

CIECH S.A.

Independent Registered Auditor's Opinion

Financial Statements

Directors' Report

Registered Auditor's Report on the audit of the financial statements

For the year from 1 January to 31 December 2015

Content:

Independent Registered Auditor's Opinion

prepared by PricewaterhouseCoopers Sp. z o.o.

Financial Statements

prepared by CIECH S.A.

Directors' Report

prepared by Management Board of CIECH S.A.

Registered Auditor's Report on the audit of the financial statements

prepared by PricewaterhouseCoopers Sp. z o.o.

Translation note:

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CIECH S.A.

Registered Auditor's report on the audit of the financial statements for the year from 1 January to 31 December 2015



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CIECH S.A.
Registered Auditor's report on the audit of the financial statements
for the year from 1 January to 31 December 2015

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for the year from 1 January to 31 December 2015

To the General Shareholders' Meeting and the Supervisory Board of
CIECH S.A.

This report contains 10 consecutively numbered pages and consists of:

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CIECH S.A.
Registered Auditor's report on the audit of the financial statements
for the year from 1 January to 31 December 2015

I. General information about the Company

- a. CIECH S.A. ("the Company") has its seat in Warsaw, Wspólna 62 street.
- b. The Company was formed on the basis of a Notarial Deed drawn up on 30 May 1995 at the Notary Public's Office of Paweł Błaszczak in Warsaw and registered with Rep. A No. 7512/95. On 25 May 2001, the Company was entered in the Register of Businesses maintained by the District Court in Warsaw, XIII Business Department of the National Court Register, with the reference number KRS 0000011687.
- c. The Company was assigned a tax identification number (NIP) 118-00-19-377 for the purpose of making tax settlements and a REGON number 011179878 for statistical purposes.
- d. As at 31 December 2015 the Company's share capital amounted to PLN 287,614 thousand and included capital from the issued shares in the amount of PLN 263,500 thousand which consisted of 52,699,909 shares, with a nominal value of PLN 5 each and the adjustment for hyperinflation for the years from 1989 to 1996 in the amount of PLN 24,114 thousand. Total equity as at that date amounted to PLN 1,297,223 thousand.
- e. As at 31 December 2015, the Company's shareholders were (*):

Shareholder's name	Number of shares held	Par value of shares held (PLN)	Type of shares held	Votes (%)
KI Chemistry S. à r. l	26,952,052	134,760,260	ordinary	51.14%
ING Otworthy Fundusz Emerytalny	5,000,000	25,000,000	ordinary	9.49%
Others	20,747,857	103,739,285	ordinary	39.37%
	52,699,909	263,499,545		100%

(*) Based on CIECH S.A. list of shareholders holding at least 5% of votes at the Extraordinary General Meeting of Shareholders of CIECH S.A.

- f. During the year the Company's operations comprised:

- Wholesale of chemical products,
- Wholesale of other intermediate products,
- Other forms of credit granting,
- Other financial service activities, not classified elsewhere.

- g. During the year the Management Board of the Company comprised:

- Maciej Tybura Chairman of the Board from 22 July 2015 (to 21 July 2015 acting as the Board Member)
- Dariusz Krawczyk Chairman of the Board to 22 July 2015
- Artur Król Board Member from 26 October 2015
- Artur Osuchowski Board Member.

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I. General information about the Company (cont.)

h. The Company has the following related entities:

KI Chemistry S. à r. l	-	parent company
Kulczyk Investment S.A.	-	Global Ultimate Parent

and companies belonging to the Company's parent's group.

i. The Company is an issuer of securities admitted for trading on the Warsaw Stock Exchange. In accordance with the choice of selecting accounting policies permitted by the Accounting Act, the Company has decided to prepare its financial statements in accordance with IFRS as adopted by the European Union.

j. As the parent company of the Group, the Company has also prepared consolidated financial statements according to IFRS as adopted by the European Union as at 21 March 2016. To better understand the Company's financial position and its results of operations as the Parent Company, the financial statements should be read in conjunction with the consolidated financial statements.

CIECH S.A.
Registered Auditor's report on the audit of the financial statements
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II. Information about the audit

- a. The audit of the financial statements for the year from 1 January to 31 December 2015 was conducted by PricewaterhouseCoopers Sp. z o.o. with its seat in Warsaw, Al. Armii Ludowej 14, registered audit company no. 144. The audit was conducted on behalf of the registered audit company under the supervision of the key registered auditor Piotr Wyszogrodzki (no. 90091).
- b. PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Group by Resolution No. 28/IX/2015 of the Supervisory Board CIECH S.A. dated 26 May 2015 in accordance with paragraph 21 of the parent Company's Memorandum of Association.
- c. PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the audited entity within the meaning of art. 56, clauses 2-4 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (Journal of Laws of 2015, item 1011).
- d. The audit was conducted in accordance with an agreement dated 25 June 2015, in the following periods:
 - interim audit from 23 November to 27 November 2015;
 - final audit from 25 January to 21 March 2016 (with intervals).



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CIECH S.A.
Registered Auditor's report on the audit of the financial statements
for the year from 1 January to 31 December 2015

III. The Company's results, financial position and significant items of financial statements

STATEMENT OF FINANCIAL POSITION as at 31 December 2015 (selected lines)

	31.12.2015 PLN '000	31.12.2014 PLN '000	Change		Structure	
			PLN '000	(%)	31.12.2015 (%)	31.12.2014 (%)
ASSETS						
Non-current assets	2,485,941	2,141,401	344,540	16.1	77.0	83.2
Current assets	741,820	432,582	309,238	71.5	23.0	16.8
Total assets	3,227,761	2,573,983	653,778	25.4	100.0	100.0
LIABILITIES						
Equity	1,297,223	961,858	335,365	34.9	40.2	37.4
Long-term liabilities	1,537,113	1,180,992	356,121	30.2	47.6	45.9
Short-term liabilities	393,425	431,133	(37,708)	(8.7)	12.2	16.7
Total liabilities	3,227,761	2,573,983	653,778	25.4	100.0	100.0

INCOME STATEMENT
for the year from 1 January to 31 December 2015 (selected lines)

	2015 PLN '000	2014 PLN '000	Change		Structure	
			PLN '000	(%)	2015 (%)	2014 (%)
Total sales	2,038,491	1,655,739	382,752	23.1	100.0	100.0
Cost of sales	(1,592,087)	(1,308,071)	(284,016)	21.7	(78.1)	(79.0)
Gross profit on sales	446,404	347,668	98,736	28.4	21.9	21.0
Profit from continued operations	331,578	33,461	298,117	890.9	16.3	2.0
Profit from discontinued operations	-	58,668	(58,668)	(100.0)	-	3.5
Net profit/(loss)	331,578	92,129	239,449	259.9	16.3	5.6

STATEMENT OF COMPREHENSIVE INCOME
for the year from 1 January to 31 December 2015 (selected lines)

	2015 PLN '000	2014 PLN '000	Change		Structure	
			PLN '000	(%)	2015 (%)	2014 (%)
Net profit	331,578	92,129	239,449	259.9	16.3	5.6
Other net comprehensive income	3,787	(6,152)	9,939	(161.6)	0.2	(0.4)
Total net comprehensive income	335,365	85,977	249,388	290.1	16.5	5.2

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III. The Company's results, financial position and significant items of financial statements (cont.)

Selected ratios characterising the Company's financial position and results

The following ratios characterise the Company's operating activities, financial results during the year and its financial position as at the balance sheet date compared with previous years:

	2015	2014	2013
Asset ratios			
- receivables turnover	39 days	47 days	57 days
- inventory turnover	5 days	4 days	3 days
Profitability ratios			
- net profit margin	16%	6%	6%
- gross margin	12%	9%	6%
- return on capital employed	29%	10%	11%
Liability ratios			
- gearing	60%	63%	64%
- payables turnover	47 days	61 days	67 days
	31.12.2015	31.12.2014	31.12.2013
Liquidity ratios			
- current ratio	1,9	1,0	1,2
- quick ratio	1,8	1,0	1,2

The above ratios have been calculated on the basis of the financial statements.

It was not the purpose of the audit to present the Company in the context of the results of operations and ratios achieved. A detailed interpretation of the ratios requires an in-depth analysis of the Company's operations and its circumstances.

Our audit did not cover detailed comparative data constituting the basis for calculating the ratios for the previous years.



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III. The Company's results, financial position and significant items of financial statements (cont.)

The financial statements do not take into account the effects of deflation. The consumer price index (on a December to December basis) amounted to -0,5% in the audited year (-1,0% in 2014).

The following comments are based on information obtained during the audit of the financial statements.

- At the end of the financial year, the Company's total assets amounted to PLN 3,227,761 thousand. During the year total assets increased by PLN 653,778 thousand, i.e. by 25.4%. This increase was financed mainly by generated net profit of PLN 331,578 thousand and an increase in long-term liabilities from loans and borrowings of PLN 317,170 thousand.
- Long-term investments as at 31 December 2015 amounted to PLN 2,035,487 thousand and increased by PLN 305,114 thousand, i.e. by 17.6% compared to the previous year. Change in long-term investments during the year resulted mainly from changes in the portfolio of shares in subsidiary companies and revaluation of shares at balance sheet date.
- Short-term investments as at 31 December 2015 amounted to PLN 215,411 thousand and comprised mainly loans granted to the related entities of PLN 198,630 thousand. An increase in short-term investments of PLN 97,019 thousand, i.e. 81.9% compared with the prior year, resulted mainly from changes in level of funding of individual subsidiary companies, which resulted in total increase in receivables from loans in the amount of PLN 161,930 thousand and was partially compensated by the increase of write-downs in the amount of PLN 81,692 thousand.
- Trade and other receivables as at 31 December 2015 amounted to PLN 331,797 thousand and comprised mainly trade receivables due within 12 months of PLN 283,514 thousand and other receivables of PLN 35,572 thousand. The PLN 58,804 thousand, i.e. 21.5% increase in trade and other receivables compared with the previous year was mainly due to increase in trade receivables.
- Cash and cash equivalents as at 31 December 2015 amounted to PLN 174,745 thousand and increased by PLN 164,484 thousand compared to the previous year. Cash and cash equivalents comprised mainly cash in bank in the amount of PLN 76,534 thousand and short-term deposits in the amount of PLN 98,193 thousand.
- Total equity as at 31 December 2015 amounted to PLN 1,297,223 thousand. An increase of total equity by PLN 335,365 thousand, i.e. by 34.9% was mainly due to generated net profit of PLN 331,578 thousand.

III. The Company's results, financial position and significant items of financial statements (cont.)

- Long-term liabilities from loans and borrowings as at 31 December 2015 amounted to PLN 1,494,775 thousand. The PLN 317,170 thousand, i.e. 26.9% increase in long-term liabilities from loans and borrowings compared with the previous year mainly resulted from changes in the debt financing of CIECH S.A. during the audited year. In October 2015 CIECH S.A. signed loan agreements, of which the total long-term debt at 31 December 2015 amounted to PLN 1,335,349 thousand. On the same date CIECH S.A. repaid possessed liabilities from issuance of debt securities in the amount of PLN 1,044,263 thousand.
- Trade and other liabilities at the end of the year amounted to PLN 238,127 thousand and comprised mainly liabilities from trade payables in the amount of PLN 203,504 thousand. The decrease in trade and other liabilities by PLN 78,695 thousand, ie. 24.8% compared to the previous year resulted mainly from a decrease in trade payables by PLN 70,764 thousand.
- Liability ratios and the structure of liabilities of the Group have changed. The gearing ratio decreased from 63% at the end of the previous year to 60% at the end of the current year. The payables turnover ratio increased from 47 days to 61 days, respectively. The changes in the gearing ratio were mainly due to an increase in total equity resulting from the generated net profit of PLN 331,578 thousand.
- Total sales amounted to PLN 2,038,491 thousand, which constituted a PLN 382,752 thousand increase compared with the previous year. The Company's core activities in the current financial year consisted of sales of goods and materials. Such sales have increased by PLN 354,058 thousand compared with the previous financial year. The largest sales revenue in the audited year the Company has achieved in the soda segment, where revenues amounted to PLN 1,579,944 thousand, i.e. 77.5% of total revenues. The second largest was organic segment with revenues of PLN 422,916 thousand, constituting 20.7% of total revenues.
- The cost of goods for resale and materials sold was the largest item of operating expenses and amounted to PLN 1,556,717 thousand in the audited year, which constituted 86.0% of operating expenses. The cost of goods for resale and materials sold has increased by PLN 248,632 thousand compared with the previous year, mainly due to the increase in sales revenues in the audited year.
- In 2015 financial costs amounted to PLN 346,437 thousand and increased by PLN 42,617 thousand, i.e. by 14.0% compared to previous financial year. This increase of financial costs was mainly due to the charges incurred by CIECH S.A. for early buy-out of debt securities.
- Profitability measured with net profit amounted to 16% and was 10 percentage points higher than in the previous year. The change in the Company's profitability was primarily due to the increase in sales revenue, which was higher than the increase in cost of sales.
- The Company's liquidity has changed. In the audited year, the current and quick ratios amounted to 1.9 and 1.8, while at the end of 2014 they amounted to 1.0 and 1.0 respectively.

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IV. The Independent Registered Auditor's statement

- a. The Management Board of the Company provided all the information, explanations, and representations requested in the course of the audit and provided a representation letter confirming the completeness of the data included in the accounting records and the disclosure of all contingent liabilities and post balance-sheet events which occurred up to the date on which that letter was signed.
- b. The scope of the audit was not limited.
- c. The financial statements of the Company for the year from 1 January to 31 December 2014 were approved by Resolution No. 4 passed by the General Shareholders' Meeting on 30 June 2015 and filed with the National Court Register in Warsaw on 3 July 2015.
- d. We have assessed the operation of the accounting system. Our assessment covered in particular:
 - the accuracy of the documentation relating to business transactions;
 - the fairness, accuracy and verifiability of the books of account, including computerised books of account;
 - the methods used for controlling access to data and the computerised data processing system;
 - the safeguarding of the accounting documentation, books of account, and financial statements.

This assessment, together with our verification of individual items of the financial statements, provides the basis for expressing an overall and comprehensive opinion on these financial statements. The audit was not intended to provide a comprehensive opinion on the operations of the said system.

- e. The notes to the financial statements present all significant information required by IFRS as adopted by the European Union.
- f. The information in the Directors' Report for the year ended 31 December 2015 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws of 2014, item 133) and is consistent with that presented in the financial statements.



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V. Final information

This report has been prepared in connection with our audit of the financial statements of CIECH S.A., Wspólna 62 street, Warsaw. The financial statements were signed by the Company's Management Board and the person entrusted with maintaining the books of account on 21 March 2016.

This report should be read in conjunction with the Independent Registered Auditor's unqualified Opinion to the General Shareholders' Meeting and the Supervisory Board of CIECH S.A. dated 21 March 2016, concerning the said financial statements. The opinion on the financial statements expresses a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the financial statements as a whole.

Person conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Piotr Wyszogrodzki

Key Registered Auditor
No. 90091

Warsaw, 21 March 2016



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