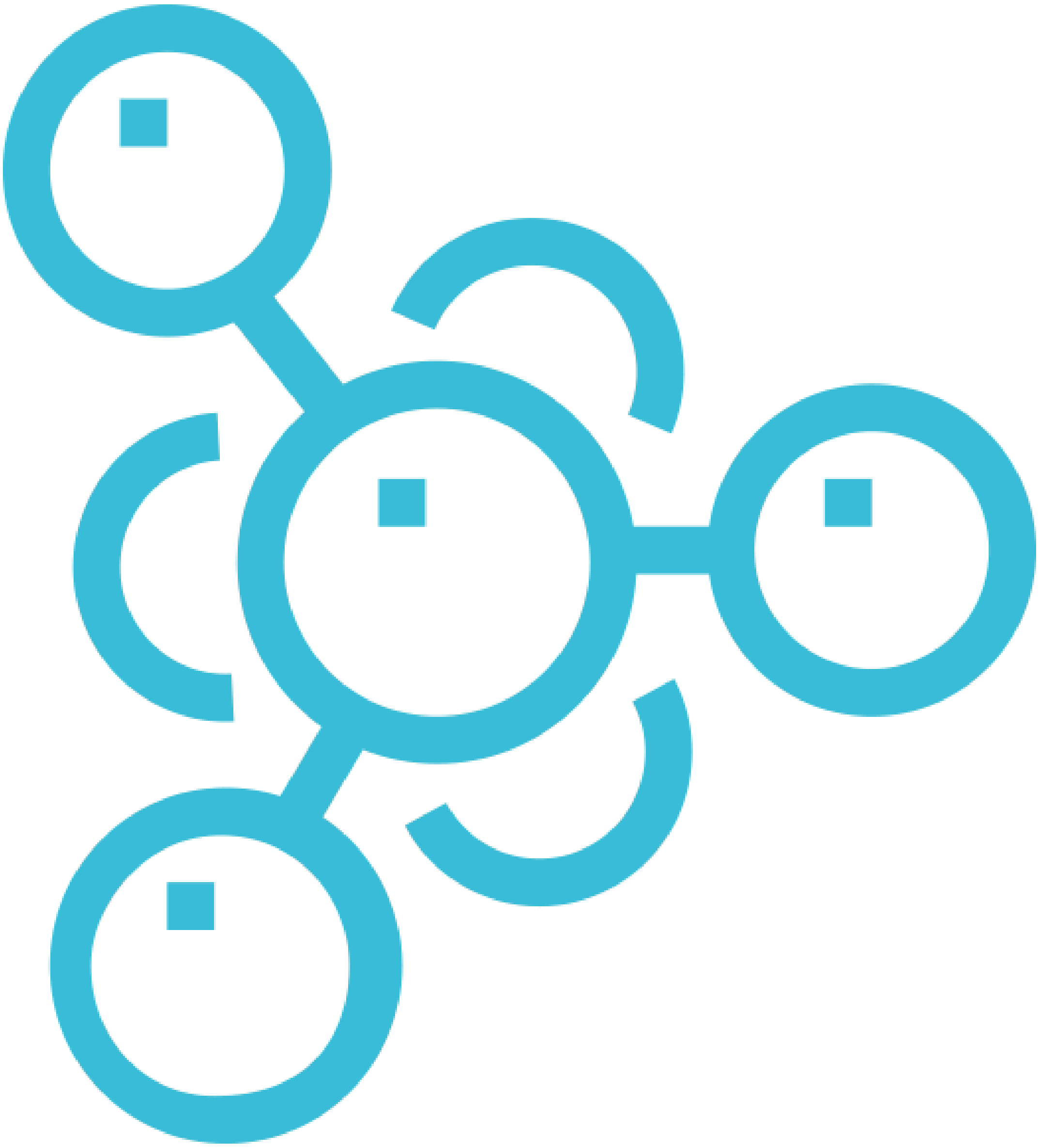

FINANCIAL STATEMENTS

of CIECH S.A. for 2021

CIECH S.A. – 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	1,618,680	1,654,075	353,617	369,692
Operating profit/(loss) on continued operations	(37,589)	64,082	(8,212)	14,323
Profit/(loss) before tax on continued operations	77,430	177,890	16,915	39,759
Net profit for the period	133,206	155,287	29,100	34,707
Other comprehensive income net of tax	45,726	(24,725)	9,989	(5,526)
Total comprehensive income	178,932	130,562	39,089	29,181
Cash flows from operating activities	39,141	66,310	8,551	14,821
Cash flows from investment activities	289,353	(303,166)	63,212	(67,759)
Cash flows from financial activities	(126,523)	327,809	(27,640)	73,267
Total net cash flows	201,971	90,953	44,123	20,329
Earnings (loss) per ordinary share (in PLN/EUR)	2.53	2.95	0.55	0.66
	as at 31.12.2021	as at 31.12.2020	as at 31.12.2021	as at 31.12.2020
Total assets	4,612,557	4,357,634	1,002,861	944,274
Total non-current liabilities	1,991,470	40,973	432,985	8,879
Total current liabilities	1,006,486	2,722,893	218,830	590,035
Total equity	1,614,601	1,593,768	351,046	345,360
Share capital	287,614	287,614	62,533	62,324

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

- items in the 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 statement of profit or loss, statement of other comprehensive income and 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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FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

STATEMENT OF PROFIT OR LOSS OF CIECH S.A.

	note	01.01.-31.12.2021	01.01.-31.12.2020
CONTINUING OPERATIONS			
Sales revenues	*3.1*	**1,618,680**	**1,654,075**
Cost of sales	*3.2*	(1,429,542)	(1,409,843)
Gross profit on sales		**189,138**	**244,232**
Other operating income	*3.4*	14,089	5,590
Selling costs	*3.2*	(136,165)	(108,042)
General and administrative expenses	*3.2*	(98,333)	(64,322)
Other operating expenses	*3.4*	(6,318)	(13,376)
Operating profit		**(37,589)**	**64,082**
Financial income	*3.5*	330,865	286,286
Profit from financial instruments	*3.5*	*97,329*	*66,612*
Financial expenses	*3.5*	(215,846)	(172,478)
(Loss) from financial instruments	*3.5*	*(168,290)*	*(128,963)*
Net financial income/(expenses)		**115,019**	**113,808**
Profit before tax		**77,430**	**177,890**
Income tax	*4.1, 4.2*	14,095	(23,056)
Net profit on continuing operations		**91,525**	**154,834**
DISCONTINUED OPERATIONS			
Net profit/(loss) on discontinued operations	*5.9*	41,681	453
Net profit for the year		**133,206**	**155,287**
Earnings per share (in PLN):			
Basic		2.53	2.95
Diluted		2.53	2.95
Earnings per share (in PLN) from continuing operations:			
Basic		1.74	2.94
Diluted		1.74	2.94

The statement of profit or loss of CIECH S.A. should be analysed together with additional notes and explanations which constitute an integral part of the financial statements.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

STATEMENT OF OTHER COMPREHENSIVE INCOME OF CIECH S.A.

	note	01.01.-31.12.2021	01.01.-31.12.2020
Net profit on continuing operations		**91,525**	**154,834**
Net profit/(loss) on discontinued operations		41,681	453
Net profit for the year		**133,206**	**155,287**
Other comprehensive income before tax that may be reclassified to the statement of profit or loss	3.6	**56,541**	**(30,466)**
Cash flow hedge reserve	3.6	56,541	(30,466)
Other comprehensive income before tax that may not be reclassified to the statement of profit or loss	**3.6**	**(89)**	**(57)**
Actuarial gains	3.6	(89)	(51)
Other components of other comprehensive income		-	(6)
Income tax attributable to other comprehensive income	**4.1**	**(10,726)**	**5,798**
Income tax attributable to other comprehensive income that may be reclassified to the statement of profit or loss	4.1	(10,743)	5,788
Income tax attributable to other comprehensive income that may not be reclassified to the statement of profit or loss	4.1	17	10
Other comprehensive income net of tax		**45,726**	**(24,725)**
TOTAL COMPREHENSIVE INCOME		**178,932**	**130,562**

The statement of other comprehensive income of CIECH S.A. should be analysed together with additional notes and explanations which constitute an integral part of the financial statements.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

STATEMENT OF FINANCIAL POSITION OF CIECH S.A.

	note	31.12.2021	31.12.2020
ASSETS			
Property, plant and equipment	*5.1*	13,287	11,805
Intangible assets	*5.3*	72,316	57,428
Long-term financial assets	*5.4*	3,158,160	2,538,642
Deferred income tax assets	*4.3*	6,990	-
Rights to use an asset	*5.2*	22,235	26,057
Total non-current assets		**3,272,988**	**2,633,932**
Inventory	*5.5*	5,162	6,394
Short-term financial assets	*5.7*	662,051	1,189,162
Income tax receivables		37	-
Trade and other receivables	*5.6*	204,844	232,895
Cash and cash equivalents	*5.8*	467,475	265,287
Non-current assets held for sale		-	29,964
Total current assets		**1,339,569**	**1,723,702**
Total assets		**4,612,557**	**4,357,634**
EQUITY AND LIABILITIES			
Share capital	*6.2*	287,614	287,614
Share premium		470,846	470,846
Cash flow hedge reserve	*8.2*	20,085	(25,713)
Actuarial gains		(150)	(78)
Other reserve capitals	*6.2*	422,699	422,699
Retained earnings		413,507	438,400
Total equity		**1,614,601**	**1,593,768**
Loans, borrowings and other debt instruments	*7.1*	1,854,153	-
Lease liabilities	*7.4*	18,513	21,792
Other non-current liabilities	*7.2*	118,070	18,198
Employee benefits reserve	*7.5*	734	979
Deferred income tax liability	*4.3*	-	4
Total non-current liabilities		**1,991,470**	**40,973**
Loans, borrowings and other debt instruments	*7.1*	397,099	2,238,619
Lease liabilities	*7.4*	5,407	6,332
Trade and other liabilities	*7.3*	569,006	438,836
Income tax liabilities		-	4,539
Employee benefits reserve	*7.5*	413	826
Other provisions	*7.6*	34,561	33,741
Total current liabilities		**1,006,486**	**2,722,893**
Total liabilities		**2,997,956**	**2,763,866**
Total equity and liabilities		**4,612,557**	**4,357,634**

The statement of financial position of CIECH S.A. should be analysed together with additional notes and explanations which constitute an integral part of the financial statements.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

STATEMENT OF CASH FLOWS OF CIECH S.A.

	note	01.01.-31.12.2021	01.01.-31.12.2020
Cash flows from operating activities			
Net profit for the period		**133,206**	**155,287**
Amortisation/depreciation		18,677	18,839
Recognition of impairment allowances		1,998	15,508
Foreign exchange (profit) /loss		(4,152)	(39,199)
(Profit) / loss on investment activities		(43,888)	461
(Profit) / loss on disposal of property, plant and equipment		(47)	(174)
Dividends and interest		(213,850)	(171,669)
Income tax		(14,095)	23,056
Change in liabilities due to loan arrangement fee		(7,318)	2,226
Value of derivatives		47,750	20,240
Other		(89)	-
Cash from operating activities before changes in working capital and provisions		**(81,808)**	**24,575**
Change in receivables	*9.1*	33,179	131,642
Change in inventory		1,232	24,300
Change in current liabilities	*9.1*	140,608	(57,121)
Change in provisions and employee benefits		162	(1,180)
Cash generated from operating activities		**93,373**	**122,216**
Interest paid		(46,032)	(47,943)
Income tax (paid)		(8,200)	(7,963)
Net cash from operating activities		**39,141**	**66,310**
Cash flows from investment activities			
Disposal of a subsidiary		74,289	104
Disposal of intangible assets and property, plant and equipment		139	3,566
Dividends received		204,619	181,903
Interest received		48,761	37,713
Proceeds from repaid borrowings		1,952,358	433,850
Reduction of capital for remuneration in a subsidiary		80,449	-
Acquisition of a subsidiary		(6,105)	(4,918)
Acquisition of intangible assets and property, plant and equipment		(28,267)	(11,710)
Raise capital expenditures and extra charge on capital		(29,847)	(4,855)
Borrowings paid out		(2,005,133)	(937,299)
Cash pooling outflows*		(1,910)	(1,520)
Net cash from investment activities		**289,353**	**(303,166)**
Cash flows from financial activities			
Proceeds from loans and borrowings	*7.1*	385,493	662,787
Cash pooling inflows*		4,046	19,442
Dividends paid to parent company		(158,099)	-
Repayment of loans and borrowings	*7.1*	(351,790)	(347,813)
Payments of lease liabilities	*7.4*	(6,173)	(6,607)
Net cash from financial activities		**(126,523)**	**327,809**
Total net cash flows		**201,971**	**90,953**
Cash and cash equivalents as at the beginning of the period		**265,287**	**169,984**
Impact of foreign exchange differences		*217*	*4,350*
Cash and cash equivalents as at the end of the period	*5.8*	**467,475**	**265,287**

**Cash pooling – presentation in cashflow:*

- *Investing activities – the company presents the change in receivables from cash pooling*
- *Financing activities – the company presents the change in liabilities on account of cash pooling*

The statement of cash flows of CIECH S.A. should be analysed together with additional notes and explanations which constitute an integral part of the financial statements.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

STATEMENT OF CHANGES IN EQUITY OF CIECH S.A.

	Share capital	Share premium	Cash flow hedge reserve	Other reserve capitals	Actuarial gains	Retained earnings	**Total equity**
note	*6.2*		*8.2*	*6.2*			
01.01.2021	**287,614**	**470,846**	**(25,713)**	**422,699**	**(78)**	**438,400**	**1,593,768**
Transactions with shareholders included directly in equity	**-**	**-**	**-**	**-**	**-**	**(158,099)**	**(158,099)**
Dividend payment	-	-	-	-	-	(158,099)	(158,099)
Total comprehensive income for the period	**-**	**-**	**45,798**	-	**(72)**	**133,206**	**178,932**
Net profit / (loss) for the period	-	-	-	-	-	133,206	133,206
Other comprehensive income	-	-	45,798	-	(72)	-	45,726
31.12.2021	**287,614**	**470,846**	**20,085**	**422,699**	**(150)**	**413,507**	**1,614,601**
01.01.2020	**287,614**	**470,846**	**(1,035)**	**76,199**	**(37)**	**629,619**	**1,463,206**
Transactions with shareholders included directly in equity	**-**	**-**	**-**	**346,500**	**-**	**(346,500)**	**-**
Reserve fund for the purchase of own shares	-	-	-	346,500	-	(346,500)	-
Total comprehensive income for the period	**-**	**-**	**(24,678)**	-	(41)	**155,281**	**130,562**
Net profit / (loss) for the period	-	-	-	-	-	155,287	155,287
Other comprehensive income	-	-	(24,678)	-	(41)	(6)	(24,725)
31.12.2020	**287,614**	**470,846**	**(25,713)**	**422,699**	**(78)**	**438,400**	**1,593,768**

The statement of changes in equity of CIECH S.A. should be analysed together with additional notes and explanations which constitute an integral part of the financial statements.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

1. GENERAL INFORMATION

1.1. INFORMATION ON THE COMPANY'S ACTIVITIES

Company Name	**CIECH S.A.**
Legal form	Joint-stock Company
Registered office	Warsaw, Poland
Address	ul. Wspólna 62, 00-684 Warszawa, Polska
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
Parent company	KI Chemistry s. à r. l (a subsidiary of Kulczyk Investments)
Ultimate parent company	Luglio Limited

CIECH S.A. is a holding company that manages and provides support services to its subsidiaries — domestic and foreign manufacturing, trade and service companies of the CIECH Group. The CIECH Group is an international, professionally managed group with a well-established position of a leader of the chemical sector in Central and Eastern Europe. It manufactures products which are used in the production of articles necessary in everyday life of people all over the world – state-of-the-art products of the highest, world quality. Taking advantage of the support of a reliable strategic investor – Kulczyk Investments – it implements the strategy of global development.

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.

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

1.2.1. REPRESENTATION BY THE MANAGEMENT BOARD

These financial statements of CIECH S.A. 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 separate financial statements 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 separate 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 CIECH S.A.'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 Company'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 separate 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

On 31 January 2007, the Extraordinary General Meeting of Shareholders of CIECH S.A. adopted resolution No 4, concerning the preparation of separate financial statements in accordance with International Financial Reporting Standards as approved by the European Union. Due to the adopted resolution, since 2007 the reports of CIECH S.A. have been prepared in accordance with the IFRS using the valuation of assets and liabilities and the measurement of net profit/loss. Major accounting principles applied in the preparation of these financial statements are listed in note 1.4. These principles have been applied on a continuous basis in all presented periods.

The financial statements of CIECH S.A. have been prepared on the historical cost basis except for financial assets and liabilities (derivative instruments) measured at fair value through profit or loss.

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

The financial year for CIECH S.A is the calendar year.

These financial statements, except for the separate statement of cash flows, have been prepared on the accrual basis. The statement of profit or loss of CIECH S.A. is prepared in the cost by function format. The statement of cash flows is prepared using 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 Company. Issues which require significant assessments or areas where the assumptions and estimates made have a significant impact on these financial statements have been described in note 1.4.

CIECH S.A. also prepares consolidated financial statements available at https://ciechgroup.com/relacje-inwestorskie/raporty/raporty-okresowe/.

1.3. FUNCTIONAL AND REPORTING CURRENCY

The Polish zloty (PLN) is the functional currency of CIECH S.A., and the reporting currency of these financial statements. Unless stated otherwise, all financial data in these financial statements have been presented in thousands of Polish zlotys (PLN '000). CIECH S.A. has Branches (in Romania and Germany) whose accounting records are kept in local currencies (RON and EUR). For the purpose of preparing the financial statements of CIECH S.A., accounting records of the Branch in Romania are translated using the transaction exchange rates and the accounting records of the Branch in Germany – at the average NBP rate for a given period. Due to an insignificant value of transactions, translation at this exchange rate does not result in a material distortion of results.

1.4. ACCOUNTING POLICIES

To ensure more legible presentation and better understanding of the information disclosed in the financial statements, key accounting principles applicable in CIECH S.A. 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.; 3.5.	Other income and expenses	x	x
4.1.	Income tax	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
5.4.	Long-term financial assets	x	x
5.5.	Inventories	x	x
5.6.	Short-term receivables	x	x
5.7.	Short-term financial assets	x	x
5.8.	Cash and cash equivalents	x	x
5.9.	Discontinued operations, assets and liabilities classified as held for sale	x	x
6.2.	Equity	x	x
7.1	Information on financial liabilities	x	
7.2.	Other long-term 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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

1.5. CHANGES IN ACCOUNTING POLICIES AND THE SCOPE OF DISCLOSURES

Amendments to IAS/IFRS and their potential impact on the Company'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	**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.
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

2. SEGMENT REPORTING

Note 2.5 to the Financial Statements of CIECH S.A. 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.

CIECH S.A.'s operating segments are designated on the basis of internal reports prepared in the Company and regularly reviewed by the Management Board, which is responsible for operating decisions aimed at allocating resources to segments and assessing the subsidiaries performance.

CIECH S.A. has been divided into the following operating segments:

Soda segment (comprising BU Soda, and BU Salt) – the most important manufactured goods in the scope of the Soda Segment products are: light and dense soda ash, evaporated salt, sodium bicarbonate and calcium chloride. The products of this Segment are sold mainly by the parent company CIECH S.A. Production of the Soda Segment goods manufactured by the CIECH Group 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. (the German company sells its products on its own). Soda Segment products are used in the glass, food, detergent and pharmaceutical industries.

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. and CIECH S.A. was the supplier of raw materials for production for CIECH Sarzyna S.A. and provided support services within this segment.

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. The figures for discontinued operations include the result of CIECH S.A. obtained from the transactions with CIECH Żywice Sp. z o.o., and from the sale of this company.

Foams Segment – within the Foams Segment, CIECH S.A. provides support services to CIECH Pianki Sp. z o.o., which is a producer of polyurethane foams.

Silicates Segment – CIECH S.A. sells the Silicates and Glass segment products manufactured by CIECH Soda Romania S.A. In 2021, key products in this group included glassy sodium silicate and sodium water glass. These products are used by the construction industry and in the production of detergents. CIECH S.A. provides support services within Silicates Segment.

Packaging Segment – within this segment, CIECH S.A. provides support services to CIECH Vitro S.A., which manufactures glass packaging - lanterns and jars, used for the production of headstone lamps and in the food industry.

Other activities Segment – it covers mainly services rendered outside the Group and goods sold by CIECH S.A. outside the scope of the above segments.

The data concerning individual segments also includes support services provided by CIECH S.A. to the CIECH Group companies, such as accounting, controlling, legal, administrative and IT services.

The financing is managed (including finance expenses and incomes with the exception of interest on trade receivables and liabilities) and income tax is calculated on the Company level. The data concerning these areas is not allocated to particular segments.

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

Revenues and costs, assets and liabilities of segments are recognised and measured in a manner consistent with the method used in the separate 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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

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 CIECH S.A. when determining these measures are presented below.

	01.01.-31.12.2021	01.01.-31.12.2020
Net profit/(loss) on continuing operations	**91,525**	**154,834**
Income tax	(14,095)	23,056
Financial expenses	215,846	172,478
Financial income	(330,865)	(286,286)
Amortisation/depreciation	18,677	18,839
EBITDA on continued operations	**(18,912)**	**82,921**
EBITDA on discontinued operations	(3,414)	2,400
EBITDA on continued and discontinued operations	**(22,326)**	**85,321**

	01.01.-31.12.2021	01.01.-31.12.2020
EBITDA on continued operations	**(18,912)**	**82,921**
One-offs including:	(6,411)	(1,016)
Impairment (a)	(210)	-
Cash items (b)	(7,505)	840
Non-cash items (without impairment) (c)	1,304	(1,856)
Adjusted EBITDA on continued operations	**(25,323)**	**81,905**
Adjusted EBITDA on discontinued operations	(3,414)	2,400
Adjusted EBITDA on continued and discontinued operations	**(28,737)**	**84,305**

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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

OPERATING SEGMENTS

Revenue and costs data as well as assets, equity and liabilities data of particular CIECH S.A.'s 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	TOTAL
Total sales revenues	**1,490,385**	**19,129**	**10,244**	**20,348**	**1,230**	**77,344**	**-**	**1,618,680**
Cost of sales	(1,313,044)	(17,773)	(1,438)	(19,066)	(1,201)	(77,020)		(1,429,542)
Gross profit /(loss) on sales	**177,341**	**1,356**	**8,806**	**1,282**	**29**	**324**	**-**	**189,138**
Selling costs	(134,956)	(51)	-	(898)	-	(260)	-	(136,165)
General and administrative expenses	2,276	-	(3)	20	-	(8,167)	(92,459)	(98,333)
Result on management of receivables	200	28	-	1	-	585	-	814
Result on other operating activities	4,107	4,218	-	-	-	(71)	(1,297)	6,957
Operating profit /(loss)	**48,968**	**5,551**	**8,803**	**405**	**29**	**(7,589)**	**(93,756)**	**(37,589)**
Exchange differences and interest on trade settlements	568	(79)	(1)	5	-	(521)	162	134
Borrowing costs	-	-	-	-	-	-	(10,765)	(10,765)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	-	125,650	125,650
Profit /(loss) before tax	**49,536**	**5,472**	**8,802**	**410**	**29**	**(8,110)**	**21,291**	**77,430**
Income tax	-	-	-	-	-	-	-	14,095
Net profit /(loss) on continuing operations	-	-	-	-	-	-	-	91,525
Net profit /(loss) on discontinued operations	-	-	-	-	-	-	-	41,681
Net profit /(loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**133,206**
Amortization/depreciation	3,356	35	-	-	-	673	14,613	18,677
EBITDA from continuing operations	52,324	5,586	8,803	405	29	(6,916)	(79,143)	(18,912)
Adjusted EBITDA from continuing operations*	49,041	1,310	8,803	405	29	(6,890)	(78,021)	(25,323)

** Adjusted EBITDA for the 12-month period ended 31 December 2021 is calculated as EBITDA adjusted for untypical one-off events, including: net gain from restructuring PLN 3,263 thousand, penalty fees and compensation received: PLN 3,353 thousand, other: PLN -187 thousand.*

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

OPERATING SEGMENTS 01.01.-31.12.2020	Soda segment	Agro segment	Foams segment	Silicates segment	Packaging segment	Other operations segment	Corporate functions	TOTAL
Total sales revenues	**1,407,865**	**106,351**	**100,511**	**30,828**	**194**	**8,326**	**-**	**1,654,075**
Cost of sales	(1,182,762)	(99,198)	(93,210)	(27,703)	(186)	(6,784)		(1,409,843)
Gross profit /(loss) on sales	**225,103**	**7,153**	**7,301**	**3,125**	**8**	**1,542**	**-**	**244,232**
Selling costs	(103,883)	455	(2,294)	(1,889)	-	(431)		(108,042)
General and administrative expenses	(7,791)	-	-	(4)	-	-	(56,527)	(64,322)
Result on management of receivables	(8,925)	(158)	-	(3)	-	15	44	(9,027)
Result on other operating activities	1,959	(69)	-	-	-	(302)	(347)	1,241
Operating profit /(loss)	**106,463**	**7,381**	**5,007**	**1,229**	**8**	**824**	**(56,830)**	**64,082**
Exchange differences and interest on trade settlements	(310)	(1,467)	(1,402)	-	-	(396)	(10)	(3,585)
Borrowing costs	-	-	-	-	-	-	(13,656)	(13,656)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	-	131,049	131,049
Profit /(loss) before tax	**106,153**	**5,914**	**3,605**	**1,229**	**8**	**428**	**60,553**	**177,890**
Income tax	-	-	-	-	-	-	-	(23,056)
Net profit /(loss) on continuing operations	-	-	-	-	-	-		154,834
Net profit /(loss) on discontinued operations	-	-	-	-	-	-		453
Net profit /(loss) for the period	**-**	**-**		**-**	**-**	**-**	**-**	**155,287**
Amortization/depreciation	3,526	44	-	-	-	417	14,852	18,839
EBITDA from continuing operations	109,989	7,425	5,007	1,229	8	1,241	(41,978)	82,921
Adjusted EBITDA from continuing operations*	108,860	7,425	5,007	1,229	8	1,241	(41,865)	81,905

** Adjusted EBITDA for the 12-month period ended 31 December 2020 is calculated as EBITDA adjusted for untypical one-off events such as: reversal of provisions for liabilities: PLN 1,856 thousand; donations given: PLN -881 thousand; other: PLN 41 thousand.*

There are no significant customers outside the CIECH Group from whom the Company would earn 10% of its total revenues.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

ASSETS AND LIABILITIES BY OPERATING SEGMENTS

	ASSETS		LIABILITIES	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Soda Segment	90,758	85,672	424,241	263,849
Agro Segment	3,972	9,858	2,177	4,129
Resins Segment*	-	97,228	-	38,192
Foam Segment	1,011	1,326	12	9
Silicates Segment	4,307	4,224	1,856	9,636
Packaging Segment	315	83	-	-
Other operations Segment	17,948	13,901	13,745	16,191
Corporate functions	4,494,246	4,145,342	2,555,925	2,431,860
TOTAL	**4,612,557**	**4,357,634**	**2,997,956**	**2,763,866**

**Assets associated with discontinued operations. For detailed information on discontinued operations, see Note 5.9 to these statements.*

At CIECH S.A., capital expenditure for 2021 in the amount of PLN 29,592 thousand and for 2020 in the amount of PLN 17,072 thousand was recognised in the Segment “Corporate functions”.

SALES REVENUES BY BUSINESS SEGMENTS

At CIECH S.A., sales revenues are recognized upon the provision of services or delivery of goods. For detailed information on the recognition of sales revenue, please refer to Note 3.1 to these financial statements.

	01.01.-31.12.2021	01.01.-31.12.2020	Change 2021/2020	Change %
Soda segment, including:	**1,490,385**	**1,407,865**	**82,520**	**5.9%**
Dense soda ash	797,947	814,859	(16,912)	(2.1%)
Light soda ash	305,715	227,365	78,350	34.5%
Salt	192,643	190,410	2,233	1.2%
Sodium bicarbonate	111,015	105,770	5,245	5.0%
Calcium chloride	33,194	18,111	15,083	83.3%
Other goods and services	49,871	51,350	(1,479)	(2.9%)
Agro segment, including:	**19,129**	**106,351**	**(87,222)**	**(82.0%)**
Raw materials for production of plant pro-tection products	13,534	98,137	(84,603)	(86.2%)
Other goods and services	5,595	8,214	(2,619)	(31.9%)
Foam segment, including:	**10,244**	**100,511**	**(90,267)**	**(89.8%)**
Raw materials for the production of polyu-rethane foams	-	96,928	(96,928)	-
Other goods and services	10,244	3,583	6,661	185.9%
Silicates segment, including:	**20,348**	**30,828**	**(10,480)**	**(34.0%)**
Sodium silicates	11,007	11,279	(272)	(2.4%)
Other goods and services	9,341	19,549	(10,208)	(52.2%)
Packaging segment, including:	**1,230**	**194**	**1,036**	**534.0%**
Other goods and services	1,230	194	1,036	534.0%
Other segment, including:	**77,344**	**8,326**	**69,018**	**828.9%**
Revenues from third parties	77,344	8,326	69,018	828.9%
TOTAL	**1,618,680**	**1,654,075**	**(35,395)**	**(2.1%)**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

INFORMATION ON GEOGRAPHICAL AREAS

Information on CIECH S.A.'s geographical areas is established based on the location of its assets.

	ASSETS	
	31.12.2021	31.12.2020
Poland	2,462,473	2,204,723
European Union (excluding Poland)	2,149,546	2,152,810
Other European countries	-	51
Africa	538	-
Asia	-	50
TOTAL	**4,612,557**	**4,357,634**

The Company's non-current assets are located in Poland and the European Union. As regards the European Union, the most significant non-current assets comprise shares in subsidiaries having their registered offices mainly in Romania (PLN 30,551 thousand), Germany (PLN 838,346 thousand) and Spain (PLN 203,866 thousand). Trade and other receivables constitute the main component of current assets presented in individual geographical areas

	01.01.-31.12.2021	01.01.-31.12.2020
Poland	1,013,829	1,124,908
European Union (excluding Poland)	523,361	450,247
Germany	133,917	113,253
Romania	42,269	20,593
Czech Republic	149,894	143,580
Italy	5,946	5,342
The Netherlands	47,923	51,417
Finland	19,033	27,580
Sweden	22,753	21,168
Belgium	22,213	8,485
United Kingdom	3,683	2,880
Denmark	14,112	7,325
France	14,179	11,643
Luxembourg	-	1,046
Lithuania	8,755	6,996
Other EU countries	38,684	28,939
Other European Countries	57,600	64,482
Switzerland	3,764	2,393
Norway	44,375	43,486
Russia	1,717	1,016
Other European countries	7,744	17,587
Africa	8,007	9,355
Asia	13,616	4,300
Indie	-	121
Singapur	6,819	1,043
Other Asian countries	6,797	3,136
Other regions	2,267	949
Hedge accounting	-	(166)
TOTAL	**1,618,680**	**1,654,075**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

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

3.1. SALES REVENUES

Accounting policy

The Entity 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 Entity recognises as revenues the amount of the transaction price that is allocated to that performance obligation.

At CIECH S.A., revenues from the sale of goods are recognised upon their delivery in accordance with the INCOTERMS terms and conditions contained in contracts with customers. The company usually sells using the following delivery bases: DAP, FCA, DDP.

Revenues from the sale of services are recognised when the service is provided.

CIECH S.A. enters into agreements with counterparties concerning the provision of CIECH S.A. 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.

CIECH S.A. grants discounts to selected customers, and the value of these discounts reduces the value of sales revenues.

Revenues from the sales of products and goods are recognised in profit or loss at the NBP's average exchange rate from the date preceding the date of invoice, except for sales revenues earned by the Branch of CIECH S.A. in Germany whose currency translation principle is described in Note 1.3.

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 CIECH S.A. 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.

CIECH S.A. uses non-recourse factoring and detailed information is provided in Note 5.6 to these financial statements.

SALES REVENUES	01.01.-31.12.2021	01.01.-31.12.2020
Revenues from sales of products and services	**97,223**	**113,513**
- services	97,223	113,513
Revenues from sales of goods and materials	**1,521,457**	**1,540,562**
- goods	1,521,457	1,540,562
Net sales of products, goods and materials	**1,618,680**	**1,654,075**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

3.2. COST OF SALES, SELLING COSTS, GENERAL AND ADMINISTRATIVE EXPENSES

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 services sold and the cost of goods and materials sold. Selling costs include, among others: costs of transport, 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 and 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 Company 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, SELING COST AND ADMINISTRATIVE EXPENSES	01.01.-31.12.2021	01.01.-31.12.2020
Cost of manufacture of products and services sold	(81,044)	(94,108)
Cost of sold goods and materials sold	(1,348,498)	(1,315,735)
Cost of sales	**(1,429,542)**	**(1,409,843)**
Selling costs	**(136,165)**	**(108,042)**
General and administrative expenses	**(98,333)**	**(64,322)**

3.3. COSTS BY TYPE

COST BY KIND (SELECTED)	01.01.-31.12.2021	01.01.-31.12.2020
Amortisation	(17,666)	(18,409)
Consumption of materials and energy	(4,409)	(2,727)
Employee benefits, including:	(74,898)	(83,740)
- payroll	(67,097)	(70,768)
- social security and other benefits	(6,167)	(9,324)
- other	(1,359)	(1,119)
External services	(185,983)	(153,653)

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

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 Company's core operations. The key items include:

- ✓ recognition / reversal of provisions, such as for liabilities, employee benefits,
- ✓ gains/ losses on disposal and liquidation of non-financial non-current assets,
- ✓ recognition/ reversal of impairment losses (including allowances for doubtful receivables),
- ✓ penalty fees and compensation paid/ received;
- ✓ 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.

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.

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.

OTHER OPERATING INCOME	01.01.-31.12.2021	01.01.-31.12.2020
Rents/lease income	1,216	433
Gain on disposal of non-financial non-current assets	56	186
Reversal of impairment allowances on receivables	1,976	656
Reversal of impairment losses on property, plant and equipment and intangible assets	210	-
Reversal of provisions on employee benefits	370	158
Reversal of provisions for liabilities – changing the base	168	2,172
Penalty fees and compensations received	3,353	1
Car sale - lease	83	320
Revenues from sublease	1,333	570
Income from restructuring	4,271	-
Other	1,053	1,094
TOTAL	**14,089**	**5,590**

OTHER OPERATING EXPENSES	01.01.-31.12.2021	01.01.-31.12.2020
Rental costs	(1,424)	(766)
Recognition of impairment losses on receivables	(1,162)	(9,683)
Recognition of provisions for liabilities	(85)	(316)
Sublease costs	(1,629)	(721)
Other	(2,018)	(1,890)
TOTAL	**(6,318)**	**(13,376)**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

As at 31 December 2021, CIECH S.A. made an assessment of premises, originating both from external and internal sources of information, of indicators of impairment of non-financial assets. These analyses did not indicate a need to perform impairment tests.

3.5. FINANCIAL INCOME AND EXPENSES

Accounting policy

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. Key items of financing activities include:

- ✓ interest on borrowings determined based on the effective interest method,
- ✓ impairment losses on financial assets,
- ✓ interest earned by the Company 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 Company's right to receive payment is established,
- ✓ net foreign exchange gains or losses,
- ✓ gains/(losses) on sales of financial assets,
- ✓ gains/(losses) on derivative instruments.

Judgements and estimates

At each reporting date the Company assesses whether there is any evidence that a financial asset or a group of financial assets is impaired. Where such evidence exists, the Company tests the value of interests in subsidiaries. The recoverable value is defined as the higher of value in use and fair value less costs to sell. Value in use is determined using the discounted cash flow model. The cash flows are based on financial plans covering a period of the next five years, excluding the effects of restructuring, or significant future investments that can improve the operating results of assets being part of the tested cash-generating unit. The recoverable amount is sensitive to the discount rate used in the discounted cash flow model, as well as the expected future cash flows and growth rate adopted for the residual period.

Where it is necessary to recognise impairment losses on involvement in other companies, such losses are recognised in the following order: on shares, on loans granted, on interest on loans.

Accounting policy concerning financial instruments is presented in note 8.1.

NET FINANCIAL INCOME (EXPENSES)	01.01.-31.12.2021	01.01.-31.12.2020
Interest	48,866	46,299
Dividends and shares in profit	204,620	181,903
Net foreign exchange gains	5,192	35,793
Reversal of impairment losses	11,719	9,131
Profits from derivatives	36,794	11,589
Other	23,674	1,571
Total financial income	**330,865**	**286,286**
Interest	(51,721)	(55,405)
Recognition of other impairment losses*	(13,860)	(24,642)
Bank fees and commissions	(7,881)	(3,540)
Recognition of provision for anticipated losses	(921)	(1,119)
Loss due to derivatives	(105,264)	(70,906)
Guarantees costs	(14,893)	(15,171)
Costs of disposal of financial assets	(19,715)	(565)
Other	(1,591)	(1,130)
Total financial expenses	**(215,846)**	**(172,478)**
Net Financial income (expenses)	**115,019**	**113,808**

**This includes, among other things, recognised and reversed impairment losses on financial assets, as described in more detail in Notes 5.4, 5.7.*

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

In 2021, CIECH S.A. received the highest dividends from the following companies:

- CIECH Soda Polska S.A., in the amount of PLN 96,841 thousand,
- CIECH Vitrosilicon S.A., in the amount of PLN 43,802 thousand,
- Proplan Plant Protection Company, in the amount of PLN 24,068 thousand,
- CIECH Pianki Sp. z o.o., in the amount of PLN 23,776 thousand,
- CIECH Soda Deutschland GmbH, in the amount of PLN 15,606 thousand,
- Ciech Finance Sp. z o.o., in the amount of PLN 350 thousand,
- Gamma Finanse Sp. z o.o., in the amount of PLN 88 thousand,
- Ciech Transclean Sp. z o.o., in the amount of PLN 50 thousand,
- Verbis ETA Sp. z o.o., in the amount of PLN 39 thousand.

CIECH S.A. recorded the following gains/losses on the settlement of derivative instruments:

- gain on CIRS, in the amount of PLN 7,753 thousand,
- loss on Forward, in the amount of PLN 8,905 thousand,
- loss on SWAP, in the amount of PLN 11,441 thousand.

CIECH S.A. recorded the following gains/losses on changes in valuation of derivative instruments:

- loss on valuation of CIRS, in the amount of PLN 53,466 thousand,
- gain on valuation of Forward, in the amount of PLN 13,174 thousand,
- gain on valuation of SWAP, in the amount of PLN 3,377 thousand.

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

	01.01.-31.12.2021	01.01.-31.12.2020
Gains on financial instruments	**97,329**	**66,612**
Interest	48,866	46,299
Gains on derivative instruments	36,794	11,182
Write-offs	11,669	9,131
Losses on financial instruments	**(168,290)**	**(128,963)**
Interest	(51,721)	(55,405)
Losses on derivative instruments	(105,264)	(70,906)
Write-offs	(11,305)	(2,652)

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

3.6. COMPONENTS OF OTHER COMPREHENSIVE INCOME

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
Cash flow hedge	56,541	(10,743)	45,798	(30,466)	5,788	(24,678)
Valuation of actuarial provisions	(89)	17	(72)	(51)	10	(41)
Other components of other comprehensive income	-	-	-	(6)	-	(6)
TOTAL	**56,452**	**(10,726)**	**45,726**	**(30,523)**	**5,798**	**(24,725)**

Income tax and reclassification adjustments in other comprehensive income

Other comprehensive income before tax	01.01.-31.12.2021	01.01.-31.12.2020
Cash flow hedge	**56,541**	**(30,466)**
fair value remeasurement in the period	37,765	(34,661)
reclassification to profit or loss	18,776	4,195
Valuation of actuarial provisions	**(89)**	**(51)**
remeasurement for the current period	(89)	(51)
Other components of other comprehensive income	**-**	**(6)**
remeasurement for the current period	-	(6)
reclassification to profit or loss	-	-
Income tax attributable to other components of other comprehensive income	**(10,726)**	**5,798**
accrued for the current period	(7,158)	6,596
reclassification to profit or loss	(3,568)	(798)
Other comprehensive income net of tax	**45,726**	**(24,725)**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

4. INCOME TAX, DEFERRED TAX ASSETS AND LIABILITY

Accounting policy

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.

4.1. MAIN COMPONENTS OF TAX EXPENSE

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	**(3,623)**	**(15,088)**
Income tax for the reporting period	(2,426)	(14,449)
Adjustment to tax for previous years	(1,197)	(639)
Deferred tax	**17,718**	**(7,968)**
Origination/reversal of temporary differences	49,350	7,120
Unrecognized deferred tax assets	(31,632)	(15,088)
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**14,095**	**(23,056)**

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
Cash flow hedge	(10,743)	5,788
Valuation of actuarial provisions	17	10
TOTAL	**(10,726)**	**5,798**

4.2. EFFECTIVE TAX RATE

The following represents a reconciliation of income tax calculated by applying the currently enacted statutory tax rate to the Company’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	**77,430**	**177,890**
Tax calculated at the applicable tax rate	**(14,712)**	**(33,799)**
Difference resulting from the application of tax rates applicable in other countries*	(949)	(1,152)
Tax effect of revenues adjusting profit (loss) before tax (permanent difference)**	41,485	53,735
Tax effect of expenses adjusting profit (loss) before tax (permanent difference)***	10,417	(24,842)
Income tax for the previous years recognised in the statement of profit or loss	-	(2,421)
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	(18,532)	(15,961)
Other	(2,417)	(86)
Income tax recognised in statement of profit or loss	**14,095**	**(23,056)**
EFFECTIVE TAX RATE	**(18.2%)**	**13.0%**

**The Branch of CIECH S.A. in Romania is subject to a tax rate of 16% and the Branch of CIECH S.A. in Germany – to a tax rate of 30.88%. The tax rates were applied continuously in both periods.*

***The main items included in the amount of revenues which are not revenues according to tax regulations result from dividend income in subsidiaries.*
****The main items included in the amount of non-tax deductible expenses result from cancellation of shares in subsidiaries and the difference in the value of shares sold.*

4.3. DEFERRED INCOME TAX

Accounting policy

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
- ✓ 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 is itself recognised 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 Company does not recognise deferred tax on leases.

Judgements and estimates

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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

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	-	6,046	(6,046)	40	3,407	(3,367)
Financial assets	368	14,568	(14,200)	6,399	10,197	(3,798)
Inventory	-	290	(290)	-	70	(70)
Trade and other receivables	39	-	39	117	-	117
Provisions for employee benefits	142	-	142	187	-	187
Tax losses carried forward	52,106	-	52,106	15,088	-	15,088
Foreign exchange differences	-	1,375	(1,375)	-	4,073	(4,073)
Liabilities	26,101	2,813	23,288	10,954	47	10,907
Other	46	-	46	93	-	93
Deferred tax assets/liability	**78,802**	**25,092**	**53,710**	**32,878**	**17,794**	**15,084**
Set - off of deferred tax assets/ liability	(25,092)	(25,092)	-	(17,790)	(17,790)	-
Unrecognized deferred tax assets	(46,720)	-	(46,720)	(15,088)	-	(15,088)
Deferred tax assets/liability recognised in the statement of financial position	**6,990**	**-**	**6,990**	**-**	**4**	**(4)**

The Company estimates that within more than 12 months from the period of the financial statements presentation the deferred tax asset will be utilised in the amount of PLN 3,190 thousand. In the same period, the estimated amount of settlement of the deferred tax liability will be PLN 22,029 thousand.

The Company 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	31.12.2021
Property, plant and equipment	(17,721)	(14,100)	-	(31,821)
Financial assets	(19,991)	1,792	(56,543)	(74,742)
Inventories	(368)	(1,153)	-	(1,521)
Trade and other receivables	616	(411)	-	205
Provisions for employee benefits	984	(326)	89	747
Tax losses carried forward	79,412	194,830	-	274,242
Foreign exchange differences	(21,437)	14,206	-	(7,231)
Liabilities	57,404	65,154	-	122,558
Other	489	(246)	-	243
TOTAL	**79,388**	**259,746**	**(56,454)**	**282,680**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

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	31.12.2020
Property, plant and equipment	(181)	(17,540)	-	(17,721)
Financial assets	(49,105)	(1,352)	30,466	(19,991)
Inventories	(930)	562	-	(368)
Trade and other receivables	621	(5)	-	616
Provisions for employee benefits	1,263	(336)	57	984
Tax and other losses carried forward	1,740	77,672	-	79,412
Foreign exchange differences	13,405	(34,842)	-	(21,437)
Liabilities	44,584	12,820	-	57,404
Other	489	-	-	489
TOTAL	**11,886**	**36,979**	**30,523**	**79,388**

The Company did not recognise a deferred tax asset in the total amount of PLN 46,720 thousand. The Company has not recognised a deferred tax asset in respect of the tax loss generated on the capital source in 2018-2021 (PLN 146,376 thousand). The Company determined that recovery of this asset over the next 5 years is less than more probable.

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 STATEMENT OF FINANCIAL POSITION

5.1. PROPERTY, PLANT AND EQUIPMENT

Accounting policy

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.

Subsequent expenditure

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 Company 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 Company 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. Land is not depreciated. The estimated useful lives are as follows:

Buildings	5-7 years
Machinery and equipment	2-5 years
Other	5 years

Judgements and estimates

Depreciation rates 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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

01.01.-31.12.2021	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	**543**	**25,073**	**142**	**1,516**	**4,283**	**31,557**
Investment outlays	-	-	-	-	4,347	4,347
Reclassification	4	5,023	-	56	(5,083)	-
Sales	-	(748)	-	(85)	-	(833)
Other	-	459	(98)	11	-	372
Gross value of property, plant and equipment at the end of the period	**547**	**29,807**	**44**	**1,498**	**3,547**	**35,443**
Accumulated depreciation at the beginning of the period	**(275)**	**(18,324)**	**(99)**	**(1,054)**	**-**	**(19,752)**
Depreciation for the period	**(96)**	**(2,380)**	**69**	**3**	**-**	**(2,404)**
Annual depreciation charge	(96)	(3,123)	(14)	(82)	-	(3,315)
Sales	-	743	-	85	-	828
Other	-	-	83	-	-	83
Accumulated depreciation at the end of the period	**(371)**	**(20,704)**	**(30)**	**(1,051)**	**-**	**(22,156)**
Impairment losses at the beginning of the period	**-**	**-**	**-**	**-**	**-**	**-**
Impairment losses at the end of the period	**-**	**-**	**-**	**-**	**-**	**-**
Carrying amount of property, plant and equipment at the beginning of period	**268**	**6,749**	**43**	**462**	**4,283**	**11,805**
Carrying amount of property, plant and equipment at the end of the period	**176**	**9,103**	**14**	**447**	**3,547**	**13,287**

01.01.-31.12.2020	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	**550**	**24,612**	**138**	**1,732**	**3,785**	**30,817**
Purchase/Reclassification from investments	-	1 472	-	312	5 336	7 120
Reclassification	-	-	-	-	(1 784)	(1 784)
Sales	-	(191)	-	(319)	(3 040)	(3 550)
Deficiencies revealed during the inventory	-	(813)	-	(114)	-	(927)
Other	(7)	(7)	4	(95)	(14)	(119)
Gross value of property, plant and equipment at the end of the period	**543**	**25,073**	**142**	**1,516**	**4,283**	**31,557**
Accumulated depreciation at the beginning of the period	**(184)**	**(15,107)**	**(31)**	**(1,364)**	**-**	**(16,686)**
Depreciation for the period	**(91)**	**(3,217)**	**(68)**	**310**	**-**	**(3,066)**
Annual depreciation charge	(97)	(4,183)	(69)	(213)	-	(4,562)
Sales	-	190	-	319	-	509
Deficiencies revealed during the inventory	-	776	-	111	-	887
Other	6	-	1	93	-	100
Accumulated depreciation at the end of the period	**(275)**	**(18,324)**	**(99)**	**(1,054)**	**-**	**(19,752)**
Impairment losses at the beginning of the period	**-**	**-**	**-**	**-**	**-**	**-**
Impairment losses at the end of the period	**-**	**-**	**-**	**-**	**-**	**-**
Carrying amount of property, plant and equipment at the beginning of period	**366**	**9,505**	**107**	**368**	**3,785**	**14,131**
Carrying amount of property, plant and equipment at the end of the period	**268**	**6,749**	**43**	**462**	**4,283**	**11,805**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

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

PROPERTY, PLANT AND EQUIPMENT DEPRECIATION CHARGES	01.01.-31.12.2021	01.01.-31.12.2020
General and administrative expenses	(3,315)	(4,562)
TOTAL	**(3,315)**	**(4,562)**

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.

In 2021 and 2020, CIECH S.A. did not receive from third parties for impaired property, plant and equipment.

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 24 thousand in the current period; there were no such commitments in the corresponding period.

5.2. RIGHT-OF-USE ASSETS

Accounting policy

Initial measurement of right-of-use assets

At the commencement date, the Company 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 Company 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 Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Company 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 Company applies IAS 36 *Impairment of Assets* to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

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	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	TOTAL
CHANGE OF RIGHTS TO USE ASSETS				
Gross value at the beginning of the period	**31,914**	**-**	**4,376**	**36,290**
Conclusion of new lease agreements	-	483	1,654	2,137
Modification of the leasing contract	(1,021)	-	(35)	(1,056)
Gross value at the end of the period	**30,893**	**483**	**5,995**	**37,371**
Accumulated depreciation at the beginning of the period	**(8,098)**	**-**	**(2,135)**	**(10,233)**
Depreciation for the period	**(3,204)**	**(110)**	**(1,589)**	**(4,903)**
Annual depreciation charge	(3,204)	(110)	(1,589)	(4,903)
Accumulated depreciation at the end of the period	**(11,302)**	**(110)**	**(3,724)**	**(15,136)**
Net value of rights to use assets at the beginning of the period	**23,816**	**-**	**2,241**	**26,057**
Net value of rights to use assets at the end of the period	**19,591**	**373**	**2,271**	**22,235**

01.01.-31.12.2020	Buildings offices and land and water engineering facilities	Means of transport	TOTAL
CHANGE OF RIGHTS TO USE ASSETS			
Gross value at the beginning of the period	**32,906**	**1,051**	**33,957**
Conclusion of new lease agreements	-	3,401	3,401
Modification of the leasing contract	(962)	14	(948)
Closing of the contract	(30)	(90)	(120)
Gross value at the end of the period	**31,914**	**4,376**	**36,290**
Accumulated depreciation at the beginning of the period	**(3,959)**	**(662)**	**(4,621)**
Depreciation for the period	**(4,139)**	**(1,473)**	**(5,612)**
Annual depreciation charge	(4,139)	(1,473)	(5,612)
Accumulated depreciation at the end of the period	**(8,098)**	**(2,135)**	**(10,233)**
Net value of rights to use assets at the beginning of the period	**28,947**	**389**	**29,336**
Net value of rights to use assets at the end of the period	**23,816**	**2,241**	**26,057**

In 2019, CIECH S.A. implemented IFRS 16 "Leases". Under this standard, leases of office and warehouse space, as well as leases of passenger cars were identified in the company 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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

5.3. INTANGIBLE ASSETS

Accounting policy

Intangible assets acquired by the company 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.

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 the following categories of intangible assets are as follows:

Patents and licences	8 years
Other	2-5 years

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.

01.01.-31.12.2021	Licences,patents, permits, etc. obtained	Intangible assets under development	Other intangible assets	TOTAL
Gross value of intangible assets at the beginning of the period	**57,684**	**12,966**	**18,979**	**89,629**
Investment outlays	-	25,401	-	25,401
Reclassifications	17,228	(17,234)	6	-
Activated costs	-	(875)	-	(875)
Gross value of intangible assets at the end of the period	**74,912**	**20,258**	**18,985**	**114,155**
Accumulated amortisation at the beginning of the period	(18,233)	-	(13,758)	**(31,991)**
Amortisation for the period	**(7,096)**	**-**	**(2,752)**	**(9,848)**
Annual amortisation charge	(7,096)	-	(2,752)	(9,848)
Accumulated amortisation at the end of the period	**(25,329)**	**-**	**(16,510)**	**(41,839)**
Impairment losses at the beginning of the period	**-**	**(210)**	**-**	**(210)**
Impairment losses at the end of the period	**-**	**(210)**	**210**	**-**
Net value of intangible assets at the beginning of the period	**39,451**	**12,756**	**5,221**	**57,428**
Net value of intangible assets at the end of the period	**49,583**	**20,048**	**2,685**	**72,316**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

01.01.-31.12.2020	Licences,patents, permits, etc. obtained	Intangible assets under development	Other intangible assets	TOTAL
Gross value of intangible assets at the beginning of the period	**73,672**	**6,173**	**18,979**	**98,824**
Investment outlays	-	11,736	-	11,736
Reclassifications	4,943	(4,943)	-	-
Liquidation	(20,931)	-	-	(20,931)
Gross value of intangible assets at the end of the period	**57,684**	**12,966**	**18,979**	**89,629**
Accumulated amortisation at the beginning of the period	(33,204)	-	(10,996)	**(44,200)**
Amortisation for the period	**14,971**	**-**	**(2,762)**	**12,209**
Annual amortisation charge	(5,903)	-	(2,762)	(8,665)
Exchange differences	(39)	-	-	(39)
Liquidation	20 931	-	-	20 931
Accumulated amortisation at the end of the period	**(18,233)**	**-**	**(13,758)**	**(31,991)**
Impairment losses at the beginning of the period	**-**	**(210)**	**-**	**(210)**
Impairment losses at the end of the period	**-**	**(210)**	**-**	**(210)**
Net value of intangible assets at the beginning of the period	**40,468**	**5,963**	**7,983**	**54,414**
Net value of intangible assets at the end of the period	**39,451**	**12,756**	**5,221**	**57,428**

In 2021, the capitalisation rate applied to determine the amount of borrowing costs to be capitalised was approx. 1.9%, whereas in 2020 it amounted to approx. 2.5%.

CIECH S.A. is the owner of all intangible assets held. 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).

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.

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

AMORTISATION CHARGES ON INTANGIBLE ASSETS	01.01.-31.12.2021	01.01.-31.12.2020
General and administrative expenses	(7,100)	(5,917)
Selling costs	(2,748)	(2,748)
TOTAL	**(9,848)**	**(8,665)**

The Company does not have intangible assets with indefinite useful life. 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 4,300 thousand (in the comparable period: PLN 411 thousand).

In the reporting period and in the presented comparable period, the Company did not incur any expenditure on development activities.

5.4. LONG-TERM FINANCIAL ASSETS

Accounting policy

Shares in subsidiaries and associates are stated at purchase price less any impairment losses.

Loans are measured at nominal value plus interest and net of any impairment losses due to the insignificant difference compared to measurement at amortised cost.

Accounting policy concerning financial instruments is presented in note 8.1.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

Judgements and estimates

Accounting policy concerning judgements and estimates is presented in note 3.5.

NON-CURRENT FINANCIAL ASSETS	31.12.2021	31.12.2020
Shares	2,066,181	2,137,655
Loans granted	1,091,317	400,413
Derivatives	662	574
TOTAL	**3,158,160**	**2,538,642**

Change in long-term stocks and shares	01.01.-31.12.2021	01.01.-31.12.2020
Gross value at the beginning of the period	**2,237,330**	**2,328,605**
Purchase	30,847	17,752
Writing-off/redemption	(80,449)	(1,012)
Transfer to assets held for sale	-	(30,015)
Sales/liquidation	(98,440)	(78,000)
Other	154	-
Gross value at the end of the period	**2,089,442**	**2,237,330**
Impairment update at the beginning of the period	**(99,675)**	**(156,334)**
Recognition	(2,311)	(21,839)
Reversal/usage	78,725	77,436
Transfer to assets held for sale	-	50
Other	-	1,012
Impairment update at the end of the period	**(23,261)**	**(99,675)**
Net value of the shares at the beginning of the period	**2,137,655**	**2,172,271**
Net value of the shares at the end of the period	**2,066,181**	**2,137,655**

CHANGE IN LONG-TERM LOANS	31.12.2021	31.12.2020
Gross value at the beginning of the period	**403,276**	**243,123**
Grant	1,326,132	-
Reclassification to long-term positions	(637,695)	160,153
Foreign exchange differences	7,076	-
Gross value at the end of the period	**1,098,789**	**403,276**
Impairment update at the beginning of the period	**(2,863)**	**(3,306)**
Recognition	(7,472)	(1,422)
Reversal	2,863	1,865
Closing balance	**(7,472)**	**(2,863)**
Carrying amount of loans at the beginning of period	**400,413**	**239,817**
Carrying amount of loans at the end of the period	**1,091,317**	**400,413**

Change in the gross value of long-term shares results primarily from:

- acquisition of shares in the increased share capital of CIECH Salz Deutschland GmbH – PLN 27,852 thousand (EUR 6,000 thousand),
- acquisition of shares in the increased share capital of CIECH Services Sp. z o.o. – PLN 1,995 thousand,
- purchase of shares in CIECH Ventures Sp. z o.o. – PLN 1,000 thousand,
- as a result of the demerger of CIECH Vitrosilicon S.A. and the separation of a part of the business to CIECH Vitro Sp. z o.o., CIECH S.A. became the sole shareholder of CIECH Vitrosilicon S.A. and acquired shares in CIECH Vitro S.p. o.o. with a value of PLN 1,708 thousand in 2021,

- cancellation against consideration of shares in CIECH Soda Romania S.A. in the amount of PLN 80,449 thousand described in detail in Note 6.4 hereto,
- cancellation, partly against consideration and partly without consideration, of shares in CIECH Trading Sp. z o.o. described in detail in Note 6.4 hereto (sale of shares in the amount of PLN 88,904 thousand and reversal of the impairment loss of PLN 72,693 thousand),
- cancellation, against consideration, of shares in CIECH Transclean Sp. z o.o. described in detail in Note 6.4 hereto (sale of shares in the amount of PLN 9,536 thousand and reversal of the impairment loss of PLN 6,032 thousand),
- recognition of impairment losses on shares held by CIECH S.A. in CIECH Trading Sp. z o.o., CIECH Group Financing AB and CIECH Nieruchomości Sp. z o.o.

Material items affecting the change in long-term loans are as follows:

- granting a loan to the SDC Group companies: CIECH Soda Deutschland GmbH&CO KG and CIECH Energy Deutschland GmbH in the amount of PLN 319,064 thousand (nominal value of EUR 69,000 thousand, whole amount as refinancing for a loan with longer maturity),
- granting a loan to CIECH Salz Deutschland GmbH in the amount of PLN 993,154 thousand (nominal value of EUR 215,500 thousand, including EUR 152 000 thousand as refinancing for a loan with longer maturity),
- granting a loan to Proplan Plant Protection in the amount of PLN 13,914 thousand (nominal value of PLN 3,000 thousand).

The change in long-term loans granted also resulted from reclassification of loans granted from non-current to current and their subsequent repayment, as well as unrealised exchange differences arising from the revaluation of loans as at the balance sheet date.

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

As at 31 December 2021, shares in 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., CIECH Soda Deutschland GmbH & Co. KG, CIECH Energy Deutschland GmbH and 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.

CIECH S.A. analyses its involvement in the subsidiaries on the basis of their net assets as at the balance sheet date.

If any evidence of impairment is identified, the Company estimates the recoverable amount. Due to the occurrence of premises, CIECH S.A. analysed the recoverability of involvement in subsidiaries. The recoverable value applied was the value in use estimated based on the discounted cash flows determined based on five-year financial plans of the subsidiaries. The following assumptions were applied in the impairment tests:

- the weighted average cost of capital for domestic companies 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 SDC GmbH and CIECH Salz Deutschland GmbH 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 assumed growth rate for the residual period was 2.0% for both the domestic and foreign companies.

Based on analyses conducted, the Management Board of CIECH S.A. decided to recognise/reverse impairment losses on involvement in, among others, the following companies:

- recognition of impairment losses:
    - CIECH Trading Sp. z o.o. – impairment loss on shares in the amount of PLN 939 thousand;

In the first quarter of 2021, the Management Board of CIECH Trading Sp. z o.o. decided to discontinue the company's business activities.

- CIECH Group Financing AB – impairment loss on shares in the amount of PLN 103 thousand;
- CIECH Nieruchomości Sp. z o.o. – impairment loss on shares in the amount of PLN 1,269 thousand.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

CARRYING AMOUNT OF SHARES IN RELATED ENTITIES

	31.12.2021	31.12.2020	The Company's direct share in the share capital/ total number of votes as at 31 December 2021	The Company's direct share in the share capital/ total number of votes as at 31 December 2020	Core activities
Subsidiaries (registered office)					
SDC GmbH (Stassfurt – Germany)	797,471	797,471	100%	100%	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.
CIECH Soda Polska S.A. (Inowrocław)	553,097	553,097	100%	100%	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.
CIECH Sarzyna S.A. (Nowa Sarzyna)	266,867	266,867	100%	100%	Manufacture of resins, manufacture of pesticides and other chemical products.
CIECH Soda Romania S.A. (Rm. Valcea , Romania)	30,551	111,000	98.74%	98.74%	Manufacture of other basic inorganic chemicals, wholesale of chemical products.
CIECH Trading Sp. z o.o. (Warsaw)	5,291	22,441	100%	100%	The company is preparing for the liquidation process, operations are being phased out.
CIECH Pianki Sp. z o.o. (Bydgoszcz)	57,451	57,451	100%	100%	Manufacture of organic and other inorganic chemicals.
VERBIS ETA Sp. z o.o. SKA (Warsaw)	37,971	37,971	100%	100%	Financing activities, direct lending to the CIECH Group companies.
CIECH R&D Sp. z o.o. (Warsaw)	47,915	47,915	100%	100%	Granting licences to the CIECH Group companies to use the trademarks: "Ciech", "Ciech Trading" and "Sól Kujawska naturalna czysta" for business activity purposes, research and developments activities.
CIECH Vitrosilicon S.A. (Iłowa)	10,594	12,302	100.00%	83.03%	Production of other basic inorganic chemicals, manufacture of hollow glass and technical glassware, manufacture of plastic packaging goods, manufacture of other plastic products.
CIECH Vitro Sp. z o.o. (Iłowa)	2,108	400	39.41%	100.00%	Production of other basic inorganic chemicals, manufacture of hollow glass and technical glassware, manufacture of plastic packaging goods, manufacture of other plastic products.
CIECH Transclean Sp. z o.o. (Bydgoszcz)	105	3,455	100%	100%	International transport of liquid chemicals
Gamma Finanse Sp. z o.o. (Warsaw)	2,889	2,889	100%	100%	Financing activities.
Ciech Group Financing AB (Sweden)	1,374	1,477	100%	100%	Financing activities.
VERBIS ETA Sp. z o.o. (Warsaw)	5	5	100%	100%	Other activities.
CIECH Serwis i Remonty Sp.z o.o.	450	450	100%	100%	Other research and experimental development on natural sciences and engineering.
Ciech Nieruchomości S.A. (Warsaw)	2,597	3866	99.18%	99.18%	Buying and selling of own real estate.
Proplan Plant Protection Company S.L. (Madrid)	203,866	203,866	100%	100%	Production and sales of crop protection chemicals.
CIECH Salz Deutschland GbmH	40,875	13,022	100%	100%	Production and sales of salt products.
CIECH SERVICES Sp. z o.o. (Bydgoszcz)	2,000	5	100%	100%	Provision of support services to CIECH Group companies.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

	31.12.2021	31.12.2020	The Company's direct share in the share capital/ total number of votes as at 31 December 2021	The Company's direct share in the share capital/ total number of votes as at 31 December 2020	Core activities
CIECH Ventrures Sp. z o.o. (Warsaw)	1,000	-	100%	-	Holding activities, other financial activities.
Other subsidiaries	**842**	**842**			
Associates	**863**	**863**			
Carrying amount of shares in related entities	**2,066,181**	**2,137,655**			

5.5. 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.
The cost of inventory is measured using the weighted average method.

Judgements and estimates

CIECH S.A. recognises 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	15	16
Goods	5,147	6,378
TOTAL	**5,162**	**6,394**

In the reporting periods, no inventories were written down to their net selling prices.
The value of inventories (taking into account write-downs to net selling prices) recognised as costs in 2021 amounted to PLN 1,371,223 thousand (in the comparable period: PLN 1,449,934 thousand).

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.

5.6. SHORT-TERM RECEIVABLES

Accounting policy

After initial recognition, current trade and other receivables are measured at the amortised cost using the effective interest method less any impairment 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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

Factoring

The Company uses 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 95% of the value of advance payments received from the factor (the 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 Entity 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 Entity 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 Entity 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:	110,720	170,758
- up to 12 months	109,409	169,664
- over 12 months	628	-
- prepayments for inventory	683	1,094
Public and legal receivables (excluding income tax)	36,763	8,621
Factoring receivables	21,437	35,946
Assets due to continuous involvement	2,370	513
Receivables from cashpool	3,912	7,992
Receivables from sales of stocks and shares	19,330	-
Other receivables	10,312	9,065
NET TRADE AND OTHER RECEIVABLES	**204,844**	**232,895**
Impairment allowances with respect to trade receivables including	(20,422)	(20,733)
- impairment allowance recognized in the current reporting period	(1,151)	(9,642)
Impairment allowances with respect to other current receivables including	(16,741)	(16,114)
- impairment allowance recognized in the current reporting period	(11)	(43)
GROSS TRADE AND OTHER RECEIVABLES	**242,007**	**269,742**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

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 period of delay in payments. As at 31 December 2021, the asset from continuing involvement amounted to PLN 2,370 thousand. The value of factoring assets derecognised from the statement of financial position is PLN 192,557 thousand (PLN 129,777 thousand in the comparable period).

CHANGE IN IMPAIRMENT ALLOWANCES ON SHORT-TERM RECEIVABLES	01.01.-31.12.2021	01.01.-31.12.2020
Opening balance	**(36,847)**	**(28,554)**
Recognized	(1,162)	(9,685)
Reversed	2,138	869
Used	1	466
Exchange differences	(675)	(292)
Other	(618)	349
Closing balance	**(37,163)**	**(36,847)**

The principles for recognising impairment allowances for short-term receivables are described above, in the “Accounting Policy” section.

AGEING OF PAST DUE TRADE RECEIVABLES	31.12.2021	31.12.2020
Up to 1 month	5,438	17,657
Between 1 and 3 months	3,620	8,065
3 to 6 months	9	65
6 months to 1 year	1,354	303
Above 1 year	20,182	20,733
Total (gross) past due trade receivables	**30,603**	**46,823**
Impairment allowances on past due trade receivables	(20,135)	(20,530)
Total (net) past due trade receivables	**10,468**	**26,293**

Terms of transactions with related entities have been presented in note 9.3.

Commercial contracts concluded by CIECH S.A. 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 CIECH S.A. were pledged as collateral for financial liabilities on account of the term loan, revolving facility and overdraft facilities.

5.7. SHORT-TERM FINANCIAL ASSETS

Accounting policy

Loans after initial recognition are measured at amortised cost using the effective interest method less any impairment losses.

Accounting policy concerning financial instruments is presented in note 8.1.

Judgements and estimates

Accounting policy concerning judgements and estimates is presented in note 3.5.

SHORT-TERM FINANCIAL ASSETS	31.12.2021	31.12.2020
Derivatives	102,220	1,261
Loans granted	559,831	1,187,901
Total (net) short-term financial assets	**662,051**	**1,189,162**
Impairment of short-term financial assets	(3,833)	(8,494)
Total (gross) short-term financial assets	**665,884**	**1,197,656**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

CHANGE IN SHORT-TERM LOANS	31.12.2021	31.12.2020
Gross value at the beginning of the period	**1,196,395**	**795,377**
Granted	737,607	957,503
Change of liabilities presented	(2,001,110)	(452,951)
Reclassification to long-term positions	637,695	(160,153)
Exchange differences	(6,923)	56,619
Gross value at the end of the period	**563,664**	**1,196,395**
Impairment update at the beginning of the period	**(8,494)**	**(14,382)**
Recognition	(3,832)	(1,228)
Reversal	8,493	7,116
Closing balance	**(3,833)**	**(8,494)**
Carrying amount of loans at the beginning of period	**1,187,901**	**780,995**
Carrying amount of loans at the end of the period	**559,831**	**1,187,901**

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

Material items affecting the change in short-term loans including interests are as follows:

- granting a loan to CIECH Soda Deutschland GmbH&CO KG in the amount of PLN 52,565 thousand (nominal value of EUR 8,224 thousand),
- granting a loan to CIECH Soda Polska S.A. in the amount of PLN 414,765 thousand (nominal value of PLN 402,000 thousand),
- granting a loan to CIECH Vitrosilicon S.A. in the amount of PLN 172,091 thousand (nominal value of PLN 171,000 thousand),
- granting a loan to CIECH Sarzyna S.A. in the amount of PLN 64,125 thousand (nominal value of PLN 62,800 thousand),
- granting a loan to CIECH Vitro Sp. z o.o. in the amount of PLN 2,282 thousand (nominal value of PLN 2,250 thousand),
- granting a loan to CIECH Services Sp. z o.o. in the amount of PLN 3,288 thousand (nominal value of PLN 3,245 thousand),
- granting a loan to El Pomiar Sp. z o.o. in the amount of PLN 272 thousand (nominal value of PLN 270 thousand),
- repayment of loans (with interest) by subsidiaries:
    - CIECH Salz Deutschland GmbH in the amount of PLN 751,002 thousand (including EUR 152 000 thousand as refinancing for a loan with longer maturity),
    - SDC Group in the amount of PLN 596,892 thousand (including EUR 69 000 thousand as refinancing for a loan with longer maturity),
    - CIECH Soda Polska S.A. in the amount of PLN 414,765 thousand,
    - CIECH Vitrosilicon S.A. in the amount of PLN 86,091 thousand,
    - CIECH Sarzyna S.A. in the amount of PLN 59,076 thousand,
    - Proplan Plant Protection in the amount of PLN 14,310 thousand,
    - CIECH Nieruchomości Sp. z o.o. in the amount of PLN 6,821 thousand,
    - CIECH Vitro Sp. z o.o. in the amount of PLN 2,282 thousand,
    - CIECH Services Sp. z o.o. in the amount of PLN 2,038 thousand.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

5.8. 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 Entity's 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 Entity analyses recoveries using probability-weighted scenarios.

CASH AND CASH EQUIVALENTS	31.12.2021	31.12.2020
Bank accounts	210,697	263,110
Short-term deposits	257,013	2,313
Cash in hand	9	14
Impariment in accordance with IFRS 9	(244)	(150)
Cash and cash equivalents – presented in the statement of financial position	**467,475**	**265,287**
Cash and cash equivalents – presented in the cash flow statement	**467,475**	**265,287**

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.

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

Restricted cash represented the funds in the VAT account due to the introduction of "split payment" procedures. As at 31 December 2021, they amounted to PLN 2,239 thousand. As at 31 December 2020, restricted cash in CIECH S.A. amounted to PLN 1,930 thousand.

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

5.9. DISCONTINUED OPERATIONS, NON-CURRENT ASSETS AND LIABILITIES CONNECTED WITH NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Accounting policy

Assets and liabilities classified as held for sale

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

As at 31 December 2020, the value of shares held in CIECH Żywice Sp. z o.o. was reported in CIECH S.A. as non-current assets held for sale, in connection with the signing of a preliminary agreement for the sale of shares in the aforementioned company to LERG S.A. The value of these shares was PLN 29,964 thousand.
Following the sale of the company as described below, **as at 31 December 2021** CIECH S.A. carries no non-current assets held for sale.

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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

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**

** 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 Company's accounting policy. The separate results of discontinued operations include: results of CIECH S.A. generated from transactions with the entity reported under discontinued operations, CIECH Żywice Sp. z o.o. and results from the sale of the company in connection with the conclusion of the agreement for the sale of 74,677 shares in CIECH Żywice Sp. z o.o. to LERG S.A.

Below is the separate result on discontinued operations (in the resins area) of CIECH S.A.

CIECH S.A.	01.01.-31.12.2021	01.01.-31.12.2020
Net sales revenues	**30,804**	**151,432**
Cost of sales	(30,584)	(147,458)
Gross profit/(loss) on sales	**220**	**3,974**
Selling costs	(96)	(1,574)
General and administrative expenses	(3,538)	-
Operating profit/(loss)	**(3,414)**	**2,400**
Financial income	821	375
Financial expenses	-	(2,322)
Net financial income/(expenses)	**821**	**(1,947)**
Profit/(loss) before tax	**(2,593)**	**453**
Income tax	-	-
Net profit/(loss) (1)	**(2,593)**	**453**
Income from the sale of CIECH Żywice Sp. z o.o.	74,289	-
Value of shares sold	(30,015)	-
Separate gain on disposal of CIECH Żywice Sp. z o.o. (2)	**44,274**	**-**
Total net profit/(loss) on discontinued operations (1+2)	**41,681**	**453**

Cash received from the sale of shares in CIECH Żywice Sp. z o.o. amounted to PLN 74,289 thousand and was reported in the statement of cash flows of CIECH S.A. under “Disposal of a subsidiary”.

6. EQUITY

6.1. CAPITAL MANAGEMENT

Capital structure management

CIECH S.A.'s capital structure consist of its debts, including the credit facilities presented in note 7.1, cash and cash equivalents and equity, including shares issued, reserve capital and retained earnings.

CIECH S.A. manages its capital in order to ensure its ability to continue as a going concern and, at the same time, maximize 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.

6.2. EQUITY

Accounting policy

CIECH S.A.'s share capital is disclosed at nominal value, adjusted by the effects of hyperinflation in the years 1989-1996. When shares are repurchased, 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.

Net profit (loss) is presented in equity under retained earnings.

As at 31 December 2021, the carrying amount of the share capital of CIECH S.A. amounted to PLN 287,614 thousand and comprised the share capital from the share issues and from the hyperinflation adjustment. As at the date of adopting the IFRS, i.e. 1 January 2004, the share capital of the Company was adjusted for hyperinflation between 1989 and 1996. The hyperinflation adjustment of PLN 24,114 thousand was charged to retained earnings.

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. Share capital is fully paid up.

To the best knowledge of the Company, as at the day of approving this report, entities holding significant blocks of shares (at least 5%) are the entities listed below:

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

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
TOTAL	**422,699**	**422,699**

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

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

The maximum amount of remuneration for shareholders will not be higher than PLN 346,500 thousand and a reserve fund has been created for this purpose in this amount. For details, see current report No 24/2020.

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.

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.

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 AND ACQUISITION OF INTEREST

There were no business combinations in the presented periods.

In 2021, changes in the CIECH Group’s structure that occurred in relation to the companies in which CIECH S.A. held shares, either directly or indirectly, were related to, among others:

- **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.

- **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:

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

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. EARNINGS PER SHARE

Accounting policy

Basic earnings per share is the net profit for the year attributable to ordinary shareholders of the company 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 company 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:

	01.01.-31.12.2021	01.01.-31.12.2020
Net profit (loss) on continuing operations	91,525	154,834
Net profit (loss) on discontinued operations	41,681	453
Basic and diluted net earnings per share from continuing operations	1.74	2.94
Basic and diluted net earnings per share from discontinued operations	0.79	0.01
Weighted average number of ordinary shares outstanding used to calculate basic and diluted earnings per share	52,699,909	52,699,909

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

7. LIABILITIES, PROVISIONS, EMPLOYEE BENEFITS

7.1. INFORMATION ABOUT 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	**1,854,153**	**-**
Loans and borrowings	1,854,153	-
SHORT-TERM	**397,099**	**2,238,619**
Loans and borrowings	255,396	2,095,105
Cash pooling liabilities	141,703	143,514
TOTAL	**2,251,252**	**2,238,619**

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	**2,095,105**	**1,758,368**
Proceeds from debt incurred	385,493	662,788
*financing received**	*385,493*	*662,788*
Accrual of interest	38,196	47,853
Repayment of debt	(397,822)	(395,756)
*repayment of principal**	*(351,790)*	*(347,813)*
interest paid	*(46,032)*	*(47,943)*
Realised exchange differences on foreign currency debt	18,998	-
Foreign exchange differences on measurement of liabilities	(22,880)	19,598
Other	(7,540)	2,254
Closing balance	**2,109,549**	**2,095,105**

** The loan repayment in the amount of PLN 1,669,403 thousand was settled without any flow through the accounts of CIECH S.A. (refinancing of the loan).*

Debt financing

CIECH S.A.'s debt financing is 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),

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

2. Overdraft facilities up to PLN 100,000 thousand and EUR 10,000 thousand under agreements dated 28 and 29 August 2018 (as at 31 December 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.

Detailed information about loan liabilities is disclosed in the Directors' Report for the CIECH Group and CIECH S.A. for 2021, in Section 4.6.

As at 31 December 2021, CIECH S.A. has a short-term liability on account of intercompany loans received in the amount of PLN 255,219 thousand, including:

- a loan from Gamma Finanse Sp. z o.o. in the amount of PLN 105,000 thousand,
- a loan from Verbis Eta Sp. z o.o. SKA in the amount of PLN 85,000 thousand,
- a loan from CIECH Pianki Sp. z o.o. in the amount of PLN 65,000 thousand,
- interest accrued on loans in the amount of PLN 219 thousand.

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, judgements and estimates

Accounting policy concerning financial instruments is presented in note 8.1.

OTHER NON-CURRENT LIABILITIES	31.12.2021	31.12.2020
Derivatives*	91,857	14,327
Liabilities due to purchase of shares and other financial assets	-	3,871
Other	26,213	-
TOTAL	**118,070**	**18,198**

**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. For details, see Section 7.1.*

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.

The main criterion authorizing the implementation of the Plan will be 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, 574 units out of 1,000 issued were granted, while the discounted value of the program attributable to CIECH S.A. at the end of the entire Program, it amounted to PLN 42,286 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.

Factoring

The Company uses 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 95% of the value of advance payments received from the factor (the 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.

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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	442,031	332,006
Public and legal liabilities (excluding income tax)	2	3,762
Liabilities for purchase of property, plant and equipment	9,526	8,401
Financial instruments liabilities	59,843	45,119
Liabilities to employees	3,284	4,136
Payroll liabilities	25,402	13,943
Holiday leave accrual	4,904	3,213
Social security and other employee benefits	1,992	2,258
Factoring liabilites	8,244	6,830
Liabilities due to the purchase of shares, stocks and other financial assets	4,921	5,255
Other	8,857	13,913
TOTAL	**569,006**	**438,836**

Trade liabilities do not bear interest. Commercial contracts concluded by CIECH S.A. 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.

7.4. LEASES

Accounting policy

On 1 January 2019, CIECH S.A. 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 Company 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 Company 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 Company, 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 Company 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.

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,

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

- 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 Company, 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 in the contracts. 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.

- 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 Company applies the incremental borrowing rate for a given lease agreement, i.e. the rate of interest that the Company 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.

Assets used in CIECH S.A. under lease agreements include passenger cars and premises – mainly office and warehouse space. The lease agreement for cars is a renewable agreement, making it possible to acquire an asset at its estimated market value at the end of its use. The Company is not obliged to purchase the leased assets.

To calculate discount rates for the purposes of IFRS 16, the Company 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 1.91% to 5.07% (for PLN 1.91%-5.07%; for EUR 3.07%). 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	2,783	225	**2,558**
Up to 1 year	3,049	200	**2,849**
1–2 years	8,117	573	**7,544**
2–5 years	6,061	331	**5,730**
More than 5 years	5,343	104	**5,239**
TOTAL	**25,353**	**1,433**	**23,920**
31.12.2020			
0–6 months	2,943	23	**2,920**
Up to 1 year	3,493	81	**3,412**
1–2 years	9,593	589	**9,004**
2–5 years	9,233	1,176	**8,057**
More than 5 years	5,836	1,105	**4,731**
TOTAL	**31,098**	**2,974**	**28,124**

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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	**28,124**	**29,440**
Modifications of agreements	(1,030)	(962)
Signing new agreements	2,680	3,415
Early termination of agreement	-	(120)
Interest accrued	532	1,109
Repayment of liability	(6,387)	(6,607)
Foreign exchange differences	1	1,849
Closing balance	**23,920**	**28,124**

The total lease cash outflow is as follows:

	01.01-31.12.2021	01.01-31.12.2020
Payment of liabilities, including:	**9,267**	**10,812**
Principal amount	5821	5,483
Interest	566	1,124
Variable payments other than those linked to an index/rate	2,074	3,268
Low-value leases	806	937

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 lease of low-value assets	(806)	(938)
Costs related to variable lease payments not included in the measurement of lease liabilities	(2,074)	(3,269)

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

7.5. PROVISIONS FOR EMPLOYEE BENEFITS

Accounting policy

Provisions for retirement and disability benefits

Based on the Company's remuneration plan, the employees of CIECH S.A. are entitled to retirement and disability benefits. The Company'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 Company'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.

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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

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	**979**	**1,089**	**826**	**2,312**
Use and reversal	(58)	-	(339)	(1,595)
Other	(187)	(110)	(74)	109
Closing balance	**734**	**979**	**413**	**826**

In 2021, an amount of PLN 89 thousand (PLN 51 thousand in the corresponding period) was recognised in other comprehensive income. This is a change in provisions for retirement benefits 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 Company 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.

A provision for restructuring is recognised when the Management Board has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly and a reliable estimate can be made.

Judgements and estimates

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

CHANGE IN OTHER SHORT-TERM PROVISIONS	Provisions for liabilities	TOTAL
01.01.-31.12.2021		
Opening balance	**33,741**	**33,741**
Recognition	988	988
Use and reversal	(168)	(168)
Closing balance	**34,561**	**34,561**
01.01.-31.12.2020		
Opening balance	**33,325**	**33,325**
Recognition	1,435	1,435
Use and reversal	(2,172)	(2,172)
Other	1,153	1,153
Closing balance	**33,741**	**33,741**

The amount of provisions is an estimated value and may be subject to change during utilisation. Short-term provisions of PLN 34,561 thousand are related to potential claims (principal liability plus interest payable) resulting from litigation.

8. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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 Entity 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).

If such a significant increase has taken place, the Entity estimates allowances in the amount of long-term expected credit losses. Otherwise, the Entity estimates allowances in the amount of 12-month expected credit losses, even if in previous periods allowances were recognised in the amount of long-term expected credit losses.

The Entity 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 Entity 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 Entity 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 Entity 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, scaled down to the horizon for estimating expected credit losses.

For trade receivables, the Entity chose a simplified approach whereby lifetime expected credit losses are estimated from the moment of initial recognition of exposures.

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

Financial assets:

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

Financial liabilities:

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

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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	5.8	467,475	265,287	Measured at amortized cost
Loans granted	5.4;5.7	1,651,148	1,588,314	Measured at amortized cost
Trade receivables	5.6	110,037	169,664	Measured at amortized cost
Factoring receivables	5.6	21,437	35,946	Measured at amortized cost
Hedging derivatives with positive value	5.4;5.7	88,783	1,835	Valued in fair value through income statement
Derivative instruments recognized in financial assets designated as hedging instruments	5.4;5.7	14,099	-	Financial assets valued at fair value through other comprehensive income
Cash pooling receivables	5.6	3,912	7,992	Measured at amortized cost
ASSETS		**2,356,891**	**2,069,038**	
Trade liabilities	7.3	(442,025)	(332,006)	Measured at amortized cost
Loans and borrowings	7.1	(2,109,549)	(2,095,105)	Measured at amortized cost
Lease liabilities	7.4	(23,920)	(28,124)	Measured at amortized cost
Factoring liabilities	7.3	(8,244)	(6,830)	Measured at amortized cost
Hedging derivatives with negative value	7.2;7.3	(151,564)	(27,702)	Valued in fair value through income statement
Derivative instruments with negative value	7.2;7.3	(136)	(31,744)	Financial liabilities valued at fair value through other comprehensive income
Cash pooling liabilities	7.3	(141,703)	(143,514)	Measured at amortized cost
LIABILITIES		**(2,877,141)**	**(2,665,025)**	

Selected trade receivables in CIECH S.A. 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.

CIECH S.A. also uses reverse factoring. Due to the terms of the agreements, these liabilities are reported as trade liabilities.

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

Items of revenues, costs, profits and losses recognized in the statement of profit or loss – for continued and discontinued operations	01.01.-31.12.2021	01.01.-31.12.2020	Categories of financial instruments
Revenues/(costs) due to interests, including those calculated using the effective interest rate method	**(143)**	**(7,891)**	
	48,844	46,268	*Financial assets valued at amortized cost*
	(48,479)	(53,049)	*Financial liabilities valued at amortized cost*
	(508)	(1,110)	*Financial liabilities excluded from IFRS 9*
Profits/(losses) due to exchange differences	**5,863**	**33,471**	
	5,863	33,471	Financial assets valued at amortized cost
Recognition of impairment losses	-	-	*Financial liabilities excluded from IFRS 9*
Reversal of impairment losses	**(1,167)**	**(9,690)**	Financial assets valued at amortized cost
Income/expenses due to the use of derivative financial instruments	**2,138**	**675**	Financial assets valued at amortized cost
Profits/(losses) due to exchange differences	**(79,859)**	**(63,852)**	

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Items of revenues, costs, profits and losses recognized in the statement of profit or loss – for continued and discontinued operations	01.01.-31.12.2021	01.01.-31.12.2020	Categories of financial instruments
	(68,470)	(59,317)	*Assets/financial liabilities valued in fair value through income statement*
	(11,389)	(4,535)	*Hedging instruments*
	44,274	**(461)**	*Assets/financial liabilities valued in fair value through income statement*
TOTAL	**(28,894)**	**(47,748)**	

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 Entity 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.

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

Type of instrument	Hedged item	Nominal value/Volume	Maturity	31.12.2021 Value in financial assets	31.12.2021 Value in financial liabilities	31.12.2020 Value in financial assets	31.12.2020 Value in financial liabilities
Derivative instruments – cash flow hedge							
Interest rate risk							
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	2025	526	-	-	-
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	2026	13,437	-	-	(31,126)
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	EUR 30,000 thousand	2022	-	-	-	(618)

	31.12.2021			31.12.2020		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Cash flow hedge reserve as at the beginning of the period	**(31,744)**	**6,032**	**(25,713)**	**(1,278)**	**243**	**(1,035)**
Effective portion of gains/(losses) on hedging instruments:						
- interest rate risk	37,765	(7,175)	**30,590**	(34,661)	6,586	**(28,075)**
Reclassification to profit or loss:						
- currency risk (sales revenues)	-	-	**-**	(166)	32	**(134)**
- interest rate risk (interest expense)	18,776	(3,568)	**15,208**	4,361	(829)	**3,532**
Cash flow hedge reserve as at the end of the period	**24,797**	**(4,711)**	**20,085**	**(31,744)**	**6,032**	**(25,713)**

The aim of CIECH S.A. when taking the decision concerning the implementation of the principles of cash flow hedging was to reduce the influence of interest rate movements and exchange rates differences from valuation of financial instruments on the statement of profit or loss by reflecting their hedging nature in the financial statements.

In the reporting period, there were no instances of identifying the inability to realise a future transaction in respect of which the cash flow hedge accounting was applied.

Sales revenues designated to hedge accounting are considered as highly probable. Their occurrence is anticipated in the Company's long-term financial forecast. Additionally, majority of these transactions are concluded with regular customers of CIECH S.A., which supports the probability of their occurrence.

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.

8.3. FINANCIAL RISK MANAGEMENT

Risk management principles

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

CIECH S.A.'s policy assumes natural hedging of imports and exports and hedging of up to 90% of net exposure to currencies exchange rate change by using derivative instruments and 100% exposure to interest rate risk.

In 2021, forward currency and interest rate risk hedging transactions (forwards, IRSs and CIRSs) were entered into (or continued to exist after being entered into in previous years) at the company.

Cash management

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

Quantitative and qualitative information on financial risks

CIECH S.A. 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, CIECH S.A. 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 the Company's debt. When assessing risk, the Company takes into account the risk portfolio effect resulting from the variety of conducted business activities. Effects of the risk are reflected in the financial statements.

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. CIECH S.A. monitors risk areas which are most important for its activities.

Interest rate risk

CIECH S.A. finances its activity mainly through term loans. The amount of the costs of interest-bearing debt held by the Company 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 Company 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 Company's financial performance. The risk is partially reduced by:

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

In 2021, CIECH S.A. 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.

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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	**1,024,037**	**990,508**
Financial assets	1,024,037	990,508
Financial liabilities	-	-
Floating interest rate instruments	**(1,176,674)**	**(1,395,492)**
Financial assets	1,098,498	871,085
Financial liabilities	(2,275,172)	(2,266,577)

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	(11,767)	11 767	-	-
Interest rate swaps (IRS)	52,085	(55,141)	5,439	(5,638)
Sensitivity of cash flows (net)	**40,318**	**(43,374)**	**5,439**	**(5,638)**
31.12.2020				
Floating interest rate instruments	(13,955)	13,955	-	-
Interest rate swaps (IRS)	2,617	(2,690)	15,878	(16,409)
Sensitivity of cash flows (net)	**(11,338)**	**11,265**	**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, CIECH S.A. is subject to currency exposure related to the significant lead of export over import. Sources of currency risk to which the Company was exposed in 2021 included: purchase of raw materials, product sales, loans taken out and cash in foreign currencies. Unfavourable changes in currency exchange rates may worsen the Company's financial results.

In 2021, CIECH S.A. used hedging contracts, such as forward options, to partially cover currency risk. CIECH S.A. 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 CIECH S.A. in EUR and USD as at 31 December 2021 and 2020 due to financial instruments:

Exposure to currency risk in EUR (figures in EUR)	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	2,681	7,849	x	
Cash including bank deposits	2,475	315	x	
Liabilities				
Trade and other liabilities	(172)	(1,675)	x	
Term loan liabilities	(14,075)	(30,000)	x	
Working capital facility liabilities	-	(25,000)	x	
Other liabilities in respect of credits and loans	(3,577)	(13,030)	x	

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Exposure to currency risk in EUR (figures in EUR)	31.12.2021	31.12.2020	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income*
Forward not designated to hedge accounting)	(192,913)	(214,025)	x	
CIRS	(403,590)	(60,000)	x	
Total exposure	**(385,171)**	**(119,611)**		

** 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 (figures in USD)	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	127	29	x	
Cash including bank deposits	77	142	x	
Liabilities				
Trade and other liabilities	(33)	(111)	x	
Total exposure	**171**	**60**		

** 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.

Figures in EUR*		Impact on the statement of profit or loss	Impact on the statement of other comprehensive income
Analysis of sensitivity to currency risk – EUR, 2021			
Foreign-currency balance sheet items	**(3,852)**	(3,852)	-
Analysis of sensitivity to currency risk – EUR, 2020			
Foreign-currency balance sheet items	**(1,196)**	(1,196)	-

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

Figures in USD*		Impact on the statement of profit or loss	Impact on the statement of other comprehensive income
Analysis of sensitivity to currency risk – USD, 2021			
Foreign-currency balance sheet items	**2**	2	-
Analysis of sensitivity to currency risk – USD, 2020			
Foreign-currency balance sheet items	**1**	1	-

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

Raw material price risk

A significant portion of CIECH S.A.'s activity is the import and export of chemical raw materials. The raw materials markets are characterised by a cyclical nature related to fluctuations of the global economy. The growing prices of raw materials cause a decrease in margins of trade intermediaries and a decrease of demand generated by recipients. On the other hand, the falling prices are usually a symptom of a decreasing demand and the beginning of an economic downturn. On the domestic market, raw materials are subject to similar tendencies. The maintenance of a stable pace of economic growth and stable prices of chemical raw materials will have a positive impact on the commercial activity of CIECH S.A. Considerable fluctuations of demand and prices caused either by fast economic growth or economic stagnation will have a negative influence on the activity related to trading in chemical raw materials by the Company. CIECH S.A. reduces price risk through concluding agreements with suppliers with appropriate price formula.

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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 S.A.'s point of view, credit risk is linked to:

- trade receivables from customers,
- loans granted,
- cash and bank deposits,
- guarantees and sureties granted.

CIECH S.A. 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 Company uses securities in the form of a letter of credit, bank guarantees, mortgages, receivables insurance and non-recourse factoring). Customers' creditworthiness is assessed and appropriate collateral is obtained from the borrowers, allowing for a reduction of potential losses in the case of failure to repay the debt. Credit risk assessment for customers is performed prior to concluding an agreement and periodically at subsequent deliveries of goods in accordance with the binding procedures. The risk of the receivables portfolio is assessed on a weekly basis. On selected markets, where more risky payment deadlines are applied, the Company makes use of services provided by companies specialising in insuring receivables. Credit risk connected with cash in bank and bank deposits is low as CIECH S.A. 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	467,475	265,287
Loans granted	1,651,148	1,588,314
Trade receivables	110,037	169,664
Factoring receivables	21,437	35,946
Cash pooling receivables	3,912	7,992
Assets due to valuation of derivatives	102,882	1,835
TOTAL	**2,356,891**	**2,069,038**

The fair value of financial assets exposed to credit risk is similar to their carrying amount.
At the end of 2021, there was one loan granted to an unrelated party with a nominal value of PLN 120 thousand.

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

Information on guarantees and sureties granted is provided in Note 9.2 to these statements.

	Trade receivables and factoring receivables (net value)		Loans granted (net value)	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Poland	103,197	181,672	627,110	597,805
European Union	27,641	23,837	1,024,038	990,509
Other European countries	98	51	-	-
Africa	538	-	-	-
Asia	-	50	-	-
TOTAL	**131,474**	**205,610**	**1,651,148**	**1,588,314**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

	Trade receivables and factoring receivables (net value)		Loans granted (net value)	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Soda Segment	104,619	114,333	-	-
Agro Segment	3,972	8,294	-	-
Foams Segment	1,011	995	-	-
Resins Segment*	-	64,890	-	-
Silicates Segment	4,307	4,224	-	-
Packaging Segment	315	83	-	-
Other activities	17,250	12,791	1,651,148	1,588,314
TOTAL	**131,474**	**205,610**	**1,651,148**	**1,588,314**

**Assets associated with discontinued operations. For detailed information on discontinued operations, see Note 5.9 to these statements.*

Impairment of financial assets

Changes in the gross carrying amounts of trade receivables and loans with reconciliation of write-downs as at 31 December 2021 and as at 31 December 2020 to opening balances are presented in the table below:

	Trade receivables			Loans			
	Stage 2 Lifetime ECL – not impaired	Stage 3 Lifetime ECL – impaired	TOTAL	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	TOTAL
Gross carrying amount as at 01.01.2021	**169,867**	**20,530**	**190,397**	**1,596,870**	**-**	**2,801**	**1,599,671**
Recognised	808,575	910	809,485	2,015,131	-	-	2,015,131
Interest accrued	151		151	48,615	-	-	48,615
Written-down	-	1	1	-	-	-	
Repaid	(878,925)	(1,941)	(880,866)	(2,001,117)	-	-	(2,001,117)
Foreign exchange differences	10,565	726	11,291	153	-	-	153
Gross carrying amount as at 31.12.2021	**110,233**	**20,226**	**130,459**	**1,659,652**	**-**	**2,801**	**1,662,453**
Opening balance of write-downs as at 01.01.2021	(203)	(20,530)	(20,733)	(8,556)	-	(2,801)	(11,357)
Change in write-downs	7	304	311	52	-	-	52
Closing balance of write-downs as at 31.12.2021	(196)	(20,226)	(20,422)	(8,504)	-	(2,801)	(11,305)
Net carrying amount as at 31.12.2021	**110,037**	**-**	**110,037**	**1,651,148**	**-**	**-**	**1,651,048**

	Trade receivables			Loans			
	Stage 2 Lifetime ECL – not impaired	Stage 3 Lifetime ECL – impaired	TOTAL	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	TOTAL
Gross carrying amount as at 01.01.2020	**286,152**	**12,200**	**298,352**	**1,035,699**	**-**	**2,801**	**1,038,500**
Recognised	1,036,789	9,596	1,046,385	918,823	-	-	918,823
Interest accrued	-	-	-	38,680	-	-	38,680
Written-down	-	(829)	(829)	-	-	-	-
Repaid	(1,152,447)	(466)	(1,152,913)	(452,951)	-	-	(452,951)
Foreign exchange differences	(627)	29	(598)	56,619	-	-	56,619
Gross carrying amount as at 31.12.2020	**169,867**	**20,530**	**190,397**	**1,596,870**	**-**	**2,801**	**1,599,671**

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	Trade receivables			Loans			
	Stage 2	Stage 3	TOTAL	Stage 1	Stage 2	Stage 3	TOTAL
	Lifetime ECL – not impaired	Lifetime ECL – impaired		12-month ECL	Lifetime ECL	Lifetime ECL	
Opening balance of write-downs as at 01.01.2020	(157)	(12,200)	(12,357)	(14,887)	-	(2,801)	(17,688)
Change in write-downs	(46)	(8,330)	(8,376)	6,331	-	-	6,331
Closing balance of write-downs as at 31.12.2020	(203)	(20,530)	(20,733)	(8,556)	-	(2,801)	(11,357)
Net carrying amount as at 31.12.2020	**169,664**	**-**	**169,664**	**1,588,314**	**-**	**-**	**1,588,314**

The net carrying amount of trade receivables and loans reflects the maximum exposure to credit risk.

Calculation of impairment losses on loans granted

As at the date of initial application of IFRS 9, the Company, in accordance with the three-stage expected credit loss model, calculated the expected credit loss on the basis of the probability of default (calculated based on the assessment of credit risk, i.e. the Company's rating). All loans were classified by the Company in Stage 1 (loans for which no significant deterioration in credit quality was observed and expected credit losses are estimated in the period of 12 months after the reporting date). As at 31 December 2020 and 31 December 2021, loans were not reclassified to Stage 2 or Stage 3.

The following tables present the reconciliation of impairment losses on financial assets.

	31.12.2021	31.12.2020
Gross carrying amount	1,662,453	1,599,671
Write-off	(11,305)	(11,357)
TOTAL	**1,651,148**	**1,588,314**

The following table presents an analysis of the credit risk stages of loans measured at amortised cost.

	31.12.2021			31.12.2020		
Estimated Rating	Stage 1	Stage 3	TOTAL	Stage 1	Stage 3	TOTAL
	12-month ECL	Lifetime ECL		12-month ECL	Lifetime ECL	
Rating CIECH S.A. (Ba3 Moody's)*	1,662,453	-	1,662,453	1,599,671	-	1,599,671
Gross carrying amount	**1,662,453**	**-**	**1,662,453**	**1,599,671**	**-**	**1,599,671**
Impairment losses	(11,305)	-	(11,305)	(11,357)	-	(11,357)
Net carrying amount	**1,651,148**	**-**	**1,651,148**	**1,588,314**	**-**	**1,588,314**

*****_CIECH S.A.'s rating was estimated on the basis of Moody's methodology (Rating Scorecard) and the most recent financial data of CIECH S.A., according to which the calculated rating of CIECH S.A. is Ba3._

Calculation of impairment allowances for trade receivables

The following tables present the reconciliation of impairment allowances for financial assets in accordance with IFRS 9.

	TOTAL	Non past due receivables	Not past due, 0-30 days	30-60 days	> 90 days	> 180 days
Gross carrying amount of receivables as at 31.12.2021	**130,459**	**99,856**	**5,438**	**3,620**	**9**	**21,536**
Default rate		0.13%	0.03%	0.26%	0.18%	94%
Total expected losses	**20,422**	**228**	**3**	**9**	-	**20,182**
from collective analysis	**195**	130	3	9	-	53
from case-by-case analysis	**20,227**	98	-	-	-	20,129

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	TOTAL	Non past due receivables	Not past due, 0-30 days	30-60 days	> 90 days	> 180 days
Gross carrying amount of receivables as at 31.12.2020	**190,397**	**143,575**	**17,657**	**8,064**	**65**	**21,036**
Default rate	-	0.07%	0.03%	0.36%	0.15%	100.00%
Total expected losses	**20,733**	**101**	**5**	**29**	-	**20,598**
from collective analysis	**203**	101	5	29	-	68
from case-by-case analysis	**20,530**	-	-	-	-	20,530

Liquidity risk

CIECH S.A. is exposed to risk connected with maintaining liquidity due to the considerable share of external financing (due to the term loan, working capital facility and lease agreements) in relation to operating results, the limited ability to obtain new financing due to the existing high level of indebtedness and the risk of losing the existing long-term financing as a result of violating covenants stipulated in the bond issue terms and loan agreements.

The following measures are applied to reduce liquidity risk:

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

The CIECH S.A.'s debt financing is ensured by a term loan. 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 Company.

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:	**(2,701,521)**	**(2,875,356)**	**(611,380)**	**(288,750)**	**(112,782)**	**(1,862,444)**	**-**
Trade liabilities	*(442,025)*	*(442,025)*	*(442,025)*	-	-	-	-
Loans and borrowings	*(2,109,549)*	*(2,283,384)*	*(19,408)*	*(288,750)*	*(112,782)*	*(1,862,444)*	-
Factoring liabilities	*(8,244)*	*(8,244)*	*(8,244)*	-	-	-	-
Cash pooling liabilities	*(141,703)*	*(141,703)*	*(141,703)*	-	-	-	-
Lease liabilities	**(23,920)**	**(25,353)**	**(2,571)**	**(2,894)**	**(7,843)**	**(9,270)**	**(2,775)**
Derivative instruments with negative value	**(151,564)**	**(271,529)**	**(16,215)**	**-**	**-**	**(255,315)**	**-**
Hedging derivatives with negative value	**(136)**	**(84)**	**(39)**	**(30)**	**(15)**	**-**	**-**
Total financial liabilities	**(2,877,141)**	**(3,172,323)**	**(630,205)**	**(291,674)**	**(120,640)**	**(2,127,028)**	**(2,775)**

As at 31 December 2020, one of the ratios contained in the facility agreement was not met: the share of the subsidiaries in the consolidated EBITDA value, which are guarantors, in the facilities agreement did not exceed the required threshold of 80%. Accordingly, the total value of loans made available under the above agreements was reclassified to short-term liabilities on account of loans.

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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:	**(2,577,455)**	**(2,607,704)**	**(2,424,637)**	**(183,067)**	**-**	**-**	**-**
Trade liabilities	*(332,006)*	*(332,006)*	*(332,006)*	-	-	-	-
Loans and borrowings	*(2,095,105)*	*(2,125,354)*	*(1,942,287)*	*(183,067)*	-	-	-
Factoring liabilities	*(6,830)*	*(6,830)*	*(6,830)*	-	-	-	-
Cash pooling liabilities	*(143,514)*	*(143,514)*	*(143,514)*	-	-	-	-
Lease liabilities	**(28,124)**	**(31,098)**	**(2,943)**	**(3,493)**	**(9,593)**	**(9,233)**	**(5,836)**
Derivative instruments with negative value	**(27,702)**	**(27,739)**	**(8,208)**	**(5,167)**	**(14,364)**	**-**	**-**
Hedging derivatives with negative value	**(31,744)**	**(31,452)**	**(31,452)**	**-**	**-**	**-**	**-**
Total financial liabilities	**(2,665,025)**	**(2,697,993)**	**(2,467,240)**	**(191,727)**	**(23,957)**	**(9,233)**	**(5,836)**

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.

CIECH S.A.'s liquidity

Liquidity ratios as at 31 December 2021 increased significantly as compared to their level as at 31 December 2020. This is due to the non-fulfilment of the ratio level set in the facility agreement at the end of 2020. The current ratio, calculated as the ratio of total current assets to total current liabilities, amounted to 1.33 as at 31 December 2021.

	31.12.2021	31.12.2020
Current ratio	1.33	0.63
Quick current ratio	1.33	0.63

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	467,475	467,475	265,287	265,287
Loans granted	1,651,148	1,651,148	1,588,314	1,588,314
Trade receivables	110,037	110,037	169,664	169,664
Assets due to valuation of derivatives	88,783	88,783	1,835	1,835
Derivative instruments recognized in financial assets designated as hedging instruments	14,099	14,099	-	-
Cash pooling receivables	3,912	3,912	7,992	7,992
Factoring receivables	21,437	21,437	35,946	35,946
ASSETS	**2,356,891**	**2,356,891**	**2,069,038**	**2,069,038**
Loans and borrowings	(2,109,549)	(2,120,932)	(2,095,105)	(2,089,233)
Trade liabilities	(442,025)	(442,025)	(332,006)	(332,006)
Liabilities due to valuation of derivatives	(151,564)	(151,564)	(27,702)	(27,702)
Derivative instruments recognized in financial liabilities designated as hedging instruments	(136)	(136)	(31,744)	(31,744)
Cash pooling liabilities	(141,703)	(141,703)	(143,514)	(143,514)
Factoring liabilities	(8,244)	(8,244)	(6,830)	(6,830)
LIABILITIES	**(2,853,221)**	**(2,864,604)**	**(2,636,901)**	**(2,631,029)**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

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.

The carrying amount is the net amount, loans are based on a variable rate, commissions and fees are not amortised.

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 – did not occur.
- Level 2 – CIECH S.A. measures derivatives at fair value by using measurement models for financial instruments and applying generally available interest rates, currency exchange rates etc.
- Level 3 – fair value estimated on the basis of various valuation techniques which are not based on observable market inputs - did not occur.

Assets and liabilities measured at fair value

	31.12.2021 Level 2	31.12.2020 Level 2
ASSETS	**102,882**	**1,835**
Hedging instruments	14,099	-
Derivative instruments measured at fair value through profit or loss	88,783	1,835
LIABILITIES	**(151,700)**	**(59,446)**
Hedging instruments	(136)	(31,744)
Derivative instruments measured at fair value through profit or loss	(151,564)	(27,702)
TOTAL	**(48,818)**	**(57,611)**

As at 31 December 2021, CIECH S.A. held the following types of financial instruments measured at fair value: interest rate swap contracts, currency forward contracts EUR/PLN and CIRS (currency and interest rate swap) contract EUR/PLN. The IRS contract hedging the interest rate is designated for hedge accounting.

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.

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Fair value of financial instruments	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)**
TOTAL	**574**	**1,261**	**(14,327)**	**(45,119)**	**(57,611)**

**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.*

The above financial instruments were classified at level 2 of the fair value hierarchy. In 2021, there were no transfers within the fair value hierarchy of instruments measured at fair value.

Financial instruments not measured at fair value

CIECH S.A. has taken out term and revolving credit facilities whose book value, as at 31 December 2021, is PLN 1,854,330 thousand, and whose fair value amounts to PLN 1,865,713 thousand (Level 2 of fair value hierarchy).

In the case of the remaining financial instruments held by CIECH S.A. (classified mainly as cash and cash equivalents, financial assets and liabilities measured at amortised cost), the fair value is close to the book value.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2021 (in PLN thousand)

9. OTHER NOTES

9.1. NOTES TO THE STATEMENT OF CASH FLOWS

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

	31.12.2021	31.12.2020
Change in receivables reported in the statement of financial position	**28,014**	**144,972**
Receivables from the purchase of shares	19,175	(12,891)
Reclassification of cash pooling receivables	(4,047)	1,496
Reclassification of receivables from the sale of fixed assets	-	(143)
Compensation of receivables with liabilities for loans	(10, 000)	
Reclassification of income tax receivables	37	(1,792)
Change in receivables in the statement of cash flows	**33,179**	**131,642**

	31.12.2021	31.12.2020
Change in liabilities reported in the statement of financial position	**312,211**	**336,207**
Change in financial liabilities	(14,444)	(336,571)
Change in income tax liabilities	4,539	(2,396)
Change in liabilities relating to non-current assets	(1,125)	(5,341)
Reclassification of cash pooling liabilities	1,811	(19,364)
Measurement of financial instruments	(170,534)	(34,426)
Change in lease liabilities	4,204	1,316
Change in liabilities on account of purchase of financial assets	3,871	3,607
Other	75	(145)
Change in liabilities in the statement of cash flows	**140,608**	**(57,121)**

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 Company. Contingent assets are not recognised in the statement of financial position since this may 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 Company'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.

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Significant disputed liabilities of CIECH S.A.

As at 31 December 2021, CIECH S.A. did not have any significant disputed liabilities pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies, except for the cases described in section "Audits of tax settlements at CIECH S.A." in this chapter.

Significant disputed receivables of the CIECH Group

As at 31 December 2021, CIECH S.A. did not hold any significant disputed receivables pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies, apart from the case disclosed below in section "Contingent assets and contingent liabilities including guarantees and sureties".

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".

Contingent assets and contingent liabilities including guarantees and sureties

	31.12.2021	31.12.2020
Contingent assets	**18,864**	**18,864**
Other contingent receivables*	18,864	18,864
Contingent liabilities	**1,764,507**	**1,371,155**
Guarantees and sureties granted**	1,539,555	1,150,213
Tax liabilities (including interests)	10,160	9,584
Letters of support	214,792	211,358

**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.*

*** Including:*

- *guarantees for the liabilities of subsidiaries in connection with a reverse factoring agreement in the amount of PLN 269,175 thousand,*
- *guarantee for the liabilities of the subsidiary CIECH Sarzyna S.A. in the amount of PLN 3,000 thousand,*
- *guarantee for the liabilities of a subsidiary, CIECH Salz Deutschland GmbH , in the amount of PLN 152,470 thousand (EUR 33,150 thousand),*
- *guarantees for the liabilities of the SDC Group companies in the amount of PLN 1,114,910 thousand (EUR 242,403 thousand).*

As at 31 December 2021, contingent liabilities amounted to PLN 1,764,507 thousand and increased as compared to 31 December 2020 by PLN 393,352 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.
On the other hand, the value of guarantees granted for the liabilities of the subsidiaries described in the table below also changed significantly.

Sureties and guarantees granted as at 31 December 2021

Beneficiary's name	Total amount of liabilities covered by guarantee/surety in whole or in specific part		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)

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Beneficiary's name	Total amount of liabilities covered by guarantee/surety in whole or in specific part		Financial terms, including guarantee fee due to the company; guarantee period	Principal
	currency	PLN		
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)
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 contractual commitments for which guarantees and sureties were granted				**PLN 1,539,555 thousand**

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 and related contingent liabilities

In 2021, the following audits and proceedings were carried out at CIECH S.A.:

1. audit concerning Corporate Income Tax settlements for 2012 (CIT 2012) – court stage
2. audit concerning Corporate Income Tax settlements for 2013 (CIT 2013) – court stage
3. a customs and fiscal audit concerning Corporate Income Tax settlements for 2014 (CIT 2014)
4. a customs and fiscal audit concerning Corporate Income Tax settlements for 2016 (CIT 2016).

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.

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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 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.

The Company 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 52.7 million if it were no longer probable that the Company would be able to uphold its tax interpretations before the tax authorities. From the above-mentioned amount of PLN 52.7 million due to the audits conducted, despite appeals to the court against the tax assessment decisions received, the Company paid a tax of PLN 45.5 million. The remaining amount, i.e. PLN 7.2 million, is reported as a contingent liability. On the other hand, PLN 1.8 million of the tax paid is reported as receivable from the Tax Office. The company has recognised an impairment loss on this amount receivable. In addition, the Company paid PLN 23.0 million in interest.

9.3. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

9.3.1. TRANSACTIONS WITH RELATED PARTIES IN TOTAL

Detailed information about transactions between CIECH S.A. 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.) as well as subsidiaries and associates of CIECH S.A. is presented below:

CIECH S.A.'S TRANSACTIONS WITH RELATED ENTITIES	Subsidiaries	Associates	Other related parties	TOTAL
01.01.-31.12.2021				
Sales revenues	223,598	16,976	-	**240,574**
Financial income, including:	316,009	-	-	**316,009**
Dividend	*204,620*	-	-	***204,620***
Purchases of products, goods, materials and services, including:	1,310,969	25,546	5,828	**1,342,343**
KI One SA	-	-	*199*	***199***
Financial expenses	76,889	-	-	**76,889**
31.12.2021				
Receivables	74,873	609	-	**75,482**
Loans granted	1,651,026	-	-	**1,651,026**
Trade and other liabilities	548,277	2,098	45	**550,420**
Loans received	255,219	-	-	**255,219**
01.01.-31.12.2020				
Sales revenues	529,147	25,602	-	**554,749**
Financial income, including:	290,244	114	-	**290,358**
Dividend	*181,789*	*114*	-	***181,903***

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CIECH S.A.'S TRANSACTIONS WITH RELATED ENTITIES	Subsidiaries	Associates	Other related parties	TOTAL
Purchases of products, goods, materials and services, including:	1,169,256	13,041	6,002	**1,188,299**
KI One SA	-	-	*242*	***242***
Financial expenses	52,238	-	-	**52,238**
31.12.2020				
Receivables	128,907	372	-	**129,279**
Loans granted	1,588,191	-	-	**1,588,191**
Trade and other liabilities	405,656	1,226	48	**406,930**
Loans received	192,380	-	-	**192,380**

Terms of transactions with related entities

Material 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.

No material non-standard or non-routine transactions were concluded with related entities in 2021 except for the ones presented in section 9.3.3.

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

9.3.2. SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES OTHER THAN ON AN ARM'S LENGTH BASIS

To the best of the Company's judgement, there were no transactions with related entities in CIECH S.A. 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 sat on the Supervisory Board of the Company Ciech Salz Deutchland GmbH.

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				**TOTAL**
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**	**1,258**	**10,052**

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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:

- 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.

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9.4. INFORMATION ABOUT AGREEMENTS CONCLUDED WITH THE ENTITY AUTHORISED TO AUDIT THE FINANCIAL STATEMENTS OF CIECH S.A.

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. Value of agreements concluded with Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. is presented below:

	31.12.2021	31.12.2020
Audit of the annual financial statements	623	529
Other attestation services	45	45
TOTAL*	**668**	**574**

** 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. 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.

9.6. INFORMATION ON THE CURRENT SITUATION IN CONNECTION WITH THE IMPACT OF THE RUSSIAN INVASION ON UKRAINE ON THE ACTIVITIES OF CIECH S.A.

The Russian invasion of Ukraine has brought about unprecedented risks. These risks have a potentially high impact on ensuring the operational continuity. 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 the Company and due to the fact that it is the parent company and the Company's role in the CIECH GROUP also on individual business segments of the Group is presented below:

- **Soda Segment** – the Company, as the only recipient of soda products manufactured in Polish plants located in Inowrocław and Janikowo, is directly exposed to the effects of events affecting the operation of soda plants. Supplies of power coal and anthracite are critical for maintaining operational continuity of the soda plants located in Poland. 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.
- **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. It should be noted that CIECH S.A. is a soda supplier to the discussed segments. A possible suspension of supplies from Polish soda plants or the lack of raw material collection by plants in Iłowa and Żary would mean a loss of revenue and margin for the Company.
  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. On the other hand, they felt increased competition from this direction. At present, the pressure of competition from this direction is negligible and it is likely to remain so until the end of the conflict.

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 Company's liquidity situation is stable, and the Company has 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 Company held cash of (PLN 467 million) and limits available under committed credit facilities of (PLN 396 million). The Company 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 an increased 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 and its consequences for 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, 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 as well as maintaining the assumed margin levels.

9.7. INFORMATION ON THE CURRENT SITUATION IN CONNECTION WITH THE IMPACT OF THE COVID-19 CORONAVIRUS PANDEMIC ON CIECH S.A.'S ACTIVITIES

During 2021, CIECH S.A., whose performance is closely related to the operation of 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 in 2021 was to protect the health and lives of the Group's employees and third parties.

In the period under review, the Company was adversely affected by the pandemic, which translated in many different ways into the achievement of the objectives set for the Company and the entire CIECH Group. When describing the impact of the COVID-19 pandemic on the 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 (in particular coal) 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 commissioning process for the new saltworks in Germany was not completed until 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 based on 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 Company’s and 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 Company’s and 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 39 million and net cash flow from investing activities were positive and amounted to PLN 289 million. As at 31 December 2021, the Company held cash of PLN 467 million and limits available under committed credit facilities of PLN 396 million. In 2021, the Company 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 Company’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 Company 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 Company's working capital. In 2021, during the COVID-19 pandemic, the Company 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 Company's ordinary activities.
- The Management Board estimates that in 2022 the Company will continue as going concerns to a materially unchanged extent for at least 12 months from the date of the financial statements. 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 financial statements of CIECH S.A. 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