

***Assessment of the situation of CIECH SA in 2011
by the Supervisory Board of CIECH SA
taking into account the internal control system
and the system of managing risk material to the Company***

Acting pursuant to Rule no. III.1.1) of the *Best Practices of WSE Listed Companies*, which should be applied by companies listed on the Warsaw Stock Exchange, the Supervisory Board submits to the General Meeting of Shareholders of CIECH SA a brief assessment of the Company's situation in 2011, taking into account the internal control system and the system of managing risk material to the Company.

1. Assessment of the Company's situation in 2011

In 2011 the Company CIECH SA generated net profit amounting to PLN 351,176 thousand, the balance sheet total amounted to PLN 2,779,900 thousand and cash decreased by PLN 24,302 thousand. Net return stood at 15.1%. In 2011 the net result was positively affected by increases of prices and sales volumes of certain goods, the sale of shares in GZNF Fosfory and Daltrade Ltd, the reversal of the write-down on borrowings granted to Uzinele Sodice Govora and the exchange rate of the zloty. The positive impact was partially bridged mainly by a drop of TDI selling prices, a decrease in sales of single-component and nitrogen fertilisers as well as a drop in sales of raw materials for fertilisers in connection with the divestment from GK Fosfory.

CIECH SA's sales revenues in 2011 amounted to PLN 2,321,307 thousand and were higher than those of 2010 by 4%. The revenues were positively affected by an increase in prices and the sales volume of soda ash.

In 2011 gross profit on sales amounted to PLN 279,382 thousand and in the same period of the previous year – PLN 310,420 thousand. Whereas operating profit for 2011 amounted to PLN 75,173 thousand and PLN 133,595 thousand in the comparable period. The EBIT margin at the end of 2011 was 3.2% (6% in the year before), while the EBITDA margin was 3.4% (6.2% the year before).

As of December 31st, 2011, equity amounted to PLN 1,316,173 thousand, which is a PLN 825,275 thousand increase in comparison to the balance as of the end of 2010. Equity increase resulted from a share issue (share capital increase by PLN 123,499 thousand), an increase of capital from the issue of shares above the nominal value thereof in the amount of PLN 356,794 thousand and the generated net profit of PLN 351,176 thousand. The increase in equity was bridged by a decrease in capital due to applying hedge accounting by PLN 6,194 thousand.

As of December 31st, 2012 CIECH SA's total long-term and short-term liabilities amounted to PLN 1,463,727 thousand, which is a decrease in liabilities by 24% in comparison to the previous year's level. The decrease resulted mainly from the repayment of liabilities due to loans and borrowings. At the same time the loan structure changed: short-term loans, borrowings and other debt instruments decreased by PLN 199,917 thousand to PLN 967,200 thousand. As of the end of 2011 long-term liabilities under loans, borrowings and other debt instruments decreased by PLN 299,936 thousand in comparison to the previous year due to recognising bonds with a maturity date in December 2012 as a current liability.

Net debt (financial liabilities less cash) at the end of 2011 amounted to PLN 952,101 thousand and decreased over the year by PLN 479,821 thousand. As of December 31st, 2011, the financial leverage ratio (defined as net debt in relation to the sum of net debt and equity) reached 42%. The debt rate (calculated as the relation of long-term and short-term liabilities) decreased over 12 months of 2011 from 80% to 53%.

Cash flows from operating activities in 2011 decreased by PLN 106,803 thousand and amounted to PLN (74,795) thousand. The surplus of investment inflows over investment expenditures in 2011 amounted to PLN 37,276 thousand. Within these activities the Company incurred investment expenditures related to the purchase of shares of Ciech Pianki Sp. z o.o., Transclean Sp. z o.o., Zachem SA, Organika-Sarzyna SA, Janikowskie Zakłady Sodowe JANIKOSODA and Inowrocławskie Zakłady Chemiczne SODA MĄTWY. The sale of shares in the Subsidiary GZNF Fosfory was the main source of inflows.

The balance of cash flows from financial activities amounted to PLN 13,217 thousand, resulting from a surplus of inflows from a share issue over expenditures on the repayment of loans and borrowings. Liquidity ratios as of the end of 2011 worsened in comparison to 2010.

In 2011 the Supervisory Board paid special attention to the process of restructuring the debt of the CIECH Capital Group.

As a result of negotiations commenced in 2010 with lenders concerning refinancing the financial debt of the Ciech Group resulting from the Loan Agreement of April 26th, 2010, on February 10th, 2011 a loan agreement for refinancing previous financial debt of the Ciech Group was concluded. On February 15th, 2011 the European Bank for Reconstruction and Development (EBRD) acceded to this agreement. The conditions precedent of the Agreement were fulfilled in September 2011 and on September 29th, 2011 funds were disbursed within the new Loan Agreement. The long-term Loan Agreement is the basis ensuring that the Ciech Group has a stable long-term financing structure, allows for financing investment projects and offers more favourable financing terms and conditions (lower financing cost, less strict credit terms and conditions, debt servicing level adapted to cash flows generated by the Group).

An important element of the Ciech Group's restructuring programme was the issue of CIECH SA shares on the Warsaw Stock Exchange in the first quarter of 2011. In February 2011 the Company finalised the process of issuing shares with a pre-emptive right as a result of which it issued 23,000,000 ordinary bearer shares; shares of the new issue were allocated on February 25th, 2011. As a result of the issue, the Company raised net inflows of PLN 436 million, which allowed for a significant reduction of the Group's net debt, fulfilling the conditions precedent of the new Loan Agreement of February 10th, 2011 as well as performing the obligations under the Loan Agreement of April 26th, 2011 (i.e. reducing the debt by a total of PLN 400 million).

2. Assessment of the internal control system in CIECH SA

The control system in the Ciech Group is composed of:

- institutional control – performed by the Control and Internal Audit Department of Ciech SA
- operational and functional control performed on a continuous basis by employees of all organisational units by complying with procedures, regulations and other internal provisions in all stages of activities in the form of initial, regular and follow-up control.

In 2011 the Control and Internal Audit Department, acting on the basis of the Organisational Regulations of Ciech SA, carried out a range of controls and audits on the basis of the adopted Control and Audit Plan, both in Ciech SA and in the companies comprising the Ciech Group. The Department also carried out ad hoc controls and audits on request of the President of the Management Board of Ciech SA.

Audit and control reports as well as motions are submitted on a regular basis to the Management Board and relevant organisational units, and performance thereof is monitored.

Both the Control and Audit Plan as well as reports on the execution and results thereof are presented and discussed at meetings of the Audit Committee of the Supervisory Board of Ciech SA. Within the

annual review of the internal control and risk management system a report thereon is presented at a Supervisory Board meeting.

Ciech SA has an internal control system covering material areas of activities in the entire Ciech Group that is adjusted to the organisational structure of the Group and also covers the subsidiaries. It allows for monitoring and preventing undesired events as well as for improving the management system.

3. Assessment of the system of managing risk material to the Company

In the Ciech Group the risk management process is performed at all levels of strategic and operations management. Tasks in this scope are carried out on a continuous basis by the organisational units of the Group and they are coordinated by the Representative of the Management Board of Ciech SA for the Quality Management System and Information Security. A range of instructions, procedures and internal regulations forms the basis for effective operation of a comprehensive system for managing information security, business continuity and financial risk.

At the strategic level risks are monitored and evaluated on a regular basis by the Management Board of Ciech SA.

At the operations level tasks are carried out by a range of organisational units, in main areas of activity these are:

Protection of information security

The Representative for the Integrated Quality Management System and Information Security appointed by the Management Board of Ciech SA is responsible for supervising information security. Tasks are carried out in the areas of organisational, legal, physical, personal and teleinformation security. The risk management plan regulates the issue of procedures and safeguard activities.

Ensuring security in the area of business continuity

In this area factors affecting business, business continuity strategies, business continuity maintenance plans, compliance with provisions and contingency plans are subject to analysis and monitoring. Activities are coordinated by the Representative for the Integrated Quality Management System and Information Security.

Financial risk management

The method of managing financial risk is defined in the Strategy of Financial Hedges for the Ciech Group which describes and adopts procedures and the distribution of tasks in the scope of managing the exchange risk and the interest rate risk. The Strategy was approved by the Supervisory Board, which monitors results thereof both through the activities of the Audit Committee and at Supervisory Board meetings.

The Risk Management System of the Ciech Group allows for effective management of risks in the activity carried out. However, taking into account the dynamics of global economic processes and the emergence of new risk areas requiring identification and response, this System should be developed and improved in the years to come.

The Supervisory Board concludes that the Internal Control and Risk Management System in the Ciech Group is adequate to the type of activities and the organisational structure of the Ciech Group, and that it allows for controlling and eliminating main types of risk in the activities carried out as well as improving and optimising management processes.