

**RESOLUTION No. 107/VII/2013  
of CIECH S.A.'s Supervisory Board  
dated 26 April 2013**

*concerning the document: "Assessment of CIECH S.A.'s standing in FY 2012, including the assessment of the internal control system and the system for managing the company's material risks".*

Acting pursuant to § 21 section 1 of CIECH S.A.'s Statute as well as § 3 section 1 of the Regulations of CIECH S.A.'s Supervisory Board and in connection with rule no. 1.1) in chapter III ("Best Practice for Supervisory Board Members") of the "Code of Best Practice for WSE Listed Companies", adopted by way of resolution No. 20/1287/2011 of the Exchange Supervisory Board of 19 October 2011, effective as of 1 January 2012, the Supervisory Board resolves as follows:

§1

1. The Supervisory Board of CIECH S.A. adopts the document: "Assessment of CIECH S.A.'s standing in FY 2012, including the assessment of the internal control system and the system for managing the company's material risks".
2. "Assessment of CIECH S.A.'s standing in FY 2012, including the assessment of the internal control system and the system for managing the company's material risks" forms an annex to this resolution.

§2

The Supervisory Board presents to the Ordinary General Meeting of CIECH S.A. the document referred to in §1 of this resolution.

§3

The Resolution comes into effect as of the day of its passing.

The voting was conducted by an open/secret ballot.

Participants present: 8

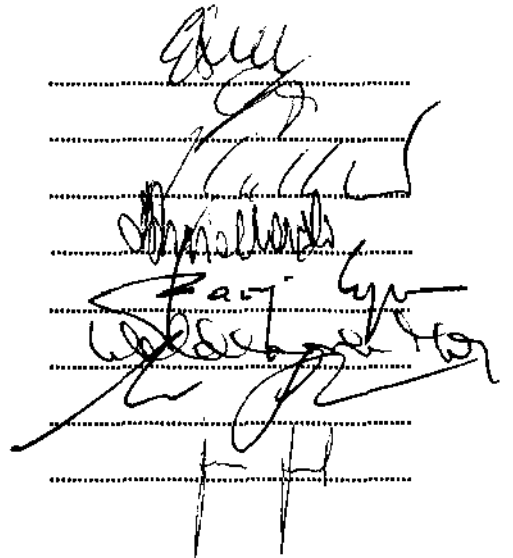
No votes: –

Yes votes: 8

Abstained: –

Signatures of the members of the  
Supervisory Board:

1. Ewa Sibrecht-Ośka
2. Przemysław Cieszyński
3. Arkadiusz Grabalski
4. Zygmunt Kwiatkowski
5. Maciej Lipiec
6. Waldemar Maj
7. Mariusz Obszyński
8. Sławomir Stelmasiak



*Assessment of CIECH S.A.'s standing in 2012  
conducted by the Supervisory Board of CIECH S.A.,  
including the internal control system  
and the system for managing the Company's material risks*

Acting pursuant to rule III.1.1) of the *Code of Best Practice for WSE Listed Companies*, which should be applied by companies listed at the Warsaw Stock Exchange, the Supervisory Board presents to the Ordinary General Meeting of CIECH S.A. a brief assessment of the Company's standing in 2012, including the internal control system and the system for managing the Company's material risks.

### **1. Assessment of the Company's standing in 2012**

In 2012, CIECH S.A. generated a negative net result amounting to PLN 484,776 thousand, the balance sheet total amounted to PLN 2,665,988 thousand and cash increased by PLN 16,827 thousand. The net profitability is negative and amounts to (19.0%). The net result for 2012 was negatively affected by the need to recognise impairment losses on non-current assets (for interest held and borrowings granted) as well as by high debt service costs and the surplus of FX losses over FX gains.

The negative result was partly offset by the growth dynamics of domestic sales, the price increase of soda ash and sulphur on foreign markets, and the sale of interests in Polfa Sp. z o.o.

In 2012, CIECH S.A.'s sales revenues amounted to PLN 2,556,731 thousand and were higher than those in 2011 by 10%. The revenue was positively affected by the increase in the sales prices and sales volume of soda ash, and the continued trend of high prices of sulphur.

In 2012, the gross profit on sales amounted to PLN 300,174 thousand, while in the same period last year it amounted to 279,382 thousand. The operating profit for 2012 amounted to PLN 45,674 thousand, compared to PLN 75,173 thousand in the comparative period. At the end of 2012, the EBIT margin amounted to 1.8% (3.2% a year earlier), while the EBITDA margin was 2.0% (3.5% a year earlier).

As of 31 December 2012, equity amounted to PLN 834,659 thousand, which means a decrease in equity by PLN 485,063 thousand compared to the end of 2011. The decrease in equity was attributable to the generated net loss in the amount of PLN 484,776 thousand and the downward adjustment on account of the share premium in the amount of PLN 287 thousand.

As of 31.12.2012, CIECH S.A.'s total long-term and short-term liabilities amounted to PLN 1,831,329 thousand, which means an increase in liabilities by 25% compared to a year earlier. The increase was mainly due to the repayment of liabilities on account of loans and borrowings. At the same time, the borrowing structure changed: the short-term portion of loans, borrowings and other debt instruments decreased by PLN 933,897 thousand to PLN 33,303 thousand. At the end of 2012, long-term liabilities on account of loans, borrowings and other debt instruments increased by PLN 1,286,264 thousand compared to the previous year in connection with the issue of bonds.

The net debt (financial liabilities less cash) at the end of 2012 amounted to PLN 1,288,245 thousand and increased over the course of the year by PLN 336,144 thousand.

In 2012, the operating cash flow increased by PLN 30,937 thousand and amounted to PLN (43,858) thousand. The surplus of capital expenditures over proceeds in 2012 amounted to PLN 48,347 thousand. As part of its operations, the Company incurred capital expenditures mainly on granting borrowings to the subsidiaries Vitrosilcon S.A., Organika Sarzyna S.A. USG Sodice Govora and Alwernia S.A., the purchase of interests/shares and the increase of share capital in the subsidiaries Organika-Sarzyna SA, Ciech Pianki Sp. z o.o., Ciech Financing AB and Ciech America Latina. The main source of proceeds was the repayment of borrowings by Alwernia S.A., Vitrosilcon S.A. and Polfa Sp. z o.o., and the sale of the interests in Polfa.

Cash flows from financing activities amounted to PLN 109,032 thousand as a result of the surplus of proceeds from the issue of new bonds and from the raised loans over the redemption of the bonds issued on 14 December 2007, and as a result of the surplus of proceeds from the repayment of loans over expenditures on the repayment of loans and borrowings.

At the end of 2012, the liquidity ratios improved significantly compared to the 2011 levels and are higher than 1.

## **2. Assessment of the internal control system**

The control system in the CIECH Group includes the following:

- institutional control, performed by the Control and Internal Audit Department of CIECH S.A.,
- operational and functional control, performed on a continuous basis by the employees of all organisational units by observing procedures, regulations and other internal provisions in all phases of operations in the form of preliminary, regular and follow-up control measures.

In 2012, the Control and Internal Audit Department, acting pursuant to the Organisational Regulations of CIECH S.A., based on the adopted control and audit plan, performed a number of audits and internal control measures in CIECH S.A. and in the companies of the CIECH Group. The Department also performed ad-hoc control measures and audits, as ordered by the President of the Management Board of CIECH S.A.

The audit and control reports as well as recommendations are regularly presented to the Management Board of CIECH S.A. and the competent organisational units, and the implementation of such recommendations is monitored.

Both the Control and Audit Plan as well as reports on the execution and results thereof are presented and discussed at meetings of the Audit Committee of the Supervisory Board of CIECH S.A. Within the annual review of the internal control and risk management system a report thereon is presented at a Supervisory Board meeting.

CIECH S.A.'s internal control system covers significant areas of operations in the whole CIECH Group, it is adapted to the Group's organisational structure and covers subsidiaries. However, the system must be constantly improved through regular audits in areas that have been identified as the most vulnerable to any irregularities.

## **3. Assessment of the system for managing the Company's material risks**

In the CIECH Group, the risk management process covers all strategic and operational management levels. The related tasks are performed on a continuous basis by the organisational units forming the Group that are coordinated by the Representative of CIECH S.A.'s Management Board for the Integrated Quality and Information Security Management System. There are a number of manuals, procedures and internal regulations in place that serve as basis for the effective operation of a comprehensive system for managing information security, business continuity and financial risk.

At the strategic level, CIECH S.A.'s Management Board continuously monitors and assesses the business risks.

At the operational level, the tasks are fulfilled by a number of organisational units. The main areas of operation are:

### *Ensuring information security*

The Representative for the Integrated Quality and Information Security Management System appointed by CIECH S.A.'s Management Board is responsible for information security. The tasks fulfilled in this area concern organisational, legal, physical personal and data communication security. The risk management plan regulates all procedures and protective measures.

### *Ensuring security in the area of business continuity*

In this area, analyses and monitoring cover factors which influence business, business continuity strategies, business continuity plans, legal compliance and emergency plans. Coordination tasks are fulfilled by the Representative for the Integrated Quality and Information Security Management System.

### *Financial risk management*

The method for managing the financial risk is specified by the Financial Security Strategy for the CIECH Group, which describes and adopts procedures and tasks for managing the FX risk and the interest rate risk. The strategy has been approved by the Supervisory Board of CIECH S.A.

The CIECH Group's Risk Management System allows the existing business risks to be managed effectively. However, given the dynamics of the global economy as well as new risk areas that need to be identified and addressed, the System should be developed and improved in the coming years.

In consideration of the above, CIECH S.A.'s Supervisory Board is of the opinion that the CIECH Group's Internal Control and Risk Management System is adequate to the CIECH Group's scale of operations and organisational structure, it allows the main business risks to be eliminated and allows management processes to be optimised and improved.