with Board Members after the termination of the employment provides a compensation in the amount of up to 50% of monthly remuneration for a period that does not exceed 24 months. Apart from those listed above, no agreements were signed between the Company and Members of the Management Board of CIECH S.A.



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## GLOSSARY OF ABBREVIATIONS AND TERMS

ASEAN	Association of South-East Asian Nations
CEE	Central and Eastern Europe
CIT	Corporate income tax
CO <sub>2</sub>	Carbon dioxide
CSR	Corporate Social Responsibility
Dual listing	Listing of a company's shares on two or more stock exchanges
EBITDA	Earnings before interest, taxes, depreciation and amortization
EBITDA (A)	EBITDA excluding one-off events
EURIBOR	Euro Interbank Offered Rate
Free float	The free float of a public company. It is the ratio of the number of shares not held by large investors, holding 5% or more of the company's shares, to the total number of outstanding shares. In other words, all the publicly-traded shares that are freely available.
GMO	Genetically modified organism
WSE	Warsaw Stock Exchange
Greenfield	Investments on areas with no prior industry or service facilities (e.g. farmlands or woodlands).
GUS	Central Statistical Office
Currency hedging	Strategy used to mitigate foreign exchange risk
IFRS	International Financial Reporting Standards
GDP	Gross Domestic Product
PUR	Polyurethane foams
Rating	Evaluation of the credit risk of a securities issuer
ROA	Return on assets
ROE	Return on equity
ROS	Return on sales
REACH Regulation	Regulation (EC) No 1907/2006 of the European Parliament and of the Council concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH)
COMFORT-type jars	Glass latch lid jars
CPC	Crop protection products
Ticker	Three-letter abbreviation used on a stock exchange to uniquely identify each company
EU	European Union
WIBOR	Warsaw Interbank Offered Rate

## RATIO CALCULATION METHODOLOGY

### Principles of ratio calculation (according to the data for continuing operations):

<b>EBITDA (%)</b>	(operating profit + amortization/depreciation for a given period)/ net revenues from sales of products, services, goods and materials in a given period
<b>Adjusted EBITDA (%)</b>	EBITDA excluding one-off events, the more important of which were described in item 4.2.1 / net revenues from sales of products, services, goods and materials for a given period
<b>gross return on sales</b>	gross profit on sales for a given period / net revenues from sales of products, services, goods and materials for a given period
<b>return on sales</b>	profit for a given period / net revenues from sales of products, services, goods and materials for a given period
<b>EBIT margin</b>	operating profit for a given period / net revenues from sales of products, services, goods and materials for a given period
<b>EBITDA margin</b>	(operating profit + amortization/depreciation for a given period)/ net revenues from sales of products, services, goods and materials in a given period
<b>adjusted EBIT margin</b>	operating profit for a given period excluding one-off events, the more important of which were described in section 4.2.1 / net revenues from sales of products, services, goods and materials for a given period
<b>adjusted EBITDA margin</b>	EBITDA excluding one-off events, the more important of which were described in section 4.2.1 / net revenues from sales of products, services, goods and materials for a given period
<b>net return on sales (ROS)</b>	net profit for a given period / net revenues from sales of products, services, goods and materials for a given period
<b>return on assets (ROA)</b>	net profit for a given period/total assets at the end of a given period
<b>return on equity (ROE)</b>	net profit for a given period/total equity at the end of a given period
<b>debt ratio</b>	the ratio of current and non-current liabilities to total assets; measures the share of external funds in financing of a company's activity
<b>long-term debt ratio</b>	the ratio of non-current liabilities to total assets; measures the share of non-current liabilities in financing of company's activity
<b>debt to equity ratio</b>	the ratio of total liabilities to equity
<b>equity to assets ratio</b>	the ratio of equity to total assets; measures the share of equity in financing of a company's activity
<b>net financial liabilities</b>	liabilities from loans, bonds, borrowings (plus overdraft) and other debt instruments (lease + liabilities from negative valuation of derivatives calculated separately for each derivative + factoring liabilities) less cash and cash equivalents
<b>gross financial liabilities</b>	liabilities from loans, bonds, borrowings (plus overdraft) and other debt instruments (lease + liabilities from negative valuation of derivatives calculated separately for each derivative + factoring liabilities)



## REPRESENTATION BY THE MANAGEMENT BOARD

This Management Board Report on activities of the CIECH Group and CIECH S.A. in 2020 was approved by the Management Board of the Company on 22 April 2021.

Warsaw, 22 April 2021.

*(signed on the polish original)*

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**Dawid Jakubowicz — President of the Management Board of CIECH Spółka Akcyjna**

*(signed on the polish original)*

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**Jarosław Romanowski — Member of the Management Board of CIECH Spółka Akcyjna**

*(signed on the polish original)*

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**Mirosław Skowron — Member of the Management Board of CIECH Spółka Akcyjna**