Ciech

CONSOLIDATED FINANCIAL STATEMENTS

of the CIECH GROUP for 2021

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

The CIECH Group – SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA	in thousand PLN		in thousand EUR	
	12 months ended 31.12.2021	12 months ended 31.12.2020	12 months ended 31.12.2021	12 months ended 31.12.2020
Sales revenues on continued operations	3,459,915	2,975,733	755,853	665,087
Operating profit/(loss) on continued operations	355,771	249,968	77,722	55,869
Profit/(loss) before tax on continued operations	272,150	188,133	59,454	42,048
Net profit / (loss) for the period	291,637	128,030	63,711	28,615
Net profit/(loss) attributable to shareholders of the parent company	292,418	129,277	63,882	28,894
Net profit/(loss) attributed to non-controlling interest	(781)	(1,247)	(171)	(279)
Other comprehensive income net of tax	145,885	13,702	31,870	3,062
Total comprehensive income	437,522	141,732	95,581	31,677
Cash flows from operating activities	1,278,917	767,186	279,392	171,469
Cash flows from investment activities	(707,366)	(833,999)	(154,531)	(186,402)
Cash flows from financial activities	(221,542)	211,697	(48,398)	47,315
Total net cash flows	350,009	144,884	76,463	32,382
Earnings (loss) per ordinary share (in PLN/EUR)	5.55	2.45	1.21	0.55
	as at 31.12.2021	as at 31.12.2020	as at 31.12.2021	as at 31.12.2020
Total assets	7,145,820	5,915,543	1,553,642	1,281,864
Non-current liabilities	2,542,124	401,146	552,708	86,926
Current liabilities	2,206,765	3,395,859	479,794	735,863
Total equity	2,396,931	2,118,538	521,140	459,075
Equity attributable to shareholders of the parent	2,400,707	2,120,615	521,961	459,525
Non-controlling interest	(3,776)	(2,077)	(821)	(450)
Share capital	287,614	287,614	62,533	62,324

The above selected financial data were converted into PLN in accordance with the following principles:

- items in the consolidated statement of financial position were converted using the average exchange rate determined by the National Bank of Poland on the last day of the reporting period;
- items in the consolidated statement of profit or loss, consolidated statement of other comprehensive income and consolidated statement of cash flows were converted using the exchange rate constituting the arithmetic mean of rates determined by the National Bank of Poland on the last day of each calendar month of the reporting period.

as at 31.12.2021	as at 31.12.2020	12 months ended 31.12.2021	12 months ended 31.12.2020
EUR 1 = PLN 4.5994	EUR 1 = PLN 4.6148	EUR 1 = PLN 4.5775	EUR 1 = PLN 4.4742

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CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE CIECH GROUP

	Note	01.01.-31.12.2021	01.01.-31.12.2020
CONTINUING OPERATIONS			
Sales revenues	*3.1*	**3,459,915**	**2,975,733**
Cost of sales	*3.2*	(2,812,342)	(2,345,067)
Gross profit/(loss) on sales		**647,573**	**630,666**
Other operating income	*3.4*	238,395	76,948
Selling costs		(229,101)	(173,146)
General and administrative expenses		(243,319)	(170,624)
Other operating expenses	*3.4*	(57,777)	(113,876)
Operating profit/(loss)		**355,771**	**249,968**
Financial income, including:	*3.5*	26,714	58,475
Profit from financial instruments	*3.5*	*20,812*	*4,980*
Financial costs, including:	*3.5*	(110,362)	(120,149)
Loss from financial instruments	*3.5*	*(93,178)*	*(106,033)*
Net financial income/(expenses)		**(83,648)**	**(61,674)**
Share of profit / (loss) of equity-accounted investees	*5.8*	27	(161)
Profit/(loss) before tax		**272,150**	**188,133**
Income tax	*4.1*	(42,381)	(64,949)
Net profit/(loss) on continuing operations		**229,769**	**123,184**
DISCONTINUED OPERATIONS			
Net profit/(loss) on discontinued operations	*5.13*	61,868	4,846
Net profit / (loss) for the period		**291,637**	**128,030**
including:			
Net profit/(loss) attributable to shareholders of the parent company		292,418	129,277
Net profit/(loss) attributed to non-controlling interest		(781)	(1,247)
Earnings per share (in PLN):			
Basic	*6.6*	5.55	2.45
Diluted	*6.6*	5.55	2.45
Earnings/(loss) per share (in PLN) from continuing operations:			
Basic		4.37	2.36
Diluted		4.37	2.36

The consolidated statement of profit or loss of the CIECH Group should be analysed together with the notes which constitute an integral part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME OF THE CIECH GROUP

	Note	01.01.-31.12.2021	01.01.-31.12.2020
Net profit/(loss) on continuing operations		**229,769**	**123,184**
Net profit/(loss) on discontinued operations		61,868	4,846
Net profit / (loss) for the period		**291,637**	**128,030**
Other comprehensive income before tax that may be reclassified to the statement of profit or loss	3.6	**216,435**	**1,618**
Currency translation differences (foreign companies)		(4,320)	42,397
Profit (loss) from costs of hedging reserve		(16,672)	(3,443)
Profit (loss) from cash flow hedge reserve		237,461	(37,327)
Other components of other comprehensive income		(34)	(9)
Other comprehensive income before tax that may not be reclassified to the statement of profit or loss	3.6	**(1,342)**	**(167)**
Actuarial gains		(1,342)	(167)
Income tax attributable to other comprehensive income		**(69,208)**	**12,251**
Income tax attributable to other comprehensive income that may be reclassified to the statement of profit or loss	4.1.	(69,463)	12,219
Income tax attributable to other comprehensive income that may not be reclassified to the statement of profit or loss	4.1.	255	32
Other comprehensive income net of tax		**145,885**	**13,702**
TOTAL COMPREHENSIVE INCOME		**437,522**	**141,732**
Comprehensive income including attributable to:		**437,522**	**141,732**
Shareholders of the parent company		438,191	142,826
Non-controlling interest		(669)	(1,094)

The consolidated statement of other comprehensive income of the CIECH Group should be analysed together with the notes which constitute an integral part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CIECH GROUP

	Note	31.12.2021	31.12.2020*	01.01.2020*
ASSETS				
Property, plant and equipment	*5.1*	3,878,660	3,366,296	2,891,207
Rights to use an asset	*5.2*	201,476	176,688	194,792
Intangible assets other than goodwill	*5.3*	369,067	395,193	346,927
Goodwill	*5.4*	149,270	149,709	139,545
Investment property	*5.5*	32,839	40,948	36,717
Non-current receivables	*5.6*	78,542	53,702	57,624
Investments in jointly-controlled entities measured under the equity method	*5.8*	5,655	5,646	5,958
Long-term financial assets	*5.8*	12,449	12,477	17,787
Deferred income tax assets	*4.3*	70,247	50,688	43,734
Total non-current assets		**4,798,205**	**4,251,347**	**3,734,291**
Inventory	*5.9*	422,506	348,989	455,704
Short-term intangible assets other than goodwill	*5.3*	403,434	185,220	124,368
Short-term financial assets	*5.11*	102,382	19,863	17,282
Income tax receivables		21,004	25,760	13,608
Trade and other receivables	*5.10*	598,898	478,508	525,290
Cash and cash equivalents	*5.12*	799,023	443,886	299,580
Non-current assets and groups for disposal held for sale	*5.13*	368	161,970	790
Total current assets		**2,347,615**	**1,664,196**	**1,436,622**
Total assets		**7,145,820**	**5,915,543**	**5,170,913**
EQUITY AND LIABILITIES				
Share capital	*6.2*	287,614	287,614	287,614
Share premium		470,846	470,846	470,846
Cash flow hedge reserve	*8.2*	158,763	(9,393)	17,678
Profit (loss) from costs of hedging reserve		(20,331)	(3,659)	(216)
Actuarial gains		(1,582)	(495)	(360)
Other reserve capitals	*6.2*	425,021	425,021	78,521
Currency translation reserve		(36,327)	(31,737)	(75,944)
Retained earnings		1,116,703	982,418	1,199,657
Equity attributable to shareholders of the parent		**2,400,707**	**2,120,615**	**1,977,796**
Non-controlling interest	*6.5*	(3,776)	(2,077)	(1,017)
Total equity		**2,396,931**	**2,118,538**	**1,976,779**
Non-current loans, borrowings and other debt instruments	*7.1*	1,854,154	360	1,583,799
Lease liabilities	*7.4*	121,172	103,523	115,866
Other non-current liabilities	*7.2*	231,752	82,028	97,163
Employee benefits reserve	*7.5*	15,273	12,958	12,848
Other provisions	*7.6*	270,649	153,261	102,197
Deferred income tax liability	*4.3*	49,124	49,016	58,414
Total non-current liabilities		**2,542,124**	**401,146**	**1,970,287**
Current loans, borrowings and other debt instruments	*7.1*	5,287	1,911,115	61,601
Lease liabilities	*7.4*	30,025	25,735	28,068
Trade and other liabilities	*7.3*	1,956,407	1,286,256	971,546
Income tax liabilities		128,592	47,918	47,542
Employee benefits reserve	*7.5*	2,643	3,100	15,465
Other provisions	*7.6*	83,811	95,237	99,625
Liabilities related to non-current assets and groups for disposal classified as held for sale	*5.13*	-	26,498	-
Total current liabilities		**2,206,765**	**3,395,859**	**1,223,847**
Total liabilities		**4,748,889**	**3,797,005**	**3,194,134**
Total equity and liabilities		**7,145,820**	**5,915,543**	**5,170,913**

**Restated data. For detailed information on the restatement, see Note 1.5.1 to these statements.*

The consolidated statement of financial position of the CIECH Group should be analysed together with the notes which constitute an integral part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

CONSOLIDATED STATEMENT OF CASH FLOWS OF THE CIECH GROUP

	note	01.01.-31.12.2021	01.01.-31.12.2020
Cash flows from operating activities			
Net profit/(loss) for the period		**291,637**	**128,030**
Adjustments		***1,080,358***	***768,515***
Amortisation/depreciation		374,640	338,609
Recognition of impairment allowances		79,115	1,786
Foreign exchange (profit) /loss		(3,007)	(48,186)
Investment property revaluation		202	(5,127)
(Profit) / loss on investment activities		(158,018)	1,468
(Profit) / loss on disposal of property, plant and equipment		(4,157)	(6,520)
Dividends and interest		26,631	62,117
Income tax		43,905	67,018
(Profit) / loss on the settlement of construction contracts (caverns)		(22,732)	-
Share of (profit) / loss on equity accounted investees		(27)	161
Change in liabilities due to loan arrangement fee		(7,318)	2,226
Valuation of derivatives		285	(5,083)
Other adjustments *		233,302	4,351
Change in receivables	*9.1*	(189,895)	50,059
Change in inventory	*9.1*	(69,836)	79,454
Change in current liabilities	*9.1*	786,432	224,254
Change in provisions and employee benefits	*9.1*	(9,164)	1,928
Interest paid		(43,964)	(54,094)
Income tax (paid)/returned		(49,114)	(75,265)
Net cash from operating activities		**1,278,917**	**767,186**
Cash flows from investment activities			
Disposal of a subsidiary		66,954	570
Disposal of intangible assets and property, plant and equipment		478	5,382
Disposal of investment property		9,444	500
Dividends received		-	744
Interest received		651	976
Subsidies received		52,147	1,152
Proceeds from repaid borrowings		67,259	1,388
Acquisition of a subsidiary (after deduction of acquired cash)		(5,105)	(4,848)
Acquisition of intangible assets and property, plant and equipment		(746,627)	(693,963)
Development expenditures		(18,574)	(15,960)
Borrowings paid out		-	(720)
Expenditure on the purchase of emission rights		(133,939)	(129,222)
Other investment inflows (outflows)		(54)	2
Net cash from investment activities		**(707,366)**	**(833,999)**
Cash flows from financial activities			
Proceeds from loans and borrowings	*7.1*	195,496	506,205
Dividends paid to parent company		(158,099)	-
Repayment of loans and borrowings	*7.1*	(231,801)	(263,041)
Payments of lease liabilities	*7.4*	(27,055)	(31,536)
Other financial inflows (outflows)		(83)	69
Net cash from financial activities		**(221,542)**	**211,697**
Total net cash flows		**350,009**	**144,884**
Cash and cash equivalents as at the beginning of the period		**448,799**	**299,580**
Impact of foreign exchange differences		*215*	*4,335*
Cash and cash equivalents as at the end of the period**	**5.12**	**799,023**	**448,799**

** As at December 31, 2021 the main amount presented in Other adjustment includes PLN 216 million relating to the early settlement of options and recognized in other comprehensive income by the SDC Group.*

***The difference at the end of 2020 in relation to cash and cash equivalents presented in the consolidated statement of financial position results from the presentation of cash held by CIECH Żywice Sp. z o.o. as assets held for sale.*

The consolidated statement of cash flows of the CIECH Group should be analysed together with the notes which constitute an integral part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY OF THE CIECH GROUP

	Share capital	Share premium	Cash flow hedge reserve	Profit (loss) from costs of hedging reserve	Other reserve capitals	Actuarial gains	Currency translation reserve	Retained earnings	**Equity attributable to shareholders of the parent**	Non-controlling interest	**Total equity**
01.01.2021	**287,614**	**470,846**	**(9,393)**	**(3,659)**	**425,021**	**(495)**	**(31,737)**	**982,418**	**2,120,615**	**(2,077)**	**2,118,538**
Transactions with the owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(158,099)**	**(158,099)**	**(1,030)**	**(159,129)**
Dividend	-	-	-	-	-	-	-	(158,099)	**(158,099)**	-	(158,099)
Change in the Group's structure	-	-	-	-	-	-	-	-	**-**	(1,030)	**(1,030)**
Total comprehensive income for the period	**-**	**-**	**168,156**	**(16,672)**	-	**(1,087)**	**(4,590)**	**292,384**	**438,191**	**(669)**	**437,522**
Net profit / (loss) for the period	-	-	-	-	-	-	-	292,418	292,418	(781)	291,637
Other comprehensive income	-	-	168,156	(16,672)	-	(1,087)	(4,590)	(34)	145,773	112	145,885
31.12.2021	**287,614**	**470,846**	**158,763**	**(20,331)**	**425,021**	**(1,582)**	**(36,327)**	**1,116,703**	**2,400,707**	**(3,776)**	**2,396,931**
01.01.2020	**287,614**	**470,846**	**17,678**	**(216)**	**78,521**	**(360)**	**(75,944)**	**1,199,657**	**1,977,796**	**(1,017)**	**1,976,779**
Transactions with the owners	**-**	**-**	**-**	**-**	**346,500**	**-**	**-**	**(346,507)**	**(7)**	**34**	**27**
Reserve fund for the purchase of own shares	-	-	-	-	346,500	-	-	(346,500)	**-**	-	-
Change in the Group's structure	-	-	-	-	-	-	-	(7)	**(7)**	34	**27**
Total comprehensive income for the period	**-**	**-**	**(27,071)**	**(3,443)**	-	(135)	**44,207**	**129,268**	**142,826**	**(1,094)**	**141,732**
Net profit / (loss) for the period	-	-	-	-	-	-	-	129,277	129,277	(1,247)	128,030
Other comprehensive income	-	-	(27,071)	(3,443)	-	(135)	44,207	(9)	13,549	153	13,702
31.12.2020	**287,614**	**470,846**	**(9,393)**	**(3,659)**	**425,021**	**(495)**	**(31,737)**	**982,418**	**2,120,615**	**(2,077)**	**2,118,538**

The consolidated statement of changes in consolidated equity of the CIECH Group should be analysed together with the notes which constitute an integral part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

1. GENERAL INFORMATION

1.1. INFORMATION ON THE COMPANY'S ACTIVITIES

Parent company	**CIECH S.A.**
Legal form	Joint-stock Company
Registered office	Poland
Address	ul. Wspólna 62, 00-684 Warsaw, Poland
KRS (National Court Register number)	0000011687 (District Court for the capital city of Warsaw in Warsaw 12th Commercial Division of the National Court Register)
Country of registration	Poland
Statistical identification number (REGON)	011179878
Tax ID No (NIP)	118-00-19-377
BDO Registry Number	000015168
Website	www.ciechgroup.com
Branches held	CIECH S.A.'s Branch in Romania CIECH S.A.'s Branch in Germany
Principal place of business	European Union
Ultimate parent company	KI Chemistry s. à r. l (a subsidiary of Kulczyk Investments)
Ultimate parent company	Luglio Limited

The CIECH Group is an international 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 Parent company of the Group is CIECH S.A. It is a holding company that manages domestic and foreign manufacturing, trade and service companies of the Group. CIECH S.A. also provides support services to key subsidiaries. Key products manufactured by the CIECH Group include: soda ash, sodium bicarbonate, evaporated salt, agrochemical products, polyurethane foams, lanterns and jars, sodium and potassium silicates.

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.

A detailed description of the CIECH Group entities is provided in note 9.5 to these financial statements.

There were no changes in the name of the reporting entity or other identifying data since the end of the previous reporting period.

1.2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES

1.2.1. REPRESENTATIONS BY THE MANAGEMENT BOARD

These consolidated financial statements of the CIECH Group for the period from 1 January 2021 to 31 December 2021, including comparative data, were approved by the Management Board of CIECH S.A. on 29 March 2022.

The Management Board of CIECH S.A. represents that these consolidated financial statements of the CIECH Group for the current and comparable period have been prepared in compliance with International Financial Reporting Standards approved by the European Union and related interpretations issued by the European Commission in the form of Regulations (IFRS).

The Management Board of CIECH S.A. represents that to the best of its knowledge these consolidated financial statements, including corresponding figures, have been prepared in accordance with the generally acceptable accounting principles and that they represent a true, accurate and fair reflection of the CIECH Group's financial position and the results of operations. Furthermore, the Management Board of CIECH S.A. represents that the Directors' report on operations of the CIECH Group and CIECH S.A. in 2021 contains a true image of the Group's developments, achievements, and condition, including the description of major risks and threats.

The Management Board of CIECH S.A. represents that Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered office in Warsaw, entered into the list of entities authorised to audit financial statements under the registry No 73 kept by the National Chamber of Statutory Auditors was chosen in accordance with the binding legal regulations for the auditor of these consolidated financial statements. The above entity, including the certified auditors performing the audit, satisfy all the conditions required in order to issue an unbiased and independent audit report, pursuant to the applicable domestic legal regulations.

1.2.2. BASIS OF PREPARATION

These consolidated financial statements have been prepared on the historical cost basis except for investment property as well as financial assets and liabilities (derivative instruments) measured at fair value through profit or loss.

These consolidated financial statements have been prepared based on individual financial statements of the CIECH Group's parent company and its subsidiaries, prepared from the accounting ledgers maintained in accordance with the applicable accounting principles of their respective countries of operation. For the purpose of these consolidated financial statements, adjustments have been made to the accounting policies used in the preparation of the abovementioned individual financial statements for them to be aligned with International Financial Reporting Standards.

Since 2007, the Parent Company, CIECH S.A., has been preparing separate financial statements in accordance with IFRS.

Major accounting principles applied in the preparation of these consolidated financial statements are listed in note 1.4. These principles have been applied on a continuous basis in all presented periods, except for changes described in Note 1.5.1.

These consolidated financial statements were prepared under the assumption that the CIECH Group will continue as a going concern in the foreseeable future. As at the date of approval of these consolidated financial statements, no facts or circumstances are known that would indicate any threat to the Group continuing as a going concern.

All entities belonging to the CIECH Group operate according to the financial year corresponding to the calendar year, except for Cerium Sp. z o.o. whose financial year ends on 30 September. For the purposes of the consolidation process, figures of Cerium Sp. z o.o. covered the reporting period of the CIECH Group and were restated accordingly. The company was liquidated on 31 August 2021.

These consolidated financial statements, except for the consolidated statement of cash flows, have been prepared on the accrual basis. The consolidated statement of profit or loss of the CIECH Group is prepared in the cost by function format. The Group's consolidated statement of cash flows is prepared under the indirect method.

Preparation of the financial statement in accordance with IFRS requires the Management Board to make own assessments and apply certain assumptions and accounting estimates as part of the application of accounting principles adopted by the Group. Issues which require significant assessments or areas where the assumptions and estimates made have a significant impact on these consolidated financial statements have been described in note 1.4.

1.3. FUNCTIONAL AND REPORTING CURRENCY

The Polish zloty (PLN) is the functional currency of the parent company, CIECH S.A., and the reporting currency of these consolidated financial statements. Unless stated otherwise, all financial data in these consolidated financial statements have been presented in thousands of Polish zlotys (PLN '000).

The functional currencies for the significant foreign subsidiaries are as follows: SDC Group, Ciech Group Financing AB, Proplan Plant Protection Company S.L. and CIECH Salz Deutschland GmbH – EUR, CIECH Soda Romania S.A. – RON. For the purpose of conversion into PLN, the following foreign exchange rates determined on the basis of quotations announced by the National Bank of Poland ("NBP") have been applied for consolidation purposes:

NBP exchange rate as at the end day of the reporting period	31.12.2021[1]	31.12.2020[2]
EUR	4.5994	4.6148
RON	0.9293	0.9479
Average NBP rate for the reporting period	**12 months ended 31.12.2021[3]**	**12 months ended 31.12.2020[4]**
EUR	4.5775	4.4742
RON	0.9293	0.9239

[1] NBP's average foreign exchange rates table applicable as at 31 December 2021.
[2] NBP's average foreign exchange rates table applicable as at 31 December 2020.
[3] According to the exchange rate constituting the arithmetic mean of average exchange rates quoted by NBP on the last day of each month of the period from 1 January 2021 to 31 December 2021.
[4] According to the exchange rate constituting the arithmetic mean of average exchange rates quoted by NBP on the last day of each month of the period from 1 January 2020 to 31 December 2020.

For each of the foreign operations that prepare their financial statements in a currency other than the presentation currency, their results and financial position must be translated into the presentation currency in accordance with the following procedure:

- all items of revenue and expenses in the functional currency of the subsidiary are translated into the presentation currency using the mid exchange rate calculated as the arithmetic mean of mid exchange rates quoted by the National Bank of Poland on the last day of each month in the reporting period,
- all assets and liabilities are translated into the presentation currency at the closing rate quoted by the National Bank of Poland for the balance sheet date,
- individual components of equity are translated at historical exchange rates, e.g. share capital at the exchange rate of the date of accounting for the merger, revenues and expenses recognised directly in equity are translated at the exchange rate prevailing on the transaction date, as quoted by the National Bank of Poland, or, in a simplified manner, at the average rate for the period in question.

The difference resulting from the translation of equity at rates other than the closing rate prevailing at the balance sheet date applied to the other items of the balance sheet is recognised in equity under "Exchange differences on translation of foreign operations".

1.4. ACCOUNTING POLICIES

To ensure more legible presentation and better understanding of the information disclosed in the consolidated financial statements, key accounting policies applicable in the CIECH Group as well as judgements and estimates made have been presented in separate notes.

Note	Title	Accounting principles	Judgements and estimates
3.1	Sales revenues	x	
3.2	Cost of sales	x	
3.4	Other operating income and expenses	x	x
3.5	Financial income and expenses	x	x
4.1	Main components of tax expense	x	
4.3	Deferred income tax	x	x
5.1	Property, plant and equipment	x	x
5.2	Right-of-use assets	x	x
5.3	Intangible assets	x	x
5.5	Investment properties	x	x

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

Note	Title	Accounting principles	Judgements and estimates
5.6	Long-term receivables	x	x
5.7	Long-term financial assets	x	x
5.8	Shares in joint ventures / investments in associates	x	
5.9	Inventories	x	x
5.10	Short-term receivables	x	x
5.11	Short-term financial assets	x	x
5.12	Cash and cash equivalents	x	x
5.13	Discontinued operations, non-current assets and liabilities connected with non-current assets classified as held for sale	x	x
6.2	Consolidated equity	x	x
6.4	Business combinations and acquisition of non-controlling interest	x	
6.6	Earnings per share	x	
7.1	Information on financial liabilities	x	
7.2	Other non-current liabilities	x	x
7.3	Current trade and other liabilities	x	x
7.4	Leases	x	x
7.5	Provisions for employee benefits	x	x
7.6	Other provisions	x	x
8.1	Financial instruments	x	x
8.2	Financial instruments designated for hedge accounting	x	x
9.2	Information on changes in contingent assets and liabilities and other matters	x	x
9.5	Composition of the Group	x	

1.5. CHANGES IN ACCOUNTING POLICIES AND THE SCOPE OF DISCLOSURES

Amendments to IAS/IFRS and their potential impact on the Group's financial statements are presented below:

New Standards, amendments to Standards and Interpretations:		
Approved by the IASB for application as at the balance sheet date	**Impact on the financial statements**	**Effective year in the EU**
Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases" – Reform of the Benchmark Interest Rate – Stage 2	No material impact on the financial statements is estimated	2021
Amendment to IFRS 16 "Leases" – Covid-19-related rent concessions	No material impact on the financial statements is estimated	2021
New standards and interpretations entering into force after the balance sheet date		
As at the date of approval of these financial statements, amendments to IFRS 4 "Insurance Contracts" entitled "Extension of the Temporary Exemption from Applying IFRS 9" have been issued by the International Accounting Standards Board (IASB) and adopted by the European Union on 16 December 2020, and are effective as of a later date	No material impact on the financial statements is estimated	The expiry date of the temporary exemption from IFRS 9 has been extended from 1 January 2021 to annual periods beginning on 1 January 2023
New standards and interpretations pending endorsement by the European Union and approved by the European Union, which have not yet entered into force	**Impact on the financial statements**	**Effective year in the EU**
IFRS 14 "Regulatory Deferral Accounts"	No material impact on the financial statements is estimated	The European Commission has decided not to launch the endorsement process of this interim standard until the final IFRS 14 is issued.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

New Standards, amendments to Standards and Interpretations:		
Amendments to IAS 1 "Presentation of financial statements" – classification of liabilities as current or non-current	No material impact on the financial statements is estimated	2023
Amendments to IAS 1 "Presentation of financial statements" – disclosures of accounting policies applied	No material impact on the financial statements is estimated	2023
Amendments to IAS 8 "Accounting policies, changes in accounting estimates and errors" – definition of accounting estimates	No material impact on the financial statements is estimated	2023
Amendments to IAS "12 Income Tax" – deferred tax related to assets and liabilities arising from a single transaction	No material impact on the financial statements is estimated	2023
Amendments to IFRS 16 "Property, plant and equipment" proceeds before intended use	No material impact on the financial statements is estimated*	2022
Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" – onerous contracts – cost of fulfilling the contract	No material impact on the financial statements is estimated	2022
Amendments to IFRS 3 "Business Combinations" – amendments to references in the Conceptual Framework along with amendments to IFRS 3	No material impact on the financial statements is estimated	2022
Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – sale or contribution of assets between an investor and its associate or joint venture, and further amendments	No material impact on the financial statements is estimated	The effective date has been postponed
Amendments to various standards resulting from "Annual Improvements to IFRS Standards 2018–2020 Cycle" – amendments made as part of the annual IFRS improvements project (IFRS 1, IFRS 9, IAS 16 and IAS 41) primarily to correct conflicts and clarify wording (amendments to IFRS 1, IFRS 9 and IAS 41	No material impact on the financial statements is estimated	2022
IFRS 17 "Insurance Contracts"	No material impact on the financial statements is estimated	2023

** The amendment to IAS 16 "Property, plant and equipment" relates to the recognition of proceeds before intended use. As at 31 December 2021, the value of fixed assets under construction includes revenues and costs related to the sale of test production of CIECH Salz Deutschland GmbH in the amount of approximately EUR 2 million (PLN 9.4 million).*

1.5.1. ADJUSTMENT OF PRIOR PERIOD ERRORS AND CHANGES IN ACCOUNTING POLICY

The following changes were made relative to the previously published comparatives as at 31 December 2020:

a) recognition of the valuation of futures transactions at CIECH Soda Romania S.A. – this concerns the statement of financial position as at 31 December 2020

Recognition of the valuation of futures transactions for the sale of CO_2 emission allowances at CIECH Soda Romania S.A. in the statements of financial position as at 31 December 2020 – adjustment of erroneous recognition of transactions: the cash flow settlements with the Clearing House were recognised and the liabilities arising from the valuation of financial instruments were adjusted.

b) change in accounting policy with respect to recognition of free CO_2 emission allowances

In 2021, the Group revised its Accounting policy in respect of recognition of emission allowances granted and the measurement principles for the disposal of rights.

Following the revision, the emission allowances granted are recognised in the balance sheet as assets when credited to the account at their fair value determined at that date. At the same time, the same amount is recognised in an accrued income account (as a subsidy for production costs, regulated in IAS 20 Government Grants and Disclosure of Government Assistance). The entity receiving the allowances accounts for them as intangible assets. When emissions covered by the allowances received occur, the corresponding value recognised in the deferred income account is deducted from the operating expenses related to the emission.

If there were no emissions for which the entity received the rights, then the part of the deferred income relating to them remains in the balance until the rights are disposed of. If the rights are used to cover the emission in the following year (years), the relevant part of the deferred income reduces the operating costs of the emission in the year in which the rights are used, and if such rights are sold, the deferred income reduces the cost of the rights sold.

In the event of a purchase of additional allowances on the market, the allowances are measured at cost and presented as intangible assets.

The entity recognises a provision for the cost of covering CO_2 emissions into the atmosphere in the amount of the product of the quantity of CO_2 emitted (in thousand tonnes, equivalent to one EUA) and the unit price of the emission allowances. The emission costs are covered by allowances held in a brokerage account at the balance sheet date in accordance with the detailed identification principle. If insufficient allowances are held, the missing portion of the provision is measured at the allowance price of the futures contracts open on the balance sheet date, in accordance with the detailed identification principle. If insufficient allowances have been contracted, the provision for the costs of covering emissions is measured at the current (as at the balance sheet date) market price of the EUA.

Until 2020, emission allowances granted were not subject to recognition on the balance sheet when granted and in subsequent periods. The entity receiving the allowances entered them in the off-balance sheet records.

The impact of the changes on the previously reported consolidated data for the period from 1 January to 31 December 2020 is presented below.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	After adjustment as at 31 December 2020	Change in valuation of emission allowances granted	Recognition of valuation of futures	Previously presented as at 31 December 2020
ASSETS				
Total non-current assets	**4,251,347**	**-**	**-**	**4,251,347**
Short-term intangible assets other than goodwill	185,220	185,220	-	-
Trade and other receivables	478,508	-	22,590	455,918
Total current assets	**1,664,196**	**185,220**	**22,590**	**1,456,386**
Total assets	**5,915,543**	**185,220**	**22,590**	**5,707,733**
EQUITY AND LIABILITIES				
Total equity	**2,118,538**	**-**	**-**	**2,118,538**
Total non-current liabilities	**401,146**	**-**	**-**	**401,146**
Trade and other liabilities	1,286,256	185,220	22,590	1,078,446
Total current liabilities	**3,395,859**	**185,220**	**22,590**	**3,188,049**
Total liabilities	**3,797,005**	**185,220**	**22,590**	**3,589,195**
Total equity and liabilities	**5,915,543**	**185,220**	**22,590**	**5,707,733**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	After adjustment as at 1 January 2020	Change in valuation of emission allowances granted	Previously presented as at 1 January 2020
ASSETS			
Total non-current assets	**3,734,291**	**-**	**3,734,291**
Short-term intangible assets other than goodwill	124,368	124,368	-
Total current assets	**1,436,622**	**124,368**	**1,312,254**
Total assets	**5,170,913**	**124,368**	**5,046,545**
EQUITY AND LIABILITIES			
Total equity	**1,976,779**	**-**	**1,976,779**
Total non-current liabilities	**1,970,287**	**-**	**1,970,287**
Trade and other liabilities	971,546	124,368	847,178
Total current liabilities	**1,223,847**	**124,368**	**1,099,479**
Total liabilities	**3,194,134**	**124,368**	**3,069,766**
Total equity and liabilities	**5,170,913**	**124,368**	**5,046,545**

The above change in accounting policy had no impact on the consolidated statement of profit or loss, consolidated statement of other comprehensive income or consolidated statement of cash flows.

2. SEGMENT REPORTING

Note 2 to the Consolidated Financial Statements of the CIECH Group for 2020 contains a detailed description of the allocation of operating segments to the new business structure. The change in presentation was made as of 2020 for all reporting periods presented as comparatives.

The CIECH Group's operating segments are designated on the basis of internal reports related to the components of the Group and are regularly reviewed by the Management Board, which is responsible for operating decisions aimed at allocating resources to segments and assessing the subsidiaries performance.

From the product perspective, the CIECH Group has been divided into the following operating segments:

Soda segment (comprising BU Soda, and BU Salt) – at the current stage of work on the reorganisation, performance figures for BU Soda and BU Salt are analysed jointly, and the performance of BU Soda and BU Salt are closely linked due to sharing the same raw material, i.e. brine, fed jointly to the production facilities of Soda and Salt, as well as a common power plant and combined heat and power plant providing heat and electricity, within CIECH Soda Polska. For this reason, it is not possible to allocate direct costs in an unambiguous way (mainly: coal, electricity, CO_2, maintenance on shared infrastructure). As a result, business decisions are made jointly for both BUs - e.g. in the case of limitations in the availability of raw material or steam, the profitability analysis of all Soda and Salt products, rather than the fact of being part of a specific BU, determines the production of particular products. A shared source of raw material, a shared infrastructure and practically indivisible costs mean that, consequently, it is also not possible to allocate these values to the BU in question as regards liabilities and certain inventories. This all makes the analysis of cash flow generating units at the BU level potentially misleading. Decisions on the above matters are made at the level of the Management Board of CIECH S.A.

The most important products manufactured in this Segment are: light and dense sodium carbonate, evaporated salt, sodium bicarbonate and calcium chloride. The products of this area are sold mainly by the parent company CIECH S.A. Production of the Segment goods is implemented in CIECH Soda Polska S.A., the Romanian company CIECH Soda Romania S.A. (until September 2019) and in the German company CIECH Soda Deutschland GmbH&Co. KG. These products are used in the glass, food, detergent and pharmaceutical industries. The Soda Segment (in the German company) also includes the business of producing and selling electricity. 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.

Agro Segment – the CIECH Group is a manufacturer of crop protection products used in agriculture and produced by the companies: CIECH Sarzyna S.A. and Proplan Plant Protection Company, S.L.

Resins Segment – the CIECH Group was a producer of a variety of organic compounds manufactured by CIECH Żywice Sp. z o.o. In 2020 and in the first quarter of 2021, it was producing, among others, epoxy resins and polyester resins. These products are used in the following industries: automotive, paints and electronics. On 1 March 2021, CIECH Żywice Sp. z o.o. was sold to LERG S.A., and its figures are reported as discontinued operations.

Foams Segment – the CIECH Group is a producer of polyurethane foams manufactured by CIECH Pianki Sp. z o.o. These products are mainly used in the furniture industry – for upholstered furniture and mattresses.

Silicates Segment – includes mainly the products of CIECH Vitrosilicon S.A. and CIECH Soda Romania S.A. Products manufactured by Ciech Soda Romania S.A. are sold by CIECH S.A. The Segment manufactures sodium silicates (CIECH Vitrosilicon S.A. and CIECH Soda Romania S.A.) and potassium silicates (CIECH Vitrosilicon S.A.). These products are used in the automotive, cosmetics and construction chemicals industries.

Packaging Segment – covers products of CIECH Vitro S.A. This Segment manufactures glass packaging – lanterns and jars, used in the food industry and for the production of headstone lamps.

Other activities covers mainly services rendered outside the Group and goods sold mainly by CIECH S.A., and within the Group, Ciech Serwis i Remonty S.A. provides maintenance services, as well as services are provided by Ciech R&D Sp. z o.o. and CIECH Services Sp. z o.o. that will provide support services in various areas.

The Group financing is managed (including finance expenses and income with the exception of interest and exchange differences on trade receivables and liabilities) and income tax is calculated on the Group level and they are not allocated to particular Segments.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

The CIECH Group has been divided into the following geographical areas: Poland, European Union, Other European countries, Africa, Asia, Other regions. Information on the Group geographical areas is established based on the Group's assets location.

Revenues and costs, assets and liabilities of Segments are recognised and measured in a manner consistent with the method used in the consolidated financial statements.

Operational Segments results are assessed by the CIECH S.A's Management Board on the basis of sales revenue, operating profit, level of EBITDA and adjusted EBITDA. No need to separate additional Segments under IFRS 8 regulations has been identified.

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 service debt. EBITDA and adjusted EBITDA levels are not defined by the IFRS and can be calculated in a different manner by other entities. The reconciliation and definitions applied by the CIECH Group when determining these measures are presented below.

	01.01.-31.12.2021	01.01.-31.12.2020
Net profit/(loss) on continuing operations	**229,769**	**123,184**
Income tax	42,381	64,949
Share of profit / (loss) of equity-accounted investees	(27)	161
Financial expenses	110,362	120,149
Financial income	(26,714)	(58,475)
Amortisation/depreciation	374,640	333,280
EBITDA on continued operations	**730,411**	**583,248**
EBITDA on discontinued operations	6,927	19,693
EBITDA on continued and discontinued operations	**737,338**	**602,941**

	01.01.-31.12.2021	01.01.-31.12.2020
EBITDA on continued operations	**730,411**	**583,248**
One-offs including:	(3,797)	2,084
Impairment (a)	262	3,597
Cash items (b)	(4,195)	(6,324)
Non-cash items (without impairment) (c)	136	4,811
Adjusted EBITDA on continued operations	**726,614**	**585,332**
Adjusted EBITDA on discontinued operations	6,951	18,883
Adjusted EBITDA on continued and discontinued operations	**733,565**	**604,215**

The catalogue of items for adjusting adjusted EBITDA for the purposes of these financial statements is as follows:

(a) Impairment losses are associated with the recognition/reversal of impairment write-downs on property, plant and equipment and intangible assets.

(b) Cash items:

- *gain/loss on sale of property, plant and equipment,*
- *fees and compensations received,*
- *donations given,*
- *fortuitous events.*

(c) Non-cash items:

- *fair value measurement of investment properties,*
- *costs of liquidation of property, plant and equipment,*
- *costs of suspended investments,*
- *restructuring costs,*
- *environmental provisions, provisions for liabilities and compensation and other items (including extraordinary costs and other provisions).*

The above catalogue for year 2021 is complete, but adjusted EBITDA may also be adjusted for other untypical non-recurring events not listed above.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

OPERATING SEGMENTS OF THE CIECH GROUP

Revenue and costs data as well as assets, equity and liabilities data of particular CIECH Group operating segments for periods disclosed in statements are presented in the tables below:

OPERATING SEGMENTS 01.01.-31.12.2021	Soda Segment	Agro Segment	Foams Segment	Silicates Segment	Packaging Segment	Other operations Segment	Corporate functions - reconciliation item	Eliminations (consolidation adjustments)	TOTAL
Revenues from third parties	2,196,210	486,925	389,953	237,958	73,652	75,217	-	-	3,459,915
Revenue from inter-segment transactions	77,190	64	84	197	1,134	16,335	-	(95,004)	-
Total sales revenues	**2,273,400**	**486,989**	**390,037**	**238,155**	**74,786**	**91,552**	**-**	**(95,004)**	**3,459,915**
Cost of sales	(1,913,016)	(340,374)	(310,676)	(185,191)	(52,361)	(92,454)	-	81,730	(2,812,342)
Gross profit /(loss) on sales	**360,384**	**146,615**	**79,361**	**52,964**	**22,425**	**(902)**	**-**	**(13,274)**	**647,573**
Selling costs	(150,643)	(43,822)	(10,937)	(27,428)	(7,140)	(1,205)	-	12,074	(229,101)
General and administrative expenses	(89,201)	(33,876)	(6,332)	(6,412)	(3,699)	(4,094)	(103,799)	4,094	(243,319)
Result on management of receivables	(4,620)	2,536	24	(5)	(3)	1,029	-	54	(985)
Result on other operating activities	177,266	5,197	(555)	1,261	601	4,545	(1,161)	(5,551)	181,603
Operating profit /(loss)	**293,186**	**76,650**	**61,561**	**20,380**	**12,184**	**(627)**	**(104,960)**	**(2,603)**	**355,771**
Exchange differences and interest on trade settlements	(302)	(3,643)	190	1,013	29	(384)	179	-	(2,918)
Group borrowing costs	-	-	-	-	-	-	(44,294)	-	(44,294)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	-	(36,436)	-	(36,436)
Share of profit / (loss) of equity-accounted investees	27	-	-	-	-	-	-	-	27
Profit /(loss) before tax	**292,911**	**73,007**	**61,751**	**21,393**	**12,213**	**(1,011)**	**(185,511)**	**(2,603)**	**272,150**
Income tax	-	-	-	-	-	-	-	-	(42,381)
Net profit /(loss) on continuing operations	-	-	-	-	-	-	-	-	229,769
Net profit /(loss) on discontinued operations	-	-	-	-	-	-	-	-	61,868
Net profit /(loss) for the period	**-**	**-**	**-**				**-**	**-**	**291,637**
Amortization/depreciation	299,850	39,110	3,679	9,537	5,983	1,609	14,872	-	374,640
EBITDA from continuing operations	593,036	115,760	65,240	29,917	18,167	982	(90,088)	(2,603)	730,411
Adjusted EBITDA from continuing operations*	590,680	114,901	65,331	30,375	16,929	(1,016)	(87,986)	(2,600)	726,614

**Adjusted EBITDA for the 12-month period ended 31 December 2021 is calculated as EBITDA adjusted for untypical one-off events, including: change in provisions: PLN 4.1 million; liquidation of fixed assets: PLN -1.2 million; fortuitous events: PLN -1.4 million; disposal of fixed assets: PLN 6.2 million; restructuring costs: PLN -1.8 million; costs of past operations: PLN -1.6 million, other: PLN -0.5 million.*

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

OPERATING SEGMENTS 01.01.-31.12.2020	Soda Segment	Agro Segment	Foams Segment	Silicates Segment	Packaging Segment	Other operations Segment	Corporate functions - reconciliation item	Eliminations (consolidation adjustments)	TOTAL
Revenues from third parties	2,031,043	365,490	267,733	171,852	67,051	72,564	-	-	2,975,733
Revenue from inter-segment transactions	57,227	684	82	229	3	55,318	-	(113,543)	-
Total sales revenues	**2,088,270**	**366,174**	**267,815**	**172,081**	**67,054**	**127,882**	**-**	**(113,543)**	**2,975,733**
Cost of sales	(1,636,797)	(285,103)	(222,188)	(132,861)	(44,052)	(117,615)	-	93,549	(2,345,067)
Gross profit /(loss) on sales	**451,473**	**81,071**	**45,627**	**39,220**	**23,002**	**10,267**	**-**	**(19,994)**	**630,666**
Selling costs	(111,811)	(41,765)	(8,212)	(19,612)	(7,581)	(3,659)	-	19,494	(173,146)
General and administrative expenses	(74,735)	(29,885)	(3,516)	(3,202)	(1,213)	(7,330)	(57,248)	6,505	(170,624)
Result on management of receivables	(9,933)	(2,983)	(5)	(3)	4	(263)	44	-	(13,139)
Result on other operating activities	(14,933)	1,848	(206)	103	(1,313)	(3,789)	375	(5,874)	(23,789)
Operating profit /(loss)	**240,061**	**8,286**	**33,688**	**16,506**	**12,899**	**(4,774)**	**(56,829)**	**131**	**249,968**
Exchange differences and interest on trade settlements	(1,741)	(642)	(1,119)	-	1,197	(532)	(10)	-	(2,847)
Group borrowing costs	-	-	-	-	-	-	(58,642)	-	(58,642)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	-	(185)	-	(185)
Share of profit / (loss) of equity-accounted investees	(161)	-	-	-	-	-	-	-	(161)
Profit /(loss) before tax	**238,159**	**7,644**	**32,569**	**16,506**	**14,096**	**(5,306)**	**(115,666)**	**131**	**188,133**
Income tax	-	-	-	-	-	-	-	-	(64,949)
Net profit /(loss) on continuing operations	-	-	-	-	-	-	-	-	123,184
Net profit /(loss) on discontinued operations	-	-	-	-	-	-	-	-	4,846
Net profit /(loss) for the period	**-**	**-**	**-**				**-**	**-**	**128,030**
Amortization/depreciation	266,791	29,644	3,945	9,561	7,709	778	14,852	-	333,280
EBITDA from continuing operations	506,852	37,930	37,633	26,067	20,608	(3,996)	(41,977)	131	583,248
Adjusted EBITDA from continuing operations*	510,090	41,128	37,494	25,964	22,020	(9,631)	(41,865)	132	585,332

** Adjusted EBITDA for the 12-month period ended 31 December 2020 is calculated as EBITDA adjusted for untypical one-off events, including: impairment losses: PLN -3.6 million; change in provisions: PLN -7.9 million; valuation of investment properties: PLN 5.1 million; fines and compensations received: PLN 4.7 million; other: PLN -0.4 million.*

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

SALES REVENUES — BUSINESS SEGMENTS

	01.01.-31.12.2021	01.01.-31.12.2020	Change 2021/2020	Change %
Soda segment, including:	**2,273,400**	**2,088,270**	**185,130**	**8.9%**
Dense soda ash	1,104,737	1,159,682	(54,945)	(4.7%)
Light soda ash	357,574	269,129	88,445	32.9%
Salt	183,466	183,468	(2)	(0.0%)
Sodium bicarbonate	219,135	193,001	26,134	13.5%
Energy	210,472	146,955	63,517	43.2%
Calcium chloride	30,889	17,809	13,080	73.4%
Other products	89,937	60,999	28,938	47.4%
Revenues from inter-segment transactions	77,190	57,227	19,963	34.9%
Agro segment, including:	**486,989**	**366,174**	**120,815**	**33.0%**
Agro products	486,925	365,490	121,435	33.2%
Revenues from inter-segment transactions	64	684	(620)	(90.6%)
Foams segment, including:	**390,037**	**267,815**	**122,222**	**45.6%**
Polyurethane foams	389,953	267,733	122,220	45.6%
Revenues from inter-segment transactions	84	82	2	2.4%
Silicates segment, including:	**238,155**	**172,081**	**66,074**	**38.4%**
Sodium silicates	228,099	163,773	64,326	39.3%
Potassium silicates	9,750	8,070	1,680	20.8%
Other products	109	9	100	1111.1%
Revenues from inter-segment transactions	197	229	(32)	(14.0%)
Packaging segment, including:	**74,786**	**67,054**	**7,732**	**11.5%**
Glass packaging	73,652	67,051	6,601	9.8%
Revenues from inter-segment transactions	1,134	3	1,131	37700.0%
Other segment, including:	**91,552**	**127,882**	**(36,330)**	**(28.4%)**
Revenues from third parties	75,217	72,564	2,653	3.7%
Revenues from inter-segment transactions	16,335	55,318	(38,983)	(70.5%)
Consolidation adjustments	**(95,004)**	**(113,543)**	**18,539**	**16.3%**
TOTAL	**3,459,915**	**2,975,733**	**484,182**	**16.3%**

For detailed information on the recognition of sales revenue, please refer to Note 3.1 to these financial statements.

ASSETS AND LIABILITIES BY OPERATING SEGMENTS

	ASSETS		LIABILITIES	
	31.12.2021	31.12.2020*	31.12.2021	31.12.2020*
Soda Segment	4,130,954	3,690,113	381,282	290,786
Resins Segment	-	203,699	-	58,312
Agro Segment	783,143	755,969	138,122	93,704
Foams Segment	62,300	68,447	69,371	59,174
Silicates Segment	171,139	84,898	49,100	19,010
Packaging Segment	36,973	33,754	6,819	8,846
Other operations Segment	47,179	23,016	12,164	25,451
Corporate functions - reconciliation item	1,962,473	1,164,629	4,135,863	3,283,887
Eliminations (consolidation adjustments)	(48,341)	(108,982)	(43,832)	(42,165)
TOTAL	**7,145,820**	**5,915,543**	**4,748,889**	**3,797,005**

**Restated data. For detailed information on the restatement, see Note 1.5.1 to these statements.*

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

The value of investments in equity-accounted entities occurs only for the assets of the soda segment and amounts to PLN 5,655 thousand as at 31 December 2021 (PLN 5,646 thousand as at 31 December 2020).

The value of increases in expenditure on property, plant and equipment and intangible assets by operating segment is as follows:

	31.12.2021	31.12.2020
Soda Segment	598,697	812,033
Agro Segment	29,579	75,094
Resins Segment	-	9,422
Foam Segment	4,133	1,497
Silicates Segment	71,145	5,854
Packaging Segment	5,194	3,515
Other operations Segment	3,728	120
Corporate functions	29,910	16,937
TOTAL	**742,386**	**924,472**

INFORMATION ON GEOGRAPHICAL AREAS

Information on the CIECH Group geographical areas is established based on the Group's assets location.

ASSETS DIVIDED ON GEOGRAPHICAL REGIONS	Non-current assets other than financial instruments	Deferred income tax assets	Other assets	Total assets
31.12.2021				
Poland	2,489,645	64,707	2,019,215	4,573,567
European Union (excluding Poland)	2,238,656	5,540	307,414	2,551,610
Other European countries	-	-	2,432	2,432
Africa	-	-	2,313	2,313
Asia	-	-	7,022	7,022
Other regions	-	-	8,876	8,876
TOTAL	**4,728,301**	**70,247**	**2,347,272**	**7,145,820**
31.12.2020				
Poland	2,412,274	50,688	1,201,834	3,664,796
European Union (excluding Poland)	1,787,812	-	429,455	2,217,267
Other European countries	-	-	14,788	14,788
Africa	-	-	3,923	3,923
Asia	-	-	4,493	4,493
Other regions	-	-	10,276	10,276
TOTAL	**4,200,086**	**50,688**	**1,664,769**	**5,915,543**

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SALES REVENUES – GEOGRAPHICAL STRUCTURE OF MARKETS

	01.01.-31.12.2021	01.01.-31.12.2020	Change 2021/2020
Poland	**1,748,175**	**1,473,672**	**12.9%**
European Union (excluding Poland)	**1,547,920**	**1,354,202**	**(10.8%)**
Germany	781,925	673,359	3.1%
Romania	53,060	34,465	54.0%
Czech Republic	166,908	161,196	3.5%
Italy	27,744	35,259	(21.3%)
The Netherlands	139,952	110,549	26.6%
Finland	50,060	55,960	(10.5%)
Sweden	23,560	21,715	8.5%
Belgium	35,435	28,192	25.7%
Denmark	42,388	38,353	10.5%
Spain	107,588	93,513	15.1%
Austria	39,737	17,717	124.3%
France	21,426	13,960	53.5%
Luxembourg	398	22,348	(98.2%)
Lithuania	16,331	13,299	22.8%
Other EU countries	41,408	34,317	20.7%
Other European Countries	**77,334**	**78,097**	**(1.0%)**
Switzerland	10,815	3,627	198.2%
Norway	44,375	43,486	2.0%
United Kingdom	4,896	4,568	7.2%
Russia	5,985	7,086	(15.5%)
Other European countries	11,263	19,330	(41.7%)
Africa	**17,286**	**17,959**	**(3.7%)**
Asia	**37,855**	**31,741**	**19.3%**
China	4,474	358	1149.7%
India	455	1,042	(56.3%)
Singapore	6,819	3,257	109.4%
Turkey	6,169	12,688	(51.4%)
Other Asian countries	19,938	14,396	38.5%
Other regions	**26,383**	**32,592**	**(19.1%)**
Cash flow hedge adjustment	4,962	(12,530)	-
TOTAL	**3,459,915**	**2,975,733**	**16.3%**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

3. NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

3.1. SALES REVENUES

Accounting policy

The Group recognises revenues based on the so-called 5-step model – when it satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. When (or as) a performance obligation is satisfied, the Group recognises as revenues the amount of the transaction price that is allocated to that performance obligation.

At the CIECH Group, sales revenues are recognized upon the provision of services or delivery of products or goods in accordance with INCOTERMS terms and conditions contained in contracts with customers. The company usually sells using the following delivery bases: DAP, FCA, EXW, CPT, DDP, CIF.

The CIECH Group enters into agreements with counterparties concerning the provision of the Group's products through consignment warehouses owned by the counterparties. Control of delivered products is passed to the customer when they are accepted for storage and at that point in time sales revenues are recognised along with the corresponding cost of sales.

Moreover, the Group, in accordance with *IAS 15 Revenue from contracts with customers*, attributes revenues and costs connected with contracts concerning cavern desalination to particular periods in which the works were conducted. For more detailed information, see Note 5.6 to these statements.

CIECH Group companies grant discounts to selected customers, and the value of these discounts reduces the value of consolidated sales revenues.

For detailed information on sales revenues by operating segment and by geographical market, please refer to Note 2 to these financial statements.

Payment terms

Commercial contracts concluded by the CIECH Group include various terms of payment of trade receivables depending on the type of transaction, market characteristics and trade conditions. The most common payment terms are: 14, 30 and 60 days.

The CIECH Group companies use non-recourse factoring and detailed information is provided in Note 5.10 to these financial statements.

SALES REVENUES	01.01.-31.12.2021	01.01.-31.12.2020
Revenues from sales of products and services	**3,401,106**	**2,856,932**
- products	3,328,404	2,801,552
- services	72,702	55,380
Revenues from sales of goods and materials	**58,809**	**118,801**
- goods	57,067	111,262
- materials	1,742	7,539
Net sales of products, goods and materials	**3,459,915**	**2,975,733**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

3.2. COST OF SALES

Accounting policy

Expenses are probable decreases in economic benefits in the form of outflows or depletions of assets or increases in liabilities and provisions.

Cost of sales comprises the production cost of products and services sold and the value of sold goods and materials.

Selling costs include, among others: sales commissions and the costs of advertising, promotion and distribution.

General and administrative expenses are expenses associated with activities of the entity's management or those of general functions.

Provisions for liabilities to employees arising from the employment relationship (salaries, bonuses, holiday entitlements, etc.) are recognised in costs of sales/general and administrative expenses/in selling expenses.

Provisions for liabilities to former key employees (compensation for termination of contracts, non-competition clauses, etc.) are recognised in general and administrative expenses or selling expenses.

Provisions for length-of-service awards, retirement and disability benefits are recognised in other operating expenses.

Amortisation and depreciation

In this item, the Group recognises the cost of accrued depreciation charges on property, plant and equipment, amortisation charges on intangible assets, and depreciation charges on right-of-use assets. Depreciation and amortisation charges are recognised as operating expenses depending on where they arise.

COST OF SALES	01.01.-31.12.2021	01.01.-31.12.2020
Cost of manufacture of products and services sold	(2,769,294)	(2,225,114)
Cost of sold goods and materials sold	(31,420)	(91,867)
Reversal of impairment losses on inventory	7,169	4,250
Recognition of impairment losses on inventory	(5,792)	(9,158)
Write off / liquidation of materials	(457)	(4,847)
Costs of idle assets and production capacity	(12,548)	(18,331)
TOTAL	**(2,812,342)**	**(2,345,067)**

3.3. COSTS BY TYPE

COST BY KIND (SELECTED)	01.01.-31.12.2021	01.01.-31.12.2020
Amortisation	(357,319)	(314,760)
Consumption of materials and energy	(1,751,117)	(1,369,661)
Employee benefits, including:	(389,886)	(357,161)
- payroll	(321,660)	(291,699)
- social security and other benefits	(63,416)	(59,383)
- expenditure on retirement benefit and jubilee awards (including provisions)	(695)	(3,282)
- expenditure on pension schemes with defined benefits	(1,069)	(824)
- other	(3,046)	(1,972)
External services	(548,528)	(297,205)

3.4. OTHER OPERATING INCOME AND EXPENSES

Accounting policy

The reporting period's results are also affected by other operating income and expenses indirectly related to the Group's core operations. The key items include:

- ✓ gains/ losses on disposal and liquidation of non-financial non-current assets,
- ✓ gains/ losses on sales of emission rights,
- ✓ recognition/ reversal of impairment losses (including allowances for doubtful receivables),
- ✓ recognition / reversal of provisions, such as for liabilities, employee benefits,
- ✓ income from rental of investment property is recognised in profit or loss on a straight-line basis over the lease term. Any lease incentives granted are an integral part of the net consideration agreed for the use of the asset,
- ✓ gains/losses on valuation of fair value of investment property,

Subsidies

Government subsidies are recognised when there is reasonable assurance that the subsidy will be received and that the entity will comply with all relevant conditions of the subsidy. If the subsidy relates to an expense item, it is recognised as a reduction in the costs that the subsidy is intended to compensate.

Government subsidies related to assets, including non-monetary subsidies at fair value, are presented in the balance sheet by setting up the subsidy as deferred income. It is recognised as income over the useful life of the asset. Repayment of a subsidy related to income should be applied first against any unamortised deferred credit set up in respect of the subsidy. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment should be recognised immediately in profit or loss. Repayment of a subsidy related to an asset should be recorded by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable.

In connection with the implementation of investment projects to improve energy efficiency, the Group companies receive energy efficiency certificates which are recognised at market value in the statement of financial position as a subsidy. If the value of certificates received exceeded the value of expenditures incurred on the implementation of projects, this amount is recognised on a one-off basis in profit or loss as other operating income.

Judgements and estimates

Impairment of non-financial assets

The carrying amounts of the company's non-financial assets, other than inventory and deferred tax assets, are reviewed at reporting date to determine whether there is any indication of impairment. If any such indication exists, then the company estimates the recoverable amount of the respective cash-generating unit.

For intangible assets that have indefinite lives, goodwill or intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date, irrespective of the existence of the aforesaid indications.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. The recoverable amount is determined for individual assets, unless the asset does not generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If the asset's carrying amount exceeds its recoverable amount, an impairment loss is recognised against the carrying amount of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

Impairment losses are recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the unit (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. Impairment losses are recognised in profit or loss. Impairment losses in respect of assets are recognised in those expense categories that correspond to the function of the asset to which they relate.

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OTHER OPERATING INCOME	01.01.-31.12.2021	01.01.-31.12.2020
Subsidies	7,500	5,511
The right to emit greenhouse gases	145,411	1,805
Rents/lease income	4,536	2,418
Gain on disposal of non-financial non-current assets	6,210	3,419
Reversal of impairment allowances on receivables	7,381	6,530
Reversal of provisions on employee benefits	2,037	1,713
Reversal of provisions for compensation – changing the base	3,229	1,077
Reversal of provisions for environmental protection – changing the base	3,844	488
Reversal of provisions for liabilities – changing the base	5,126	2,321
Reversal of other provisions- changing the base	-	6,651
Penalty fees and compensations received	10,785	7,653
Refund of taxes and charges	18,273	13,349
Valuation of investment property in fair value	-	5,126
Other services	3,177	3,812
Settlement of inventory taking	1,331	4,596
Other	19,555	10,479
TOTAL	**238,395**	**76,948**

The main item of other operating income in 2021 was the gain on the sale of unused CO_2 emission allowances earned in the SDC Group (PLN 96,371 thousand) and CIECH Soda Romania S.A. (PLN 49,040 thousand).

Reimbursement of costs and fees in the amount of PLN 18,273 thousand represents compensation received by CIECH Soda Polska S.A. for the costs of purchasing emission allowances and refund of excise tax in the amount of PLN 15,773 thousand and PLN 2,500 thousand respectively.

"Other" includes income from white certificates in CIECH Soda Polska S.A. (PLN 2,915 thousand), insurance claim in SDC Group (PLN 4,239 thousand) and reversal of provisions for VAT corrections and potential claims in CIECH Trading Sp. z o.o. (PLN 2,760 thousand).

Subsidies and other forms of State aid

Subsidies recognised in the statement of profit or loss in the reporting period amounted to PLN 7,500 thousand (PLN 5,511 thousand in the comparable period) settled over time in proportion to the depreciation/amortisation of non-current assets to which they relate. Subsidies included in liabilities as at 31 December 2021 amounted to PLN 110,771 thousand (compared to PLN 67,300 thousand as at 31 December 2020). The CIECH Group companies receive subsidies for research and development activities, purchase of property, plant and equipment and for adapting investment projects to environmental requirements. The subsidies are mainly received by the CIECH Group companies from the National Centre for Research and Development, the National Fund for Environmental Protection and Water Management and Ministry of Development.

The most significant items of subsidies presented in the statement of financial position of the Group are as follows:

SIGNIFICANT SUBSIDIES RECEIVED BY:	CIECH Soda Polska S.A.	CIECH Sarzyna S.A.
"Extension of the centre of decantation and filtration of distillation sludge in the Plant in Inowrocław"	10,930	
Reduction of dust emissions from the Inowrocław CHP Plant by upgrading boiler ESPs – OP 110 No 1, 2, 3, 4	5,727	
"Developing and testing, on a demonstrable scale, internationally innovative agro-chemical preparations of a unique composition and formulation"		14,581

In 2021, 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 (EUR 11,250 thousand in funding awarded in 2017).

A project aimed at reversing CO_2 in the soda production process was also implemented by CIECH R&D Sp. z o.o. for another year. The work carried out in 2021 resulted in the receipt of a refund in the amount of over PLN 80 thousand. One more

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

subsidy is expected to be received for the project in 2022. The company completed the implementation of the project entitled "Establishment of a Research and Development Center of Ciech R&D Sp. z o.o." and submitted a final payment request for a refund amount of PLN 3,158 thousand, which is to be paid upon approval of the payment request in 2022.
In 2021, Smart Fluid S.A. continued its work on the development of technology for shear thickening fluids by carrying out a research and development project entitled "Development and validation of real-world technology for the production of impact-absorbing smart materials by exploiting the properties of shear thickening fluids (STF)". The project has been positively verified by the funding institution (National Centre for Research and Development). The company has received a subsidy in the total amount of PLN 575 thousand for the project in 2021.

In 2021, CIECH Sarzyna S.A. received a reimbursement in the amount of PLN 1,379 thousand in connection with the completed project "Developing and testing, on a demonstrable scale, internationally innovative agro-chemical preparations of a unique composition and formulation" implemented under Measure 1.1: R&D projects of enterprises of the Operational Programme Smart Growth 2014-2020, co-financed by the European Regional Development Fund.

In 2021 CIECH Soda Polska S.A. continued the implementation of the project entitled: "Development of AI / ML algorithms for selected installation nodes in order to increase the efficiency of production resources and optimize the soda ash production process - industry 4.0", for which she obtained funding in 2019. The amount of the awarded co-financing is PLN 4,934 thousand.

The companies from the CIECH Group also use the corporate income tax exemption in connection with investments carried out on the basis of permits to operate in Special Economic Zones or on the basis of decisions issued on support within the Polish Investment Zone. In 2021, CIECH Vitrosilicon S.A. successfully completed the process of applying for a support decision, which will allow it to benefit from income tax exemption in the following years.

OTHER OPERATING EXPENSES	01.01.-31.12.2021	01.01.-31.12.2020
Costs related to leased property	(4,442)	(4,202)
Recognition of impairment losses on receivables	(8,366)	(19,670)
Recognition of impairment losses on property, plant and equipment and intangible assets	(577)	(3,692)
Recognition of provisions on employee benefits	(3,089)	(1,584)
Recognition of provisions for compensation	(395)	(602)
Recognition of provisions for environmental protection	(828)	(228)
Recognition of provisions for liabilities and anticipated losses	(5,538)	(16,640)
Liquidation costs of property, plant and equipment	(1,209)	(1,787)
Liquidation costs of materials	(507)	(400)
Costs of remediating the effects of fortuitous events	(1,494)	(1,534)
Valuation of investment property at fair value	(202)	-
Penalties and compensations paid	(1,252)	(1,223)
Settlement of Energy purchase costs for previous years	-	(5,016)
Other fees	-	(2,976)
Inventory differences	(1,042)	(2,034)
Costs of idle assets and production capacity	(16,718)	(24,699)
Other	(12,118)	(27,589)
TOTAL	**(57,777)**	**(113,876)**

Other operating expenses in 2021 and 2020 include an amount of PLN 16,718 thousand and PLN 24,669 thousand, respectively, related to the costs of idle assets and production capacity in CIECH Soda Romania S.A. due to the hibernation of the plant as of September 2019.
For the remaining CIECH Group companies engaged in production activities, these expenses are reported in the core business and affect the level of cost of sales.

3.4.1. Detailed information on significant impairment losses

In connection with the suspension in 2019 of production by a subsidiary, CIECH Soda Romania S.A., resulting from the discontinuation of supplies of process steam by its supplier, S.C. CET Govora S.A., the CIECH Group evaluated the evidence of impairment of assets, based on possible scenarios of actions. Following the analysis, the Group recognised an impairment loss on property, plant and equipment in the total amount of PLN 73,486 thousand as at 31 December 2019. The decision to recognise the impairment loss was made as a result of:

1. failure to reach agreement between the CIECH Soda Romania S.A. and the sole provider of steam – S.C. CET Govora S.A. based in Romania in composition bankruptcy (“CET”), as to the level of the price of process steam, as confirmed by CET in its letter with information on the inability to supply the steam at the price agreed in the terminated contract,
2. analysis of possible steam delivery options from a new source, the probability of which, as at the date of decision making, was assessed as insufficiently high.

The amount of the impairment loss on property, plant and equipment was determined in accordance with IAS 36 “Impairment of assets”. The following assumptions were adopted to determine the value of particular groups of fixed assets:

- for land – the value from market valuations was used as the selling price,
- for fixed assets and fixed assets under construction that could potentially be used by other CIECH Group companies and relocated there – the book value was used,
- for vehicles and other fixed assets – it was assumed that the book value reflected the market value,
- for other fixed assets not included above – the price of scrap less the costs of disassembly was used as the selling price.

The impairment loss was recognised for buildings, premises, civil and marine engineering structures, technical equipment and machinery, fixed assets under construction.

The impairment loss (recognised as other operating expenses in the period from 1 January to 31 December 2019), calculated on the basis of the above assumptions, was PLN 73,486 thousand.

The amount of the impairment loss was allocated to the profit or loss of the industry segments in which CIECH Soda Romania S.A. conducts its operations. The impact on the operating profit or loss of particular segments in 2019 was as follows:

1. Soda Segment: PLN 70,986 thousand,
2. Silicates Segment: PLN 2,500 thousand.

As at the balance sheet date, the analysis of the situation in CIECH Soda Romania S.A. has been performed. To date, the situation has not changed – possible scenarios are still being analysed.

In addition, the Group analysed the list fixed assets and fixed assets under construction that could potentially be used by other CIECH Group companies and relocated there, and confirmed its validity. In addition, the financial statements for 2021 include a depreciation charge that takes into account the wear and tear of these fixed assets in the amount of PLN 9,612 thousand, which is presented under other operating expenses as the cost of idle capacity which, in the opinion of the Management Board, reflects the status of the above-mentioned fixed assets.

The status of the Romanian plant has not changed compared to the status at the end of 2019. In 2021, the Group continues to identify the reasons for the decision to recognise an impairment loss. At the end of 2020, the fixed assets held were measured at fair value (on a going concern basis, but taking into account the hibernation of the plant) by an independent valuer to determine whether the value of the assets recognised in the Company's accounting records exceeds the value determined by the valuer. Based on the valuation it was determined that no additional impairment losses were necessary.

As a result, the amount of impairment losses on fixed assets in CIECH Soda Romania S.A. did not change. The net carrying amount of the company's fixed assets is PLN 62,270 thousand as at 31 December 2021.

At the same time, the Group continues analyses of the possibility of obtaining a new source of steam at a reasonable cost and long-term cooperation in the supply of other raw materials necessary for production (guaranteeing cost predictability in subsequent years). The result of these analyses may affect the amount of impairment losses recognised in the consolidated financial statements of the CIECH Group for subsequent reporting periods.

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3.5. FINANCIAL INCOME AND EXPENSES

Accounting policy, judgements and estimates

Financial income and expenses relate to an entity's financing activities including the acquisition and disposal of equity, securities, drawing of loans and borrowings, issuance of debt securities. Accordingly, key items of financing activities include:

- ✓ interest on borrowings determined based on the effective interest method,
- ✓ interest earned by the Group on cash and cash equivalents (bank deposits and accounts loans granted and receivables) – accounted for in the profit and loss on accrual basis using the effective interest method,
- ✓ dividend income – recognised in profit or loss when the Group's right to receive payment is established,
- ✓ write-downs on investments,
- ✓ net foreign exchange gains or losses,
- ✓ gains/ losses on sales of financial assets,
- ✓ gains/losses on valuation of financial instruments not designated for hedge accounting and the ineffective portion relating to financial instruments designated for hedge accounting.

FINANCIAL INCOME	01.01.-31.12.2021	01.01.-31.12.2020
Interest	1,204	1,870
Dividends and shares in profit	-	114
Net foreign exchange gains	-	45,172
Balance sheet valuation of derivative financial instruments	18,064	1,285
Other	7,446	10,034
TOTAL	**26,714**	**58,475**

FINANCIAL EXPENSES	01.01.-31.12.2021	01.01.-31.12.2020
Total interest	(37,482)	(55,991)
Net foreign exchange losses	(1,870)	-
Recognition of other impairment losses	(448)	(853)
Factoring commissions	(2,364)	(1,593)
Bank fees and commissions	(8,569)	(3,744)
Recognised provisions	(973)	(3,703)
Costs of discounting of liabilities	(427)	-
Losses on financial instruments	(55,696)	(48,175)
Other	(2,533)	(6,090)
TOTAL	**(110,362)**	**(120,149)**

The item in the statement of profit or loss "Gains/losses on financial instruments" comprises the following values:

	01.10.-31.12.2021	01.01.-31.12.2020
Profits on financial instruments	**20,812**	**4,980**
Interets	1,203	1,870
Profits on derivatives	19,404	2,856
Reversal of write-offs	204	254
Losses on financial instruments	**(93,178)**	**(106,033)**
Interets	(37,483)	(55,990)
Losses on derivatives	(55,695)	(50,043)

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3.6. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Tax effect of each component of other comprehensive income of the CIECH Group

Tax effect of each component of other comprehensive income of the CIECH Group	01.01.-31.12.2021			01.01.-31.12.2020		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Net currency at translation differences	(4,320)	(226)	(4,546)	42,397	2,031	44,428
Cash flow hedge reserve	237,461	(69,237)	168,224	(37,327)	10,188	(27,139)
Profit (loss) from costs of hedging reserve	(16,672)	-	(16,672)	(3,443)	-	(3,443)
Valuation of actuarial provisions	(1,342)	255	(1,087)	(167)	32	(135)
Other components of other comprehensive income	(34)	-	(34)	(9)	-	(9)
TOTAL	**215,093**	**(69,208)**	**145,885**	**1,451**	**12,251**	**13,702**

Income tax and reclassification adjustments in other comprehensive income

Other comprehensive income before tax	01.01.-31.12.2021	01.01.-31.12.2020
Currency translation differences (foreign companies)	**(4,320)**	**42,397**
remeasurement for the current period	(4,320)	42,397
Profit (loss) from cash flow hedge reserve	**237,461**	**(37,327)**
fair value remeasurement in the period	237,529	(53,129)
reclassification to profit or loss	(68)	15,802
Profit (loss) from costs of hedging reserve	**(16,672)**	**(3,443)**
fair value remeasurement in the period	(20,345)	(4,407)
reclassification to profit or loss	3,673	964
Valuation of actuarial provisions	**(1,342)**	**(167)**
remeasurement for the current period	(1,342)	(167)
Other components of other comprehensive income	**(34)**	**(9)**
remeasurement for the current period	(34)	(9)
Income tax attributable to other components of other comprehensive income	**(69,208)**	**12,251**
accrued for the current period	(67,285)	15,318
reclassification to profit or loss	(1,923)	(3,067)
Other comprehensive income net of tax	**145,885**	**13,702**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

4. INCOME TAX, DEFERRED TAX ASSETS AND LIABILITY

4.1. MAIN COMPONENTS OF TAX EXPENSE

Accounting policy

Current tax

Current tax receivables and liabilities for the current and prior periods are measured in the amount of the expected tax amount to be paid to tax authorities (recoverable from tax authorities) using tax rates and tax laws that are legally or substantively enacted at the reporting date.

The main components of tax expense include:

THE MAIN COMPONENTS OF TAX EXPENSE (TAX INCOME)	01.01.-31.12.2021	01.01.-31.12.2020
Current income tax	**(69,257)**	**(70,219)**
Income tax for the reporting period	(72,496)	(66,089)
Adjustment to tax for previous years	3,239	(4,130)
Deferred tax	**26,876**	**5,270**
Origination/reversal of temporary differences	40,463	1,651
Unrecognized deferred tax assets	(33,445)	3,619
Recognition of tax credits not included in previous years	19,858	-
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**(42,381)**	**(64,949)**

For a detailed description of proceedings concerning tax settlements, see note 9.2 to these financial statements.

INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME	01.01.-31.12.2021	01.01.-31.12.2020
Net currency at translation differences	(226)	2,031
Cash flow hedge	(69,237)	10,188
Valuation of actuarial provisions	255	32
TOTAL	**(69,208)**	**12,251**

4.2. EFFECTIVE TAX RATE

The following represents a reconciliation of income tax calculated by applying the currently enacted statutory tax rate to the Group's pre-tax financial result to income tax calculated based on the effective tax rate:

EFFECTIVE TAX RATE	01.01.-31.12.2021	01.01.-31.12.2020
Profit/(loss) before tax	**272,150**	**188,133**
Tax calculated at the applicable tax rate	**(51,708)**	**(35,745)**
Difference resulting from the application of tax rates applicable in other countries	(4,683)	(7,695)
Tax effect of revenues adjusting profit (loss) before tax (permanent difference)	(4,830)	21,740
Effect of interest in entities accounted for using the equity method	(27)	192
Tax effect of expenses adjusting profit (loss) before tax (permanent difference)	14,937	(16,736)
Adjustment of current income tax for previous years	(2,796)	(17,504)
Reversal of deferred tax asset for tax losses carried forward	(1,197)	1,470
Tax losses for the reporting period for which a deferred tax asset has not been recognised	(11,446)	(27,656)
Special economic zone	23,170	19,040

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

EFFECTIVE TAX RATE	01.01.-31.12.2021	01.01.-31.12.2020
Tax credits	1,151	491
Settlement of deferred tax asset	(1,048)	(1,048)
Other	(3,904)	(1,498)
Income tax recognised in statement of profit or loss	**(42,381)**	**(64,949)**
EFFECTIVE TAX RATE	**15.6%**	**34.5%**

4.3. DEFERRED INCOME TAX

Accounting policy

Deferred tax

Deferred tax is recognised in respect of temporary differences between the tax values of assets and liabilities and the carrying amounts recognised in the financial statements.

Deferred tax liability is recognised for all taxable temporary differences, unless the deferred tax liability arises from:

- ✓ the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit, or
- ✓ unless the investor is able to control the timing of the reversal of temporary differences in respect of investments in subsidiaries, associates and joint ventures, and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences and for unused tax credits and tax losses carried forward to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised:

- ✓ unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit, and
- ✓ deductible temporary differences in respect of investments in subsidiaries, associates and joint ventures are recognised in statement of financial position only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of a deferred tax asset is reviewed at the end of every reporting period and is reduced to the extent that it is no longer probable that sufficient taxable income will be available against which the asset can be utilised. Any previously unrecognised deferred tax asset is reassessed at each reporting date and is recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the tax rates and laws that have been enacted at the reporting date or whose application in the future is certain at the reporting date.

Income tax related to items recognised outside profit or loss statement is itself recognised outside profit or loss: either in other comprehensive income, when it relates to items recognised in other comprehensive income, or directly in equity, when it relates to items recognised directly in equity.

Deferred tax assets and liabilities are offset solely if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity.

The Group does not recognise deferred tax on leases.

Judgements and estimates

Deferred tax

Deferred income tax asset is based on the assumption that future taxable profit will allow for its usage. In determining the amount of deferred tax assets, the CIECH Group subsidiaries base their calculations on estimates related to the term and amount of future taxable income.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

Deferred income tax is attributable to the following items:

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITY	31.12.2021			31.12.2020		
	Total asset	Total liability	Net value	Total asset	Total liability	Net value
Property, plant and equipment	3,129	172,484	(169,355)	1,221	136,672	(135,451)
Intangible assets	2,237	20,945	(18,708)	5,032	22,982	(17,950)
Rights to use an asset*	-	4,619	(4,619)	-	4,686	(4,686)
Investment property	1,507	1,106	401	1,133	1,099	34
Long term receivables	796	3,551	(2,755)	-	-	-
Financial assets	768	7,401	(6,633)	6,795	3,340	3,455
Inventory	1,840	331	1,509	2,590	426	2,164
Trade and other receivables	3,480	2	3,478	9,152	-	9,152
Provisions for employee benefits	3,618	-	3,618	2,523	-	2,523
Other provisions	68,407	-	68,407	18,210	-	18,210
Tax losses carried forward	78,457	-	78,457	38,413	-	38,413
Foreign exchange differences	400	1,665	(1,265)	471	4,312	(3,841)
Liabilities	48,171	2,813	45,358	32,600	47	32,553
Special economic zone	101,341	-	101,341	95,369	-	95,369
Other	(978)	8,275	(9,253)	369	43	326
Deferred tax assets/liability	**313,173**	**223,192**	**89,981**	**213,878**	**173,607**	**40,271**
Set - off of deferred tax assets/ liability	(174,068)	(174,068)	-	(124,591)	(124,591)	-
Unrecognized deferred tax assets	(68,858)	-	(68,858)	(38,599)	-	(38,599)
Deferred tax assets/liability recognised in the statement of financial position	**70,247**	**49,124**	**21,123**	**50,688**	**49,016**	**1,672**

**The value relates to the measurement of the right of use in one of the Group companies, which was recognised at the time of acquisition of the company and measured at the fair value of its assets.*

The Group estimates that within more than 12 months from the period of the consolidated financial statements presentation the deferred tax asset will be utilised in the amount of PLN 248,964 thousand (the amount does not include the unrecognized value of the deferred tax asset). In the same period, the estimated amount of settlement of the deferred tax liability will be PLN 185,212 thousand.

The Group recognises deferred tax liabilities and deferred tax assets on the basis of temporary differences between the carrying amounts of assets and liabilities and their tax bases and tax losses deductible in the future as well as other unused tax credits relating to corporate income tax. Temporary differences can be:

- taxable, resulting in taxable amounts to be included in the determination of taxable income (tax loss) in future periods when the carrying amount of the asset or liability is recovered or settled, or
- deductible, resulting in deductible amounts in the determination of taxable income (tax loss) in future periods when the carrying amount of the asset or liability is recovered or settled.

CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	01.01.2021	Change in temporary differences recognised in the statement of profit or loss	Change in temporary differences recognised in other comprehensive income	Currency translation differences	31.12.2021
Property, plant and equipment	(618,665)	(130,073)	-	7	(748,732)
Intangible assets	(84,357)	(3,594)	-	292	(87,659)
Rights to use an asset	(24,667)	357	-	-	(24,310)
Investment property	9,687	1,960	-	-	11,647
Long-term receivables	-	(7,253)	-	(55)	(7,308)

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	01.01.2021	Change in temporary differences recognised in the statement of profit or loss	Change in temporary differences recognised in other comprehensive income	Currency translation differences	31.12.2021
Financial assets	(70,966)	3,320	(74,450)	-	(124,189)
Inventory	11,490	(3,442)	-	-	8,048
Trade and other receivables	35,311	(18,897)	-	(140)	16,273
Provisions for employee benefits	12,108	4,318	1,341	(5)	17,762
Other provisions	57,686	161,414	-	605	219,705
Tax losses carried forward	210,070	202,092	-	85	412,246
Foreign exchange differences	(13,861)	14,754	(1,188)	-	(295)
Liabilities	147,456	68,377	-	-	215,832
Other	827	13,641	-	(86)	(2,955)
TOTAL	**(327,881)**	**306,974**	**(74,297)**	**703**	**(93,935)**

CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	01.01.2020	Change in temporary differences recognised in the statement of profit or loss	Change in temporary differences recognised in other comprehensive income	Currency translation differences	31.12.2020
Property, plant and equipment	(658,208)	52,185	-	(12,642)	(618,665)
Intangible assets	(80,909)	3,254	-	(6,702)	(84,357)
Rights to use an asset	(25,962)	1,295	-	-	(24,667)
Investment property	9,600	87	-	-	9,687
Financial assets	(91,734)	(9,686)	30,466	(12)	(70,966)
Inventory	(12,354)	23,844	-	-	11,490
Trade and other receivables	19,262	15,693	-	356	35,311
Provisions for employee benefits	28,543	(17,290)	79	776	12,108
Other provisions	58,915	(5,510)	-	4,281	57,686
Tax losses carried forward	150,673	59,397	-	-	210,070
Foreign exchange differences	18,630	(44,465)	11,974	-	(13,861)
Liabilities	140,306	7,150	-	-	147,456
Other	(3,601)	4,423	-	5	827
TOTAL	**(446,839)**	**90,377**	**42,519**	**(13,938)**	**(327,881)**

The above table does not contain any temporary differences from the deferred tax asset of the special economic zone as according to the rules, the above-mentioned relief is tax-deductible rather than income-deductible.
Dividend payment to the shareholders of the CIECH Group has no effect on deferred tax.

The CIECH Group companies who recognised deferred tax assets in respect of tax loss carried forward, on the basis of their tax budgets, predict that sufficient taxable profits will be realised in the period when losses can be utitlised against which the Group can fully utilise the benefits therefrom.

The CIECH Group companies did not recognize the deferred tax asset in the amount of PLN 68,858 thousand as it determined that recovery of this asset over the next 5 years is less than more probable. The larges item on which the deferred tax asset was not recognized relates to tax loss on the capital source in 2019-2021 (PLN 146,376 thousand) in CIECH S.A.

In August 2016, the employment condition was fulfilled in accordance with the Zone Permit No. 126 / PSSE of May 23, 2014 (amended by the Decision of the Minister of Economy No. 252 / IW / 15 of July 21, 2015) for running a business in the Pomeranian Special Economic Zone. Hereby, CIECH Soda Polska S.A. met all the conditions of the Permit and, on 1 September 2016, began to benefit from the tax exemption in the corporate income tax for operating in the Pomeranian Special Economic Zone. In view of the above, CIECH Soda Polska S.A. in 2016, it recognized a deferred income tax asset in the amount of PLN 95,422 thousand. In 2017, as a result of obtaining explanations from the European Commission through the Office of Competition and Consumer Protection regarding the definition and calculation of the value of a unit investment project, the value of available public aid determined for the Company increased by PLN 44,911 thousand. The company prudently analyzed the possibility of using the available public aid, calculating the amount of the exemption in accordance with the methodology adopted in this respect and decided to finally recognize in the financial statements for 2017 an additional amount of deferred tax asset in the amount of PLN 10,457 thousand. On the other hand, in 2018, an additional deferred tax asset for operating in a special economic zone worth PLN 20,939 thousand and not to recognize deferred income tax assets in the amount of PLN 13 515 thousand. At the end of 2019, the net asset (after taking into account the unrecognized asset in the amount of PLN 16,020 thousand) due to operating in the Special Economic Zone amounted to PLN 93,850 thousand.

At the end of 2020, after taking into account the update and based on the estimated level of aid utilization in the following years, the net asset for operating in the Special Economic Zone amounted to PLN 95,369 thousand.

At the end of the current reporting period, the net asset related to operating in the Special Economic Zone amounted to PLN 81,483 thousand.

In total, CIECH Soda Polska S.A. as a result of obtaining the above-mentioned permits are recognized in the total amount of the available maximum public aid on this account in the amount of PLN 156,038 thousand. The amount of available public aid is limited by the maximum amount of aid for a large investment project that CIECH Soda Polska S.A. and related entities may receive in connection with the implementation of projects forming the so-called Single Investment Project. The deferred income tax asset was also recognized in this amount. First, in 2016, in the amount of PLN 95,422 thousand and then as a supplement in 2017 in the amount of an additional PLN 44,911 thousand. In the period from September 2016 to the end of 2021, the Company used PLN 58,850 thousand assets set up for this purpose, in connection with the use of the income tax exemption for operating in the Special Economic Zone.

In 2021, CIECH Vitrosilicon S.A. obtained the Support Decision No. 11/2021 of 23/02/2021 issued by the Kostrzyn -Słubice Special Economic Zone for conducting business in the special economic zone. From 1 December 2021, the Company started recognizing the corporate income tax exemption pursuant to Art. 17 sec. 1 paragraph 34a in connection with incurring eligible costs entitling to the application of the exemption. As at 1 December 2021, the company determined that the amount of public aid available under the above tax relief is PLN 19,890.3 thousand and in this amount it recognized a deferred tax asset. In 2021, the Company used PLN 31.8 thousand asset set up for this purpose, in connection with the use of the income tax exemption for operating in the Special Economic Zone.

In the light of provisions of the General Anti-Avoidance Rule ("GAAR"), applicable as of 15 July 2016 and aimed at preventing the origination and use of factitious legal structures designed to avoid payment of taxes in Poland, the Management Board of CIECH S.A. considered the impact of transactions which could potentially be subject to the GAAR regulations on the deferred tax, tax value of assets and deferred tax provisions. In the opinion of the Management Board, the analysis conducted did not demonstrate the need to adjust the reported current and deferred income tax items. However, in the opinion of the Management Board, there is an inherent uncertainty arising from GAAR that tax authorities will interpret these provisions differently, will change their approach to their interpretation or the rules themselves will change, which may affect the ability to utilise the deferred tax assets in future periods and the possible payment of an additional tax for past periods.

5. NOTES TO ASSETS REPORTED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

5.1. PROPERTY, PLANT AND EQUIPMENT

Accounting policy

Own property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and all other costs directly attributable to the acquisition of the asset and bringing it to a working condition for its intended use. The cost also includes the cost of replacing components of machinery and equipment when incurred if the recognition criteria are met.

Property, plant and equipment used under lease agreements

As of 1 January 2019, property, plant and equipment used under lease agreements are reported in the balance sheet as right-of-use assets.

Subsequent costs

The cost of replacing a part of an item of property, plant and equipment are capitalised. Other costs are capitalised only to the extent that it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. Other subsequent costs are recognised in the profit or loss statement as incurred expenses.

A separate component of an item of property, plant and equipment, requiring replacement at regular intervals, is depreciated over its economic useful life.

The Group increases the value of property, plant and equipment by the value of outlays for periodic major overhauls, necessary for the functioning of a given item of property, plant and equipment. These expenditures are treated as a separate item of property, plant and equipment and depreciated through the anticipated period to the next planned overhaul. Upon capitalisation of new costs of overhauls, the non-depreciated value of previous repairs is allocated to operating expenses.

Upon the acquisition or creation of an item of property, plant and equipment, the Group separates from the cost a value equal to the expenditures that need to be made during the next overhaul of a given item of property, plant and equipment and depreciates it through the anticipated period left until the next planned overhaul.

Depreciation

Items of property, plant and equipment, and also their significant and separate components, are depreciated on a straight-line basis over their respective estimated useful lives, except for brine caverns, which are depreciated using units of production method (the amount of salt extracted, or the volume used, depending on the way of use).The estimated useful lives are as follows:

Buildings	20-50 years
Technical equipment and machinery	2-20 years
Vehicles	2-20 years
Others	1-15 years

Borrowing costs

For qualifying assets, the borrowing costs that otherwise would have been avoided if the expenditure on the qualifying asset has not been made are included in purchase price of these assets. The amount of borrowing costs eligible for capitalisation is defined as the appropriate portion of loan interest, the cost of arranging financing and respectively foreign exchange differences on foreign currency loans.

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Judgements and estimates

Depreciation rates. These are determined on the basis of the expected useful lives of property, plant and equipment and are subject to annual verification. Any adjustments resulting from the verification are made prospectively as a change in estimate.

Impairment losses on non-financial assets — detailed principles of estimation of impairment losses are described in accounting policies, in note 3.4.

01.01.-31.12.2021	Land	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	Tangible fixed assets under construction	TOTAL
Gross value of property, plant and equipment at the beginning of the period	**90,702**	**1,320,662**	**3,583,262**	**83,462**	**62,701**	**898,999**	**6,039,788**
Purchase	-	24,138	102,633	9,307	850	814,356	951,284
Reclassification	-	78,464	302,315	6,347	4,722	(528,777)	(136,929)
Capitalised borrowing costs	-	-	-	-	-	18,538	18,538
Exchange differences	(549)	(2,095)	(7,884)	(332)	(111)	(996)	(11,967)
Sales	-	(1,812)	(5,585)	(265)	(276)	(80)	(8,018)
Liquidation	-	-	(7,939)	(1,531)	(178)	(1,326)	(10,974)
Change in the Group’s structure	-	-	537	-	-	-	537
Other	-	(6,601)	(4,998)	(98)	32	(315)	(11,980)
Gross value of property, plant and equipment at the end of the period	**90,153**	**1,412,756**	**3,962,341**	**96,890**	**67,740**	**1,200,399**	**6,830,279**
Accumulated depreciation at the beginning of the period	**(16,488)**	**(624,806)**	**(1,848,559)**	**(63,902)**	**(40,730)**	**-**	**(2,594,485)**
Depreciation for the period	**(490)**	**(50,096)**	**(218,330)**	**(4,341)**	**(6,518)**	**-**	**(279,775)**
Annual depreciation charge	(542)	(64,247)	(237,055)	(6,163)	(7,046)	-	(315,053)
Sales	-	6,297	879	86	273	-	7,535
Liquidation	-	-	7,629	1,401	174	-	9,204
Change in the Group’s structure	-	1	(368)	-	-	-	(367)
Exchange differences	52	1,189	5,102	252	81	-	6,676
Reclassification	-	-	16	-	-	-	16
Other	-	6,664	5,467	83	-	-	12,214
Accumulated depreciation at the end of the period	**(16,978)**	**(674,902)**	**(2,066,889)**	**(68,243)**	**(47,248)**	**-**	**(2,874,260)**
Impairment losses at the beginning of the period	**-**	**(43,972)**	**(16,304)**	**-**	**101**	**(18,832)**	**(79,007)**
Reversal	-	-	-	-	-	105	105
Exchange differences	-	863	320	-	(3)	358	1,538
Change in the Group’s structure	-	-	(6)	-	-	-	(6)
Other	-	-	11	-	-	-	11
Impairment losses at the end of the period	**-**	**(43,109)**	**(15,979)**	**-**	**98**	**(18,369)**	**(77,359)**
Carrying amount of property, plant and equipment at the beginning of period	**74,214**	**651,884**	**1,718,399**	**19,560**	**22,072**	**880,167**	**3,366,296**
Carrying amount of property, plant and equipment at the end of the period	**73,175**	**694,745**	**1,879,473**	**28,647**	**20,590**	**1,182,030**	**3,878,660**

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01.01.-31.12.2020	Land	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	Tangible fixed assets under construction	TOTAL
Gross value of property, plant and equipment at the beginning of the period	**83,826**	**1,281,139**	**3,147,510**	**79,627**	**61,134**	**701,150**	**5,354,386**
Purchase	139	2,306	5,372	5,577	2,025	727,329	742,748
Reclassification	102	84,326	457,607	1,112	9,515	(575,772)	(23,110)
Capitalised borrowing costs	-	-	2,473	-	-	11,522	13,995
Exchange differences	6,641	20,882	82,581	1,343	1,009	43,412	155,868
Sales	(6)	(1,125)	(316)	(223)	(802)	(7,990)	(10,462)
Liquidation	-	(3,152)	(22,050)	(3,307)	(1,159)	(30)	(29,698)
Change in the Group's structure	-	25	84	10	(9,005)	-	(8,886)
Transferred from/to assets classified as held for sale	-	(66,828)	(97,178)	(682)	(4,469)	-	(169,157)
Other	-	3,089	7,179	5	4,453	(622)	14,104
Gross value of property, plant and equipment at the end of the period	**90,702**	**1,320,662**	**3,583,262**	**83,462**	**62,701**	**898,999**	**6,039,788**
Accumulated depreciation at the beginning of the period	**(11,208)**	**(596,760)**	**(1,679,546)**	**(60,283)**	**(40,467)**	**-**	**(2,388,264)**
Depreciation for the period	**(5,280)**	**(28,046)**	**(169,013)**	**(3,619)**	**(263)**	**-**	**(206,221)**
Annual depreciation charge	(4,211)	(65,694)	(206,161)	(4,879)	(6,350)	-	(287,295)
Sales	-	609	220	195	1,027	-	2,051
Liquidation	-	1,660	21,939	1,814	1,148	-	26,561
Change in the Group's structure	-	(25)	(92)	(10)	3,405	-	3,278
Exchange differences	(1,070)	(11,580)	(46,557)	(959)	(728)	-	(60,894)
Reclassification	-	-	(602)	-	(675)	-	(1,277)
Transferred from/to assets classified as held for sale	-	46,983	61,467	263	1,710	-	110,423
Other	1	1	773	(43)	200	-	932
Accumulated depreciation at the end of the period	**(16,488)**	**(624,806)**	**(1,848,559)**	**(63,902)**	**(40,730)**	**-**	**(2,594,485)**
Impairment losses at the beginning of the period	**-**	**(41,291)**	**(15,310)**	**-**	**95**	**(18,409)**	**(74,915)**
Recognition	-	-	-	-	-	(510)	(510)
Reversal	-	-	-	-	-	95	95
Exchange differences	-	(2,681)	(994)	-	6	(1,114)	(4,783)
Other	-	-	-	-	-	1,106	1,106
Impairment losses at the end of the period	**-**	**(43,972)**	**(16,304)**	**-**	**101**	**(18,832)**	**(79,007)**
Carrying amount of property, plant and equipment at the beginning of period	**72,618**	**643,088**	**1,452,654**	**19,344**	**20,762**	**682,741**	**2,891,207**
Carrying amount of property, plant and equipment at the end of the period	**74,214**	**651,884**	**1,718,399**	**19,560**	**22,072**	**880,167**	**3,366,296**

In 2021, the capitalisation rate applied to determine the amount of borrowing costs to be capitalised was approx. 2.4%, whereas in 2020 it amounted to approx. 2.5%.

In 2021, there were no significant impairment losses on property, plant and equipment.

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Depreciation of property, plant and equipment was charged to the following line items in the consolidated statement of profit or loss:

PROPERTY, PLANT AND EQUIPMENT DEPRECIATION CHARGES	01.01.-31.12.2021	01.01.-31.12.2020
Cost of sales	(286,423)	(261,334)
Selling costs	(102)	(147)
General and administrative expenses	(6,235)	(7,215)
Other operating expenses	(22,293)	(18,599)
TOTAL	**(315,053)**	**(287,295)**

Purchases of property, plant and equipment were made with own financial resources. The increase in the value of property, plant and equipment is related to investment projects carried out in the CIECH Group, mainly in the production companies of the Group.

As of 1 January 2019, the value of fixed assets accounted for in accordance with IFRS 16 Leases is reported in the balance sheet as right-of-use assets.

In the reporting period the CIECH Group received compensation from third parties for impaired tangible fixed assets in the amount of PLN 1,574 thousand (PLN 304 thousand in the comparable period).

As at 31 December 2021, all items of property, plant and equipment at CIECH S.A. were pledged as collateral for financial liabilities on account of the term loan, revolving facility and overdraft facilities.

Future commitments arising from agreements concerning acquisition of property, plant and equipment amounted to PLN 171,655 thousand in 2021 (in the comparable period: PLN 120,509 thousand).

5.2. RIGHT-OF-USE ASSETS

Accounting policy

Initial measurement of right-of-use assets

At the commencement date, the Group measures the right-of-use asset at cost. The cost of the right-of-use asset comprises:

a) the amount of the initial measurement of the lease liability,
b) any lease payments made at or before the commencement date, less any lease incentives received;
c) any initial direct costs incurred by the lessee; and
d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Subsequent measurement of right-of-use assets

After initial recognition, the Group measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability.

In the case of leasehold improvements, expenditures on the purchase or production of third-party fixed assets, once incurred, do not result in the necessity to make payments in the future, and therefore do not meet the definition of lease. The recognition of these expenditures is regulated by IAS 16.

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group applies IAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

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Changes in carrying amounts of right-of-use assets in the period of 12 months ended 31 December 2021 are as follows:

01.01.-31.12.2021	Land	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	TOTAL
Gross value of rights to use an asset at the beginning of the period	**71,428**	**50,404**	**35,110**	**104,199**	**874**	**262,015**
Reclassifications	-	-	(1,076)	-	-	(1,076)
Adopted on the basis of a finance lease agreement	-	-	483	1,654	-	2,137
Modifications to lease contracts	1,158	1,206	-	375	99	2,838
New lease agreements	-	4,960	-	40,206	246	45,412
Closing the contract	(417)	(713)	-	(576)	-	(1,706)
Exchange differences	(16)	(71)	(109)	6	(9)	(199)
Other	313	713	(1,439)	1,918	-	1,505
Gross value at the end of the period	**72,466**	**56,499**	**32,969**	**147,782**	**1,210**	**310,926**
Accumulated amortisation at the beginning of the period	**(11,665)**	**(7,998)**	**(22,697)**	**(42,182)**	**(785)**	**(85,327)**
Amortisation for the period	(1,027)	(4,423)	(1,216)	(19,877)	(276)	(26,819)
Reclassifications	-	-	422	-	-	422
Exchange differences	-	1	61	2	9	73
Closing the contract	28	321	368	32	-	749
Other	(11)	(320)	1,609	174	-	1,452
Accumulated depreciation at the end of the period	**(12,675)**	**(12,419)**	**(21,453)**	**(61,851)**	**(1,052)**	**(109,450)**
Net value of rights to use an asset at the beginning of the period	**59,763**	**42,406**	**12,413**	**62,017**	**89**	**176,688**
Net value of rights to use an asset at the end of the period	**59,791**	**44,080**	**11,516**	**85,931**	**158**	**201,476**

01.01.-31.12.2020	Land	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	TOTAL
Gross value of rights to use an asset at the beginning of the period after adjustments	**72,209**	**48,476**	**33,629**	**97,395**	**1,403**	**253,112**
Reclassifications	-	-	(1,036)	-	(855)	(1,891)
Adopted on the basis of a finance lease agreement	-	-	-	3,401	-	3,401
Modifications to lease contracts	-	(542)	-	(50)	-	(592)
New lease agreements	-	893	-	3,506	297	4,696
Closing the contract	(183)	(30)	-	(90)	-	(303)
Exchange differences	386	1,607	2,517	192	29	4,731
Transferred from/to assets classified as held for sale	(961)	-	-	(176)	-	(1,137)
Other	(23)	-	-	21	-	(2)
Wartość brutto praw do użytkowania składników aktywów na koniec okresu	**71,428**	**50,404**	**35,110**	**104,199**	**874**	**262,015**
Accumulated amortisation at the beginning of the period	**(10,728)**	**(3,816)**	**(19,778)**	**(23,049)**	**(949)**	**(58,320)**
Amortisation for the period	(1,117)	(4,291)	(2,000)	(19,262)	(491)	(27,161)
Reclassifications	-	-	602	-	675	1,277

01.01.-31.12.2020	Land	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	TOTAL
Exchange differences	-	(62)	(1,521)	(77)	(20)	(1,680)
Transferred from/to assets classified as held for sale	151	-	-	89	-	240
Closing the contract	30	171	-	117	-	318
Other	(1)	-	-	-	-	(1)
Accumulated depreciation at the end of the period	**(11,665)**	**(7,998)**	**(22,697)**	**(42,182)**	**(785)**	**(85,327)**
Net value of rights to use an asset at the beginning of the period	**61,481**	**44,660**	**13,851**	**74,346**	**454**	**194,792**
Net value of rights to use an asset at the end of the period	**59,763**	**42,406**	**12,413**	**62,017**	**89**	**176,688**

In 2019, the CIECH Group implemented IFRS 16 "Leases". Under this standard, leases and rentals, leases of passenger cars, railcars and locomotives, and perpetual usufruct rights were identified in the Group as lease agreements.

CIECH S.A. is a lessee of office and warehousing space, in which the largest item (approx. 2 thousand m^2) is the office in Warsaw at Wspólna Street, where the Company's registered office is located. The term of the lease agreement expires in 2028. CIECH S.A. also leases passenger cars. The value of these cars includes the value of discounted lease payments at the moment of concluding the lease agreement, less the accumulated depreciation for this group of fixed assets.

Some agreements are denominated in foreign currencies and indexed to price indices. Some agreements contain an extension option. For detailed information on lease liabilities, see Note 7.4.

5.3. INTANGIBLE ASSETS – NON-CURRENT AND CURRENT

Accounting policy

Goodwill

Goodwill arises on a combination of two separate entities or businesses into one reporting entity. It specifically relates to the acquisitions of subsidiaries, associates, or jointly controlled entities. All business combinations of unrelated entities are recognised using the acquisition method.

The Group initially measures goodwill as the difference between the total value:

- ✓ the acquisition-date fair value of the consideration transferred,
- ✓ the amount of any non-controlling interest in the acquiree measured either at fair value or at their proportionate share in the fair value of the acquiree's net assets, and
- ✓ in a business combination achieved in stages the acquisition-date fair value of the acquirer's previously held equity interest in the acquire

and the net recognised amounts (fair value) of the identifiable assets acquired and liabilities assumed measured at the acquisition date.

Occasionally, a bargain purchase may occur, i.e. a business combination in which the net recognised amounts of the identifiable assets acquired and liabilities assumed measured at the acquisition date exceed the aggregate of the acquisition-date fair value of the consideration transferred, the amount of any non-controlling interest measured at fair value or at their proportionate share in the acquiree's net assets, and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquire. Before recognising a gain on a bargain purchase, the acquirer reassesses whether it has correctly identified and measured the amounts of assets acquired and liabilities assumed, non-controlling interest, consideration transferred, and in a business combination achieved in stages, the acquirer's previously held equity interest in the acquiree. The purpose of the reassessment is to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date.

Any remaining gain from a bargain purchase after completing the reassessment is recognised in profit or loss at the acquisition date (as other operating income).

At the date of an acquisition, any goodwill acquired in a business combination is allocated to the cash-generating units that are expected to benefit from the synergies of the combination. Each cash-generating unit or a group of units to which the goodwill was allocated:

- ✓ is the lowest level within the Group at which goodwill is monitored for internal management purposes,
- ✓ is not larger than an operating segment as defined in IFRS 8 "Operating Segments".

Goodwill represents an asset with indefinite useful life and as such is subject to annual impairment tests. Goodwill is tested at a minimum at the operating segment level.

Goodwill related to investments in associates is reflected in their carrying amounts in the Group's consolidated financial statements. Consequently, any investments in associates and the related goodwill are analysed for impairment on a combined basis.

Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost less accumulated amortisation and accumulated impairment losses. Any expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

The costs of registering a substance in the REACH system, such as participation in research, consulting services linked to a specific registration, costs of preparing the registration documents and Chemical Safety Reports, registration fees and authorisation, are capitalised as intangible assets.

CO_2 emission allowances

In the event of a purchase of additional allowances on the market, the allowances are measured at cost and presented as intangible assets.
The acquired emission allowances are not amortised as their residual value corresponds to the purchase price. In the event of allowances purchased being used to cover a shortfall occurring at the date of the annual limit settlement, the allowances used at book value are settled against a provision recognised previously to cover the shortfall.

In 2021, the Group revised its Accounting policy in respect of recognition of emission allowances granted and the measurement principles for the disposal of rights.
Following the revision, the emission allowances granted are recognised in the balance sheet as assets when credited to the account at their fair value determined at that date. At the same time, the same amount is recognised in an accrued income account (as a subsidy for production costs, regulated in IAS 20 Government Grants and Disclosure of Government Assistance). The entity receiving the allowances accounts for them as intangible assets. When emissions covered by the allowances received occur, the corresponding value recognised in the deferred income account is deducted from the operating expenses related to the emission.
If there were no emissions for which the entity received the rights, then the part of the deferred income relating to them remains in the balance until the rights are disposed of. If the rights are used to cover the emission in the following year (years), the relevant part of the deferred income reduces the operating costs of the emission in the year in which the rights are used, and if such rights are sold, the deferred income reduces the cost of the rights sold.
In the event of a purchase of additional allowances on the market, the allowances are measured at cost and presented as intangible assets.
The entity recognises a provision for the cost of covering CO_2 emissions into the atmosphere in the amount of the product of the quantity of CO_2 emitted (in thousand tonnes, equivalent to one EUA) and the unit price of the emission allowances. The emission costs are covered by allowances held in a brokerage account at the balance sheet date in accordance with the detailed identification principle. If insufficient allowances are held, the missing portion of the provision is measured at the allowance price of the futures contracts open on the balance sheet date, in accordance with the detailed identification principle. If insufficient allowances have been contracted, the provision for the costs of covering emissions is measured at the current (as at the balance sheet date) market price of the EUA.
Until 2020, emission allowances granted were not subject to recognition on the balance sheet when granted and in subsequent periods. The entity receiving the allowances entered them in the off-balance sheet records.

Subsequent expenditure

Subsequent expenditure on existing intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other subsequent expenditure is expensed as incurred.

Amortisation

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The estimated useful lives of intangible assets are as follows:

Development costs	2-5 years
Patents and licences	2–10 years
Other	2-12 years

Amortisation periods and residual values are reviewed. Any adjustments resulting from the verification are made prospectively as a change in estimate.

Amortisation of intangible assets related to the costs incurred in respect of registration in the REACH system begins in the month following the month of proper registration of a given substance. The amortisation period is 12 years with amortisation charged to cost of sales.

Costs of completed development activities

Research activities represent an innovative and scheduled search for solutions, undertaken with the prospect of gaining new scientific or technical knowledge. Development activities are understood as a practical application of discoveries or achievements of other knowledge in planning and designing the production of new or considerably improved materials, devices, products, technological processes, systems or services, taking place prior to starting mass production or prior to their application.

All expenditure on research activities is recognised in profit or loss as incurred. Whenever a clear distinction between research and development activities cannot be made, the Group treats the related expenditure as though it were incurred in the research phase only.

Development expenditure is capitalised as part of intangible assets only if the Group is able to prove:

- ✓ that the product or process is technically and commercially feasible (assessed from a technical perspective),
- ✓ its intent to complete development and to use or sell the asset,
- ✓ the ability to use or sell the asset,
- ✓ the manner in which the asset will bring future economic benefits (i.e., the entity should prove the existence of a market for new products created by the asset or a market for the asset itself, or – if the asset is to be used by the Group – the usefulness of the intangible asset to the Group),
- ✓ the availability of appropriate technical, financial and other resources required to complete development activities and then use or sell the asset, and,
- ✓ its ability to reliably measure development costs attributable to the asset.

Internally generated trademarks, magazine titles, editorial titles, customer lists and other items of similar nature are not recognised in the financial statements.

The amortisation periods of capitalised development costs should reflect their estimated useful lives.

Judgements and estimates

Amortisation rates are determined on the basis of the expected useful lives of intangible assets, and are subject to periodical verification. Any adjustments resulting from the verification are made prospectively as a change in estimate.

Impairment losses on non-financial assets — detailed principles of estimation of impairment losses are described in accounting policies, in note 3.4.

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01.01.-31.12.2021	Development costs	Goodwill	Licences,patents, permits, etc. obtained	Other intangible assets	Intangible assets under development	TOTAL
Gross value of intangible assets at the beginning of the period	**19,855**	**589,940**	**273,617**	**143,783**	**173,821**	**1,201,016**
Purchase	-	-	5,651	-	5,651	11,302
Investment outlays	-	-	-	-	43,882	43,882
Reclassifications	57,286	-	17,261	(31,312)	(80,248)	(37,013)
Exchange differences	-	(3,072)	(538)	(409)	1	(4,018)
Sales	-	-	-	(9,728)	(194)	(9,922)
Liquidation	-	-	(46)	-	-	(46)
Other	-	-	-	-	(875)	(875)
Gross value of intangible assets at the end of the period	**77,141**	**586,868**	**295,945**	**102,334**	**142,038**	**1,204,326**
Accumulated amortisation at the beginning of the period	**(12,867)**	**-**	**(94,388)**	**(57,498)**	**-**	**(164,753)**
Amortisation for the period	**(11,773)**	**-**	**(20,434)**	**(84)**	**-**	**(32,291)**
Annual amortisation charge	(11,773)	-	(20,532)	(264)	-	(32,569)
Exchange differences	-	-	52	180	-	232
Liquidation	-	-	46	-	-	46
Accumulated amortisation at the end of the period	**(24,640)**	**-**	**(114,822)**	**(57,582)**	**-**	**(197,044)**
Impairment losses at the beginning of the period	**-**	**(440,231)**	**(3,258)**	**(44,452)**	**(3,420)**	**(491,361)**
Recognition	-	-	-	(572)	-	(572)
Exchange differences	-	2,633	-	145	-	2,778
Other	-	-	-	210	-	210
Impairment losses at the end of the period	**-**	**(437,598)**	**(3,258)**	**(44,669)**	**(3,420)**	**(488,945)**
Net value of intangible assets at the beginning of the period	**6,988**	**149,709**	**175,971**	**41,833**	**170,401**	**544,902**
Net value of intangible assets at the end of the period	**52,501**	**149,270**	**177,865**	**83**	**138,618**	**518,337**

01.01.-31.12.2020	Development costs	Goodwill	Licences,patents, permits, etc. obtained	Other intangible assets	Intangible assets under development	TOTAL
Gross value of intangible assets at the beginning of the period	**29,733**	**548,195**	**268,101**	**130,126**	**140,213**	**1,116,368**
Purchase	-	-	9,948	9,509	19,456	38,913
Investment outlays	-	-	-	-	177,687	177,687
Reclassifications	-	-	5,125	106,086	(118,400)	(7,189)
Transferred from/to assets classified as held for sale	(9,851)	-	(10,514)	-	(13,191)	(33,556)
Exchange differences	-	41,745	11,575	9,527	133	62,980
Sales	-	-	(370)	(23,135)	(29,193)	(52,698)
Liquidation	(27)	-	(22,973)	-	(15)	(23,015)
Cancellation of CO_2 emission rights	-	-	-	(78,366)	-	(78,366)
Change in the Group's structure	-	-	-	-	(104)	(104)
Other	-	-	12,725	(9,964)	(2,765)	(4)
Gross value of intangible assets at the end of the period	**19,855**	**589,940**	**273,617**	**143,783**	**173,821**	**1,201,016**
Accumulated amortisation at the beginning of the period	**(18,073)**	**-**	**(107,465)**	**(50,497)**	**-**	**(176,035)**
Amortisation for the period	**5,206**	**-**	**13,077**	**(7,001)**	**-**	**11,282**
Annual amortisation charge	(3,554)	-	(18,419)	(2,976)	-	(24,949)
Transferred from/to assets classified as held for sale	8,479	-	10,316	-	-	18,795
Exchange differences	-	-	(1,775)	(4,025)	-	(5,800)
Sales	254	-	-	-	-	254
Liquidation	27	-	22,955	-	-	22,982

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01.01.-31.12.2020	Development costs	Goodwill	Licences,patents, permits, etc. obtained	Other intangible assets	Intangible assets under development	TOTAL
Accumulated amortisation at the end of the period	**(12,867)**	**-**	**(94,388)**	**(57,498)**	**-**	**(164,753)**
Impairment losses at the beginning of the period	**-**	**(408,650)**	**(3,258)**	**(41,025)**	**(928)**	**(453,861)**
Recognition	-	-	-	-	(3,182)	(3,182)
Exchange differences	-	(31,581)	-	(3,427)	-	(35,008)
Other	-	-	-	-	690	690
Impairment losses at the end of the period	**-**	**(440,231)**	**(3,258)**	**(44,452)**	**(3,420)**	**(491,361)**
Net value of intangible assets at the beginning of the period	**11,660**	**139,545**	**157,378**	**38,604**	**139,285**	**486,472**
Net value of intangible assets at the end of the period	**6,988**	**149,709**	**175,971**	**41,833**	**170,401**	**544,902**

The largest item in the Company's intangible assets is the SAP accounting system with the gross carrying amount of PLN 52,789 thousand (net carrying amount: PLN 42,421 thousand).

In CIECH Sarzyna S.A., the most significant intangible assets under development concern product registrations (including Chwastox, Halvetic, Nikosar, Azoxar, Labrador, Faworyt), which will allow further manufacture of crop protection chemicals (PLN 101,062 thousand).

In CIECH R&D Sp. z o.o., the most significant intangible assets under development concern research and development projects on optimisation of soda production and innovative technology for carbonation of brine. As at 31 December 2021, the value of these projects is PLN 16,353 thousand.

In CIECH S.A., intangible assets under development concern work related to the implementation of IT systems in the amount of PLN 20,048 thousand.

Other intangible assets of the CIECH Group include mainly IT systems, licences and patents, other software, development works and other intangible assets. All intangible assets belong to the CIECH Group.

Short-term intangible assets	01.01.-31.12.2021	01.01.-31.12.2020
Gross value of intangible assets at the beginning of the period	**185,220**	**124,368**
Purchase	124,212	-
Reclassifications	31,362	-
Exchange differences	(935)	3,275
Sales	(105,051)	-
Cancellation of CO_2 emission rights	(240,382)	-
Received emission rights	409,008	57,577
Gross value of intangible assets at the end of the period	**403,434**	**185,220**

Current intangible assets represent CO_2 emission allowances received and purchased to cover gas emissions for 2021. Until 2020, emission allowances granted were not subject to recognition on the balance sheet when granted and in subsequent periods. The entity receiving the allowances entered them in the off-balance sheet records. Below are the amounts recognised in the statement of financial position. Details of the revision of the accounting policy are described in Note 1.5.1 hereto.

Amortisation of intangible assets was included in the following line items of the consolidated statement of profit or loss:

AMORTISATION CHARGES ON INTANGIBLE ASSETS	01.01.-31.12.2021	01.01.-31.12.2020
Cost of sales	(18,564)	(15,724)
Selling costs	(6,495)	(422)
General and administrative expenses	(7,510)	(6,521)
Other operating expenses	-	(2,282)
TOTAL	**(32,569)**	**(24,949)**

As at 31 December 2021, all intangible assets at CIECH S.A. were pledged as collateral for financial liabilities on account of the term loan, revolving facility and overdraft facilities.

An increase in capital expenditure in 2021 was driven by expenditure related to the implementation of the SAP system.

In the current period changes in accounting estimates did not have a material impact and it is not expected that they will have a material impact in future periods.

As at 31 December 2021, future commitments arising from agreements concerning acquisition of intangible assets amounted to PLN 4,598 thousand (in the comparable period: PLN 411 thousand).

Apart from goodwill, the CIECH Group does not have other intangible assets with an indefinite useful life. Additional information about the goodwill is presented in Note 5.4.

Development works

Development works carried out by the CIECH Group are aimed at increasing economic potential; and are related mainly to the modernisation of technological processes, reduction of manufacturing costs and optimisation of technical and technological parameters. The Group continues the development of the R&D area to support the development of products being a response to growing needs of the market.

The total amount of expenditure on research and development expensed in the period, as not meeting the capitalisation criteria, amounted to PLN 1,488 thousand (PLN 933 thousand in the comparable period) and is presented as general and administrative expenses.

5.4. GOODWILL IMPAIRMENT TESTING

In preparing the consolidated financial statements of the CIECH Group, impairment tests were carried out for goodwill recognised in the consolidated financial statements in relation to:

- CIECH Sarzyna S.A.,
- SDC Group,
- Proplan Plant Protection Company, S.L.,
- Smart Fluid Sp. z o.o.

The recoverable amount was calculated based on the value in use. The value in use of the cash-generating units to which goodwill has been allocated has been calculated based on the Group's five-year plans. In 2021, no impairment of goodwill was identified for any of the above entities.

The following assumptions were applied in the impairment tests:

- the weighted average cost of capital for CIECH Sarzyna S.A. was: 8.4% – for cash flows in PLN, 5.3% – for cash flows in EUR and 6.5% – for cash flows in USD;
- the weighted average cost of capital for the SDC Group for cash flows in EUR was 4.6%;
- the weighted average cost of capital for Proplan Plant Protection Company, S.L. was 5.3% – for cash flows in EUR and 6.9% – for cash flows in USD;
- the weighted average cost of capital for Smart Fluid Sp. z o.o. for cash flows in PLN was 15%;
- the assumed growth rate for the residual period was 2.0% for all companies.

According to the estimates of the Management Board for CIECH Sarzyna S.A., the SDC Group, Smart Fluid Sp. z o.o. and Proplan Plant Protection Company, S.L. an increase in the weighted average cost of capital of 1 p.p. for each currency without changing other factors would not lead to any change in the carrying amount of goodwill.

Goodwill is the most valuable component of intangible fixed assets and is presented at the level of the CIECH Group and on the lower tier group level – the SDC Group. Goodwill presented in consolidated financial statements was recognised as a result accounting for acquisition of companies in 2006 and 2007 and acquisition of companies in 2018.

Goodwill presented in the consolidated financial statements as at 31 December 2021 amounted to PLN 149,270 thousand:

- Soda Segment PLN 51,203 thousand: SDC Group – PLN 51,017 thousand, CIECH Salz Deutschland GmbH: PLN 16 thousand,
- Silicates Segment: PLN 39 thousand – CIECH Vitrosilicon S.A.,

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- Agro Segment PLN 95,512 thousand; CIECH Sarzyna S.A. – PLN 15,070 thousand; Proplan Plant Protection Company SL – PLN 80,174 thousand,
- Other Segment: PLN 2,954 thousand – Smart Fluid Sp. z o.o.

As compared to 2020, goodwill decreased by PLN 438 thousand as a result of:

- change in the EUR exchange rate used to translate the goodwill recognised on acquisition of Proplan Plant Protection Company, S.L. in 2021 – a decrease by PLN 268 thousand.
- change in the EUR exchange rate used to translate the goodwill recognised in the statements of the lower tier group, the SDC Group, in 2021 – a decrease by PLN 170 thousand.

5.5. INVESTMENT PROPERTIES

Accounting policy

Investment property is held to earn rentals or for capital appreciation (or both). Investment property is remeasured at fair value. At initial recognition, investment property is accounted for in accordance with policies applicable for property, plant and equipment i.e. purchase price or cost. In subsequent reporting periods change in fair value of investment property is recognised in profit or loss in the period when change occurred and is presented in other operating expenses.

Judgements and estimates

Investment property valuation. The CIECH Group presents investment property at fair value, recognising the fair value valuation in the statement of profit or loss. Investment property valuation is performed using the comparative method based on observable market data, including the price of comparable investment properties and adjusted with the specific factors such as the capability of the property, its location and condition.

INVESTMENT PROPERTIES	01.01.-31.12.2021	01.01.-31.12.2020
Carrying amount at the beginning of period	**40,948**	**36,717**
Sales	(7,907)	(686)
Liquidation	-	(10)
Goodwill valuation	(202)	5,126
Transferred from/to assets classified as held for sale	-	(199)
Gross value at the end of the period	**32,839**	**40,948**

The item "Investment property" presented by the CIECH Group includes land, buildings and structures that have been acquired only in order to achieve economic benefits from rents or for the increase of their value.

As at 31 December 2021, the CIECH Group held the following investment property:

- CIECH Nieruchomości Sp. z o.o. – As at 31 December 2021, the investment property line item for CIECH Nieruchomości S.A. included real property located in Bydgoszcz. The real property was acquired from Infrastruktura Kapuściska S.A in liquidation bankruptcy.
- CIECH Soda Polska S.A. – Buildings acquired by CIECH Soda Polska S.A. as a result of a merger with Soda Med. Sp. z o.o. These are buildings leased for medical outpatient, clinics, nursing and treatment rooms as well as private doctor's and dentist's consulting rooms.
- CIECH Sarzyna S.A. – 23 buildings and structures located on the premises of CIECH Sarzyna S.A. In the past, they were used by the company for its own needs, currently they are leased to generate rental income.

	01.01.-31.12.2021	01.01.-31.12.2020
Rental income from investment property	3,175	5,609
Operating expenses relating to investment property, that generated rental income during the period in question	2,758	2,693

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5.6. LONG-TERM RECEIVABLES

Accounting policy

Contract assets resulting from transactions that are within the scope of IFRS 15 – receivables in relation to caverns (a salt cavern is a void in the rock most often used to store gases).

If an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity presents the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer.

For these categories of assets, the Group chose a simplified approach to estimating impairment due to expected credit losses, whereby lifetime expected credit losses are always estimated from the moment of initial recognition of exposures, whether or not an evidence of a significant increase in credit risk exists.

NON-CURRENT RECEIVABLES	31.12.2021	31.12.2020
Receivables in relation to caverns	76,222	53,564
Other	2,320	138
Net non-current receivables	**78,542**	**53,702**
Write-down on receivables	(198)	(1,015)
Gross non-current receivables	**78,740**	**54,717**

CHANGE IN IMPAIRMENT ALLOWANCES ON LONG-TERM RECEIVABLES	01.01.-31.12.2021	01.01.-31.12.2020
Opening balance	**(1,015)**	**(975)**
Reversed	810	40
Exchange differences	7	(80)
Closing balance	**(198)**	**(1,015)**

Impairment losses on long-term receivables are calculated using the default rate determined on the basis of the counterparty's rating and the long-term receivable payment schedule.

Desalination of caverns

Pursuant to *IFRS 15 Revenue from Contracts with Customers*, the SDC Group recognises revenue from cavern desalination contracts over time according to the stage of completion of the work.

Project 2 (Project 1 has been completed)– the Contract includes the sale of mining rights, land and preparation of four gas caverns (S113to S116). The stage of completion is determined as a proportion between the costs incurred for work performed to date and the estimated total contract costs or completion of a physical proportion of the contract work.

Revenue recognised in statement of profit or loss represent the amount of the expected sales revenues multiplied by the percentage of completion of the contract in the accounting period, less the amount of revenue recognised in prior years. In 2021, the Group's revenues from the cavern desalination contract amounted to PLN 19,267 thousand (EUR 4,209 thousand). In the corresponding period, the Group did not earn any revenues on this account.

In the comparable period, other operating expenses also included costs of PLN 9,181 thousand (EUR 2,052 thousand), which adjusted previously recognised gains related to the contract for the construction of caverns in the SDC Group, as the contract was extended (the volume of the caverns was increased and therefore their construction has not yet been completed).

The receivables relating to the cavern desalination contracts (Project 2) recognised in assets as long-term receivables amounted to PLN 76,222 thousand (EUR 16,572 thousand) as at the end of 2021. As at 31 December 2020, they amounted to PLN 53,564 thousand (EUR 11,607 thousand). The total amount of costs incurred and profits recognised (less recognised losses) due to ongoing contracts for the period of duration of these contracts amounted to PLN 175,199 thousand (in the previous year: PLN 155,932 thousand).

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Due to the nature of the transaction, the long-term receivable reported in the balance sheet will not be repaid until Innogy Gas Storage NWE GmbH actually fills the caverns with gas to test the density of the gas, which is planned for no earlier than 2023.

5.7. LONG-TERM FINANCIAL ASSETS

Accounting policy

Shares are stated at purchase price less any impairment losses.

Accounting policy concerning derivative financial instruments is presented in Note 8.1.

NON-CURRENT FINANCIAL ASSETS	31.12.2021	31.12.2020
Shares	11,684	11,800
Derivatives	662	574
Other	103	103
TOTAL	**12,449**	**12,477**

CHANGE IN IMPAIRMENT ALLOWANCES ON LONG-TERM FINANCIAL ASSETS	01.01.-31.12.2021	01.01.-31.12.2020
Opening balance	**(2,415)**	**(1,342)**
Recognized	(115)	(2,085)
Used	110	-
Other	-	1,012
Closing balance	**(2,420)**	**(2,415)**

5.8. SHARES IN JOINT VENTURES / INVESTMENTS IN ASSOCIATES

Accounting policy

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint venture is a contractual arrangement whereby two or more parties undertake an economic activity subject to joint control and have rights to the net assets of the arrangement.

The consolidated financial statements include the Group's share of the income and expenses of equity accounted associates and joint ventures from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. The Group also measures impairment of the share in the net assets of associates and joint ventures and creates appropriate allowance. When the Group's share of losses exceeds the carrying amount of its interest in an associate or a joint venture, such carrying amount is reduced to nil and the recognition of further losses is discontinued if the Group is not obliged to cover them.

The CIECH Group holds a 50% share in Kaverngesellschaft Stassfurt mbH. It is a jointly-controlled company measured under the equity method at the lower-tier group level – the SDC Group (50% direct share in Kaverngesellschaft Stassfurt mbH). This company is not listed on the stock market so the fair value of this investment is not available. Balance sheet days and reporting periods of Kaverngesellschaft Stassfurt mbH are the same as those adopted by the Group.

The following table presents the carrying amounts of investments in equity-accounted jointly-controlled entities:

INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES	31.12.2021	31.12.2020
Investments in associates and jointly-controlled entities	5,655	5,646
	01.01.-31.12.2021	01.01.-31.12.2020
Share in net profit of associated entities measured under the equity method	27	(161)

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5.9. INVENTORIES

Accounting policy

Raw materials and goods are measured at cost being the purchase price increased by other costs incurred in bringing the asset to its present location and condition or place on the market but not higher than the selling price possible to achieve.

Finished goods and work in progress are measured at cost including direct manufacturing costs and reasonable portion of costs indirectly connected with the manufacturing process, but not higher than the selling price possible to achieve. The cost of inventory is measured using the weighted average method.

Judgements and estimates

The CIECH Group companies recognise inventory impairment allowances for damaged and slow moving inventory. Inventory impairment allowances are also recognised for inventory with a carrying amount that exceeds the realisable net selling price. Reversal occurs as a result of the use or sales of inventory in the course of business activities while usage is the result of inventory being scrapped.

INVENTORY	31.12.2021	31.12.2020
Materials	259,576	195,706
Semi-finished products and work in progress	40,515	43,237
Finished products	114,572	92,692
Goods	7,843	17,354
TOTAL	**422,506**	**348,989**

CHANGE OF INVENTORY IMPAIRMENT WRITE-DOWNS	01.01.-31.12.2021	01.01.-31.12.2020
Opening balance	**(38,303)**	**(33,327)**
Recognized	(5,595)	(9,933)
Reversed / released	6,948	5,169
Used	1,856	-
Exchange differences	162	(547)
Transferred from/to assets classified as held for sale	-	335
Closing balance	**(34,932)**	**(38,303)**

As at 31 December 2021, all inventories at CIECH S.A. were pledged as collateral for financial liabilities on account of the term loan, revolving facility and overdraft facilities.

5.10. SHORT-TERM RECEIVABLES

Accounting policy

Short-term trade and other receivables are measured at the amount receivable less allowance for expected credit losses.

Receivables denominated in foreign currencies are recognised at the average NBP exchange rate effective on the working day immediately preceding the date of the transaction, unless a different exchange rate was indicated in the customs declaration or another binding document.

At the reporting date, receivables denominated in foreign currencies are translated at the average exchange rate established for that date by the NBP except for prepayments made for deliveries, which are translated using sell exchange rate of the bank effective on the payment date.

Factoring

The Group companies use non-recourse factoring services. The factor transfers advance payments to the company's account in the full amount of invoices accepted for financing. The financing of receivables transferred is provided in various timeframes, therefore, as at the balance sheet date, there may be receivables which have not been financed yet and are reported as factoring receivables. Advance payments received are posted as factoring liabilities. In the statement of financial position, factoring receivables and liabilities are recognised on a net basis up to approx.

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95% of the value of advance payments received from the factor (the approx. 95% limit results from the level of the receivables insurance). The remaining 5% of receivables value is reported as factoring receivables, and 5% of the value of advance payments received is reported as factoring liabilities.

Judgements and estimates

Impairment allowances are recognised on interest receivable on late payments of receivables, in the full amount of interest accrued. These allowances are recognised upon accrual, as at the due date or balance sheet date, and deducted from finance income from interest accrued.

The Group estimates allowances always at the amount of long-term expected credit losses, regardless of whether there is an evidence of a material increase in credit risk.

At each balance sheet date, the Entity estimates allowances for all receivables regardless of their repayment status. The Group estimates impairment allowances primarily on the basis of portfolio PD ratios estimated on the basis of historical observations for debt portfolios with similar characteristics. If it is not possible to estimate portfolio ratios, the Group permits the use of individual parameters (benchmark or expert parameters).

In addition, regardless of the foregoing, the Group recognises impairment allowances in respect of receivables:

1. from debtors in liquidation or bankruptcy, up to the amount not guaranteed or secured in another manner, as reported to a receiver or judge-commissioner during bankruptcy proceedings;
2. from debtors where a bankruptcy petition has been dismissed, if the debtor's assets are not sufficient to cover the cost of bankruptcy proceedings – in full;
3. contested by debtors (disputed receivables) and where payments due are delayed and either the debtor's financial standing makes the collection no longer probable – up to the amount of receivables not guaranteed or secured in another manner;
4. receivables claimed in court.

Moreover, allowances in the full amount of receivables are recognised in relation to receivables that are more than 180 days past their maturity as at the balance sheet date.

The amount established as a result of the abovementioned allowances may be decreased if the Management Board is in possession of reliable documents, indicating that the receivables were secured and their payment is highly probable.

Impairment allowances on receivables are charged to other operating expenses.

TRADE AND OTHER RECEIVABLES	31.12.2021	31.12.2020
Trade receivables, including:	255,086	203,249
- up to 12 months	208,603	175,697
- over 12 months	628	-
- prepayments for inventory	45,855	27,552
Prepayments for non-current assets	5,142	4,137
Public and legal receivables (excluding income tax)	163,345	167,150
Receivables from sales of energy	-	8,164
Factoring receivables	33,660	47,425
Other receivables	141,665	48,383
NET TRADE AND OTHER RECEIVABLES	**598,898**	**478,508**
Impairment allowances with respect to trade receivables including	(46,614)	(48,515)
- impairment allowance recognized in the current reporting period	(3,844)	(15,666)
Impairment allowances with respect to other current receivables including	(22,664)	(18,117)
- impairment allowance recognized in the current reporting period	(4,592)	(5,024)
GROSS TRADE AND OTHER RECEIVABLES	**668,176**	**545,140**

Fair value of trade receivables and other receivables does not differ significantly from their carrying value.
As at the balance sheet date, continuing involvement is reported. It is calculated as a product of the financing received, interest and the maximum period of delay in payments. As at 31 December 2021, the asset from continuing involvement amounted to PLN 2,370 thousand (presented under other receivables). As at 31 December 2021, trade receivables assigned to the factor amounted to PLN 454,816 thousand (PLN 307,509 thousand as at 31 December 2020).
The largest item of other receivables is SDC Group's receivables in the amount of EUR 24,437 thousand (PLN 112,396 thousand) from the settlement of the gas supply option for 2022 in December 2021.

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CHANGE IN IMPAIRMENT ALLOWANCES ON SHORT-TERM RECEIVABLES	01.01.-31.12.2021	01.01.-31.12.2020
Opening balance	**(66,632)**	**(56,879)**
Recognized	(8,436)	(20,690)
Reversed	6,997	7,762
Used	456	527
Exchange differences	(1,071)	(436)
Change in the Group's structure	(11)	-
Other	(581)	3,084
Closing balance	**(69,278)**	**(66,632)**

The principles for recognising impairment allowances for short-term receivables are described above, in the "Accounting Policy" section. Terms of transactions with related entities have been presented in note 9.3.

Commercial contracts concluded by the CIECH Group include various terms of payment of trade receivables depending on the type of transaction, market characteristics and trade conditions. The most common payment terms are: 14, 30 and 60 days.

As at 31 December 2021, all receivables (both long- and short-term) at the CIECH Group were pledged as collateral for financial liabilities on account of the term loan, revolving facility and overdraft facilities.

5.11. SHORT-TERM FINANCIAL ASSETS

Accounting policy

Accounting policy concerning financial instruments is presented in note 8.1.

SHORT-TERM FINANCIAL ASSETS	31.12.2021	31.12.2020
Derivatives	102,220	19,688
Loans granted	133	146
Other	29	29
Total (net) short-term financial assets	**102,382**	**19,863**
Impairment of short-term financial assets	(28,354)	(28,343)
Total (gross) short-term financial assets	**130,736**	**48,206**

CHANGE IN IMPAIRMENT ALLOWANCES ON SHORT-TERM FINANCIAL ASSETS	01.01.-31.12.2021	01.01.-31.12.2020
Opening balance	**(28,343)**	**(27,942)**
Recognized	(12)	(401)
Reversed	1	-
Closing balance	**(28,354)**	**(28,343)**

In 2020, CIECH Trading Sp. z o.o. recognised an impairment loss on a loan granted in the past to Infrastruktura Kapuściska S.A. according to information obtained from the receiver, who estimated the recoverable amount at PLN 12 thousand. An impairment loss of PLN 400 thousand was recognised on the remaining balance of the loan. In 2021, an impairment loss of PLN 12 thousand was recognised for the remaining balance.

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5.12. CASH AND CASH EQUIVALENTS

Accounting policy

Cash and cash equivalents include cash in hand and bank deposits repayable on demand. Current investments that are not subject to significant changes in value and that may be easily exchanged for a determinable amount of cash and that form an integral part of the Group cash management are recognised as cash and cash equivalents for the purposes of the statement of cash flows.

At the reporting date, any foreign currencies in bank accounts and on hand are measured at the average exchange rate for a given currency, quoted by the President of the NBP.

For cash and cash equivalents, impairment allowances are estimated using individual parameters determined on the basis of benchmarks (using information on bank ratings).

For cash and cash equivalents for which there is evidence of impairment due to credit risk, the Group analyses recoveries using probability-weighted scenarios.

CASH AND CASH EQUIVALENTS	31.12.2021	31.12.2020
Bank accounts	541,146	440,543
Short-term deposits	258,304	3,612
Cash in hand	23	47
Impairment of cash and cash equivalents	(450)	(316)
Cash and cash equivalents	**799,023**	**443,886**
Cash reclassified to non-current assets held for sale *	-	4,913
Cash and cash equivalents – presented in the cash flow statement	**799,023**	**448,799**

**Cash held by CIECH Żywice Sp. z o.o. was presented as non-current assets and groups held for sale.*

CHANGE IN IMPAIRMENT CASH AND CASH EQUIVALENTS	31.12.2021	31.12.2020
Opening balance	**(316)**	**(200)**
Recognized	(316)	(252)
Reversed	182	139
Exchange differences	-	(3)
Closing balance	**(450)**	**(316)**

The effective interest rates of short-term bank deposits are similar to the nominal interest rates, and fair value of short-term bank deposits is not significantly different from carrying value. Interest rates are based on WIBOR, EURIBOR and LIBOR.

Cash and cash equivalents are covered only by an allowance for expected credit losses in accordance with IFRS 9.

The value of restricted cash

As at 31 December 2021, all receivables (both long- and short-term) at the CIECH Group were pledged as collateral for financial liabilities on account of the term loan, revolving facility and overdraft facilities.

As at 31 December 2021, all cash and cash equivalents in Polish companies (CIECH S.A., CIECH Soda Polska S.A., CIECH Sarzyna S.A., CIECH Pianki Sp. z o.o, CIECH Cargo Sp. z o.o., CIECH Vitrosilicon S.A., CIECH Vitro Sp. z o.o.), German companies (CIECH Soda Deutschland GmbH & Co. KG, CIECH Energy Deutschland GmbH, CIECH Salz Deutschland GmbH), who are guarantors of the term loan, revolving credit facilities and overdraft facilities, were pledged as collateral for financial liabilities on account of the term loan, revolving facility and overdraft facilities

As at 31 December 2021, the balance of cash restricted due to a deposit placed for transactions concluded with the PGE Brokerage House (futures contracts for the purchase of CO_2 certificates) amounted to PLN 36,179 thousand (EUR 7,866 thousand) (as at 31 December 2020: PLN 21,265 thousand (EUR 4,608 thousand)).

In addition, restricted cash represented the funds in the VAT account due to the introduction of "split payment" procedures. As at 31 December 2021 and 31 December 2020, it amounted to PLN 16,205 thousand and PLN 9,809 thousand, respectively.

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5.13. DISCONTINUED OPERATIONS, NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND LIABILITIES RELATED THERETO

Assets and liabilities classified as held for sale

Accounting policy

Non-current assets are classified as held for sale when their carrying amounts are expected to be recovered primarily through a sale transaction and when they are available for sale in their current condition with such transaction being highly probable.

As at 31 December 2021 and 31 December 2020, the CIECH Group presented the following assets under the item "Non-current assets and groups held for sale":

- CIECH Vitrosilicon S.A. presented property, plant and equipment in the amount of PLN 368 thousand (land located in the town of Iłowa) redundant from the point of view of the enterprise; a potential buyer of the land is now being sought. These assets are included in the Silicates Segment.

Moreover, as at 31 December 2020, the largest item of "Non-current assets and groups held for sale" were the assets of CIECH Żywice Sp. z o.o., which was classified in that period as a group held for sale in connection with the signing of the preliminary contract for the sale of shares in the aforementioned company to LERG S.A. (current report No 274/2020). The company was sold on 1 March 2021.

Discontinued operations

On 1 March 2021, CIECH S.A. entered into an agreement for the sale of 74,677 shares in CIECH Żywice Sp. z o.o. with LERG S.A. with its registered office in Pustków-Osiedle, accounting for 100% of shares in the share capital of CIECH Żywice Sp. z o.o. The value of the Agreement (equal to the enterprise value being sold) is PLN 157,410 thousand. The final price of the Shares being sold was determined in accordance with the rule arising from the Agreement and amounted to PLN 74,289 thousand. For details of the transaction, see current reports No 27/2020 and 4/2021.

Cash received from sale of shares		74,289
Cash received from repayment of debt (including loans repaid*)		83,121
TOTAL Value of the Agreement		**157,410**

**Loan previously disclosed as intercompany loan and eliminated at the level of the consolidated statements; following the sale, disclosed in the consolidated figures as a loan to a third party. The loan of PLN 27 million was repaid on 30 July 2021.*

The accounting principles applied in the preparation of the statement of profit or loss for discontinued operations are consistent with the Group's accounting policy. The results of discontinued operations include:
For the period from 1 January to 31 December 2021 and for the period from 1 January to 31 December 2020:

- results of CIECH Żywice Sp. z o.o. for the period of being in a subsidiary of the Group – in connection with the planned sale of the company and the conclusion of the agreement for the sale of 74,677 shares in CIECH Żywice Sp. z o.o. to LERG S.A. – activities presented in the Resins Segment,
- elimination of results on transactions between consolidated entities of the CIECH Group and the entity reported under discontinued operations,
- results of the CIECH Group companies (including CIECH S.A.) generated from transactions with the entity reported under discontinued operations.

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Below is the consolidated result on discontinued operations (in the resins area) for 2021, which includes the figures of CIECH Żywice Sp. z o.o. and CIECH S.A.

CIECH Group	01.01.-31.12.2021	01.01.-31.12.2020
Net sales revenues	**69,898**	**274,358**
Cost of sales	(56,858)	(244,462)
Gross profit/(loss) on sales	**13,040**	**29,896**
Other operating income	385	3,613
Selling costs	(1,130)	(7,882)
General and administrative expenses	(4,945)	(9,473)
Other operating expenses	(422)	(1,790)
Operating profit/(loss)	**6,928**	**14,364**
Financial income	1,864	39
Financial expenses	(319)	(7,488)
Net financial income/(expenses)	**1,545**	**(7,449)**
Profit/(loss) before tax	**8,473**	**6,915**
Income tax	(1,524)	(2,069)
Net profit/(loss) (1)	**6,949**	**4,846**
Income from the sale of CIECH Żywice Sp. z o.o.	74,289	-
Net assets	(19,370)	-
Tax	-	-
Gain on the sale of CIECH Żywice Sp. z o.o. (2)	**54,919**	**-**
Total net profit/(loss) on discontinued operations (1+2)	**61,868**	**4,846**

Analysis of assets and liabilities over which control was lost – CIECH Żywice Sp. z o.o.*:

in thousand PLN	01.03.2021
ASSETS	
Property, plant and equipment	62,787
Right-of-use assets	894
Intangible assets	14,611
Investment properties	199
Deferred tax assets	1,508
Total non-current assets	**79,999**
Inventories	30,174
Trade and other receivables	54,392
Cash and cash equivalents	7,335
Total current assets	**91,901**
Total assets	**171,900**
LIABILITIES	
Lease liabilities	47
Provisions for employee benefits	457
Total non-current liabilities	**504**
Loans, borrowings and other debt instruments	57,373
Lease liabilities	72
Trade and other liabilities	91,356
Income tax liabilities	1,575
Provisions for employee benefits	1,620
Other provisions	30
Total short-term liabilities	**152,026**
Total liabilities	**152,530**
NET ASSETS	**19,370**

**Assets and liabilities of the company prior to the date of sale were reported under assets held for sale.*

Cash flows from discontinued operations for CIECH Żywice Sp. z o.o.:

	01.01.-01.03.2021
Cash as at 01.01.2021	**4,913**
Net cash from operating activities	1,445
Net cash from investing activities	(704)
Net cash from financing activities	1,681
Total net cash flows	**2,422**
Cash over which control was lost at the time of sale	**7,335**

The following table presents information about the consideration received for the sale of discontinued operations (in PLN '000):

Cash received from sale of shares	74,289
Cash over which control was lost	(7,335)
Consideration received (value reported in cash flows as "Disposal of a subsidiary")	**66,954**

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6. EQUITY

6.1. CAPITAL MANAGEMENT

Capital structure management

The capital structure of the Group consists of debt comprising the credit facilities, cash and cash equivalents and equity attributable to shareholders of the parent, including shares issued, reserve capital and retained earnings.

The Group manages its capital in order to ensure that subsidiaries are able to continue their activity and at the same time maximise returns for stakeholders by optimising the debt to equity ratio.

In 2020-2021 there were no changes in aims, principles and processes of capital management.

The Group monitors the effectiveness and stability of capitals using the debt ratio calculated based on the net debt value in relation to EBITDA. The consolidated net debt of the Group calculated as the sum of non-current and current liabilities for credits, loans and other debt instruments (lease liabilities + liabilities for net loss on derivatives calculated separately for each instrument + factoring liabilities) less cash.

EBITDA is calculated as operating profit plus amortisation and depreciation.

	31.12.2021	31.12.2020
Loans, borrowings and other debt instruments	1,859,441	1,911,475
Lease liabilities	151,197	129,258
Factoring liabilities	23,078	16,174
Net measurement of derivative financial liabilities	66,093	80,201
Gross financial liabilities	**2,099,809**	**2,137,108**
Cash and cash equivalents	799,023	443,886
Net financial liabilities	**1,300,786**	**1,693,222**
	01.01.- 31.12.2021	01.01. - 31.12.2020
Operating profit for continuing operations	355,771	249,968
Depreciation and amortisation for continuing operations	374,640	333,280
EBITDA for continuing operations	**730,411**	**583,248**
Debt ratio	**1.8**	**2.9**

As at 31 December 2021, net debt to EBITDA stood at 1.8 and was lower than as at the end of 2020 by 1.1. The ratio has improved due to a decrease in debt from revolving and overdraft facilities contracted by CIECH S.A., higher levels of cash in the companies and an improved operating result.

6.2. CONSOLIDATED EQUITY

Accounting policy

The total consolidated shareholders' equity includes equity attributable to shareholders of the parent company and non-controlling interest.

The Group's share capital is represented by the share capital of the parent company and is accounted for at its nominal value adjusted by the effects of hyperinflation in the years 1989–1996.

Post-acquisition changes in the equity of subsidiaries are recognised in the Group's equity to the extent of the parent company's interest in those subsidiaries. The remaining equity of the consolidated entities is recognised in non-controlling interest, described below.

When a foreign operation is disposed of, the relevant amounts in the currency translation differences are transferred to profit or loss.

When shares are repurchased by the parent company or a consolidated subsidiary, the amount of the consideration paid, which includes directly attributable costs, is recognised as a change in equity. The purchased shares are presented as a deduction from total equity.

A liability for a dividend payable is recognised when authorised.

Dividends payable from pre-acquisition profits do not reduce the acquisition price of the shares, however, they may provide evidence of impairment.

The consolidated net profit (loss) attributable to shareholders of the parent company is presented in shareholders' equity within retained earnings and represents the sum of the net profit (loss) of the parent company, its share in net profit (loss) of equity accounted investees, net profit (loss) of fully-consolidated subsidiaries.

Non-controlling interest

Non-controlling interest represents interest in a subsidiary's equity which is not directly or indirectly attributable to the parent company.

Non-controlling interest is measured:

- ✓ at the amount of proportionate interest in subsidiary's net assets, or
- ✓ at fair value,

for each business combination separately at the time of initial recognition.

The carrying amount of non-controlling interest should correspond to the amount calculated by adding changes in the current period to the carrying amount of non-controlling interest at the end of the preceding period. These changes may result from:

- ✓ changes in the percentage share of interest held by non-controlling shareholders – e.g. purchase, sale, increase or decrease of share capital;
- ✓ changes in equity not related to the changes in the interest held – e.g. increase or decrease of equity with no effect on shareholding, additional equity contributions made by non-controlling shareholders, net result of the current year, transactions recognised directly in other comprehensive income, dividends paid.

Profit or loss as well as any component of other comprehensive income are attributable to the shareholders of the parent company and to non-controlling interest even where the attribution results in a negative carrying amount of non-controlling interest.

As at 31 December 2021, the carrying amount of the share capital of the parent company CIECH S.A. amounted to PLN 287,614 thousand and comprised the share capital from the share issues and from the hyperinflation adjustment.

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.

The shares of all series are ordinary shares and do not carry any additional rights, preferences or restrictions as to dividend distribution or return of capital.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

Shareholder structure of CIECH S.A. as at the date of approval of the report (according to the best knowledge of the Company)

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	2,729,000	2,729,000	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	19,934,387	19,934,387	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 26 October 2021, CR 36/2021 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 26 October 2021, CR 36/2021 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).*

The percentage share of above-listed shareholders in the share capital of CIECH S.A. equals the percentage share in the number of votes at the General Shareholders Meeting of CIECH S.A.
Since the date of the Extraordinary Shareholders' Meeting of CIECH S.A., i.e. 26 October 2021, CIECH S.A. has not received any information about a change in interests held by shareholders in the total number of shares.

Treasury shares

In 2021 and in the comparable period, CIECH S.A. did not purchase or hold treasury shares.

Share premium

The share premium arose from the surplus in excess of nominal value achieved upon the issue of C, D and E series shares.

Other reserve capital

The table below presents the balances of other reserve capital, consisting of the following items:

OTHER RESERVE CAPITAL BY PURPOSE	31.12.2021	31.12.2020
Commercial risk fund	3,330	3,330
Fund for purchasing soda companies	15,200	15,200
Development funds	57,669	57,669
Fund for the purchase of treasury shares	346,500	346,500
Other	2,322	2,322
TOTAL	**425,021**	**425,021**

Cash flow hedge reserve

The cash flow hedge reserve reflects the valuation and settlement of hedging instruments to which the hedge accounting applies. Detailed information is presented in Note 8.2.

Hedge cost reserve

The hedge cost reserve includes the time value of the gas purchase option which, in accordance with IFRS 9, has been left outside hedge accounting by the Group (PLN 14,856 thousand) and the value of the basis currency spread for the CIRS transaction (PLN 5,475 thousand) which was excluded from hedge accounting.

Actuarial gains

Actuarial valuation reserve comprises actuarial gains or losses, i.e. the effects of differences between the previous assumptions made in the valuation of employee benefit provisions and what has actually occurred and the effects of changes in assumptions for these provisions, including change in discount rate.

Currency translation differences (foreign companies)

The balance of this equity item is adjusted by exchange differences on the translation of the financial statements of foreign subsidiaries, i.e. CIECH Soda Romania S.A., SDC Group, Ciech Group Financing AB, Proplan Plant Protection Company, S.L., CIECH Salz Deutschland GmbH, CIECH Agro Romania S.R.L.

The balance of this item of equity also represents accumulated exchange differences on the measurement of net investments in a foreign entity and effective part of profit and losses from measurement of an instrument used for hedging shares in net assets of foreign companies.

6.3. DIVIDENDS PAID OR DECLARED

Until the date of approval of the financial statements for publication, the Management Board of CIECH SA has not adopted a resolution on the proposed distribution of net profit for 2021.

On 22 June 2021, the Annual General Meeting of CIECH S.A. resolved to:

1. allocate the entire net profit of CIECH S.A. for 2020 in the amount of PLN 155,287 thousand to the payment of a dividend;
2. transfer PLN 2,812 thousand from profit capital reserves, which may be allocated to dividend payments, to dividend payments;
3. pay out a dividend of PLN 158,099 thousand, i.e. PLN 3 per share, from the net profit of CIECH S.A. for 2020, increased by the amount transferred from the capital reserves created from profits.

At the same time, the Annual General Meeting of CIECH S.A. set the dividend record date for 30 June 2021 and the dividend payment date for 8 July 2021.

6.4. BUSINESS COMBINATIONS

Basis of consolidation

The subsidiaries' net equity in the amount as at the acquisition date, in the part corresponding to Group's share in the share capital, is compensated with acquisition value of the shares included in statement of financial position of the parent company at the date of acquisition. Consolidation adjustments, depending on their nature, are recorded against appropriate items of equity. Changes in the parent company's ownership interest that do not result in a loss of control of the subsidiary are accounted for as equity transactions.

Subsidiaries of the CIECH Group are fully consolidated from the date on which control is transferred to the Group, and cease to be consolidated from the date such control ends.

Balances, revenues and costs, unrealized profits or losses from transactions between the Group subsidiaries are eliminated in the process consolidation.

There were no significant business combinations in the presented periods.

In 2021, 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 Żywice Sp. z o.o.**

On 1 March 2021, CIECH S.A. entered into an agreement for the sale of 74,677 shares in CIECH Żywice Sp. z o.o. with LERG S.A. with its registered office in Pustków-Osiedle, accounting for 100% of shares in the share capital of CIECH Żywice Sp. z o.o. The value of the Agreement (equal to the enterprise value being sold) is PLN 157,410 thousand. The final price of the Shares being sold was determined in accordance with the rule arising from the Agreement. For details of the transaction, see current reports No 27/2020 and 4/2021.

- **CIECH Vitro Sp. o.o. – demerger of the company**

On 25 February 2021, the Extraordinary General Meeting was held to resolve on the demerger of the Company by transferring a part of the assets of the Demerged Company, CIECH Vitrosilicon S.A., to the Acquiring Company, CIECH Vitro Sp. z o.o., in exchange for the shares to be received by the shareholders of the Demerged Company in the increased share capital of the Acquiring Company – demerger by spin-off. An organised part of the business (OPB) was spun off from CIECH Vitrosilicon S.A. The OPB may constitute an independent enterprise independently performing the tasks of production and sales, in particular of glass packaging in the form of lanterns and utility jars (the "Packaging Business").
The Extraordinary Shareholders' Meeting of CIECH Vitro sp. z o.o., in connection with the demerger of CIECH Vitrosilicon S.A. (the "Demerged Company"), increased the share capital of the Company from PLN 5 thousand to PLN 1,135.5 thousand, i.e. by the amount of PLN 1,130.5 thousand, through the creation of 22,610 new shares in CIECH Vitro sp. z o.o. with a nominal value of PLN 50 per share and a total nominal value of PLN 1,135.5 thousand, which were granted to shareholders of the Demerged Company using the following share exchange ratio: 6,679,109 shares in the Demerged Company entitled to the receipt of 22,610 shares in CIECH Vitro sp. z o.o. (the "Acquirer") (i.e. 295.4 shares in the Demerged Company entitled to the receipt of 1 share in the Acquirer) in the following manner:

- CIECH Soda Polska S.A., in exchange for 1,133,246 shares in the Demerged Company (constituting all shares in the Demerged Company held by CIECH Soda Polska S.A.), took up 13,759 shares in CIECH Vitro sp. z o.o., which were covered by a part of the OPB acquired from CIECH Vitrosilicon S.A,
- CIECH S.A., in exchange for 728,982 shares in the Demerged Company (representing a part of shares in the Demerged Company held by CIECH S.A.), took up 8,851 shares in CIECH Vitro sp. z o.o., which were covered by a part of the OPB acquired from CIECH Vitrosilicon S.A.

As of the date of registration of the share capital increase by the court, the capital structure was as follows:

- CIECH Soda Polska S.A. holds 13,759 shares, representing 60.59% of the share capital,
- CIECH S.A. holds 8,951 shares, representing 39.41% of the share capital.

On 1 April 2021, the Court registered the demerger of CIECH Vitrosilicon S.A., the reduction of the share capital of CIECH Vitrosilicon S.A. and the increase of the share capital of CIECH Vitro Sp. z o.o.
As of 1 April 2021, CIECH S.A. is the sole shareholder of CIECH Vitrosilicon S.A.

- **CIECH Trading Sp. z o.o.**

On 2 March 2021, the Extraordinary Shareholders' Meeting of CIECH Trading Sp. z o.o. approved the decision of the Company's Management Board to discontinue the business activity specified in the Company's Articles of Association, and obliged the Company's Management Board to take all necessary actions to cease and wind up the business activity, and upon completion of the above measures to take a decision to dissolve the Company pursuant to Article 270 of the Code of Commercial Companies.
On 25 May 2021, two Extraordinary General Meetings of CIECH Trading sp. z o.o. were held regarding cancellation of shares, i.e: EGM - cancellation against consideration and amendment to the Company's Articles of Association:
1)

- cancellation of 1,524,390 shares in the Company's share capital with a total nominal value of PLN 76,219.5 thousand in exchange for consideration of PLN 9.84 per canceled share, i.e. for total consideration amounting to PLN 15,000 thousand by way of purchase of the above shares on the basis of an agreement to sell the shares by the Company against the above consideration,
- The Management Board of the Company was authorised to purchase the shares (conclude an agreement) in order to cancel them,
- the share capital will be reduced from PLN 107,455.4 thousand (by PLN 76,219.5 thousand) to PLN 31,235.9 thousand through the cancellation of 1,524,390 shares with a total value of PLN 76,219.5 thousand. Following the reduction of the Company's share capital, it will be divided into 624,718 shares,

- the Company's Articles of Association will be amended.

2) EGM – cancellation without consideration and amendment to the Company's Articles of Association:
    - cancellation of 504,000 shares in the Company's share capital with a total nominal value of PLN 25,200 thousand (with the shareholder's consent), by way of purchase of the above shares on the basis of an agreement to sell the shares by the Company without consideration for CIECH S.A.
    - The Management Board of the Company was authorised to purchase the shares in order to cancel them (with the shareholder's consent),
    - the Company's share capital will be reduced from PLN 31,235.9 thousand (by PLN 25,200 thousand) to PLN 6,035.9 thousand through the cancellation of 504,000 shares with a total value of PLN 25,200 thousand. Following the reduction of the Company's share capital, it will be divided into 120,718 shares,
    - the Company's Articles of Association will be amended.

CIECH S.A. is and will remain the sole shareholder of the Company.
The reduction of the share capital of CIECH Trading Sp. z o.o. described above took place after both reductions of the share capital have been registered by the Court on 28 December 2021.

- **CIECH VENTURES Sp. z o.o.**

On 25 February 2021, the Deed of Incorporation of CIECH VENTURES sp. z o.o., of which CIECH S.A. is the sole shareholder, was drawn up. The company was established with the share capital of PLN 1,000 thousand, divided into 20 thousand shares with a nominal value of PLN 50 each. The shares were acquired by CIECH S.A. in exchange for cash. The Company was registered by the court on 23 June 2021. CIECH S.A. is the sole shareholder of the Company.

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

On 24 May 2021, an Extraordinary Shareholders' Meeting of CIECH Soda Romania S.A. was held to resolve to reduce the Company's share capital against consideration by reducing the value of shares by RON 0.11, i.e. from RON 0.25 to RON 0.14 per share. Following the reduction of the share value, the Company's share capital was reduced from RON 199,244,501.75 to RON 111,576,920.98 and is divided into 796,978,007 shares with a nominal value of RON 0.14 each. The number of shares and shareholders remains unchanged. On 17 August 2021, the reduction of the share capital of CIECH Soda Romania S.A. became final. The consideration for the capital reduction payable to CIECH S.A. amounted to RON 86,560 thousand (PLN 80,449 thousand).

- **CIECH Agro Romania S.R.L.**

CIECH Sarzyna S.A. established a new company – Ciech Agro Romania S.R.L. with its registered office in Ramnicu Valcea (Romania).
The Articles of Incorporation were drawn up on 26 March 2021, and the company was registered on 6 April 2021. The Company's share capital amounts to RON 4.87 thousand and is divided into 487 shares with a value of RON 10 per share. The sole shareholder of the Company is CIECH Sarzyna S.A.

- **CIECH Transclean Sp. z o.o.**

On 21 July 2021, the Extraordinary Shareholders' Meeting of CIECH Transclean Sp. z o.o. was held regarding cancellation of shares against consideration and reduction of the share capital:

- cancellation of 8,548 shares in the Company's share capital with a total nominal value of PLN 4,274 thousand in exchange for consideration of PLN 506.56 per canceled share, i.e. for total consideration amounting to PLN 4,330 thousand by way of purchase of the above shares on the basis of an agreement to sell the shares by the Company against the above consideration,
- The Management Board of the Company was authorised to purchase the shares (conclude an agreement) in order to cancel them,
- following the cancellation of shares, the share capital will be reduced from PLN 4,322 thousand (by PLN 4,274 thousand) to PLN 48 thousand through the cancellation of 8,548 shares with a total value of PLN 4,274 thousand. Following the reduction of the Company's share capital, it will be divided into 96 shares,
- the Company's Articles of Association will be amended.

The reduction of the share capital of CIECH Trasclean Sp. z o.o. described above took place the reduction has been registered by the Court on 3 February 2022.

- **CIECH Services Sp. z o.o.**

On 15 July 2021, the Extraordinary Shareholders' Meeting of CIECH Services Sp. z o.o. increased the Company's share capital by PLN 1,995 thousand, i.e. from PLN 5 thousand to PLN 2,000 thousand through creation of 39,900 new, equal and indivisible shares with a nominal value of PLN 50 per share. The right to subscribe for all 39,900 newly created shares in the Company's share capital was granted to the existing shareholder, CIECH S.A. The newly created shares were subscribed in exchange for a cash contribution of PLN 1,995 thousand. The court registered the increase in the share capital of CIECH Services Sp. z o.o. on 25 August 2021. As a result of the increase, the share capital of CIECH Services Sp. z o.o. is divided into 4 thousand shares, with a total nominal value of PLN 2,000 thousand (the nominal value for 1 share is PLN 500). CIECH S.A. was and remained the sole shareholder of the Company.

- **Smart Fluid S.A. (former name: Smart Fluid Sp. z o.o.)**

On 7 June 2021, an Extraordinary Shareholders' Meeting was held concerning the transformation of a limited liability company (spółka z ograniczoną odpowiedzialnością) into a joint stock company (spółka akcyjna). Following the transformation, the share capital of Smart Fluid S.A. amounts to PLN 106 thousand and is divided into 1,060,000 series A registered shares of the value of PLN 0.10 each, which were acquired by:

a) CIECH R&D Sp. z o.o. with its registered office in Warsaw (a subsidiary of CIECH S.A.) – 560,000 series A registered shares with a total nominal value of PLN 56 thousand, representing 52.83% of the share capital,

b) Others – 500,000 series A registered shares with a total value of PLN 50 thousand, representing 47.17% of the share capital.

On 9 September 2021, the court registered the transformation of Smart Fluid Sp. z o.o. into Smart Fluid S.A.

The share capital of the Joint Stock Company, in order to bring its amount in line with the minimum amount of share capital of a joint stock company specified in Article 308 § 1 of the Code of Commercial Companies, was determined and covered as follows:

- the amount of PLN 10.6 thousand represents the amount of the share capital of the limited liability company;
- the amount of PLN 95.4 thousand was covered from the supplementary capital of the limited liability company.

- **Cerium Sp. z o.o. w likwidacji (in liquidation)**

On 31 August 2021, the court struck Cerium Sp. z o.o. in liquidation from the Register of Entrepreneurs.

- **CIECH Salz Deutschland GmbH**

On 26 October 2021, the Shareholders' Meeting of CIECH Salz Deutschland GmbH resolved to increase the Company's share capital by EUR 5,975 thousand by establishing one new share with a nominal value of EUR 5,975 thousand, which was taken up by CIECH S.A. in exchange for cash. As a result of the increase, the share capital increased from EUR 3,025 thousand to EUR 9,000 thousand. The court registered the share capital increase on 18 November 2021. CIECH S.A. was and remained the sole shareholder of the Company.

- **CIECH Sól Sp. z o.o.**

On 13 December 2021, the Deed of Incorporation of CIECH Sól Sp. z o.o., with a share capital of PLN 5 thousand, divided into 100 shares with a nominal value of PLN 50 each, was drawn up. The share capital was fully covered with cash, all shares were taken up by CIECH S.A. The court, by decision of 7 February 2022, registered CIECH Sól Sp. z o.o. CIECH S.A. is the sole shareholder of the Company.

6.5. SIGNIFICANT SUBSIDIARIES WITH NON-CONTROLLING INTEREST

In 2021 and 2020, there was no significant non-controlling interest in any of the significant subsidiaries of the CIECH Group.

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6.6. EARNINGS PER SHARE

Accounting policy

Basic earnings per share is the net profit for the year attributable to ordinary shareholders of the parent entity divided by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is the net profit for the year attributable to ordinary shareholders of the parent entity divided by the weighted average number of ordinary shares outstanding during the year adjusted for the effects of all dilutive potential ordinary shares.

The table below presents profit and shares data used in the calculation of the basic and diluted earnings per share:

in PLN	01.01.-31.12.2021	01.01.-31.12.2020
Basic and diluted earnings per share (continuing operations)	4.37	2.36
Basic and diluted earnings per share (discontinuing operations)	1.18	0.09

	01.01.-31.12.2021	01.01.-31.12.2020
Net profit (loss) from continuing operations attributable to the shareholders of the parent	230,550	124,431
Net profit (loss) from discontinued operations attributable to the shareholders of the parent	61,868	4,846
Weighted average number of issued ordinary shares used in calculation of basic and diluted earnings per share	52,699,909	52,699,909

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7. LIABILITIES, PROVISIONS, EMPLOYEE BENEFITS

7.1. INFORMATION ABOUT SIGNIFICANT FINANCIAL LIABILITIES

Accounting policy

Financial liabilities are an entity's liabilities to deliver financial assets to another entity or to exchange a financial instrument with another entity under conditions that are unfavourable. When a financial liability is recognised initially, an entity shall measure it at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability. Interest accrued is recognised under finance costs or, if it is subject to capitalisation, to property, plant and equipment or intangible assets.

LOANS, BORROWINGS AND OTHER DEBT INSTRUMENTS	31.12.2021	31.12.2020
LONG-TERM	**1,854,154**	**360**
Loans and borrowings	1,854,154	360
SHORT-TERM	**5,287**	**1,911,115**
Loans and borrowings	5,287	1,911,115
TOTAL	**1,859,441**	**1,911,475**

Reconciliation of changes in liabilities resulting from financing activities – liabilities in respect of credits and loans:

	01.01.- 31.12.2021	01.01.- 31.12.2020
Opening balance	**1,911,475**	**1,645,400**
Proceeds from debt incurred	195,493	506,313
Accrual of interest	*32,771*	43,064
Repayment of debt, including:	(268,829)	(306,233)
repayment of principal	(231,801)	(263,300)
interest paid	*(37,028)*	(42,933)
Realised exchange differences	*18,998*	-
Foreign exchange differences on measurement of liabilities	(22,927)	20,677
Other	(7,540)	2,254
Closing balance	**1,859,441**	**1,911,475**

Debt financing of the Group

As at the end of 2021, the CIECH Group's debt financing was secured mainly through facilities made available to CIECH S.A. under facilities agreements:

1. the Facilities Agreement signed with a consortium of banks dated 16 March 2021 with the total value of approx. PLN 2,115,000 thousand:
- amortised term facility in tranches in PLN and EUR in the amount of PLN 540,700 thousand and EUR 4,231 thousand (the facility is fully drawn down),
- non-amortised term facility in tranches in PLN and EUR in the amount of PLN 1,260,100 thousand and EUR 9,844 thousand (the facility is fully drawn down),
- revolving credit facility in the amount of up to PLN 250,000 thousand (the amount of used credit as at 31 December 2021 was PLN 0),
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 2021, the amount used was PLN 0 thousand).

The total value of facilities available under the aforesaid agreements is PLN 2,261,531 thousand; the limits are drown down in the amount of PLN 1,865,537 thousand.

In addition, Proplan Plant Protection Company, S.L. has external debt on account of loans.

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Detailed information about loan liabilities is disclosed in the Directors' Report for the CIECH Group and CIECH S.A. for 2021 published on 29 March 2022 in Section 4.6.

Interest rate:

The 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, such that if the level of the ratio is lower, the margin applied will also be lower. The financial terms of the Facilities Agreement do not differ from those commonly used for this type of agreements.

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 16 March 2021, 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 4.0x,, measured at the end of a year and first six months of a year. As at the balance sheet date, i.e. 31 December 2021, this ratio was maintained and amounted to 1.6,
- 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 met as at the balance sheet date and amounted to 89.6%.

7.2. OTHER NON-CURRENT LIABILITIES

Accounting policy

Accounting policy concerning financial instruments is presented in note 8.1.

The accounting policy for grants received is presented in Note 3.4.

OTHER NON-CURRENT LIABILITIES	31.12.2021	31.12.2020
Subsidies	108,525	62,372
Derivatives	91,857	14,327
Liabilities due to the purchase of shares and other financial assets	-	3,871
Other	31,370	1,458
TOTAL	**231,752**	**82,028**

**As at the end of 2020, the long-term portion of IRS transactions designated for hedge accounting is not reported. These transactions hedge the interest rate on loans that have been recognised as short-term liabilities due to a breach of one of the covenants at the balance sheet date.*

In the corresponding period, long-term liabilities due to purchase of shares include the long-term portion of the deferred payment for the acquisition of Proplan Plant Protection Company, S.L., i.e.:

- EUR 2,929 thousand of discounted deferred payment (the remaining 10% of the purchase price), payable in cash in 4 installments of EUR 1,115 thousand on subsequent anniversaries (in 2019-2022 respectively – the first payment was made in July 2019) of the takeover of control over Proplan (nominal value of EUR 4,461 thousand).

At the end of 2021, these liabilities are presented as current liabilities in Note 7.3.

The item of other long-term liabilities includes the value of the three-year Long-term Incentive Plan of the CIECH Group for 2019-2021 for the key management personnel of the CIECH Group. The intention of introducing the Plan was to harmonize the activities of the key managers of the CIECH Group with the achievement of the goals set out in the Strategy of the CIECH Group for 2019-2021.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

The main criterion authorizing the implementation of the Plan was the development by the CIECH Group in the years 2019-2021 of an increase in value at the level of at least 11% of the base year, i.e. 2018. The generated value was calculated as the difference of the value of the CIECH Group generated at the end of 2021 compared to this value at the end of 2018. The value of the CIECH Group, for the purposes of the Long-Term Incentive Plan, is measured by the so-called TSR (Total Shareholder Return) ratio taking into account, among others: the normalized EBITDA of the CIECH Group, the assumed multiplier for the EBITDA of the normalized CIECH Group, the consolidated net debt of the CIECH Group, the value of dividends paid and cash inflows / outflows resulting from the issue / redemption of the Company's shares. The TSR ratio for the CIECH Group is calculated on the basis of the financial data contained in the audited consolidated financial statements of the CIECH Group. Due to the achievement of the Earned Value at the level of at least 11% of the base year (2018), the bonus pool amounted to 12% of the Earned Value and was adjusted by the effective number of units allocated to the Plan participants. The bonus pool will be paid out in the years 2022-2024, in equal parts each year. As at 31 December 2021, 749 units out of 1,000 issued were granted, while the discounted value of the program attributable at the end of the entire Program, amounted to PLN 51,428 thousand. To measure the liability, the Group used a discount rates of 2.94% -3.47% (depending on the date of the planned liability repayment).

7.3. CURRENT TRADE AND OTHER LIABILITIES

Accounting policy

Trade and other liabilities are classified as current or non-current based on the following principles:

- ✓ trade liabilities are reported as current liabilities, regardless of maturity,
- ✓ other liabilities due to be settled within 12 months of the balance sheet date are classified as current liabilities,
- ✓ other payables, which do not meet the current liability conditions, are classified as non-current liabilities.

Liabilities denominated in foreign currencies are recognised at the NBP's average exchange rate effective on the last working day before the date of transaction.

At the reporting date foreign currency denominated liabilities are translated at the average exchange rate announced for that day by the NBP except for received prepayments. Currency translation differences arising upon the repayment of a liability (realised) or its valuation (unrealised) are presented within financial income or expense. Prepayments for deliveries denominated in foreign currencies are recognised at the exchange rate applicable as at the transaction day.

Judgements and estimates

At the reporting date trade payables are measured at amortised cost (i.e. they are discounted using the effective interest method) and increased by any applicable late interest accrued.

Late interest is not accrued when a formal waiver is received from the counterparty. In all other cases such interest is accrued and recognised in accordance with the following principles:

- ✓ on an ongoing basis, based on interest notes received;
- ✓ in estimated amounts, with such estimates based on comparison of interest charged in the past by a counterparty to the related amounts owed.

CURRENT TRADE AND OTHER LIABILITIES	31.12.2021	31.12.2020
Trade liabilities and advances taken	615,770	492,998
- in up to 12 months	*612,643*	*490,430*
- above 12 months	*1,953*	*181*
- prepayments received for supplies	*1,174*	*2,387*
Public and legal liabilities (excluding income tax)	52,936	44,931
Liabilities for purchase of property, plant and equipment	143,427	185,505
Financial instruments liabilities	59,843	67,709
Liabilities from the settlement of futures contracts	138,861	34,495
Liabilities to employees	21,145	17,990
Payroll liabilities	45,634	28,952

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CURRENT TRADE AND OTHER LIABILITIES	31.12.2021	31.12.2020
Holiday leave accrual	12,920	8,852
Taxes and charges	647,621	268,065
Materials and energy consumption	34,327	32,945
Subsidies	4,656	4,928
Factoring liabilites	23,078	16,174
Received CO_2 emission rights	50,940	32,617
Other	105,249	50,095
TOTAL	**1,956,407**	**1,286,256**

Terms of transactions with related entities have been presented in note 9.3.
Trade liabilities do not bear interest. Commercial contracts concluded by the CIECH Group include various terms of payment of trade liabilities depending on the type of transaction, market characteristics and trade conditions. The standard payment term is 60 days.

The largest year-on-year increases in current liabilities were recorded in the following items:

- trade liabilities due to an increase in the level of reverse factoring and higher purchase costs for raw materials, mainly gas and raw materials for the production of crop protection chemicals,
- liabilities on account of settlements of futures contracts for CO_2 emission allowances, as a result of a significant increase in the difference between the contractual price and the current price of the allowances,
- taxes and fees in connection with the presentation under this item of provisions for CO_2 emission costs, also in the part covered by allowances received in connection with the change in Accounting Policy described in Section 1.5.1. b).

7.4. LEASES

Accounting policy

On 1 January 2019, the CIECH Group adopted a new financial reporting standard, IFRS 16 Leases.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group combines two or more contracts entered into at or near the same time with the same counterparty (or related parties of the counterparty), and account for the contracts as a single contract if one or more of the following criteria are met:

a) the contracts are negotiated as a package with an overall commercial objective that cannot be understood without considering the contracts together;
b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
c) the rights to use underlying assets conveyed in the contracts (or some rights to use underlying assets conveyed in each of the contracts) form a single lease component.

A contract contains a lease if:

a) it concerns an identified asset that is explicitly specified in the contract (e.g. using an inventory number, address (for premises), etc.) or implicitly specified at the time that the asset is made available for use by the customer, and the supplier does not have the substantive right to substitute the asset throughout the period of use and
b) the lessee receives essential all of the economic benefits from such assets during the period of use, i.e. both basic benefits and the benefits derived from it (if any); and
c) the lessee has the right to specify the method in which it uses the identified asset.

Initial measurement of the lease liability

The lease payments included in the measurement of the lease liability comprise the following payments that are not paid:

a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
c) amounts expected to be payable by the lessee under residual value guarantees;

d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease and it is highly likely that this option will be exercised.

Subsequent measurement of the lease liability

After the commencement date, the Group measures the lease liability by:
a) increasing the carrying amount to reflect interest on the lease liability;
b) reducing the carrying amount to reflect the lease payments made; and
c) remeasuring the carrying amount to reflect any reassessment or lease modifications.
The Group, as a lessee, recognises in profit or loss of the current period both:
a) interest on the lease liability; and
b) variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs, unless these costs are included in the carrying amount of another asset in accordance with the accounting policy for property, plant and equipment.

In-substance fixed lease payments

In-substance fixed lease payments are payments that may, in form, contain variability but that, in substance, are unavoidable. In-substance fixed lease payments exist, for example, if:

a) payments are structured as variable lease payments, but there is no genuine variability in those payments. Those payments contain variable clauses that do not have real economic substance. Examples of those types of payments include:
   - payments that must be made only if an asset is proven to be capable of operating during the lease, or only if an event occurs that has no genuine possibility of not occurring; or
   - payments that are initially structured as variable lease payments linked to the use of the underlying asset but for which the variability will be resolved at some point after the commencement date so that the payments become fixed for the remainder of the lease term. Those payments become in-substance fixed payments when the variability is resolved,
b) there is more than one set of payments that a lessee could make, but only one of those sets of payments is realistic. In this case, an entity considers the realistic set of payments to be lease payments.
c) there is more than one realistic set of payments that a lessee could make, but it must make at least one of those sets of payments. In this case, an entity considers the set of payments that aggregates to the lowest amount (on a discounted basis) to be lease payments.

Variable lease payments

Variable lease payments that depend on an index or a rate include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as WIBOR) or payments that vary to reflect changes in market rental rates (e.g. periodical changes in perpetual usufruct rates, in connection with the revision of a valuation report).

Variable lease payments that do not depend on an index or a rate, i.e. depend on the use, are not included in the measurement of lease liabilities (e.g. fees for exceeding the mileage limit).

Exemptions/ simplifications applied

The Group applies the simplifications for short-term leases and low-value asset leases provided for in the standard. It is assumed that assets whose unit value does not exceed approximately PLN 20 thousand, which corresponds to approximately USD 5 thousand, are low-value assets. Short-term leases are those whose term is shorter than 12 months. The Group also benefits from the practical exemption regarding the lack of separation of non-lease components.

Judgements and estimates

Adoption of IFRS 16 entailed also the need to make estimates and judgments which are reflected in the measurement of lease liabilities and right-of-use assets, including:

- assessing whether a contract contains a lease in accordance with IFRS 16,
- determining the duration of contracts (including contracts with an indefinite term or with an extension option):

With respect to contracts for an indefinite term, the Group, when estimating the irrevocable lease term, assumed the period in which it intends to use the underlying assets, also taking into account the rights of termination of the parties and the existence of significant penalties. The lease term over which the lease liability is recognised also includes any periods resulting from an extension or early termination if any of the above scenarios is sufficiently certain in the entity's judgement. In the case of contracts with an extension option, the lease liability would be respectively higher, while termination options resulted in a reduction in the liability amount.

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- assessing lease payments as either fixed or variable,
- determining depreciation and amortisation rates.
- determining the interest rate to be used in discounting future cash flows:

Discount rate

The present value of future lease payments is calculated using the lease rate. If the lease rate is not known, the Group applies the incremental borrowing rate for a given lease agreement, i.e. the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The largest leased asset in the CIECH Group is the right of perpetual usufruct of land obtained by administrative decision. No conditions for extending lease agreements or purchasing the subject of lease have been included in administrative decisions concerning the right of perpetual usufruct of land. Price indexation may occur in relation to land revaluation. Furthermore, the SDC Group recognises a long-term sewage system agreement effective until 2095 as a lease. Group companies also report liabilities under property lease agreements (office and warehouse space).

The CIECH Group also uses property, plant and equipment (mainly means of transport, including railcars and locomotives, and various types of machinery and equipment) pursuant to lease agreements. Some of the agreements include the return option, extension of the agreement or the option to buy all or a part of the equipment after the lease period.

To calculate discount rates for the purposes of IFRS 16, the Group assumes that the discount rate should reflect the cost that it would have to pay to borrow the funds necessary to purchase the leased asset. The calculation of interest rates took account of credit risk (reflected in the margin assumed), economic conditions in which the transactions took place (country, currency of the contract) and the duration of the contract (preparation of calculations for the relevant periods within which the Company holds lease contracts). Interest rates range from 0.97%, to 7.99% (for PLN 5.75-6.49%; for EUR 0.97%-4.54%, for USD 2.80%-4.60%; for RON 6.52%-7.99%). A single discount rate was applied to the entire contract portfolio.

The nominal value and the value lease interest are as follows:

LEASE LIABILITIES	Nominal payments	Effective interest	Discounted lease liability
31.12.2021			
0–6 months	16,371	393	15,978
Up to 1 year	14,416	369	14,047
1–2 years	45,177	1,887	43,290
2–5 years	29,363	2,751	26,612
More than 5 years	166,914	115,644	51,270
TOTAL	**272,241**	**121,044**	**151,197**
31.12.2020			
0–6 months	14,242	156	14,086
Up to 1 year	11,878	216	11,662
1–2 years	32,086	1,948	30,138
2–5 years	22,908	2,082	20,826
More than 5 years	172,109	119,563	52,546
TOTAL	**253,223**	**123,965**	**129,258**

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Reconciliation of changes in liabilities resulting from financing activities – lease liabilities

	01.01.-31.12.2021	01.01.-31.12.2020
Opening balance	**129,258**	**143,934**
Modifications of agreements	6,165	1,563
Signing new agreements	40,820	6,515
Early termination of agreement	-	(1,047)
Interest accrued	3,951	4,591
Repayment of liability	(29,633)	(30,139)
Foreign exchange differences	634	5,687
Other	2	(1,846)
Closing balance	**151,197**	**129,258**

The total outflow of funds related to lease liabilities is respectively:

	01.01-31.12.2021	01.01.-31.12.2020
Payment of liabilities, including:	**40,693**	**44,005**
Principal amount	25,669	25,500
Interest	4,192	4,639
Variable payments other than those linked to an index/rate	8,153	10,522
Short-term leases	1,801	2,348
Low-value leases	879	996

The following table presents lease costs not included in the calculation of carrying amounts in accordance with IFRS 16 for the period:

	01.01-31.12.2021	01.01-31.12.2020
Costs of short-term leases (concluded for a period of up to 12 months),	1,411	1,398
Costs of lease of low-value assets	832	938
Costs related to variable lease payments not included in the measurement of lease liabilities	8,123	10,609

For details of the right-of-use assets resulting from leases see Note 5.2

7.5. PROVISIONS FOR EMPLOYEE BENEFITS

Accounting policy

Jubilee awards, retirement benefits pays and disability pay:

Based on the Group's remuneration plan, the employees of its companies are entitled to retirement benefits. The Group's obligations in respect of the above benefits is the amount of benefit entitlement that employees have earned as a result of their service in the current and prior years.

Net defined benefit liabilities are calculated separately for each plan by estimation of future payments required to settle the obligation resulting from employee service in the current and prior periods (discounted to its present value). The discount rate is the rate of return for low-risk debt securities with similar maturity date as the Group's liabilities as at the end of the reporting period. An appropriate estimation is made by an authorised actuary with the application of forecast discounted unit right method.

The use of such provisions results in a decrease in the provision, while the reversal of the said provision increases other operating income.

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The increase in the provision for employment costs is recognised respectively in other operating expenses. Changes in provisions resulting from the passage of time (i.e. the unwinding of the discount) and the effect resulting from changes in discount rates are always presented in financing activities.

The Company recognises in other comprehensive income actuarial gains and losses – changes in provisions for retirement benefits resulting differences between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions and change in discount rate.

Judgements and estimates

The amount of the provision for employee benefits is determined based on actuarial valuations performed by independent professional firms. By actuarial valuation estimates are made regarding the rotation in employment, wage growth, discount rates and inflation.

PROVISIONS FOR EMPLOYEE BENEFITS	LONG-TERM		SHORT-TERM	
	01.01.-31.12.2021	01.01.-31.12.2020	01.01.-31.12.2021	01.01.-31.12.2020
Opening balance	**12,958**	**12,848**	**3,100**	**15,465**
Recognition	2,832	1,200	1,117	1,151
Use and reversal	(1,635)	(1,975)	(1,473)	(14,070)
Foreign exchange differences	(18)	381	(27)	513
Other	1,136	504	(74)	41
Closing balance	**15,273**	**12,958**	**2,643**	**3,100**

In 2021, a change in provision for retirement benefits in the amount of PLN -1,342 thousand was recognised in other comprehensive income (PLN -167 thousand in the comparable period). This is a change resulting from differences between the previous actuarial assumptions and what has actually occurred as well as from changes in the parameters and assumptions used in the calculations, such as the discount rate, the salary growth rate, and assumptions concerning the future mobility of employees.

Employee benefits are measured on the basis of actuarial valuations and including provision for retirement and disability benefits. A discount rate of 3.3% p.a. was applied in order to determine the current value of future liabilities due to employee benefits. The discount rate applied is established in nominal value. At the same time, future inflation in the amount of 2.5% per annum was taken into account. The remuneration growth rates of 3.5% and 5.0% were applied for 2022 and subsequent years, respectively. Staff turnover ratio is established based on historic data, adjusted for employment restructuring plans. According to the Company's estimations, a change in actuarial assumptions will not have a significant impact on financial results.

7.6. OTHER PROVISIONS

Accounting policy

A provision is recognised if, as a result of a past event, the Group has a present obligation and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provision for environmental protection

In accordance with the Group's published and currently enforced environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognised. The provision is recognised in the amount of the expected future restoration costs discounted to present value.

Judgements and estimates

For measurement of the provisions, the Group is required to make estimates, assumptions regarding discount rates, expected costs and payment terms.

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CHANGE IN OTHER LONG-TERM PROVISIONS	Provision for liabilities (costs)	Provision for environmental protection	Provision for bonuses	TOTAL
01.01.-31.12.2021				
Opening balance	**40,776**	**112,485**	**-**	**153,261**
Recognition	2,029	-	1,271	**3,300**
Use and reversal	(2,030)	(3,696)	-	**(5,726)**
Foreign exchange differences	-	225	-	**225**
Change in discount rate	-	(1,685)	-	**(1,685)**
Reclassification from (to) long-term provisions	1,631	(1,838)	-	**(207)**
Update of the amount of the provision for environmental protection*	-	121,481	-	**121,481**
Closing balance	**42,406**	**226,972**	**1,271**	**270,649**
01.01.-31.12.2020				
Opening balance	**8,762**	**93,435**	**-**	**102,197**
Recognition	2,947	204	-	**3,151**
Use and reversal	(224)	-	-	**(224)**
Foreign exchange differences	-	7,365	-	**7,365**
Change in discount rate	-	2,471	-	**2,471**
Reclassification from (to) long-term provisions	29,291	(889)	-	**28,402**
Other	-	9,899	-	**9,899**
Closing balance	**40,776**	**112,485**	**-**	**153,261**

** Relates to the provision for environmental protection in the SDC Group. The value of the provision was included in the value of fixed assets.*

CHANGE IN OTHER SHORT-TERM PROVISIONS	Provision for restructuring	Provision for liabilities (costs)	Provision for environmental protection	Provision for bonuses	TOTAL
01.01.-31.12.2021					
Opening balance	**111**	**94,199**	**889**	**38**	**95,237**
Recognition	-	7,207	827	-	8,034
Use and reversal	-	(17,642)	(1,891)	(4)	(19,537)
Foreign exchange differences	-	(130)	-	-	(130)
Reclassification from (to) long-term provisions	-	(1,631)	1,838	-	207
Closing balance	**111**	**82,003**	**1,663**	**34**	**83,811**
01.01.-31.12.2020					
Opening balance	**111**	**97,998**	**1,516**	**-**	**99,625**
Recognition	-	35,956	24	-	35,980
Use and reversal	-	(19,958)	(1,390)	-	(21,348)
Foreign exchange differences	-	1,441	-	-	1,441
Reclassification from (to) long-term provisions	-	(29,141)	739	-	(28,402)
Transfer to liabilities held for sale	-	(614)	-	-	(614)
Other	-	8,517	-	38	8,555
Closing balance	**111**	**94,199**	**889**	**38**	**95,237**

The most significant provisions of the CIECH Group are:

Provisions for expected losses and liabilities

CIECH S.A. – Short-term provisions of PLN 33,741 thousand are related to potential claims (principal liability plus interest payable) resulting from litigation.

CIECH Sarzyna S.A. – provision for potential tax liability and related interest in the amount of PLN 10,765 thousand. In 2021, PLN 6,054 thousand of the provision was utilised through payment of the liability.

CIECH Vitrosilicon S.A. – recognition of a provision for interest in relation to a potential tax liability in the amount of PLN 1,114 thousand (the total balance of provisions for tax liabilities is PLN 18,221 thousand).

CIECH Pianki Sp. z o.o. – recognition of a provision for interest in relation to a potential tax liability in the amount of PLN 532 thousand (the total balance of provisions for tax liabilities is PLN 8,904 thousand).

CIECH Cargo Sp. z o.o. – recognition of a provision for interest in relation to a potential tax liability in the amount of PLN 591 thousand (the total balance of provisions for tax liabilities is PLN 9,751 thousand).

SDC Group – short-term provision of PLN 9,291 thousand (EUR 2,020 thousand) related to a potential claim from the water management authority and a provision of PLN 14,718 thousand (EUR 3,200 thousand) related to a potential tax liability.

CIECH Trading Sp. z o.o. – a provision for VAT and interest in relation to a potential tax liability in the amount of PLN 3,952 thousand. In 2021, the provision was reversed in the amount of PLN 5,068 thousand.

CIECH Soda Polska S.A. – long-term provision in the amount of PLN 727 thousand for potential environmental fees resulting from exceeded emission limits. In addition, provisions of PLN 482 thousand, related to customers' claims in connection with defective deliveries of products and the resulting losses, were recognised. During 2020, a provision for possible penalties in the amount of PLN 3,985 thousand relating to the termination of the agreement with a counterparty was recognised. The value of the provision has not changed at the end of 2021.

Provisions for environmental protection

SDC Group – a long-term provision for environmental protection in the amount of PLN 221,921 thousand, i.e. EUR 48,250 thousand, including:

- reclamation of tailing ponds in Unseburg – provision of EUR 8,379 thousand (PLN 38,538 thousand) as at 31 December 2021 and EUR 3,017 thousand (PLN 13,923 thousand) as at 31 December 2020 – the schedule provides for work for a maximum of 17 years from 2008 (ponds 1-6) and a maximum of 14 years from 2015 (pond 7),
- restoration activities in the limestone mine – provision of EUR 2,995 thousand (PLN 13,775 thousand) at 31 December 2021 and EUR 3,690 thousand (PLN 17,029 thousand) at 31 December 2020 – the schedule provides for work until 2052 starting in 2015,
- restoration of the remains of old limestone quarries – provision of EUR 3,278 thousand (PLN 15,077 thousand) as at 31 December 2021 and EUR 975 thousand (PLN 4,499 thousand) as at 31 December 2020 – the schedule provides for work over a period of 4 years,
- closure of caverns - provision of EUR 29,453 thousand (PLN 135,466 thousand) as at 31 December 2021 and EUR 11,659 thousand (PLN 58,803 thousand) as at 31 December 2020 – the schedule provides for work in the period from 10 to 75 years.

The provisions were calculated based on reports from independent environmental engineering advisors. In 2021, provisions were increased by EUR 25,941 thousand (PLN 121,481 thousand) due to new reports. The same amount was recognised in the value of fixed assets.

CIECH Soda Polska S.A. – provision for land reclamation costs, calculated in accordance with expenditure planned until 2042, in line with the expected inflation rate: 6.0% in 2022, 3.45% in 2023 and 2.5% thereafter, adjusted by a discount factor, calculated as the average of the discount factor at the beginning and end of every annual period. The amount of the respective provision recognised in the statements amounts to PLN 5,815 thousand.

CIECH Sarzyna S.A. – a provision for the costs of water and soil reclamation in the amount of PLN 1,000 thousand. The provision was estimated based on a technical and financial project including a schedule of works for the years 2022-2026 of expenses to be incurred.

8. FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT AND IMPAIRMENT

8.1. FINANCIAL INSTRUMENTS

Accounting policy

Principles of measurement after initial recognition/at the end of reporting period and presentation of financial instruments in financial statements

Category of assets or liabilities	Measurement	Recognition
Assets at fair value through profit or loss	At fair value	Remeasurement changes adjust the carrying amount of the asset and are recognised in current period profit or loss.
Financial assets measured at amortised cost	At amortised cost using the effective interest rate (EIR)	Remeasurement changes adjust the carrying amount of the asset and are recognised in current period profit or loss.
Financial assets at fair value through other comprehensive income	At fair value	Changes from remeasurement at fair value are recognised in other comprehensive income. For debt instruments interest is recognised directly in profit or loss under finance income.
Liabilities at fair value through profit or loss	At fair value	Remeasurement changes adjust the carrying amount of the asset and are recognised in current period profit or loss.

Impairment of financial assets

At each balance sheet date, the Group assesses whether there has been a significant increase in credit risk for a single financial asset (financial instrument) since its initial recognition (not applicable to assets measured through profit or loss or equity investments designated as measured at fair value through other comprehensive income).

The Group assumes that in the case of financial instruments that meet the definition of a low credit risk instrument as at a given balance sheet date, there has been no significant increase in credit risk and therefore the allowance is estimated at the amount of 12-month expected credit losses. The credit risk on a financial instrument is considered low for these purposes, if:

a) the financial instrument has a low risk of default,
b) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and
c) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers that there has been a significant increase in credit risk for a given financial instrument, if there has been a delay in contractual payments of more than 30 days.

For a financial asset that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial (POCI) asset, the Group measures the expected credit losses as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Any adjustment is recognised in profit or loss as an impairment gain or loss.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

a) significant financial difficulty of the issuer or the borrower;
b) a breach of contract, such as a default or past due event;
c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. Regardless of the above criteria, the Group considers that there has been an impairment loss in the event of a delay in payment of more than 180 days, as it believes that the risk of default by counterparties increases significantly after that date.

The amount established as a result of the abovementioned allowances may be decreased if the Management Board is in possession of reliable documents, indicating that the receivables were secured and their payment is highly probable.

Impairment allowances are estimated using individual parameters determined on the basis of benchmarks (using information on bank ratings) or values provided by experts.

For trade receivables and contract assets arising from transactions that fall within the scope of IFRS 15, the Group has opted for a simplified approach whereby impairment losses are estimated over the lifetime of the asset, already from the initial recognition of the exposure in the accounting records.

The main financial instruments disclosed in the statement of financial position of the CIECH Group as at 31 December 2021 include:

Financial assets:

- loans granted,
- financial instruments with positive valuation,
- trade receivables and factoring receivables,
- cash and cash equivalents.

Financial liabilities:

- term loan liabilities, revolving facility liabilities and overdraft liabilities,
- trade liabilities and factoring liabilities,
- lease agreements,
- financial instruments with negative valuation.

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Carrying amount of financial instruments

Classes of financial instruments	*note*	31.12.2021	31.12.2020	Categories of financial instruments
Cash and cash equivalents	*5.12*	799,023	443,886	Financial assets at amortised cost
Loans granted	*5.11*	133	146	Financial assets at amortised cost
Trade receivables	*5.10*	209,231	175,697	Financial assets at amortised cost
Factoring receivables	*5.10*	33,660	47,425	Financial assets at amortised cost
Hedging derivatives with positive value	*5.7;5.11*	101,672	18,427	Financial assets valued at fair value thru other comprehensive income
Derivatives with positive value	*5.7;5.11*	1,210	1,835	Financial assets valued at fair value thru profit or loss account
Embedded instruments with positive value		**1,144,929**	**687,416**	
Trade liabilities	*7.3*	(614,596)	(490,611)	Financial liabilities at amortised cost
Loans and borrowings	*7.1*	(1,859,441)	(1,911,475)	Financial liabilities at amortised cost
Factoring liabilities	*7.3*	(23,078)	(16,174)	Financial liabilities at amortised cost
Lease liabilities	*7.4*	(151,197)	(129,258)	Financial liabilities excluded from IFRS 9
Hedging derivatives with negative value	*7.2;7.3*	(138,485)	(65,542)	Financial liabilities valued at fair value thru other comprehensive income
Derivatives with negative value	*7.2;7.3*	(13,215)	(16,494)	Financial liabilities valued at fair value thru profit or loss account
LIABILITIES		**(2,800,012)**	**(2,629,554)**	

In the CIECH Group selected trade receivables are subject to factoring. This is factoring with the assumption of insolvency risk whereby the factor assumes the risk in the amount specified in the insurance policy.

The CIECH Group also uses reverse factoring. Due to the terms of the agreements, these liabilities are reported as trade liabilities or investment liabilities, depending on which liabilities the factoring relates to.

Revenues, costs, profit and loss recognised in the income statement by the category of financial instruments for continuing operations

Revenues, costs, profit and loss recognised in the statement of profit or loss	01.01.-31.12.2021	01.01.- 31.12.2020	Categories of financial instruments
Interest income /(costs) including income / costs calculated using the effective interest rate method	**(36,365)**	**(54,183)**	
	1,117	1,807	*Financial assets at amortised cost*
	(34,026)	(51,678)	*Financial liabilities at amortised cost*
	(3,456)	(4,313)	*Financial liabilities excluded from IFRS 9*
Profits/(losses) due to exchange differences	**(1,869)**	**45,172**	
	(1,822)	46,880	*Financial liabilities at amortised cost*
	(47)	(1,708)	*Financial liabilities excluded from IFRS 9*
Recognition of impairment losses	**(8,804)**	**(20,120)**	*Financial assets at amortised cost*
Reversal of impairment losses	**7,802**	**6,992**	*Financial assets at amortised cost*
Income/expenses due to the use of derivative financial instruments	**(44,439)**	**(68,561)**	
	(36,291)	(47,594)	*Financial assets/liabilities at fair value through profit or loss*
	(8,148)	(20,967)	*Hedging instruments*
TOTAL	**(83,675)**	**(90,701)**	

8.2. FINANCIAL INSTRUMENTS DESIGNATED FOR HEDGE ACCOUNTING

Accounting policy

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. Derivatives such as options, forwards, swaps are held to hedge the fair value of assets or liabilities or expected future cash flows.

For the hedging instruments, the Group may apply hedge accounting if, and only if, all the following conditions are met:

- ✓ the hedging relationship consists only of eligible hedging instruments and eligible hedged items.
- ✓ at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for entity the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio).
- ✓ the hedging relationship meets all of the following hedge effectiveness requirements:
    a) there is an economic relationship between the hedged item and the hedging instrument;
    b) the effect of credit risk does not dominate the value changes that result from that economic relationship; and
    c) the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

Cash flow hedge:

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability (such as all or some future interest payments on variable-rate debt) or a highly probable forecast transaction, and could affect profit or loss.

Cash flow hedge shall be accounted for as follows:

a) the separate component of equity associated with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following (in absolute amounts):
    i. the cumulative gain or loss on the hedging instrument from inception of the hedge; and
    ii. the cumulative change in fair value (present value) of the hedged item (i.e. the present value of the cumulative change in the hedged expected future cash flows) from inception of the hedge.

b) the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (i.e. the portion that is offset by the change in the cash flow hedge reserve calculated in accordance with (a)) shall be recognised in other comprehensive income.

c) any remaining gain or loss on the hedging instrument (or any gain or loss required to balance the change in the cash flow hedge reserve calculated in accordance with (a)) is hedge ineffectiveness that shall be recognised in profit or loss.

The effective portion of the hedge is transferred to profit or loss as a reclassification adjustment in the period or periods when the hedged expected future cash flows affect profit or loss.

Hedges of a net investment in a foreign operation

Hedges of a net investments in a foreign operation shall be accounted for as follows:

- ✓ It is a hedge of a net investment in foreign operations with functional currency different than the one of the parent entity, by foreign currency liabilities.
- ✓ revaluation of foreign currency liabilities designated for hedge accounting is recognised in other comprehensive income and offset with the opposite revaluation of net investments in foreign operation in consolidated financial statements.

Accumulated amount in other comprehensive income is transferred to the profit or loss statement in the case of partial or overall sale of shares in a foreign entity.

The table below presents a summary of specific groups of relationships existing in 2021, designated for hedge accounting:

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

Type of instrument	Hedged item	Nominal value/Volume (as at 31.12.2021)	Average price obtained on the contract (not settled transactions as at 31.12.2021)	Maturity	31.12.2021		31.12.2020	
Derivative instruments – cash flow hedge					**Assets**	**Liability**	**Assets**	**Liability**
Currency risk and interest rate risk								
Currency and interest swap (CIRS)	Interest payments on debt in PLN bearing interest at WIBOR 6M with semi-annual interest periods until March 2026. Sales revenues of the CIECH Group in EUR in the years 2023–2027	EUR 344 million	Average EURPLN CIRS exchange rate: 4.49 Weighted average (by initial nominal weighting) conversion rate of WIBOR 6M to a fixed rate in EUR: -0.09%	2026	85,607	(138,350)	-	-
Currency risk								
Currency forwards EUR/PLN	Future cash flows from realisation of sales revenues denominated in EUR or indexed to EUR exchange rate	EUR 74 million	Weighted average EURPLN selling rate: 4.68	2022	1,966	-	-	(11,208)
Interest rate risk								
Interest rate swap 6M EURIBOR to fixed rate	Interest payments on term loan contracted by CIECH S.A. with initial nominal amount of EUR 30,000 thousand	0	n.a.	2022 (early close-out in 2021)	-	-	-	(618)
Interest rate swaps – 6M WIBOR to fixed rate	Interest payments on term loan contracted by CIECH S.A. with initial nominal amount of PLN 1,212,520 thousand	PLN 1,212,520 thousand	Interest rate paid: 1.8% p.a.	2022	13,437	-	-	(31 126)
Interest rate swap – 6M EURIBOR to fixed rate	Interest payments on debt in EUR with a maximum nominal amount of EUR 14,075 thousand	EUR 14,075 thousand	Fixed rate paid in EUR for EURIBOR 6M: -0.28%	2026	526	-	-	-
Raw material price risk								
Futures contracts for the sale of CO_2 certificates (CIECH Soda Romania S.A.)	Planed revenue from sale of EUA	-	n.a.	2021 (March)	-	-	-	(22,590)
Collar option structures for gas supply	Gas supplied according to the option contract after elimination of the intrinsic value of the option or gas purchased at the month-ahead market price if the option is not exercised		n.a.	2021	-	-	18,427	-

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

Type of instrument	Hedged item	Nominal value/Volume (as at 31.12.2021)	Average price obtained on the contract (not settled transactions as at 31.12.2021)	Maturity	31.12.2021		31.12.2020	
Derivative instruments – cash flow hedge					**Assets**	**Liability**	**Assets**	**Liability**
Financial instruments – hedge of net investments								
Currency risk								
Term loan liabilities	The hedged item is a portion of the net investment in a subsidiary	EUR 30,000 thousand	n.a.	2022 (early close-out in 2021)	-	-	-	(138,444)

Amounts recognised in the cash flow hedge reserve are presented below:

	01.01.-31.12.2021	01.01.-31.12.2020
Opening balance	**(9,393)**	17,678
Change in fair value of the hedging instrument recognised in other comprehensive income	237,529	(53,061)
Income tax on the effective portion	(67,314)	13,255
The hedging effect that was transferred to the profit or loss	(135)	17,087
Income tax transferred to the profit or loss	(1,923)	(3,067)
Ineffectiveness	-	(1,285)
Closing balance	**158,763**	**(9,393)**

The aim of the Group when taking the decision concerning the implementation of the principles of cash flow hedging was to reduce the influence of interest rate and exchange rate movements, exchange rates differences due to incurred liabilities, (e.g. loans, bonds) and the impact of changes in raw material prices (gas, CO_2) on the statement of profit or loss by reflecting their hedging nature in the financial statements.

The result of the settlement of the effective portion of hedging instruments is reclassified from equity to the statement of profit or loss upon the realisation of the hedged item and recognition of its effect in the statement of profit or loss.

In the reporting period, there was an instance of identifying the inability to realise a future transaction in respect of which the cash flow hedge accounting was applied. In connection with the refinancing of the syndicated credit facility, the PLN IRS and EUR IRS designated for hedge accounting at the level of CIECH S.A.'s separate financial statements were settled early in May 2021 and the value of the instrument as at the settlement date was transferred to the current result.

Sales revenues designated to hedge accounting are considered as highly probable. Their occurrence is anticipated in the Group's long-term financial forecast. Additionally, to a large extent, these transactions are concluded with regular customers of the Group Companies, which supports the probability of their occurrence. The effect of the cash flow hedge accounting and the net investment hedges in foreign entities was presented in the consolidated statement of other comprehensive income of the Group.

In IRS transactions, in order to identify sources of ineffectiveness of the hedge, key parameters of the hedged credit and IRS transactions (nominal amount, interest rate, interest periods) were compared. Credit risk is considered negligible. No sources of ineffectiveness were identified.

In the CIRS transaction, in order to identify sources of ineffectiveness of the hedge, key parameters of the hedged currency cash flows and the hedging transaction were compared: nominal amount, timing of cash flows.

The ineffectiveness of the hedge was influenced by:

- differences in the settlement dates of forward hedges and the timing of realisation of the hedged currency cash flows

- differences in individual forward rates within a forward series vs. hypothetical forward transactions in which the individual transactions have market levels at the time the transaction is designated. Credit risk is considered negligible given the financial status of the counterparty.

8.3. FINANCIAL RISK MANAGEMENT

Risk management principles

The CIECH Group actively manages operational and financial risk, striving to reduce the fluctuation of cash flows and maximise the companies' market value.

The CIECH Group's policy is to use natural hedging (net exposure is taken into account) and to hedge of up to 90% of the projected annual net exposure to risk of changes in exchange rates, CO_2 emission allowance prices, natural gas prices and electricity prices by using derivatives and 100% exposure to interest rate risk.

The following types of transactions were concluded (or continued but concluded in previous years) in the Group in 2021 : contracts to hedge currency risk and interest rate risk (IRSs and CIRSs), contracts to hedge the risk of prices of CO_2 emission certificates (forwards, futures), contracts to hedge the risk of gas prices (forwards, options), and contracts to hedge the risk of electricity prices (forwards).

Cash management

The CIECH Group cooperates with bank service providers of high credit rating and with substantial experience in the cash management area. Allocation of financial resources to the Group companies is performed through the use of intra-group loans, dividends payout by subsidiaries, participation in a cash management system (cashpooling) and increase of share capital in the subsidiaries.

Quantitative and qualitative information on financial risks

The CIECH Group manages financial risks based on, among others, the developed and adopted market risk hedging strategy. The aim of the financial risk management policy is to identify areas requiring risk analysis to determine methods to identify and measure it, to determine activities undertaken in relation to identified risk areas and to define organisational solutions in the risk management process.

In fulfilling its main goals, the Group aims to avoid excessive market risk. This goal is realised by identifying, monitoring and hedging cash flow fluctuation risk and monitoring the size and costs of CIECH Group debt. When assessing risk, the Group takes into account the risk portfolio effect resulting from the variety of conducted business activities. Risk effects are materialised in the cash flow statement, statement of financial position and the statement of profit or loss.

Financial risk management covers processes of identifying, measuring and establishing the manner of responding to that risk, including processes related to currency exchange rates and interest rate fluctuations. The Group monitors risk areas which are most important for its activities.

Interest rate risk

The Group finances its activity mainly through term loans and bonds. The amount of the costs of interest-bearing debt held by the Group depends on the reference rate. This refers to term loans made available under a facilities agreement dated 16 March 2021 in the amount of PLN 1,801 million and EUR 14 million, a revolving credit facility in the amount of up to PLN 250 million (as at the end of 2021, the debt amounted to PLN 0), overdraft facilities (as at the end: PLN 0 thousand) and a part of lease and factoring contracts.

Therefore, the Group is exposed to risk of change in finance costs due to changing interest rates on existing debt. This may result in increased financial costs and, consequently, deterioration of the Group financial result. The risk is partially reduced by:

- ✓ assets owned by the CIECH Group companies (bank deposits), earning interest at variable interest rate,
- ✓ hedging transactions concluded.

In 2021, the CIECH Group used the following interest rate hedging transactions:

- interest rate swap transaction to hedge the variable interest rate levels applicable to the calculation of interest on the term loan made available in March 2021. The transaction hedges indebtedness in the amount of EUR 14 million, amortised in accordance with the schedule of the IRS transaction;
- currency and interest rate swap transactions to hedge the variable interest rate levels applicable to the calculation of interest on the term loan made available in March 2021. The transaction hedges indebtedness in the initial nominal amount of 1,212 million, amortised in accordance with the schedule of the CIRS transaction.

The table below presents the consolidated statement of financial position items (without derivative instruments) exposed to interest rate risk:

Total carrying amount	31.12.2021	31.12.2020
Fixed interest rate instruments	-	-
Financial assets	-	-
Financial liabilities	-	-
Floating interest rate instruments	**(1,211,615)**	**(1,596,847)**
Financial assets (cash)	799,023	443,886
Financial liabilities*	2,010,638	2,040,733

** PLN 1,213 million and EUR 14 million hedged by IRS, PLN 326 million hedged by CIRS – IRS transaction isolated as part of decomposition of CIRS*

The table below shows the effects of a change in the interest rate by 100 basis points in relation to the floating interest rate instruments presented in the statement of financial position.

	Statement of profit or loss		Equity*	
	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp
31.12.2021				
Floating interest rate instruments	(12,116)	12,116	-	-
Interest rate swaps*	1,166	(1,182)	56,358	(59,597)
Sensitivity of cash flows (net)	**(10,950)**	**10,934**	**56,358**	**(59,597)**
31.12.2020				
Floating interest rate instruments	(15,968)	15,968	-	-
Interest rate swaps*	2,617	(2,690)	15,878	(16,409)
Sensitivity of cash flows (net)	**(13,351)**	**13,278**	**15,878**	**(16,409)**

** Do not include the impact of profit/loss on equity.*

Currency risk

Currency risk is an inevitable component of commercial activity denominated in foreign currencies. Due to the nature of conducted import and export operations, the CIECH Group is subject to currency exposure related to the significant lead of export over import. The exposure value is also affected by investment projects implemented in foreign currencies and the structure of external financing. Sources of currency risk which exposed companies within the CIECH Group in 2021 included: sales of products, purchases (raw materials, expenditure related to investment projects), loans taken out and cash in foreign currencies. Unfavourable changes in currency exchange rates may worsen the CIECH Group's financial results.

Foreign exchange risk analysis is focused on the level of operating cash flows. The SDC Group, CIECH Salz Deutschland GmbH and Proplan were excluded from the analysis since their functional currency is EUR and all reported operating cash flows of these companies are performed in this currency.

In 2021, the CIECH Group used hedging contracts, such as forward options, to partially cover currency risk. The CIECH Group tries to naturally hedge the foreign currency exposure, including matching of currency flows arising from sales and purchases as well as strategic debt denominated in EUR, in order to fit it to the expected exposure to currency risk in operations.

The table below presents the estimated currency exposure of the CIECH Group in EUR (excluding figures concerning the SDC Group, CIECH Salz Deutschland GmbH and Proplan) and in USD as at 31 December 2021 and 2020 due to financial instruments:

Exposure to currency risk in EUR ('000)	31.12.2021	31.12.2020	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income*
Assets				
Loans granted sensitive to FX rate changes	224,000	215,955	x	
Trade and other receivables	3,168	16,092	x	
Cash including bank deposits	12,076	14,668	x	
Liabilities				

Exposure to currency risk in EUR ('000)	31.12.2021	31.12.2020	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income*
Trade and other liabilities	(18,568)	(15,340)	x	
Term loan liabilities	(14,075)	(30,000)		x
Working capital facility liabilities	-	(25,000)		x
Other liabilities in respect of credits and loans	-	(13,030)	x	
Hedging instruments: Forward	(73,900)	(173,025)		x
Forward (not designated to hedge accounting)	(119,013)	(41,000)	x	
CIRS (not designated to hedge accounting)	(60,000)	(60,000)	x	
Hedging instruments: CIRS (forward transactions isolated as part of decomposition of CIRS)	(343,590)	-		x
Total exposure	**(389,902)**	**(110,680)**		

** Measurement of financial instruments designated for hedge accounting is referred to other comprehensive income while ineffectiveness is recognised in the profit or loss statement.*

Exposure to currency risk in USD ('000)	31.12.2021	31.12.2020	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income*
Assets				
Trade and other receivables	1,426	2,420	x	
Cash including bank deposits	1,957	1,182	x	
Liabilities				
Trade and other liabilities	(1,916)	(992)	x	
Total exposure	**1,467**	**2,610**		

** Measurement of financial instruments designated for hedge accounting is referred to other comprehensive income while ineffectiveness is recognised in the profit or loss statement.*

The table contains an analysis of the sensitivity of individual statement of financial position items to exchange rate changes as at 31 December 2021.

Analysis of sensitivity to currency risk – EUR	('000 EUR)*	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income
31.12.2021			
Foreign-currency balance sheet items	**2,066**	2,066	-
Hedging instruments: Forward and CIRS	**(5,965)**	(1,790)	(4,175)
31.12.2020			
Foreign-currency balance sheet items	**623**	923	(300)
Hedging instruments: Forward and CIRS	**(1,730)**	-	(1,730)

** Increase of EUR/PLN exchange rate by 1 grosz.*

Analysis of sensitivity to currency risk – USD	(USD '000)*	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income
31.12.2021			
Foreign-currency balance sheet items	**15**	15	-
31.12.2020			
Foreign-currency balance sheet items	**26**	26	-

** Increase of USD/PLN exchange rate by 1 grosz.*

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

Raw material price risk

In the course of its operations, the CIECH Group is exposed to the risk of changes in prices of energy commodities (e.g. coal, natural gas, CO_2 emission certificates) and the risk of changes in electricity prices.

The CIECH Group reduces market risk related to raw materials through concluding agreements with suppliers containing an appropriate price formula or through forward transactions.

Credit risk

Credit risk means a threat of the counterparty not fulfilling the obligations stipulated in the agreement, exposing the lender to financial loss.

From the CIECH Group's point of view, credit risk is linked to:

- trade receivables from customers,
- cash and bank deposits.

The CIECH Group is exposed to credit risk connected with the credit rating of customers being parties to products and goods sales transactions. That risk is limited by using internal procedures to establish amounts of credit limits for customers and to manage trade receivables (the Group uses securities in the form of a letter of credit, bank guarantees, mortgages, receivables insurance and non-recourse factoring; approx. 9% of receivables is not insured). Customers' creditworthiness is assessed and appropriate collateral is obtained from the customers, 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. On selected markets, where more risky payment deadlines are applied, the Group's companies make use of services provided by companies specialising in insuring receivables.

Credit risk connected with cash in bank and bank deposits is low as the CIECH Group enters into transactions with high-rating banks with stable market position.

The table below presents the maximum exposure of financial assets to credit risk as at the end of reporting period.

	31.12.2021	31.12.2020
Cash and cash equivalents	799,023	443,886
Trade receivables and factoring receivables	243,024	223,268
Financial assets from valuation of derivatives	102,882	20,262
TOTAL	**1,144,929**	**687,416**

The CIECH Group has no material items which would be uncollectible as at the reporting date and not covered by an impairment allowance.

	Trade receivables		Loans advanced	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Soda Segment	187,203	126,497	-	-
Agro Segment	38,118	55,411	-	-
Foams Segment	3,635	7,106	-	-
Silicates Segment	19,923	11,471	-	-
Packaging Segment	2145	19	-	-
Other Segment	21,496	18,757	133	146
Resins Segment*	-	65,204	-	-
Consolidation adjustments	(63,289)	(108,768)	-	-
TOTAL	**209,231**	**175,697**	**133**	**146**

**Assets associated with discontinued operations. For detailed information on discontinued operations, see Note 5.13 to these financial statements.*

Below is a reconciliation of impairment allowances for trade receivables in accordance with IFRS 9.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

	Stage 2 Lifetime ECL – not impaired	Stage 3 Lifetime ECL – impaired	Total
Trade receivables, gross, as at 1 January 2021	**175,408**	**48,804**	**224,212**
Recognised	2,688,465	4,465	2,692,930
Repaid	(2,654,372)	(6,925)	(2,661,297)
Trade receivables, gross, as at 31 December 2021	**209,501**	**46,345**	**255,845**
01.01.2021	**4,861**	**43,654**	**48,515**
Recognition of impairment losses	1,902	1,942	**3,844**
Reversal of unused allowances	(141)	(6,583)	(6,724)
Utilisation	-	(26)	(26)
Foreign exchange differences	-	413	413
Other	-	592	592
31.12.2021	**6,622**	**39,993**	**46,614**
Trade receivables, net, as at 31 December 2021	**202,879**	**6,352**	**209,231**

	Stage 2 Lifetime ECL – not impaired	Stage 3 Lifetime ECL – impaired	Total
Trade receivables, gross, as at 1 January 2020	**294,233**	**39,332**	**333,565**
Recognised	2,082,132	19,519	2,101,651
Repaid	(2,200,957)	(10,047)	(2,211,005)
Trade receivables, gross, as at 31 December 2020	**175,408**	**48,804**	**224,212**
01.01.2020	**3,889**	**35,781**	**39,670**
Recognition of impairment losses	1,790	13,876	**15,666**
Reversal of unused allowances	(818)	(2,911)	(3,729)
Utilisation		(527)	(527)
Foreign exchange differences		519	519
Transfer to fixed assets and assets groups for sale		(2,578)	(2,578)
Other		(506)	(506)
31.12.2020	**4,861**	**43,654**	**48,515**
Trade receivables, net, as at 31 December 2020	**170,547**	**5,150**	**175,697**

Calculation of impairment allowances for trade receivables

The following tables present the reconciliation of impairment allowances for financial assets in accordance with IFRS 9. Default rates and calculation of impairment allowances as at 31 December 2021 and 31 December 2020 are presented in the following tables.

	Total	Non past due	0-30 days	30-90 days	90-180 days	> 180 days
Trade receivables, gross, as at 31.12.2021	**255,845**	**183,260**	**11,096**	**4,239**	**702**	**56,548**
Default rate		0.35%	0.27%	9.17%	82.89%	79.47%
Expected credit losses in accordance with IFRS 9	6,622	634	29	389	582	4,988
Total expected losses	**46,613**	**664**	**38**	**389**	**582**	**44,941**
from collective analysis	**6,622**	634	29	389	582	4,988
from case-by-case analysis	**39,992**	30	9	-	-	39,953

	Total	Non past due	0-30 days	30-90 days	90-180 days	> 180 days
Trade receivables, gross, as at 31.12.2020	**224,212**	**170,588**	**4,047**	**456**	**502**	**48,619**
Default rate		0.45%	0.62%	18.27%	35.89%	97.96%
Expected credit losses in accordance with IFRS 9	4,861	775	25	83	180	3,798
Total expected losses	**48,713**	**776**	**26**	**85**	**199**	**47,627**
from collective analysis	**4,861**	775	25	83	180	3,798
from case-by-case analysis	**43,852**	1	1	2	19	43,829

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

Liquidity risk

The CIECH Group is exposed to risk connected with maintaining liquidity due to the considerable value of external financing (due to the term loans, working capital facilities and lease agreements), the limited ability to obtain new financing in the event of a deterioration in market conditions and due to the existing high level of indebtedness and the risk of losing the existing long-term financing as a result of violating covenants stipulated in the bond issue terms and loan agreements.

The following measures are applied to reduce liquidity risk:

- current monitoring of liquidity of the CIECH Group's companies,
- monitoring and optimisation of the level of working capital,
- adjusting the level and schedule of capital expenditure,
- intragroup borrowings and sureties for the liabilities of the Group's companies,
- current monitoring of the settlement of liabilities under the loan agreements conditions.

The Group's debt financing is ensured primarily by the term loans. In addition, a revolving credit facility in the amount of PLN 250 million, constituting an additional source of current liquidity and working capital financing (as at 31 December 2021, the facility was drawn down in the amount of PLN 0 million), and overdraft facilities (as at the end of 2021, they were drawn down in the amount of PLN 0 thousand) have been made available to the Group.

The table below presents financial liabilities at face value grouped by maturity.

31.12.2021	Carrying amount	Contractual cash flows	Below 6 months	up to 12 months	1–2 years	3–5 years	Over 5 years
Other financial liabiliies:	**(2,497,115)**	**(2,428,894)**	**(657,082)**	**(19,623)**	**(112,782)**	**(1,639,406)**	**-**
Trade liabilities	*(614,596)*	*(614,596)*	*(614,596)*	-	-	-	-
Loans and borrowings	*(1,859,441)*	*(1,791,220)*	*(19,408)*	*(19,623)*	*(112,782)*	*(1,639,406)*	-
Factoring liabilities	*(23,078)*	*(23,078)*	*(23,078)*	-	-	-	-
Lease liabilities	**(151,197)**	**(272,241)**	**(16,371)**	**(14,416)**	**(45,177)**	**(29,363)**	**(166,914)**
Hedging derivatives with negative value	**(138,485)**	**(255,399)**	(39)	(30)	(15)	(255,315)	-
Derivative instruments with negative value	**(13,215)**	**(16,215)**	(16,215)	-	-	-	-
Total financial liabilities	**(2,800,012)**	**(2,972,748)**	**(689,707)**	**(34,069)**	**(157,974)**	**(1,924,084)**	**(166,914)**

31.12.2020	Carrying amount	Contractual cash flows	Below 6 months	up to 12 months	1–2 years	3–5 years	Over 5 years
Other financial liabiliies:	**(2,418,260)**	**(2,457,822)**	**(2,449,432)**	**-**	**(8,390)**	**-**	**-**
Trade liabilities	*(490,611)*	*(490,611)*	*(490,611)*	-	-	-	-
Loans and borrowings	*(1,911,475)*	*(1,951,037)*	*(1,942,647)*	-	*(8,390)*	-	-
Factoring liabilities	(16,174)	*(16,174)*	*(16,174)*	-	-	-	-
Lease liabilities	**(129,258)**	**(253,223)**	**(14,242)**	**(11,878)**	**(32,086)**	**(22,908)**	**(172,109)**
Hedging derivatives with negative value	**(65,542)**	**(67,651)**	**(40,334)**	**(15,124)**	**(10,397)**	**(1,796)**	**-**
Derivative instruments with negative value	**(16,494)**	**(14,364)**	**-**	**-**	**(14,364)**	**-**	**-**
Total financial liabilities	**(2,629,554)**	**(2,793,060)**	**(2,504,008)**	**(27,002)**	**(65,237)**	**(24,704)**	**(172,109)**

Detailed information concerning revenues and costs pertaining to financial instruments, recognised in the statement of profit or loss has been presented in note 8.1.

Liquidity of the CIECH Group

Liquidity ratios as at 31 December 2021 increased significantly as compared to their level as at 31 December 2020. The current ratio, calculated as the ratio of total current assets to total current liabilities, amounted to 1.03 as at 31 December 2021, while the quick liquidity ratio amounted to 0.84. The changes in the level of these ratios follow the non-fulfilment of the ratio set out in the loan agreement at the end of 2020, as described in Note 7.1 to the Consolidated Financial Statements of the CIECH Group for 2020.

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	31.12.2021	31.12.2020
Current ratio	1.06	0.46
Quick ratio	0.87	0.35

8.4. DETERMINATION OF FAIR VALUE

The following list presents the fair value of financial instruments.

	31.12.2021		31.12.2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	799,023	799,023	443,886	443,886
Loans granted	133	133	146	146
Trade receivables	209,231	209,231	175,697	175,697
Hedging instruments with positive value	101,672	101,672	18,427	18,427
Derivatives with positive value	1,210	1,210	1,835	1,835
Factoring receivables	33,660	33,660	47,425	47,425
ASSETS	**1,144,929**	**1,144,929**	**687,416**	**687,416**
Loans and borrowings	(1,859,441)	(1,870,822)	(1,911,475)	(1,910,967)
Trade liabilities	(614,596)	(614,596)	(490,611)	(490,611)
Hedging instruments with negative value	(138,485)	(138,485)	(65,542)	(65,542)
Derivatives with negative value	(13,215)	(13,215)	(16,494)	(16,494)
Factoring liabilities	(23,078)	(23,078)	(16,174)	(16,174)
LIABILITIES	**(2,648,815)**	**(2,660,196)**	**(2,500,296)**	**(2,499,788)**

The fair value of financial assets and liabilities corresponds with the amounts for which these instruments may be exchanged in a market transaction between well informed parties. The following assumptions were made in establishing the fair value:

- cash, trade receivables and liabilities are not measured at fair value – it is assumed that the carrying amount is the closest to fair value due to the short maturities of these instruments,
- fair value of financial assets and liabilities recognised in the statement of financial position at amortised cost for which no active market exists was established as the present value of future cash flows discounted at market interest rate.

Measurement at fair value is grouped according to three-level hierarchy:

- Level 1 – fair value based on market listing stock exchange prices (unadjusted) offered for identical assets or liabilities on active markets.
- Level 2 – the CIECH Group values derivatives at fair value by using measurement models for financial instruments and applying generally available interest rates, currency exchange rates etc.
- Level 3 – fair value estimated on the basis of various evaluation techniques which are not based on observable market inputs.

Assets and liabilities measured at fair value

	31.12.2021			31.12.2020*		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets	**-**	**102,882**	**32,839**	**-**	**20,262**	**40,948**
Investment property	-	-	32,839	-	-	40,948
Hedging instruments	-	101,672	-	-	18,427	-
Derivatives with positive value	-	1,210	-	-	1,835	-
Liabilities	**-**	**(151,700)**	**-**	**(22,590)**	**(59,446)**	**-**
Hedging instruments	-	(138,485)	-	(22,590)	(42,952)	-
Derivatives with negative value	-	(13,215)	-	-	(16,494)	-
TOTAL	**-**	**(48,818)**	**32,839**	**(22,590)**	**(39,184)**	**40,948**

**Restated data. For detailed information, see Note 1.5.1 to this report.*

CIECH Soda Polska S.A. holds futures contracts for the purchase of emission allowances, which represent a financial instruments but are not measured at fair value. This is because futures contracts on CO_2 emission allowances purchased for own use (surrender in connection with the release of CO_2 into the atmosphere) are excluded from the scope of IFRS 9.
Due to the specific nature of futures contracts (transactions concluded on regulated markets), cash flows are generated from the current market valuation. Notwithstanding the exclusion or inclusion of the instrument within the scope of IFRS 9, these cash flows are accounted for, in corresponding records, as settlement with the Clearing House.
As at 31 December 2021, the balance of settlements on this account amounted to PLN 138,9 million (liability), which resulted from positive market valuation of the contracts and crediting the account of CIECH Soda Polska S.A.; as at 31 December 2020, the balance amounted to PLN 11.9 million (liability), which resulted from positive market valuation of the contracts and crediting the account of CIECH Soda Polska S.A. with PLN 34.5 million and negative market valuation of the contract and debiting the account of CIECH Soda Romania S.A. with PLN 22.6 million

The CIECH Group held the following types of financial instruments measured at fair value:

- concluded by the parent company, CIECH S.A.: interest rate swap contracts, CIRS (currency and interest rate swap) contract EUR/PLN — Level 2, according to the fair value hierarchy,
- currency forwards concluded by CIECH S.A. — Level 2, according to the fair value hierarchy,
- collar option structures for gas supply at CIECH Energy Deutschland GmbH – Level 2, according to the fair value hierarchy,
- collar option structures for supply of CO_2 emission allowances at CIECH Energy Deutschland GmbH – Level 2, according to the fair value hierarchy.

In 2021, there were no transfers within the fair value hierarchy of instruments measured at fair value. There were no changes in the classification of financial instruments, or in business conditions that could affect the fair value of financial assets or liabilities.

The fair value of instruments concluded is determined in the following manner:

- the fair value of the interest rate swap contract is determined as a difference in the discounted interest rate cash flow (cash flow based on a floating rate, the so-called floating leg, and a fixed rate, the so-called fixed leg). The input data for the method is the market data for interest rates provided by Reuters.
- the fair value of the CIRS contract is determined as a difference in discounted interest and capital cash flows. The input data for the method is the market data for interest rates and cross currency basis-swaps quotations provided by Reuters.
- the fair value of the currency forward is determined as a difference between the transaction rate and the forward rate at the valuation date multiplied by the nominal value of the contract in the foreign currency. The input data for the method is the market data for interest rates and cross currency basis-swaps quotations provided by Reuters.
- Futures contracts for the purchases of CO_2 certificates are settled on a daily basis according to quotations published on ICE Endex and EEX's stock exchange,
- the value of natural gas commodity options is determined using the Black-Scholes option pricing model. Inputs include implied gas price volatility and forward gas prices at European gas delivery points.
- the value of commodity options for CO_2 emission allowances is determined on the basis of option price quotations on the ICE Endex exchange.

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	Long-term financial assets	Short-term financial assets	Other long-term liabilities	Trade and other liabilities	TOTAL
31.12.2021					
IRS EUR	662	-	-	(136)	**526**
IRS PLN	-	13,437	-	-	**13,437**
CIRS	-	85,607	(91,857)	(59,707)	**(65,957)**
Forward EUR/PLN	-	3,176	-	-	**3,176**
TOTAL	**662**	**102,220**	**(91,857)**	**(59,843)**	**(48,818)**
31.12.2020*					
IRS EUR**	-	-	-	(618)	**(618)**
IRS PLN**	-	-	-	(31,126)	**(31,126)**
CIRS	574	1,261	(14,327)	-	**(12,492)**
Forward EUR/PLN	-	-	-	(13,375)	**(13,375)**
Collar options	-	18,427	-	-	**18,427**
Futures contracts for the sale of CO_2 certificates	-	-	-	(22,590)	**(22,590)**
TOTAL	**574**	**19,688**	**(14,327)**	**(67,709)**	**(61,774)**

**Restated data. For detailed information, see Note 1.5.1 to this report.*

***As at the end of 2020, the long-term portion of IRS transactions designated for hedge accounting is not reported. These transactions hedge the interest rate on loans that have been recognised as short-term liabilities due to a breach of one of the covenants at the balance sheet date.*

Investment properties are also measured at the fair value in the financial statements. According to the fair value hierarchy, it is Level 3. Investment real estate portfolio is evaluated by an external, independent property appraiser or based on a preliminary sale agreement. In measuring the fair value of land used under the perpetual usufruct in Bydgoszcz, a comparative method was applied. The comparative approach means measuring the value through an analysis of recent sales or listings of comparable assets. These transactions or offers are adjusted in order to take into account differences of the valuated assets and comparable assets on the day of their sale, for example date of sale, location, area, technical status and other. According to the method of average price adjustments, estimating the property value that is the subject of valuation is based on the average price adjustment of similar properties, that form the base for the comparison creating adjustment coefficients corresponding to different characteristics of these properties. The calculations are based on comparative properties, described by attributes influencing the level of properties prices and transaction prices of these properties.

Valuation of buildings located in Bydgoszcz and tangible assets identified as technical infrastructure (including assets that are necessary to keep properties operational but which are not traded on the secondary market) is synthetically included in the total value of land valuated under the comparative approach method. Buildings and structures located on plots of land in Bydgoszcz have no impact on the market value of this land, therefore, for accounting purposes, the value of this group of assets was determined based on their book value. In the final balance sheet, the value of buildings and structures was deducted from the value of land.

The measurement of the fair value of investment property does not include transaction costs, which the entity might additionally bear, future capital expenditures regarding development or improvement of the investment property, as well as future benefits regarding those expenditures.

The verification of the fair value of investment properties is conducted at least once a year at the balance sheet date ending the financial year.

Financial instruments not measured at fair value

The CIECH Group has taken out term and revolving credit facilities whose book value, as at 31 December 2021, was PLN 1,859,441 thousand, and whose fair value amounted to PLN 1,870,822 thousand (Level 2 of fair value hierarchy). In the case of the remaining financial instruments held by the CIECH Group (classified mainly as cash and cash equivalents, financial assets and liabilities measured at amortised cost), the fair value is close to the book value.

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9. OTHER NOTES

9.1. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The tables below present the reasons for the differences between the changes of particular items of the consolidated statement of financial position and changes resulting from the consolidated cash flows statement

	01.01.- 31.12.2021	01.01.- 31.12.2020
Inventory change presented in consolidated statement of financial position	**73,517**	**(106,715)**
Reclassification to assets held for sale	-	34,795
Currency translation reserve	940	(7,534)
Change in Group's composition	(4,621)	-
Inventory change in consolidated statement of cash flows	**(69,836)**	**79,454**

	01.01.- 31.12.2021	01.01.- 31.12.2020
Provision change presented in consolidated statement of financial position	**107,820**	**34,421**
Reclassification of provisions from / to liabilities related to assets held for sale	-	1,123
Change in the provision for income tax and late payment interest for 2012	-	(14,317)
Change in Group's composition	985	-
Currency translation reserve	(48)	(10,111)
Change in reserves related to caverns	(118,745)	(9,897)
Other	824	709
Provisions change in consolidated statement of cash flows	**(9,164)**	**1,928**

	01.01.- 31.12.2021	01.01.- 31.12.2020
Receivables change presented in consolidated statement of financial position	**108,183**	**(61,143)**
Change in investment receivables	4,046	(3,945)
Change in income tax receivables	15,165	(22,561)
Change in receivables from caverns	(4,965)	3,922
Change in Group's composition	62,762	(1,571)
Currency translation reserve	(3,928)	(7,463)
Reclassification of receivables from / to assets held for sale	-	42,701
Other	8,632	-
Receivables change presented in consolidated statement of cash flows	**(189,895)**	**50,059**

	01.01.- 31.12.2021	01.01.- 31.12.2020
Change of liabilities presented in consolidated statement of financial position	**845,080**	**467,916**
Change in investment liabilities	84,894	12,975
Change in financial liabilities	(69,664)	(34,426)
Change in income tax liabilities	(80,673)	(2,249)
Currency translation reserve	(8,837)	6,193
Reclassification of liabilities to / from liabilities related to assets held for sale	-	25,375
Change in Group's composition	88,817	
Change in lease liabilities and loans	30,097	(251,530)
Donations	(51,751)	-
Emission rights	(51,331)	-
Liabilities change presented in consolidated statement of cash flows	**786,432**	**224,254**

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9.2. INFORMATION ON CHANGES IN CONTINGENT ASSETS AND LIABILITIES AND OTHER MATTERS

Accounting policy

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Group. An example is a claim that the Group is pursuing through legal processes, where the outcome is uncertain. Contingent assets are not recognised in the statement of financial position since this could result in the recognition of income that may never be realised.

A contingent liability is a possible future obligation, whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Group's control. These are also liabilities that arose from past events but were not recognised in the financial statements because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised in the statement of financial position.

Significant disputed liabilities of the CIECH Group

As at 31 December 2021, the CIECH Group did not have any significant disputed liabilities of CIECH S.A. and CIECH S.A.'s subsidiaries, pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies, except for the cases described below, in "Audits of tax settlements at the CIECH Group and related contingent liabilities".

Significant disputed receivables of the CIECH Group

As at 31 December 2021, the CIECH Group did not hold any significant disputed receivables of CIECH S.A. and CIECH S.A.'s subsidiaries, pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies, except for the case described in "Contingent assets and liabilities including guarantees and sureties, excluding liabilities related to proceedings before administrative authorities".

Contingent assets and liabilities including guarantees and sureties, excluding liabilities related to proceedings before administrative authorities

The amounts of contingent liabilities related to proceedings before administrative authorities and changes therein in 2021 are described in the note below under the heading: "Audits of tax settlements at the CIECH Group and related contingent liabilities".

	31.12.2021	31.12.2020
Contingent assets	**21,933**	**31,077**
Other contingent receivables*	21,933	31,077
Contingent liabilities	**427,034**	**983,785**
Guarantees and sureties granted	-	551,318
Tax liabilities (including interests)	89,299	126,728
Letters of support	214,792	211,358
Emission allowances**	48,905	-
Promissory notes***	42,859	50,786
Other****	31,179	43,595

** Including:*

- *Contingent asset in the amount of PLN 18,864 thousand related to the action against GZNF "FOSFORY" Sp. z o.o. for the payment of compensation for making an alleged untrue declaration by GZNF "FOSFORY" Sp. z o.o. to CIECH S.A. about the condition of Agrochem Człuchów Sp. z o.o. with its registered office in Człuchów.*
- *As at 31 December 2021, a contingent asset recognised by CIECH Soda Polska S.A. amounted to PLN 3,069 thousand – it is the value of energy efficiency certificates received from the President of the Energy Regulatory Office in previous years that have not been recorded yet in the account kept by the Polish Power Exchange.*

*** Relates to emission allowances received in CIECH Soda Romania S.A. related to the risk of their return due to the suspension of production at CIECH Soda Romania S.A.*

**** Including mainly:*

- *contingent liabilities in CIECH R&D Sp. z o.o. resulting from promissory notes relating to subsidies received for investment projects aimed at developing and optimising production processes in the amount of PLN 11,286 thousand,*
- *contingent liabilities in CIECH R&D Sp. z o.o. resulting from promissory notes relating to subsidies received for the purchase of rolling stock the amount of PLN 14,200 thousand,*

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- *contingent liabilities in CIECH Sarzyna S.A. resulting from promissory notes relating to subsidies received for developing and testing a group of agro-chemical preparations and for the development and verification of herbicide production technology for the total amount of PLN 7,423 thousand,*
- *contingent liabilities in Smart Fluid Sp. z o.o. resulting from promissory notes relating to subsidies received for research and development projects in the amount of PLN 5,016 thousand.*

***** Including:*

- *contingent liability in CIECH Soda Polska S.A.: regarding environmental penalty fees in the amount of PLN 17,176 thousand, received subsidies PLN 11,200 thousand, extension fees PLN 1,696 thousand, other PLN 1,107 thousand.*

As at 31 December 2021, contingent liabilities amounted to PLN 427,034 thousand and decreased as compared to 31 December 2020 by PLN 556,751 thousand. The change was mainly due to the expiry of the guarantees granted under the term credit facility and revolving credit facilities agreement, which were repaid on 5 May 2021.

Sureties and guarantees granted as at 31 December 2021

Beneficiary's name	Total amount of the surety and guarantee granted		Financial terms, including guarantee fee due to the company; guarantee period	Principal
	currency	PLN		
CIECH S.A.				
Landesamt fuer Geologie und Bergwesen Sachsen-Anhalt	EUR 8,403 thousand	38,650 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability; no time limit	CIECH Soda Deutschland GmbH&Co. KG. (subsidiary)
Axpo Solutions AG	EUR 34,000 thousand	156,380 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to claims related to the agreement; until 31 December 2023	Ciech Energy Deutschland GmbH (subsidiary)
Investitionsbank_Sachsen-Anhalt (IBSA)	EUR 11,250 thousand	51,743 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to claims related to the subsidy;	CIECH Salz Deutschland GmbH (subsidiary)
Evatherm AG	EUR 21,900 thousand	100,727 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability; until the liabilities arising from the agreement between Evatherm AG and CIECH Salz Deutschland GmbH have been settled	CIECH Salz Deutschland GmbH (subsidiary)
BNP Paribas S.A.	EUR 200,000 thousand	919,880 thousand	Commission of 1.5% p.a. of the guaranteed liability; ISDA agreement – liabilities under the agreement; indefinite term	CIECH Soda Deutschland GmbH & Co. KG; Ciech Energy Deutschland GmbH
BNP Paribas S.A.	PLN 62,500 thousand	62,500 thousand	Commission of 0.55% p.a. of the guaranteed liability; supplier financing agreement; until all obligations have been repaid no later than 36 months after the date of termination	CIECH Soda Deutschland GmbH & Co. KG; Ciech Energy Deutschland GmbH
BNP Paribas Faktoring Sp. z o.o.	PLN 150,000 thousand	150,000 thousand	Commission of 0.55% p.a. of the guaranteed liability; supplier financing agreement; indefinite term	CIECH S.A., CIECH Sarzyna S.A., CIECH Pianki Sp. z o.o., CIECH Soda Polska S.A., CIECH Vitrosilicon S.A.
mBank S.A.	PLN 3,000 thousand	3,000 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to claims under the Guarantee agreement; until 30 June 2023	CIECH Sarzyna S.A. (subsidiary)

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Beneficiary's name	Total amount of the surety and guarantee granted		Financial terms, including guarantee fee due to the company; guarantee period	Principal
	currency	PLN		
CITI Handlowy (reverse faktoring)*	PLN 56,675 thousand	56,675 thousand	Commission 0.55% p.a. of the guaranteed liability; 12.03.2022 (automatically extended)	CIECH S.A., CIECH Sarzyna S.A., CIECH Pianki Sp. z o.o., CIECH Soda Polska S.A., CIECH Vitrosilicon S.A.
Total nominal amount of guarantees and sureties granted				**PLN 1,539,555 thousand**

**The contract does not specify the amount of the surety, the value of guaranteed liabilities as at the balance sheet date was PLN 56,675 thousand.*

In 2021, the CIECH Group companies did not receive any guarantees from third parties.

Letters of support

As at 31 December 2021, CIECH S.A. was the obliged party in the letter of support (Patronatserklärung) regarding CIECH Soda Deutschland GmbH&Co. KG seated in Staßfurt (CSD) granted to Innogy Gas Storage NWE GmbH ("Innogy") relating to liabilities of CSD resulting from the agreement dated 5 May 2009 on salt caverns construction for the purpose of natural gas storage on the Staßfurt mining field according to which CSD received payments of EUR 46.7 million from Innogy by 31 December 2021. In the letter of support, CIECH S.A. has committed, among other things, to ensure that CSD will have sufficient funds to fulfil its financial commitments against Innogy resulting from the above-mentioned agreement.

Audits of tax settlements at the CIECH Group and related contingent liabilities

In 2021, the CIECH Group companies were at various stages of proceedings, including inspections, tax proceedings or administrative court cases concerning the settlement of corporate income tax (CIT) and value added tax (VAT).

The CIECH Group companies were subject to CIT proceedings concerning the following years:

a) 2012 – at CIECH S.A.
b) 2013 – at CIECH S.A.
c) 2014 – at CIECH S.A.
d) 2015 – at CIECH Soda Polska S.A.
   - at CIECH Pianki Sp. z o.o.
   - at CIECH Cargo Sp. z o.o.
   - at CIECH Sarzyna S.A.
   - at CIECH Vitrosilicon S.A.
e) 2016 – at CIECH Sarzyna S.A.
   - at CIECH S.A.
f) 2018 – at CIECH Soda Polska S.A.

CIT audit for 2012 at CIECH S.A. was initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków on 5 April 2018. CIECH S.A. received the outcome of the audit on 4 July 2018. The tax authority challenged the transaction concerning the capital increase in the former subsidiary. In the opinion of the authority, making a cash contribution by means of a contractual set-off of mutual receivables gives rise to income on the part of the Company for which, according to the auditors, the company cannot recognise a cost. The company's management board and its tax advisors do not agree with the findings made by the auditors.
In December 2018, the company received a decision of the Head of the Małopolskie Province Customs and Tax Office in Kraków, upholding the previous position of the authority. The Company contested the position and filed an appeal. In April 2019, the Company received a decision of the second instance, upholding the decision of the first instance. In April and May 2019, the Company paid up the outstanding tax along with interest in three tranches in the total amount of PLN 66.4 million (tax: PLN 43.7 million, interest: PLN 22.7 million). The disputed amount of tax and interest were covered by the

provision recognised in 2018, which was used as a result of their payment. CIECH S.A. appealed against the decision of the second instance to the Provincial Administrative Court in Kraków. On 9 October 2019, the Provincial Administrative Court issued a ruling in which it confirmed the approach presented by the authority. The court indicated that the company was obliged to recognise the income and did not have the right to recognise the tax deductible cost. After receipt of a written statement of reasons, the company lodged a cassation complaint with the Supreme Administrative Court on 23 December 2019. At present, the company is waiting for the date of the hearing to be set.

CIT audit for 2013 at CIECH S.A. was initiated by the Tax Audit Office in Warsaw on 30 November 2016. The tax audit report was issued on 16 May 2017. The authority claims that the Company has overestimated the tax deductible cost of interest on cash obtained as a result of the issue of bonds and allocated to the reserve capital of CIECH Soda Deutschland GmbH & Co. KG. Moreover, the authority is of the opinion that the fee for the “CIECH” trademark should not be recognised by CIECH S.A. as a tax deductible cost.

The tax base challenged by the authority is PLN 9.4 million (after taking into account the tax loss incurred in the audited year), which translates into a tax of PLN 1.8 million.

The company and its advisors did not agree with the findings of the auditors and as a result of the tax proceedings, the Decision of the First Instance was issued, against which the company filed an appeal in 2017. On 14 March 2018 CIECH S.A. received the decision of the Second Instance in which the auditors upheld their findings contained in the Decision of the First Instance.

The company appealed to the Provincial Administrative Court against this decision. Despite this, the company decided to pay tax in the amount of PLN 1.8 million and interest (PLN 0.3 million) on 10 April 2018. The Court made its decision on 6 June 2019. The Court complied with the CIECH S.A. appeal as regards the costs of trademark fees, repealing the decision of the second instance. However, as regards the costs of consulting and financing of Soda Deutschland, the Court adjudicated that said costs could not constitute tax costs. After receipt of a written statement of reasons, the company lodged a cassation complaint with the Supreme Administrative Court in September 2019. At present, the company is waiting for the date of the hearing to be set.

CIT audit for 2014 at CIECH S.A. was initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków (hereinafter: Head of the Małopolskie Province Customs and Tax Office in Kraków) on 13 November 2019. The Company received the outcome of the audit on 22 May 2020. The authority claims that the Company has overestimated the tax deductible cost by including interest on external financing contributed to the capital reserves of Soda Deutschland Ciech GmbH (hereinafter: SDC) and the costs of obtaining this financing in tax deductible costs. Moreover, the authority is of the opinion that expenses incurred on account of trade mark fees paid to the CIECH Group company should not be recognised by CIECH S.A. as a tax deductible cost. The taxable amount challenged by the authority is PLN 32.5 million which translates into a potential tax liability of PLN 6.2 million. The Company does not agree with the findings made by the auditors As a result, the customs and fiscal audit was converted into tax proceedings. On 15 October 2020, the Company received a report on the audit of the books in which the Head of the Małopolskie Province Customs and Tax Office leaves only the charge that the company overestimated the tax deductible cost by including interest on external financing contributed to the capital reserves of SDC and the costs of obtaining this financing in tax deductible costs (the taxable amount is PLN 22.6 million which translates into a potential tax liability of PLN 4.3 million). Thus, the office has refrained from questioning the expenses incurred for trade mark fees as a tax deductible cost. In the same month, the company submitted objections to the report on the audit of the books. On 28 February 2022, the Company received the Order of the Head of the Małopolskie Province Customs and Tax Office to suspend the Tax proceedings, in which the Auditing Authority indicates that the consideration of the case and the issue of the decision depends on the resolution of the preliminary issue by another authority or court, and the proceedings before the Supreme Administrative Court regarding the dispute on the settlement of the corporate income tax for 2013 is directly related to the correct settlement of the corporate income tax for 2014.

In addition, on 6 October 2020 the company received from the Head of the Małopolskie Province Customs and Tax Office a notice of suspension, as of 1 September 2020, of the statute of limitations for tax liabilities for 2014 due to initiation of proceedings for fiscal offences.

CIT audit for 2015 at CIECH Soda Polska S.A. was initiated by the Head of the Kujawsko-Pomorskie Province Tax Office in Bydgoszcz on 10 October 2016. On 7 March 2017, the tax office issued the tax audit report. The irregularities found result primarily from the fact that the auditors challenged the company's right to settle the loss from participation in a partnership – as was the case for CIECH Pianki Sp. z o.o., CIECH Cargo Sp. z o.o., CIECH Vitrosilicon S.A., CIECH Sarzyna S.A. The Company and its tax advisors do not agree with the position of the auditors. In June 2019, CIECH Soda Polska S.A. received a decision of the Kujawsko-Pomorskie Tax Office Head in Bydgoszcz (decision of the First instance), according to which the company had understated - due to its participation in a partnership - its tax obligations in the amount of PLN 3.9 million. The

Company appealed against said decision. On 9 September 2019, the company received a decision (decision of the Second instance) issued by the Head of the Tax Administration Chamber in Bydgoszcz, in which the latter upheld the findings of the decision of the First instance. The decision issued by the second instance authority is enforceable. Therefore, the company was obliged to pay the overdue tax (as per the tax auditors) in the amount of PLN 3.9 million (the tax base challenged by the tax authorities was PLN 20.4 million) plus the interest due in the amount of PLN 1 million. On 9 October 2019, the company appealed to the Provincial Administrative Court in Bydgoszcz against the decision of the Second Instance. At a hearing on 11 December 2019, after considering the appeal filed by the Company, the Provincial Administrative Court issued a ruling annulling the decision issued by the Head of the Tax Administration Chamber in Bydgoszcz in its entirety. In February 2020, Head of the Tax Administration Chamber in Bydgoszcz lodged a cassation complaint with the Supreme Administrative Court. At present, the company is waiting for the date of the hearing to be set.

CIT audit for 2015 at CIECH Pianki Sp. z o.o. was initiated by the Head of the Kujawsko-Pomorskie Province Tax Office in Bydgoszcz on 22 November 2016. On 3 March 2017, the tax office issued the tax audit report. As was the case for CIECH Soda Polska S.A., CIECH Cargo Sp. z o.o., CIECH Vitrosilicon S.A., CIECH Sarzyna S.A., the authority challenged the company's right to settle the loss from participation in a partnership.

The Company and its tax advisors do not agree with the position of the auditors. In June 2019, CIECH Pianki S.A. received a decision of the Kujawsko-Pomorskie Tax Office Head in Bydgoszcz (decision of the First instance), according to which the company had understated - due to its participation in a partnership - its tax obligations in the amount of PLN 2.6 million. The Company appealed against said decision. On 9 September 2019, the company received a decision (decision of the Second instance) issued by the Head of the Tax Administration Chamber in Bydgoszcz, in which the latter upheld the findings of the decision of the First instance. The decision issued by the second instance authority is enforceable. Therefore, the company was obliged to pay the overdue tax (as per the tax auditors) in the amount of PLN 2.6 million (the tax base challenged by the tax authorities was PLN 13.8 million) plus the interest due in the amount of PLN 0.7 million. On 9 October 2019, the company appealed to the Provincial Administrative Court in Bydgoszcz against the decision of the Second Instance. At a hearing on 11 December 2019, after considering the appeal filed by the Company, the Provincial Administrative Court issued a ruling annulling the decision issued by the Head of the Tax Administration Chamber in Bydgoszcz in its entirety. In February 2020, Head of the Tax Administration Chamber in Bydgoszcz lodged a cassation complaint with the Supreme Administrative Court. At present, the company is waiting for the date of the hearing to be set.

CIT audit for 2015 at CIECH Cargo Sp. z o.o. was initiated by the Head of the Kujawsko-Pomorskie Province Tax Office in Bydgoszcz on 23 January 2017. On 14 June 2017, the tax office issued the tax audit report. As was the case for CIECH Pianki Sp. z o.o., CIECH Soda Polska S.A., CIECH Vitrosilicon S.A., CIECH Sarzyna S.A., the authority challenged the company's right to settle the loss from participation in a partnership. The Company and its tax advisors do not agree with the position of the auditors. In June 2019, CIECH Cargo Sp. o.o. received a decision of the Kujawsko-Pomorskie Tax Office Head in Bydgoszcz (decision of the First instance), according to which the company had understated - due to its participation in a partnership - its tax obligations in the amount of PLN 1.7 million. The Company appealed against said decision. On 9 September 2019, the company received a decision (decision of the Second instance) issued by the Head of the Tax Administration Chamber in Bydgoszcz, in which the latter upheld the findings of the decision of the First instance. The decision issued by the second instance authority is enforceable. Therefore, the company was obliged to pay the overdue tax (as per the tax auditors) in the amount of PLN 1.7 million (the tax base challenged by the tax authorities was PLN 8.8 million) plus the interest due in the amount of PLN 0.5 million. On 9 October 2019, the Company appealed to the Provincial Administrative Court in Bydgoszcz against the decision of the Second Instance. At a hearing on 11 December 2019, after considering the appeal filed by the Company, the Provincial Administrative Court issued a ruling annulling the decision issued by the Head of the Tax Administration Chamber in Bydgoszcz in its entirety. In February 2020, Head of the Tax Administration Chamber in Bydgoszcz lodged a cassation complaint with the Supreme Administrative Court. At present, the company is waiting for the date of the hearing to be set.

CIT audit for 2015 at CIECH Vitrosilicon S.A. was initiated by the Head of the Lubuskie Province Customs and Tax Office in Gorzów Wielkopolski on 19 April 2018. The company received the outcome of the audit on 4 January 2019. As was the case for CIECH Soda Polska S.A., CIECH Cargo Sp. z o.o., CIECH Pianki Sp. z o.o., CIECH Sarzyna S.A., the authority challenged the company's right to settle the loss from participation in a partnership. The Company and its tax advisors do not agree with the position of the auditors. If the unfavourable position of the authority is upheld, an obligation may arise to pay tax arrears in the amount of PLN 2.7 million (the tax base challenged by the authority is PLN 14.4 million) plus with interest due. Tax proceedings are currently underway.

In addition, on 12 March 2021 the company received from the Head of the Lubuskie Province Customs and Tax Office a notice of suspension, as of 1 February 2021, of the statute of limitations for tax liabilities for 2015 due to initiation of proceedings for fiscal offences.

CIT audit for 2015 at CIECH Sarzyna S.A. was initiated by the Head of the Podkarpackie Province Tax Office in Reszów on 6 February 2017. On 7 November 2017, the tax office issued the audit report. As was the case for CIECH Pianki Sp. z o.o., CIECH Soda Polska S.A., CIECH Vitrosilicon S.A., CIECH Cargo Sp. z o.o., the authority challenged the company's right to settle the loss from participation in a partnership. In addition, the authority challenged the company's right to include the fee for the trademark and interest on loans paid in advance in tax deductible costs. The Company and its tax advisors do not agree with the position of the auditors. On 2 December 2021, the Company received the Decision of the Head of the Podkarpackie Province Tax Office in Reszów of 19 November 2021. In the Decision issued, the Office further questions the company's right to settle the loss from participation in a partnership and the right to include the trademark fee as a tax deductible cost. The Office, on the other hand, upheld the Company's arguments and abandoned the questioning of loan interest as a tax deductible cost. Although the Decision is not due, on 2 December 2021 the company paid tax and interest (tax in the amount of PLN 6.4 million, interest of PLN 1 million). On 16 December 2021, the Company filed an appeal against the Decision of the Head of the Podkarpackie Province Tax Office in Reszów. The company is currently awaiting the decision of the second instance authority.

In addition, on 21 December 2021 the company received from the Head of the Podkarpackie Province Tax Office in Reszów a notice of suspension, as of 3 December 2021, of the statute of limitations for tax liabilities for 2015 due to initiation of proceedings for fiscal offences.

CIT audit for 2016 at CIECH Sarzyna S.A. was initiated by the Head of the Podkarpackie Province Tax Office in Reszów on 26 February 2018. On 11 January 2019, the tax office issued the audit report. According to the authority, the expenses incurred by the company in 2016 for the use of Chwastox trademarks cannot be classified as tax deductible costs. Additionally, the authority claims that the company may not offset the loss for 2015 in the annual return for 2016. The Company and its tax advisors do not agree with the position of the auditors. If the unfavourable position of the authority is upheld, an obligation may arise to pay tax arrears in the amount of PLN 4.8 million (the tax base challenged by the authority is PLN 25.1 million) plus with interest due. Tax proceedings are currently underway.

CIT audit for 2016 at CIECH S.A. On 25 May 2021, CIECH S.A. received an authorisation from the Head of the Małopolskie Province Customs and Tax Office in Kraków to carry out a customs and fiscal audit with regard to corporate income tax (CIT) for 2016. Tax audit is currently underway.

CIT audit for 2018 at CIECH Soda Polska S.A. was initiated on 1 December 2020 by the Head of the Kujawsko-Pomorskie Province Customs and Tax Office in Toruń. The audit concerns the correctness of settlements with the state budget in respect of corporate income tax. On 27 April 2021, the Head of the Customs and Tax Office issued a Notice of Consideration of the CIT correction filed by the company resulting in an overpayment of CIT in the amount of PLN 0.9 thousand due to the transfer of proceeds from excise tax refunds (for 2016 - PLN 1.4 million and for 2017 - PLN 3.8 million) from taxable activities to activities within the Special Economic Zone (hereinafter: SEZ) and, as a consequence, a change in the allocation of shared costs between these activities (PLN 0.5 million transferred to SEZ). Therefore, the audit was terminated.

The Group estimated that the potential impact on income tax expense (in the form of additional tax liabilities), in connection with the above events which are or may continue to be challenged, would amount to PLN 108.7 million if it were no longer probable that the Group would be able to uphold its tax interpretations before the tax authorities. From the above-mentioned amount of PLN 108.7 million, following the decisions of the second instance, regarding CIT (2012 and 2013) in CIECH S.A., and CIT (2015) in CIECH Soda Polska S.A., CIECH Pianki Sp. z o.o. and CIECH Cargo Sp. z o.o., despite further dispute before court, and also following the decision of the first instance in the case of CIECH Sarzyna S.A. despite further litigation, a total tax amount of PLN 60.1 million was paid (PLN 1.8 million of this amount is reported as receivables from the Tax Office, all of which was covered by an impairment loss), and a provision is recognised for a potential tax liability of PLN 39.1 million. The remaining amount, i.e. PLN 9.5 million, is not covered by a provision and represents a contingent liability. The Group also paid interest in the total amount of PLN 27.9 million.

The CIECH Group companies were subject to VAT audits/proceedings concerning the following years:

a) Fourth quarter of 2013
   - at Verbis Kappa Sp. z o.o. S.K.A.
   - at Verbis ETA Sp. z o.o. S.K.A.
b) December 2014 – at Cerium Finance Sp. z o.o.
c) January–June 2018 – at CIECH Trading Sp. z o.o.

VAT audit for the fourth quarter of 2013 at Verbis Kappa Sp. z o.o. S.K.A. was initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków on 6 April 2018. The company received the outcome of the audit on 11 June 2018. The authority challenged the right to deduct VAT on part of the contribution in kind made to the share premium. According to the authority, the taxable amount of the contribution received is the amount equal to the nominal value of the shares acquired. The market value of the in-kind contribution less the amount of VAT was recognised as the taxable amount in the invoice received by the company. Consequently, according to the authority, the company deducted the input tax in the amount to which it was not entitled. The taxable amount challenged by the authority is PLN 35.7 million which translates into a tax of PLN 8.2 million.

The Company and the other party to the transaction, i.e. CIECH Sarzyna S.A., filed motions for tax rulings. The Director of the National Revenue Information agreed with the position of CIECH Sarzyna S.A. presented in the motion that the taxable amount of the in-kind contribution made in 2013 was the value of the contribution, i.e. the market value of the in-kind contribution less the amount of VAT. Taking into account the positive interpretation concerning the taxable amount (an interpretation received after the event that is the subject of the dispute) and the case-law line that existed until the end of 2013, the issuer of the invoice, i.e. CIECH Sarzyna S.A., and its advisors believe that the taxable amount should be the market value of the in-kind contribution less the amount of VAT. Therefore, the company did not make a VAT correction, considering that the tax treatment of the in-kind contribution made in 2013 was correct. On 7 August 2019, the company received the decision of the Head of the Małopolskie Province Customs and Tax Office in Kraków, upholding the previous position of the authority, that the company had no right to deduct VAT in the amount of PLN 8.2 million. The Company and its advisors do not agree with the findings set forth in the Decision and have appealed against it. On 14 November 2019, the company received the Decision of the second instance, where the Head of the Małopolskie Province Customs and Tax Office upheld the decision of the first instance in its entirety. The decision issued by the second instance authority is enforceable. Therefore, the company was obliged to pay the overdue VAT (as per the tax auditors) in the amount of PLN 8.2 million plus the interest due in the amount of approx. PLN 3.9 million. On 13 December 2019, the Company appealed against the decision of the second instance to the Provincial Administrative Court in Kraków. At a hearing on 22 July 2020, after considering the appeal filed by the Company, the Provincial Administrative Court issued a ruling dismissing the complaint filed by the Company, accepting the position of the Małopolskie Province Customs and Tax Office in Kraków. The company received a written statement of reasons for the judgment and lodged a cassation complaint with the Supreme Administrative Court in November 2020. At present, the company is waiting for the date of the hearing to be set.

VAT audit for the fourth quarter of 2013 at Verbis ETA Sp. z o.o. S.K.A. was initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków on 5 April 2018. The company received the outcome of the audit on 16 June 2018. The authority challenged the right to deduct VAT on part of the contribution in kind made to the share premium. According to the authority, the taxable amount of the contribution received is the amount equal to the nominal value of the shares acquired. The market value of the in-kind contribution less the amount of VAT was recognised as the taxable amount in the invoice received by the company. Consequently, according to the authority, the company deducted the input tax in the amount to which it was not entitled. The taxable amount challenged by the authority is PLN 133.5 million which translates into a tax of PLN 30.8 million.

The Company and the other party to the transaction, i.e. CIECH S.A., filed motions for tax rulings. The Director of the National Revenue Information agreed with the CIECH S.A.'s position that the company had determined the taxable amount in a correct manner, i.e. the taxable amount of the in-kind contribution made in 2013 should have been the value of the contribution, i.e. the market value of the in-kind contribution less the amount of VAT. Taking into account the positive interpretation concerning the taxable amount (an interpretation received after the event that is the subject of the dispute) and the case-law line that existed until the end of 2013, the Company and its advisors believe that the taxable amount should be the market value of the in-kind contribution less the amount of VAT. Therefore, the company and, accordingly, the other party to the transaction complied with the ruling.

On 17 July 2019, the company received the decision of the Head of the Małopolskie Province Customs and Tax Office in Kraków, upholding the previous position of the authority, that the Company had no right to deduct VAT in the amount of PLN 30.8 million. The Company and its advisors do not agree with the findings set forth in the Decision and have appealed against it. On 6 August 2019, the company received an order of the Head of the Third Tax Office for Warszawa-Śródmieście to make the Decision of the Head of the Małopolskie Province Customs and Tax Office in Krakow, issued in connection with the tax proceedings conducted against the company, immediately enforceable. The Company filed a complaint against said decision. Irrespective of the complaint, the company applied to the Head of the Third Tax Office for crediting the overpaid VAT in the amount of PLN 30.8 million resulting from the correction of the VAT settlement for July 2018 towards the arrears indicated in the Decision of the Małopolskie Province Customs and Tax Office in Krakow, and repaid interest in the amount of PLN 12.4

million. In its decision, the Head of the Third Tax Office agreed to the company's request. Thus, no enforcement proceedings were initiated. On 24 October 2019, the company received the Decision of the second instance, where the Head of the Małopolskie Province Customs and Tax Office upheld the decision of the first instance in its entirety. On 13 November 2019, the company received the decision issued by the Head of the Tax Administration Chamber in Warsaw concerning the upholding of the decision of the Third Tax Office to make the non-final decision of the first-instance authority immediately enforceable. Due to the fact that the company had received the decision of the second instance earlier, it did not file a complaint to the Provincial Administrative Court in Warsaw against the decision received. On 25 November 2019, however, the Company appealed against the decision of the second instance to the Provincial Administrative Court in Kraków. At a hearing on 29 July 2020, after considering the appeal filed by the Company, the Provincial Administrative Court issued a ruling dismissing the complaint filed by the Company, accepting the position of the Małopolskie Province Customs and Tax Office in Kraków. The company received a written statement of reasons for the judgment and lodged a cassation complaint with the Supreme Administrative Court on 20 January 2021. At present, the company is waiting for the date of the hearing to be set.

In total, in the two aforementioned disputes concerning VAT in Verbis Kappa Sp. z o.o. and Verbis ETA Sp. S.K.A. and Verbis ETA Sp. z o.o. S.K.A., despite the continuation of the dispute, PLN 39 million of VAT and PLN 16.3 million of interest were paid after the decisions of the second instance. These amounts are reported as public-law receivables in the financial statements due to the fact that the companies and its tax advisors estimate the chances of winning these disputes to be above 50%. At the same time, due to the continuing uncertainty as to the direction of the dispute resolution by the Supreme Administrative Court, these amounts are also reported as contingent liabilities.

VAT audit for December 2014 at Cerium Finance Sp. z o.o. was initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków on 5 April 2018. The company received the outcome of the audit on 19 June 2018. The authority challenged the right to deduct VAT on part of the contribution in kind made to the share premium. According to the authority, the taxable amount of the contribution received is the amount equal to the nominal value of the shares acquired. The market value of the in-kind contribution less the amount of VAT was recognised as the taxable amount in the invoice received by the company.

Consequently, according to the authority, the company deducted the input tax in the amount to which it was not entitled. The taxable amount challenged by the authority is PLN 110 million which translates into a tax of PLN 25.3 million. Guided by the outcome of the audit, the other party to the in-kind contribution transaction, i.e. CIECH Soda Polska S.A., issued a correction to the invoice, specifying the taxable amount of the in-kind contribution as the nominal value of the shares acquired. Cerium Finance Sp. z o.o. included the correction of the invoice in the current tax return and paid the tax. CIECH Soda Polska S.A. received a refund of overpaid VAT.

The Company and CIECH Soda Polska S.A. filed motions for tax rulings. The Director of the National Revenue Information agreed with the position of the companies with respect to the recognition of a VAT correction in the current period – the companies had already received the interpretations after the event that is the subject of the dispute. In turn, CIECH Soda Polska S.A. received a reply that the taxable amount of the in-kind contribution made in 2014 was the nominal value of the shares acquired. Taking into account the ruling concerning the taxable amount and the regulations, as amended in 2014, according to which the taxable amount should be the value contributed to the share capital, the company is of the opinion that the correction made (included in the current period) is correct.

On 17 July 2019, CIECH Soda Polska S.A. (CSP), as the legal successor of Cerium Finance Sp. z o.o., received the Accounting Books' Audit Report, in which the auditors upheld their position, that the Company had no right to deduct VAT in the amount of PLN 25.3 million, without referring to the correction of VAT submitted by the Company in the current period and payment of this tax.

On 11 September 2019, the CSP received the decision of the Head of the Małopolskie Province Customs and Tax Office in Kraków, upholding the previous position of the authority, that Cerium Finance Sp. z o.o. had no right to deduct VAT in the amount of PLN 25.3 million. CSP appealed against the decision of the first instance. On 7 January 2020, the company received the Decision of the second instance, where the Head of the Małopolskie Province Customs and Tax Office in Kraków upheld the decision of the first instance in its entirety. The decision issued by the second instance authority was enforceable. Therefore, despite the fact that the amount of VAT has already been paid to the relevant tax office in connection with the correction of VAT settlement submitted in the current period, according to the received individual ruling, the company decided to pay again the same amount of VAT of PLN 25.3 million and interest of PLN 10 million. The VAT paid again will be recovered by CSP at the latest after the completion of the court and administrative proceedings (for December 2014), if any, or after the completion of the overpayment proceedings for July 2018. On 6 February 2020, the Company appealed against the decision of the second instance to the Provincial Administrative Court in Kraków. At a hearing on 22 September 2020, after considering the appeal filed by the Company, the Provincial Administrative Court issued a ruling dismissing the complaint filed by the Company, accepting the position of the Małopolskie Province Customs and Tax Office in Kraków. The company received a written statement of reasons for the judgment and lodged a cassation complaint with the Supreme Administrative Court on 13 January 2021. At present, the company is waiting for the date of the hearing to be set.

The amount of interest paid, i.e. PLN 10 million, is reported in the financial statements as public-law receivables due to the fact that the company and its tax advisors estimate the chances of winning the dispute to be above 50%. At the same time, due to the continuing uncertainty as to the direction of the dispute resolution by the Supreme Administrative Court, this amount is also reported as a contingent liability.

VAT audit for the period from January to June 2018 at CIECH Trading Sp. z o.o. was commenced by the Head of the Kujawsko-Pomorskie Province Customs and Tax Office in Toruń (for the period from January to April 2018) – commenced on 20 June 2018, and by the Head of the Śląskie Province Customs and Tax Office in Katowice (for the period from May to June 2018) – commenced on 19 September 2018. On 13 September 2019, the Company received a report on the audit of the books and the outcome of the audit from the Kujawsko-Pomorskie Province Customs and Tax Office in Toruń. According to the auditors, the company overstated the input tax by PLN 1.4 million, deducting the tax resulting from invoices issued by two contractors who, according to the authority, committed tax fraud at an earlier stage of trade. According to the authority, the company failed to exercise due diligence when entering into transactions with these entities. The Company does not agree with the position of the auditors. However, given the lack of clear legal guidelines as to the scope of due diligence and following the prudence principle, the company decided to correct the VAT return for the period from January to April 2018 in the amount indicated by the authority, i.e. PLN 1.4 million. In addition, following the prudence principle in order to prevent a possible additional tax liability in the form of VAT sanctions, the company corrected its VAT settlements for 2017 and for the period from July to November 2018, excluding from its settlements the input VAT on invoices issued by the same two counterparties for whom the authority refuses to deduct input VAT for the period from January to June 2018. The amount of the corrected VAT is PLN 7.5 million. As a result of corrections made to VAT returns and their settlement with the tax office, the company paid PLN 0.5 million in interest. On 10 February 2020, the Company received the decision of the Head of the Kujawsko-Pomorskie Province Customs and Tax Office in Toruń concerning the determination of an additional VAT liability in relation to the audit for the period from January to April 2018. The amount of sanctions indicated in the Decision is PLN 1.4 million. The Company lodged an appeal against the Decision received with the Head of the Kujawsko-Pomorskie Province Customs and Tax Office. Regardless of the appeal filed, in order to avoid further accrual of interest, on 5 June 2020 the Company paid the amount of this additional tax liability together with interest. On 21 July 2020, the Company received the decision of the Head of the Kujawsko-Pomorskie Province Customs and Tax Office in Toruń (appeal body). The decision upholds the decision of the first instance authority to set the additional VAT liability in CIECH Trading Sp. z o.o. at 100%, i.e. in the amount of PLN 1.4 million. This Decision is final. On 19 August 2020, the Company appealed against the decision of the second instance to the Provincial Administrative Court in Bydgoszcz. At a hearing on 18 November 2020, after considering the appeal filed by the Company, the Provincial Administrative Court issued a ruling dismissing the complaint filed by the Company, accepting the position of the Head of the Kujawsko-Pomorskie Province Customs and Tax Office. The company received a written statement of reasons for the judgment and lodged a cassation complaint with the Supreme Administrative Court on 28 January 2021. On 22 October 2021 the Supreme Administrative Court overturned the appealed verdict of the Provincial Administrative Court in its entirety and overturned the appealed decision of the Head of the Kujawsko-Pomorskie Province Customs and Tax Office in Toruń (2nd instance authority) on the additional tax liability in VAT at the rate of 100%. The case will now be referred back to the Head of the Kujawsko-Pomorskie Province Customs and Tax Office in Toruń who will reconsider it, taking into account the statement of reasons of the Supreme Administrative Court. In the statement of reasons for the judgment, the Supreme Administrative Court ruled on the non-applicability of the sanction at the 100% rate in the present case. However, there is no guidance on setting the sanction at a different amount or not setting it at all. Ciech Trading Sp. z o.o. will be entitled to appeal against the new decision of the Customs and Tax Office.

In case of the audit of VAT settlements for the period of May and June 2018 carried out by the Head of the Silesian Customs and Tax Office in Katowice, in September 2020 the company received the results of the audit relating to each of the months audited, in which the office refused the company the right to deduct input tax in the amount of PLN 1.5 million. In October 2020, the company paid the disputed amount of tax plus interest. The company recognised a provision for possible VAT arrears, interest and a sanction for the period of May-June 2018 in the amount of PLN 3.8 million. In December 2020, the Company received two Decisions issued by the Head of the Silesian Customs and Tax Office on the transformation of the customs and fiscal audit into tax proceedings on the determination of the additional VAT tax liability for May and June 2018. On 13 January 2021, the Head of the Silesian Customs and Tax Office in Katowice issued a decision on determining the additional VAT liability in the amount of PLN 1.5 million. The Company lodged an appeal against the Decision received with the Head of the Silesian Customs and Tax Office. Regardless of the appeal filed, in order to avoid further accrual of interest, on 11 February 2021 the Company paid the amount of this additional tax liability together with interest. On 25 February 2022, the Company received two Decisions of the Head of the Silesian Customs and Tax Office in Katowice concluding the appeal proceedings for May and June 2018. The decisions in question revoke previous decisions setting a sanction of 100% and set a new sanction of 20%. As Ciech Trading Sp. z o.o. made a sanction payment of 100% on 11 February 2021, a return of PLN 1.2 million (80% of the amount paid) together with interest is expected in the near future. Ciech Trading Sp. z o.o. will not appeal against the decisions issued. This concluded the dispute concerning the period from May to June 2018.

The audit at CIECH the Ciech Group in Germany concerns income tax and VAT settlements. The audit concerns the following companies: Sodawerk Staßfurt Verwaltungs GmbH, CIECH Soda Deutschland GmbH & Co. KG, Sodawerk Holding Staßfurt GmbH, SDC GmbH, CIECH Energy Deutschland GmbH. The audits, initiated in previous years, cover settlements for 2007-2009 and 2010-2015 and concern various factual and legal matters. In addition, on 28 October 2021, the the audit for the period 2016-2019 was initiated.

On 22 March 2021, the proxy of CIECH Soda Deutschland GmbH & Co. KG received the preliminary result of the tax audit issued by the Tax Office in Staßfurt. The decision was issued in connection with an audit of the VAT settlements for 2012-2013 at Ciech Energy Deutschland GmbH. The decision was delivered to CIECH Soda Deutschland GmbH & Co. KG, as in the VAT group to which CIECH Soda Deutschland GmbH & Co. KG and Ciech Energy Deutschland GmbH belong, CIECH Soda Deutschland GmbH & Co.KG is responsible for settlements with the tax authorities. In the Decision, the Tax Office questioned the right to deduct VAT in the amount of EUR 5.0 million on invoices received in 2012-2013 by Ciech Energy Deutschland GmbH in connection with the leasing of the CHP plant, whereby, due to the principle of neutrality, the amount of VAT deducted by Ciech Energy Deutschland GmbH can be offset against the VAT paid by the lessor. The amount in dispute would be interest of approximately EUR 1.9 million (approximately PLN 8.8 million). Ciech Energy Deutschland GmbH and the tax advisors do not agree with the Decision issued and have therefore filed an appeal against the Decision and requested that it be suspended until the pending case is finally resolved.
Ciech Energy Deutschland GmbH, having analysed the Decision and the tax advisor's position on the chances of a positive outcome of the proceedings for Ciech Energy Deutschland GmbH, has decided not to recognise a provision for interest. In August 2021, the Company received notice that the Tax Office had fully withdrawn its Decision. Thus, the dispute concerning the right to deduct VAT on invoices received by Ciech Energy Deutschland GmbH in connection with the lease of the CHP plant has been concluded.
With regard to the other years and issues subject to ongoing audits, the outcome of the audit as at the balance sheet date is not known – the companies did not receive any reports/decisions from the tax authorities. In case of a different assessment of economic events by audit authorities, an obligation may arise to recalculate and potentially increase the tax liability and to pay interest on tax arrears. Under the prudence principle, the companies have, however, recognized provisions for potential tax liabilities and interest in the total amount of EUR 15.8 million (after conversion into PLN according to the exchange rate quoted on the balance sheet date – about PLN 72.5 million) Of the reported EUR 15.8 million, the provision recognised in previous years is EUR 14.4 million (about PLN 66.2 million). In addition, an amount of EUR 2.4 million (PLN 11.1 million after translation) represents a contingent liability.

9.3. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

9.3.1. TRANSACTIONS WITH RELATED PARTIES IN TOTAL

Transactions between the parent, CIECH S.A., and its subsidiaries were eliminated during consolidation and have not been presented in this note.

Detailed information about transactions between the CIECH Group and other related entities (i.e. companies controlled by the parent company at the highest level in relation to CIECH S.A. — Kulczyk Investments S.A., non-consolidated companies of the CIECH Group and with companies from the Polenergia Group - personally related to the parent company of the highest level in relation to CIECH S.A.) is presented below:

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TRANSACTIONS BETWEEN CONSOLIDATED ENTITIES AND OTHER RELATED PARTIES	01.01.-31.12.2021	01.01.-31.12.2020
Revenues from sales of products and services, including:	3,125	6,353
associates	*2,291*	*3,378*
Revenues from sales of goods and materials, including:	34,729	41,006
associates	*16,976*	*25,602*
Other operating income, including:	15	14
associates	*15*	*14*
Financial income, including:	-	117
associates	-	*117*
Purchase of services, including:	49,353	48,997
KI One S.A.	*199*	*242*
associates	*32,465*	*18,010*
Purchase of products, goods and materials	58,202	*44,247*
associates	-	*174*
Other operating expenses	-	3
Financial expenses, including:	223	2,088
associates	*2*	*2,088*
	31.12.2021	**31.12.2020**
Trade receivables, including:	5,834	7,488
associates	*1,206*	*591*
Trade liabilities, including:	45,919	27,901
associates	*3,094*	*2,530*

Terms of transactions with related entities

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 carried out on terms which do not differ from arm's length terms. Overdue liabilities and receivables are not secured and are settled through bank transfers. Receivables from related entities have not been secured by any guarantees granted or received besides those described in note 9.2.

In the presented period, the key management personnel of CIECH S.A. did not conclude any material transactions with related parties within the CIECH Group.

9.3.2. SIGNIFICANT TRANSACTIONS CONCLUDED BY COMPANIES OR SUBSIDIARIES WITH RELATED PARTIES OTHER THAN ON AN ARM'S LENGTH BASIS

To the best of the Group's judgement, there were no transactions with related entities in the CIECH Group on other than market conditions in 2021.

9.3.3. DESCRIPTION OF NON-ROUTINE TRANSACTIONS WITH RELATED PARTIES

Information on significant transactions with related parties is provided in note 6.4 to these financial statements.

9.3.4. TRANSACTIONS CONCLUDED WITH KEY MANAGERIAL PERSONNEL

Key managerial personnel comprises persons who are authorised to and are responsible for direct and indirect planning, managing and controlling the activities of CIECH S.A.

Remuneration of the Management Board of CIECH S.A.

The following table presents the amount of remuneration and additional benefits paid or payable to particular Members of the Management Board in 2021 and in the comparable period. In the years 2020-2021, members of the Management Board of CIECH S.A. did not receive any remuneration for holding a position in the Supervisory Boards or any other functions performed in the subsidiaries of the CIECH Group, except for Mr Mirosław Skowron, who served on the Supervisory Board of Ciech Salz Deutchland GmbH.

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31.12.2021	Short-term employee benefits	Post-employment benefits	Termination benefits	TOTAL
Management Board	9,230	-	-	9,230
Former members of the Management Board	-	524	-	524
TOTAL	**9,230**	**524**	**-**	**9,754**
31.12.2020				
Management Board	6,231	-	-	6,231
Former members of the Management Board	1,361	1,202	1,258	3,821
TOTAL	**7,592**	**1,202**	**1258**	**10,052**

Members of the Management Board are employed based on employment contracts. Remuneration of the Management Board Members are set out in individual employment contracts. Members of the Management Board are also entitled to:

- discretionary bonus in the amount determined by the Supervisory Board of CIECH S.A.;
- annual bonus determined in individual employment contracts,
- payments from the Long-Term Incentive Plan for the years 2019-2021, adopted on the basis of a decision of the Supervisory Board, with payments in three consecutive years after the end of the reference period.

Remuneration of the Managing Director

The following table presents the amount of remuneration and additional benefits paid or payable to the Managing Director in 2021.
During this period, the Managing Director received remuneration for serving on the Supervisory Boards of: Polsin Overseas Shipping Ltd. Sp. z o.o. and Proplan Plant Protection Company S.L.

Short-term employee benefits	01.01 – 31.12.2021	01.06 – 31.12.2020
Rafał Czubiński	**1,019**	**1,096**

The Managing Director is employed under an employment contract which specifies the basic remuneration and the applicable rules of the bonus system.

Remuneration of the Supervisory Board of CIECH S.A.

Short-term employee benefits	Remuneration received from CIECH S.A. in 2021	Remuneration received from CIECH S.A. in 2020
Sebastian Kulczyk	**-***	**-***
Natalia Scherbakoff* **	**-**	**-**
Artur Olech	**447**	**387**
Marek Kośnik	**476**	**372**
Łukasz Rędziniak	**368**	**181**
Martin Laudenbach	**209**	**118**
Piotr Augustyniak**	108	483
Tomasz Mikołajczak	-	88
Mariusz Nowak	-	24
TOTAL	**1,609**	**1,653**

**From 1 April 2016, Chairman of the Supervisory Board, Mr. Sebastian Kulczyk does not receive any remuneration due to the waiver of the claim for remuneration for the position of the Chairman of the Supervisory Board.*
*** On 16 March 2021, Mr Piotr Augustyniak resigned as Member of the Supervisory Board of CIECH S.A.*
**** Appointed to the Supervisory Board on 26 October 2021.*

In accordance with a Resolution of the Extraordinary General Shareholders' Meeting, as of 1 November 2017 Members of the Supervisory Board are entitled to a monthly gross remuneration computed as a percentage of the calculation base. The calculation base is the average monthly remuneration in the sector of enterprises with profit distributions for the month preceding the calculation, announced by the President of the Central Statistical Office. This remuneration is paid in the following amount:

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2021 (in PLN '000)

- to the Chairman of the Supervisory Board – 400% of the calculation base,
- to the Deputy Chairman – 350% of the calculation base,
- to a Board Member – 300% of the calculation base.

The Chairman of the Audit Committee is entitled to an additional gross monthly remuneration amounting to 150% of the remuneration payable to a Member of the Supervisory Board. Members of the Audit Committee are entitled to an additional gross monthly remuneration amounting to 100% of the remuneration payable to a Member of the Supervisory Board.

9.4. INFORMATION ABOUT AGREEMENTS CONCLUDED WITH THE ENTITY AUTHORISED TO AUDIT THE CIECH GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

The entity authorised to audit financial statements for the period from 1 January 2021 to 31 December 2021 was Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered office in Warsaw. 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.

In 2021, Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. and foreign members of the Deloitte network were also the auditors of the largest consolidated companies/subsidiaries of CIECH S.A., including CIECH Soda Polska S.A., SDC Group, Ciech Salz Deutschland GmbH, CIECH Soda Romania S.A., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Pianki Sp. z o.o. Value of agreements concluded with Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. is presented below:

CIECH S.A.	**2021***	**2020***
Audit of the annual financial statements and review of the semi-annual financial statements	623	529
Other attestation services	45	45
TOTAL	**668**	**574**
Consolidated subsidiaries of the CIECH Group	**2021***	**2020***
Audit of the annual financial statements and review of the semi-annual financial statements	2,347	1,673
Other attestation services	158	113
TOTAL	**2,505**	**1,786**

** The above amounts do not include additional costs, such as travel, accommodation and nourishment costs – additional costs may amount to a maximum of approx. 10% of the agreement value.*

9.5. COMPOSITION OF THE GROUP

Accounting policy – Basis of consolidation

Subsidiaries are entities controlled by the Parent Company.

An investor, regardless of the nature of its involvement with an entity (the investee), determines whether it is a parent by assessing whether it controls the investee.

An investor controls an investee if and only if the investor has all the following:

a) power over the investee;
b) exposure, or rights, to variable returns from its involvement with the investee, and
c) the ability to use its power over the investee to affect the amount of the investor's returns.

An investor considers all facts and circumstances when assessing whether it controls an investee. The investor reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the aforesaid elements.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

When selecting entities for consolidation, the Management Board was guided by the criteria of significance of their financial data (according to the concept assumptions of IFRS), for executing the obligation of an actual and reliable image of the material and financial situation, and the financial result of the Group.

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A list of fully consolidated companies and companies accounted for under the equity method is provided below:

Company name	Registered office	Segment	Business	Share in equity as at 31.12.2021 / % of votes at the GMS	Share in equity as at 31.12.2020 / % of votes at the GMS
Parent company					
CIECH S.A.	Warsaw	Soda, Agro, Foams, Silicates, Packaging, Other, (Resins – discontinued operations)	Sales of chemical products manufactured by the CIECH Group companies, sales of chemical products and semi-finished products purchased from third-party producers, holding activities, managing a portfolio of the Group's subsidiaries, provision of support services (including in the area of sales, purchases, finance, HR and the legal area) for the Group's companies, financial service activities not elsewhere classified (so-called intercompany loans) for the benefit of the Group's companies.	-	-
Fully consolidated direct and indirect subsidiaries					
CIECH Trading Sp. z o.o.	Warsaw	Soda, Other	The company is preparing for the liquidation process, operations are being phased out.	100%	100%
CIECH Soda Romania S.A.	Ramnicu Valcea, Romania	Soda, Silicates	Manufacture of other basic inorganic chemicals, wholesale of chemical products. Production suspended in the Soda Segment.	98.74%	98.74%
CIECH Vitrosilicon S.A.	Iłowa	Silicates, Packaging	Manufacture of other basic inorganic chemicals, manufacture of other chemical products.	100%	100%
CIECH Vitro Sp. z o.o.*	Iłowa	Packaging	Manufacture of hollow glass, manufacture and processing of other glass.	100%	100%
CIECH Transclean Sp. z o.o.	Bydgoszcz	Other	Since 2017, the Company has been dormant.	100%	100%
CIECH Pianki Sp. z o.o.	Bydgoszcz	Foams	Manufacture of plastics in primary forms and other plastic products.	100%	100%
Ciech Group Financing AB	Stockholm, Sweden	Other	Financing activities.	100%	100%
Verbis ETA Sp. z o.o.	Warsaw	Other	General partner of Verbis ETA Sp. z o.o. SKA.	100%	100%
Verbis ETA Sp. z o.o. SKA	Warsaw	Other	Financing activities, direct lending to the CIECH Group companies.	100%	100%
CIECH Żywice Sp. z o.o.	Nowa Sarzyna	(Resins – discontinued operations)	Manufacture of plastics in primary forms. The company was sold on 1 March 2021.	-	100%
CIECH Serwis i Remonty Sp. z o.o.	Warsaw	Other	Provision of repair and maintenance services, repair and maintenance of machinery.	100%	100%
CIECH Nieruchomości Sp. z o.o.**	Warsaw	Other	Buying and selling of own real estate, estate agency, real estate management.	100%	100%
Proplan Plant Protection Company S.L.	Madrid, Spain	Agro	Production of crop protection chemicals.	100%	100%
CIECH Salz Deutschland GmbH	Stassfurt, Germany	Soda	Production and sales of salt products.	100%	100%
CIECH Services Sp. z o.o.	Bydgoszcz	Soda, Agro, Foams, Silicates, Packaging, Other, (Resins – discontinued operations)	Provision of support services for companies of the CIECH Group.	100%	100%
CIECH Ventures Sp. z o.o.	Warsaw	Other	Holding activities, other financial activities.	100%	-

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Company name	Registered office	Segment	Business	Share in equity as at 31.12.2021 / % of votes at the GMS	Share in equity as at 31.12.2020 / % of votes at the GMS
CIECH R&D Group					
CIECH R&D Sp. z o.o.	Warsaw	Soda, Agro, Foams, Silicates, Packaging, Other, (Resins – discontinued operations)	Research and developments activities, granting licenses to the CIECH Group companies to use the trademarks: "Ciech", "Ciech Trading" and "Sól Kujawska naturalna czysta".	100%	100%
Smart Fluid S.A.	Warsaw	Other	Research & Development.	52.83%	52.83%
CIECH Finance Group					
CIECH Finance Sp. z o.o.	Warsaw	Other	Implementing divestment projects concerning obsolete fixed assets (property) and financial assets (shares in companies).	100%	100%
CIECH Soda Polska Group					
CIECH Soda Polska S.A.	Inowrocław	Soda	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.	100%	100%
CIECH Cargo Sp. z o.o.	Inowrocław	Soda	Freight transport services.	100%	100%
Cerium Sp. z o.o. w likwidacji (in liquidation)	Warsaw	Other	The company was liquidated on 31 August 2021.	-	100%
Gamma Finanse Sp. z o.o.***	Warsaw	Other	Financing activities.	100%	100%
El-Pomiar Sp. z o.o.	Inowrocław	Other	Repair and maintenance of electrical equipment.	94.23%	92.31%
CIECH Sarzyna Group					
CIECH Sarzyna S.A.	Nowa Sarzyna	Agro	Manufacture of resins, manufacture of pesticides and other chemical products.	100%	100%
Verbis KAPPA Sp. z o.o.	Nowa Sarzyna	Agro	General partner of Verbis KAPPA Sp. z o.o. SKA, other financial intermediation.	100%	100%
Verbis KAPPA Sp. z o.o. SKA	Nowa Sarzyna	Agro	Other financial intermediation.	100%	100%
Algete Sp. z o.o.	Nowa Sarzyna	Agro	Granting CIECH Sarzyna Group companies the license for using the trademark of "Chwastox" for the purpose of business.	100%	100%
CIECH Agro Romania S.R.L.	Ramnicu Valcea, Romania	Agro	Wholesale of chemical products.	100%	-
SDC Group					
SDC GmbH	Stassfurt, Germany	Soda	Holding company for all SDC Group entities.	100%	100%
CIECH Soda Deutschland GmbH&Co. KG	Stassfurt, Germany	Soda	Manufacture of other basic inorganic chemicals, wholesale of chemical products.	100%	100%
Sodawerk Holding Stassfurt GmbH	Stassfurt, Germany	Soda	Holding activities.	100%	100%
Sodawerk Stassfurt Verwaltungs GmbH	Stassfurt, Germany	Soda	Management and financial activities.	100%	100%
CIECH Energy Deutschland GmbH	Stassfurt, Germany	Soda	Power generation and distribution.	100%	100%
Kaverngesellschaft Stassfurt GbmH****	Stassfurt, Germany	Soda	Management and maintenance of gas caverns.	50%	50%

**Number of shares / votes at the GMS attributable directly to CIECH S.A. — 39.41%, indirect share through CIECH Soda Polska S.A. — the remaining 60.59%.*

***Shares in the share capital acquired by CIECH S.A. – 99.18% and CIECH Soda Polska S.A. – 0.82%.*

****Shares in the share capital acquired by CIECH S.A. – 1.4% and CIECH Soda Polska S.A. – 98.6%.*

*****Jointly-controlled company accounted for under the equity method.*

9.6. EVENTS AFTER THE BALANCE SHEET DATE

- On 3 February 2022, the District Court in Bydgoszcz registered a reduction of the capital of the subsidiary CIECH Transclean Sp. z o.o. as a result of the cancellation of shares made at the Extraordinary Shareholders' Meeting on 21 July 2021, according to which 8,548 shares with a total nominal value of PLN 4,274 thousand were cancelled in exchange for a total consideration of PLN 4,330 thousand, by way of the purchase of the above shares by the Company from the shareholder under the agreement on the purchase of shares against consideration, concluded on 10 November 2021. Following the cancellation of shares, the share capital of CIECH Transclean Sp. z o.o. was reduced from PLN 4,322 thousand (by PLN 4,274 thousand) to PLN 48 thousand.
- On 23 February 2022, a letter of intent was signed between the 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 City of Inowrocław, on their cooperation in the preparation of conditions for making a decision on the investment consisting in the construction by EEW, EEW Polska and FBSerwis, on the property owned by CIECH Soda Polska S.A., a thermal waste treatment installation. For details on the letter, see current report No 2/2022.

9.7. INFORMATION ON THE CURRENT SITUATION IN CONNECTION WITH THE IMPACT OF THE RUSSIAN INVASION ON UKRAINE ON THE ACTIVITIES OF CIECH GROUP

From the perspective of the CIECH Group and its individual business segments, the Russian invasion of Ukraine has brought about unprecedented risks. These risks have a potentially high impact on ensuring the operational continuity of individual production plants due to potential disruption to the supply chain and availability of raw materials. The Group's Management Board has been monitoring the situation on an ongoing basis and analysing various scenarios for market reactions and administrative decisions.

A description of the potential impact of the invasion of Ukraine on operations of individual business segments of the CIECH Group is presented below

- **Soda Segment** – supplies of brine, power coal, limestone and anthracite are critical for maintaining operational continuity of the soda plants located in Inowrocław and Janikowo. Coal is supplied to the production plants from Polish suppliers and the raw material comes from Polish mines. The CIECH Group purchases power coal based on annual contracts. There is a potential risk of problems with the availability of coal from Polish mines in a situation where domestic demand for coal is redirected, as a priority, towards securing raw materials for the production of electricity and heat for the public and for production facilities of strategic importance to national security.
  From a long-term perspective, it should be emphasized that the Soda Segment is an important part of the Polish energy and fuel ecosystem and is of strategic importance for the entire economy due to satisfying the demand for soda in many industries. In addition, the segment is a key recipient of brine from caverns, which are used as reservoirs for the state's strategic oil and gas reserves. The supply of brine as well as the maintenance of the operational continuity of soda plants in Poland is crucial for maintaining the storage capacity of crude oil and gas in Poland. In connection with the above, it can be concluded that the Soda Segment is high in the hierarchy of security of coal supplies from Polish mines, and thus - the Management Board assesses the risk of interrupting supplies as low. In turn, in the short term, it should be assumed that with the end of the heating season, the demand for heat will decline, hence the Management Board assesses the risk as even lower in the coming quarters. The second important raw material necessary for the production of soda is anthracite, which the Group, like its competitors producing soda using the Solvay method in Europe, imports from Russia. Anthracite, which is used as a furnace fuel in the limestone firing process, can be replaced by coke, which is currently available from Polish suppliers, but its price is significantly higher than that of the anthracite used to date. Therefore, relying solely on coke would result in increased costs for soda plants. At present, the Group's plants hold several weeks' worth of stocks of power resources.
  For the soda segment plants located in Stassfurt, the key power resource is gas, 40% of which is imported into the Federal Republic of Germany from Russia.
  Additionally, about 1/3 of the gas consumed by the Stassfurt plant comes from a local source, which significantly reduces the risk of interrupting the continuity of gas supplies. As in the case of Poland, the Soda Segment plays a very important role in the country's energy system. The caverns from which the brine is obtained are used as natural gas storage facilities. If Germany diversifies its gas sources and moves from Russian gas pipelines to gas terminals supplied to the

gas network, it may be important, as the demand for the use of storage capacity should increase. The Soda Segment and the related glass industry, especially in the eastern federal states of Germany, is very important both in economic and social terms, therefore the risk of interrupting gas supplies to the Stassfurt plant is assessed as very low. A potential threat to continuity of brine supply should also be indicated. In the case of brine supplies - for Polish soda plants, a hypothetical situation may arise in case of a threat to state security when a decision could be taken by the Polish government to release fuel reserves stored in caverns, and then the brine will be used by the state-owned operator of liquid fuel storage facilities to pumping them out. In the opinion of the Management Board, the risk of such a situation is not high, however, if it did, it could (depending on the level of strategic reserves activation) have an impact on the stability and continuity of production.

Furthermore, in addition to possible limitations in the availability of raw materials, the segment has already been affected by increases in the prices of the listed power resources, and the increase in fuel prices also translates into increased prices for transport services. The CIECH Group assumes that it will manage to pass on most of the increase in costs of power resources to customers through higher product prices.

In terms of sales, the Soda Segment has not concluded any significant contracts with customers in the Ukrainian, Russian and Belarusian markets, hence the Group does not recognise any risk of decreased revenues in this area caused by the inability to supply these markets.

In turn, some risks and difficulties can be observed with respect to the availability of transport services - due to the fact that before the conflict, a large proportion of truck drivers were from Ukraine, now, following the invasion of this country, they stayed in their homeland due to the general military mobilisation or left Poland. The resulting shortage of drivers on the market has reduced the availability of transport services.

- **Agro Segment** – there were no companies from the markets affected by the ongoing war among the suppliers of raw materials and consumables for the production plant in Nowa Sarzyna, hence the situation does not have a significant impact on the supply of raw materials. Also the increase in the cost of power resources will not significantly affect the segment. However, the shortage of drivers in transport operators and difficulties in accessing these services are likely to be experienced. At present, the segment does not sell to Belarusian, Ukrainian and Russian markets. Even before the outbreak of war, the sale of technical MCPA to a Russian customer was suspended – this decision, however, was dictated by reduced production at the plant in Nowa Sarzyna due to the shortage of raw material for its production. Also for this reason, the segment does not supply technical MCPA to customers in the Ukrainian and Belarusian markets. In the current situation, it has been assumed that this product will not be sold to eastern markets in 2022. The associated loss of margin will not be material at the segment level, as margins earned from these customers are low.
- **Foams Segment** – Sales to Russia, Ukraine and Belarus were marginal; however, the conflict will have an impact on furniture manufacturers in the domestic market. There is a risk of problems with the availability of furniture boards manufactured from wood originating in Belarus and Ukraine. Thus, there is a risk of a decrease in furniture production and thus demand for foams manufactured by the Bydgoszcz plant. Given the increased prices of power resources, the segment expects an increase in the prices of raw materials required for the manufacture of foams. Like other segments, the plant in Bydgoszcz will also experience an increase in the cost of transport services due to rising fuel prices and a shortage of drivers on the market.
- **Silicates Segment and Packaging Segment** – as long as the Soda Segment continues to supply the soda necessary for the production of silicates and packaging, these segments do not anticipate any problems with continuity of production.

  The segments may experience a significant increase in the price of gas, while it should be noted that nitrogenous gas extracted in Poland is used locally as a power resource, so there is no risk of suspension of its supply (the use of this gas is strictly limited and in the event of a suspension of gas supplies from Russia, it cannot be fed into the pipelines of the country's main gas pipeline network). The Silicates and Packaging Segments have already been affected by the rising costs of transport services and the shortage of drivers, and thus the unavailability of transport services. Both segments made no sales and had no customers in eastern markets; instead, they experienced increased competition from that direction. At present, the competitive pressure from this direction is negligible and will most likely remain so until the conflict is over.

It should be mentioned that the Group has already observed an increase in the risk of cyberattacks. Accordingly, appropriate security updates were implemented, prevention measures were strengthened and monitoring of unusual events, logs and operations was enhanced. All these measures have been implemented as part of the IT security policy and information security policy. An intensive information campaign is also underway to build staff awareness of any unusual operations or incidents.

Another significant issue affecting the Group in connection with Russia's invasion of Ukraine, having an impact on all segments and the Group as a whole, is that prices in the financial markets, including commodity prices, exchange rates and interest rates, become highly volatile.

In the wake of the war between Russia and Ukraine, prices of assets perceived as more risky weakened considerably, which translated into the depreciation of PLN against, among others, EUR and USD. The Group has a significant exposure to the EUR/PLN exchange rate (total position of EUR 389.9 million) and a relatively low exposure to USD/PLN (total position of USD 1.5 million). In the short term, the weakening of the PLN against the EUR leads to an increase in negative valuations of derivatives contracted that are sensitive to the EUR/PLN exchange rate (forward and CCIRS transactions), foreign currency credit facilities in EUR and trade payables in EUR, which is offset by an increase in the valuation of loans granted in foreign currency, receivables and cash held in foreign currency and an increase in the expected value of future revenues in foreign currency. Taking into account the hedging relationships regarding future revenues in foreign currencies, the impact of changes in the EUR/PLN rate on the current profit/loss is limited (the position affecting the current profit/loss is EUR 27.5 million). The valuation of derivatives contracted does not involve any cash margin and an increase in the negative valuation of transactions does not have a negative impact on the Group's current liquidity.

The conflict has led to an increase in inflationary expectations globally and in the Polish market, associated in particular with an increase in the prices of oil derivatives, which may lead to an increase in the Group's operating expenses and also have implications in terms of further increases in market interest rates. Market interest rate risk in respect of the Group's term loans has been fully hedged with PLN IRS and CCIRS transactions entered into in May 2021 following the refinancing of the loan, therefore an increase in market interest rates would have a limited impact on the Group's cash flows.

The CIECH Group enters into derivative transactions to hedge commodity risks, including regarding the sale of electricity, the purchase of natural gas and CO_2 emission allowance units (EUAs). Due to significant changes in the prices of these raw materials, there were significant changes in valuations of hedging transactions concluded (increase in positive valuation of gas futures contracts, increase in negative valuation of energy futures contracts, decrease in positive valuation of EUA futures contracts). Excluding transactions for the purchase of CO_2 emission allowance units, some of which are entered into on an exchange, day-to-day changes in the valuation of the derivatives contracted do not involve cash margin and have no impact on the Group's current liquidity.

The CIECH Group's liquidity situation is stable, and the CIECH Group companies have sufficient cash and available sources of financing to be able to meet their obligations on time, even if current cash flows deteriorate and access to new sources of financing becomes limited. As at 31 December 2021, the Group held cash of (PLN 799 million) and limits available under committed credit facilities of (PLN 396 million). The Group had access to funds made available under committed facility agreements (syndicated facility agreement with a total value of PLN 2,115 million) and additional sources of financing in the form of receivables factoring agreements, reverse factoring agreements and overdraft facilities. At present, the Group also does not identify any risk of default on repayment liabilities under the loan agreements or risk of loans being called in due to failure to meet the level of ratios tested under the loan agreements. The ratio of the Group's consolidated net debt to consolidated EBITDA tested under the loan agreements was 1.6x at the end of 2021, compared to the maximum level of 4.0x, as set out in the agreement. The entire debt on account of the syndicated facility agreement is of a long-term nature, and no principal payments are due until 30 June 2023.

The CIECH Group has not reported any negative impact of the sanctions imposed following the outbreak of war on its ability to execute and settle transactions.

As at the date of these statements, the Group's analyses did not reveal any indications of significantly higher risk of impairment of property, plant and equipment and intangible assets in use or investments in progress.

Nevertheless, due to the uncertainty related to the conflict its further development and in consequence the impact on the global economy, the valuation of individual balance sheet items, including: fixed assets and intangible assets, inventories, receivables, valuations of financial instruments as well as provisions and liabilities will be closely monitored and may change in subsequent reporting periods.

It should be emphasized once again that the Group's Management Board monitors the situation related to the conflict on an ongoing basis and takes steps to ensure the continuity of the Group, its individual companies as well as maintaining the assumed margin levels.

9.8. INFORMATION ON THE CURRENT SITUATION IN CONNECTION WITH THE IMPACT OF THE COVID-19 CORONAVIRUS PANDEMIC ON THE CIECH GROUP'S ACTIVITIES

During 2021, the CIECH Group continued to operate under an ongoing pandemic, hence the current situation was strongly affected by various restrictions. For this reason, the priority for the CIECH Group in 2021 was to protect the health and lives of the Group's employees and third parties, to comply with the applicable safety restrictions and measures and to ensure the continuity of operations of individual manufacturing plants of the CIECH Group.

In the period under review, the CIECH Group was adversely affected by the pandemic, which translated in many different ways into the achievement of the Group's objectives and those of its individual business segments. When describing the impact of the COVID-19 pandemic on the CIECH Group in 2021, it should be noted that the first half of last year was marked by continuing restrictions and lockdowns of the economies in Poland and Europe, which translated into market problems for key sectors that are customers of individual segments of the CIECH Group. In particular, these problems were experienced by the automotive, HoReCa and construction industries. Still during the first half of the year, with the gradual unfreezing of economies in Europe, signs of economic recovery began to appear, which the Group observed to their full extent during the second half of the year. The second half of the year saw a full recovery, where customers of the CIECH Group and individual segments fully restored their production capacities and began to make up for the losses incurred due to the restrictions and lockdowns experienced in the first half of the year. However, this has resulted in a significant increase in the price of raw materials and utilities, and a shortage of raw materials on the markets, which is difficult to predict. For the CIECH Group and individual raw materials, shortages and increases in the prices of raw materials and utilities translated directly into an unplanned increase in the cost of products manufactured.

Apart from the external factors caused by the pandemic in 2021, throughout the year the CIECH Group continued to comply with the measures taken back in 2020 to protect the health and lives of employees, third-party employees and business partners. Procedures were in place throughout the year under which direct interpersonal contact was limited and employees were able to work remotely (where possible). In the case of groups of employees where it was not possible to work in a remote manner (production workers), procedures were in place at individual plants to keep direct contact between shifts to a necessary minimum, and the necessary required protective measures were still in place to minimise the risk of infection and disease outbreaks. Owing to the vaccination process launched at the beginning of 2021, there were no outbreaks of infections in the CIECH Group throughout 2021, which would result in the suspension of operations, in any of the production plants. Throughout 2021, none of the Group's business areas was affected by the need to close or curtail operations. Owing to the measures taken and procedures implemented, the Group's Management Board achieved its key objectives, which were to ensure the health and safety of employees, to ensure the continuity of operations at the Group's production plants and to avoid disruption to the supply chain.

On the other hand, from the point of view of achieving the Group's business objectives, the adverse impact of the COVID-19 pandemic and its effects was experienced by the Group in the second half of 2021 due to the onset of problems with the availability of raw materials and an unforeseeable significant increase in the prices of raw materials and utilities. This phenomenon affected, to a greater or lesser extent, most of the Group's business segments.

In 2021, the situation in the individual business segments of the CIECH Group was as follows:

- The **Soda Segment**, which is key to the CIECH Group in terms of maintaining business continuity in a pandemic situation, did not record any negative events or incidents. The safety measures and procedures in place, as well as the vaccination process, resulted in the only isolated cases of virus infection and quarantine of employees in the soda segment production plants, without affecting the continuity of the plants' operations. On the demand side, the first half of the year was marked by lower-than-expected demand for products manufactured, which can be explained by the prevailing restrictions in the economy and a slowdown in such sectors as the construction, automotive and HoReCa industries. Around the mid-year point, with the improvement of the epidemic situation in Europe and the opening up of individual economies, economic recovery and increased demand for soda segment products came into view. As mentioned above, the economic recovery was accompanied by a previously unanticipated increase in raw material prices, which directly translated into an increase in the costs of operation of the soda segment plants. In addition, in the case of automotive customers, the previously communicated interruptions in the operations of car manufacturing plants began to materialise in the third quarter, due to the lack of availability of car electronics from Asia, necessary for the production of new cars. Other sectors that are customers of the soda segment operated smoothly and continuously from the second half of 2021, increasing the demand for soda. As a result, the soda segment met its sales targets, fulfilling its obligations under the contacts signed for 2021. With regard to salt products, the first half of the year performed below expectations, mainly in the HoReCa sector, as a result of long-term restrictions. From the second half of the year onwards, there was an increase in demand due to the opening up of the economies. Unfortunately, there were technical failures in the power generation area at the production plants, which led to the segment not being able to manufacture the targeted volumes and thus failing to meet its sales targets at the end of 2021. It should also be mentioned that in 2021 the construction of the new saltworks in Germany was completed and works began on the commissioning of the new plant. The process of reaching full production capacity of the new salt works in Germany was not completed by the end of 2021.

- The **Silicates Segmen**t was unaffected by the pandemic throughout 2021 and operated in a smooth and uninterrupted manner. Both production and sales levels were in line with plans. At the Żary plant, the Group completed an investment project to build a new furnace, which enabled the segment to increase its silicate production capacity by 30%. The increased capacity of the Iłowa plant was immediately placed on the market. In the second half of the year, the segment was adversely affected by the increase in gas prices, which resulted in higher production costs; however, the materialised risk of gas price increases was largely mitigated by the hedging policy in place. However, it should be emphasized that the vast majority of the volume is sold on the basis of variable price formulas, which to a large extent allows to maintain a constant margin.
- The **Packaging Segment** also proved resilient to COVID-19 in 2021. The segment managed to meet its targets for the year, although at the end of the third quarter there were still some concerns that the situation seen in 2020 would reoccur, when cemeteries were closed for the 1 November holiday by government decision and the segment's customers entered 2021 with a high stock of unsold lanterns. This situation was experienced by the segment through weaker demand for its products in early 2021. Last year, in 2021, the cemeteries were not closed on the November holiday, allowing the Ilowa plant to meet its volume and value targets. Among unfavourable events, it should be mentioned that the packaging segment was adversely affected by rising gas prices and increased production costs in the second half of 2021.
- The **Foams Segment** – in the first half of last year, the Bydgoszcz plant struggled with two main risks, i.e. the lack of raw materials necessary for foam production (in particular, the lack of polyols and TDI) and rising prices of raw materials (an increase in raw material prices by over 90% compared to the previous year, 2020). This resulted in the need to ration foams to customers and to raise prices. In the second half of 2021, the availability of key raw materials (polyols and TDI) improved, whereas, as a result of the economic recovery, demand for other raw materials that are also used by other industries increased. This situation resulted in problems with the availability of raw materials, such as melamine, which is necessary for the plant in Bydgoszcz to manufacture non-flammable foams. Problems with the availability of raw materials were also associated with an increase in their prices. At the same time, the market has seen a weakening in customer demand for new furniture. This has led to an oversupply of foams on the market. Price competition and customer pressure to reduce foam prices has increased among foam manufacturers. Despite these adverse developments, the segment met its targets for 2021.
- In 2021, the **Agro Segment** proved to be resilient to COVID-19 and did not experience any reduction in production due to infections among employees and decline in demand from customers. The problems that the segment had to face in 2021 included a significant increase in the price of materials and raw materials and an increase in the cost of logistics services. Despite these adverse developments, the Agro segment increased year-on-year, posting higher sales results and increasing its market share. In 2021, a new herbicide, Halvetic, based on the innovative BGT (Better Glyphosate Technology) that halves the amount of the active ingredient – glyphosate – while maintaining herbicide efficacy like standard products on the market, was added to the Agro segment's product portfolio. Owing to the application of this state-of-the-art technology, the new product has proved to be a sales hit for the segment and has ideally fitted in with the segment's activities as part of the implementation of the EU strategy "From field to table" by promoting and implementing environmentally friendly and safe solutions.

In other areas of the CIECH Group's operations, no adverse effects of the ongoing COVID-19 pandemic were recorded in 2021, and:

- In the area of investment projects, in 2021, the CIECH Group continued and completed the projects started, including work on the construction and commissioning of the new saltworks in Stassfurt, Germany. Other projects planned and necessary for the Group's operations were also completed without any obstacles. An unfavourable development experienced by the Group, which was triggered by the COVID-19 pandemic and the rapid economic recovery, was a higher than expected increase in prices of materials, particularly the increase in steel prices. The Group's analyses did not reveal any indications of an increased risk of impairment of property, plant and equipment and intangible assets in use or investments in progress was found.

- The Group's liquidity situation in 2021 remained stable, and the CIECH Group Companies had sufficient cash and available sources of financing to be able to meet their obligations on time. In the past year, the CIECH Group increased its liquidity security by signing in March 2021 a new Facilities Agreement of PLN 2,115 million with a 5-year repayment period, in order to refinance the existing debt. The facilities agreement was signed on 16 March 2021. Under the new facilities agreement, the following loans were made available: an amortised term loan (PLN 560 million), an unamortised term loan (PLN 1,305 million) and a revolving credit facility of PLN 250 million. The agreement signed provides for a grace period of over 2 years for the repayment of the term loan (the first repayment is required on 30 June 2023), during which no principal repayment of the loan will be required.
- During 2021, net cash flow from operating activities of PLN 1,279 million. Net cash flows from investing activities were negative (PLN -707 million) due to ongoing capital expenditure. As at 31 December 2021, the Group held cash of PLN 799 million and limits available under committed credit facilities of PLN 396 million. In 2021, the Group had access to funds made available under committed facility agreements (syndicated facility agreement with a total value of approx. PLN 2,115 million as at 31 December 2021) and additional sources of financing in the form of receivables factoring agreements, reverse factoring agreements and overdraft facilities. The Group's liquidity security was largely supported by the fact that in March 2021 the Management Board of CIECH S.A. signed a new Facilities Agreement with a value (on the date of signing) of PLN 2,115 million and a 5-year repayment period, in order to refinance the existing debt.
- Moreover, in 2021 the CIECH Group also did not identify any risk of default on repayment liabilities under the loan agreements or risk of loans being called in due to failure to meet the level of ratios tested under the loan agreements.
- Moreover, no deterioration of receivables repayment dates was found. The share of receivables overdue by more than 7 days in total receivables as at 31 December 2021 decreased compared to the level on 31 December 2020. The vast majority of the Company's receivables were insured and financed through non-recourse factoring.
- The pandemic also did not have a negative impact on the Group's working capital. In 2021, during the COVID-19 pandemic, the Group did not experience any risk of non-performance of contracts at a higher level than in the course of its day-to-day operations in the absence of the pandemic.
- In 2021, no additional impairment losses on non-current or current assets were recognised. There was also no need to recognise additional provisions other than allowances and provisions which are recognised in the course of the Group's ordinary activities.
- The Management Board estimates that in 2022 both the Parent Company and the subsidiaries will continue as going concerns to a materially unchanged extent for at least 12 months from the date of the financial statements, with the exception of CIECH Trading, in relation to which a liquidation plan has been implemented. However, it should be stated that the pandemic situation creates economic uncertainty and therefore it is not possible to fully predict its effects, including the impact of the pandemic on the financial statements, including the performance and measurement of individual items in the statement of financial position in subsequent reporting periods.

REPRESENTATION BY THE MANAGEMENT BOARD

These consolidated financial statements of the CIECH Group for the financial year ended 31 December 2021 were approved by the Company's Management Board on 29 March 2022.

Warsaw, 29 March 2022

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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

(signed on the polish original)

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Katarzyna Rybacka — Chief Accountant of CIECH Spółka Akcyjna