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

www.ciechgroup.com

CONSOLIDATED ANNUAL REPORT OF CIECH GROUP FOR 2015

Warszawa, 21.03.2016

Dear Sirs,

I am pleased to publicly present the results of operations of the CIECH Group for the year 2015. From the business point of view, it was a good period for us, reflected in an increase in our profits and margins. Our consolidated revenues for 2015 maintained at the similar level as in 2014 , and normalised EBITDA grew by 46.4% y/y. It is important to underline that we consistently improve the profitability at the level of the entire Group – in 2015, the normalised EBITDA margin reached 22.9% vs. 15.8% in the previous year.

The achievement of such good results was again possible mainly thanks to the continued optimisation measures and a consequent implementation of a strategy based on organic growth. It should also be remembered than in 2015, we had very favourable market conditions which had a significant impact on the reported financial data. By this, I mean the positive situation on the soda market, which resulted in an increase in the prices of soda, the weakening of the Polish zloty, and a decrease in the prices of our main raw materials.

Many of you surely remember the unfavourable position of the CIECH Group a few years ago. A lot has changed since then. During 2013 and 2014, the Group underwent deep restructuring which helped to regain its profitability. In 2014, the shareholding structure of CIECH S.A. was significantly changed, with KI Chemistry, a Kulczyk Investments Group company, becoming the majority shareholder. This change has given us new opportunities, with wide perspectives for the further development of the CIECH Group, and has introduced new standards for the management of the organisation. We have also developed the 2014–2019 Strategy which includes e.g. expansion and modernisation of our plants. Thus, the CIECH Group is currently a modern, diversified chemical group on a way to a stable growth.

In 2015, we worked on the Group's further development, and continued the execution of investment tasks important for us. We completed the first stage of the flagship programme SODA +200, thanks to which our soda production capacity was increased by 60 thousand tonnes per year. We also completed our investment in the area of intensification of dry salt production. In a result, the daily production volume was doubled. At the same time, we developed the Agro business, focusing on the broadening of distribution channels and strengthening of the sales force. In addition, the sales of the most popular plant protection products: Chwastox and Agrosar, was supported, for the first time, with nationwide advertising campaigns.

In the area of finance, debt restructuring was an event of great importance. We signed a loan agreement with a consortium of seven banks, which is much more advantageous to us than the previous financing – the HY bonds. In this way, we significantly reduced the finance costs. Also, the market started to perceive CIECH as more stable – by the end of 2015, both agencies (Moody's and S&P) increased the ratings for CIECH.

In 2015, also the composition of the Management Board of CIECH S.A. was changed, and the Group's Warsaw companies were moved to a new, joint seat.

We are very optimistic about 2016. Above all, we will consistently continue our strategy, focusing on the soda and organic segment. The second stage of the SODA +200 investment is finished in the first quarter of 2016. In January this year, in the Agro area, we deployed our new product line, ZIEMOVIT, which we plan to develop intensively. At the same time, we are working on other products in the organic segment (plant protection products, foams, plastic), and on foreign certification for plant protection products. Development activities are also planned for the silicates and glass segment (e.g. increase in the volumes of production of sodium silicate) and the transport segment. We will also work on effective communication with our stock market stakeholders, actively working for all market participants, including individual investors.

At the same time, we bear in mind that the restructuring of the CIECH Group has not ended. A lot of work has been done, but some still awaits us. By this, I mean mainly the work on further optimisation of the use of our production capacities, and a reduction of debt, which still remains our challenge. In accordance with our strategy, in the long term, we plan to achieve the net debt to EBITDA ratio below 1.

Before us is another year of hard, but I hope that also effective work which will help to build a stable and strong international position of the Group, and consequently – will add value for our shareholders. I believe that our objectives are possible to achieve. Not only thanks to the commitment of the Management Board and the majority Shareholder, but primarily thanks to our team of more than 3.7 thousand people who work every day, to achieve a joint success of the CIECH Group.

Kind regards,

Signed on the Polish original

Maciej Tybura

President of the CIECH S.A. Management Board

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I. REPORT ON THE CIECH GROUP'S ACTIVITIES IN 2015

1. Organisation and management of the CIECH Group

1.1. Equity links and organisation

Equity links and organisation of the CIECH Group

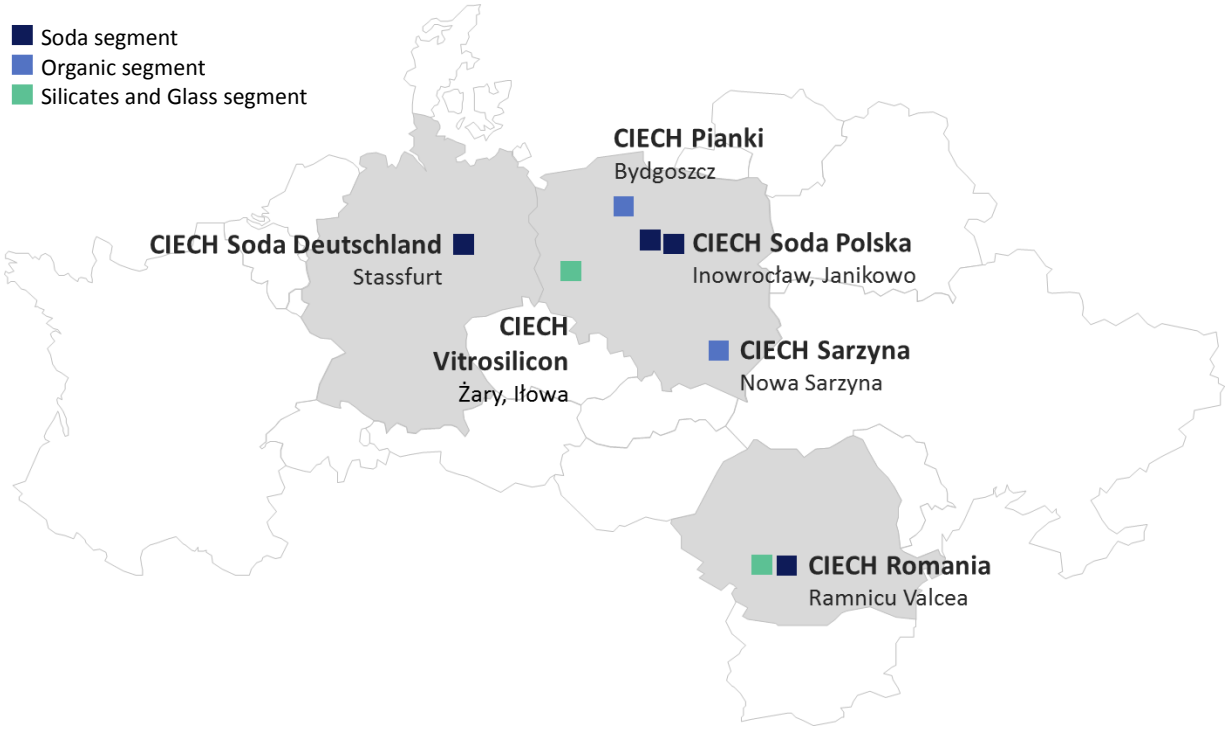
The CIECH Group comprises CIECH S.A. as the parent company, and entities located, *inter alia,* in Poland, Germany, Romania and Sweden. As at 31 December 2015, the CIECH Group comprised 36 business entities, including:

- parent company,
- 31 subsidiaries, of which:
  - 22 national subsidiaries,
  - 9 foreign subsidiaries,
- 2 national affiliates,
- 1 foreign affiliate,
- 1 jointly controlled foreign entity.

The parent company of CIECH S.A. has a branch in Romania, a branch in Germany, and operates through its offices in Inowrocław and Nowa Sarzyna. CIECH Trading S.A. subsidiary has a branch in Bydgoszcz.

The trading activity is carried out mostly by CIECH S.A., as well as by domestic and foreign trading companies, while the manufacturing activity is carried out by production companies, subsidiaries of CIECH S.A. The production is located in 8 plants, with four largest production plants (two in Poland, one in Germany and one in Romania) operate in the soda segment and manufacture soda ash and soda derived products (in the case of CIECH Soda Romania S.A., the plant also manufactures products in the silicates and glass segment). The other four plants are dedicated to the organic segment, and to silicates and glass segment, and are located in Poland.

Production plants within the CIECH Group



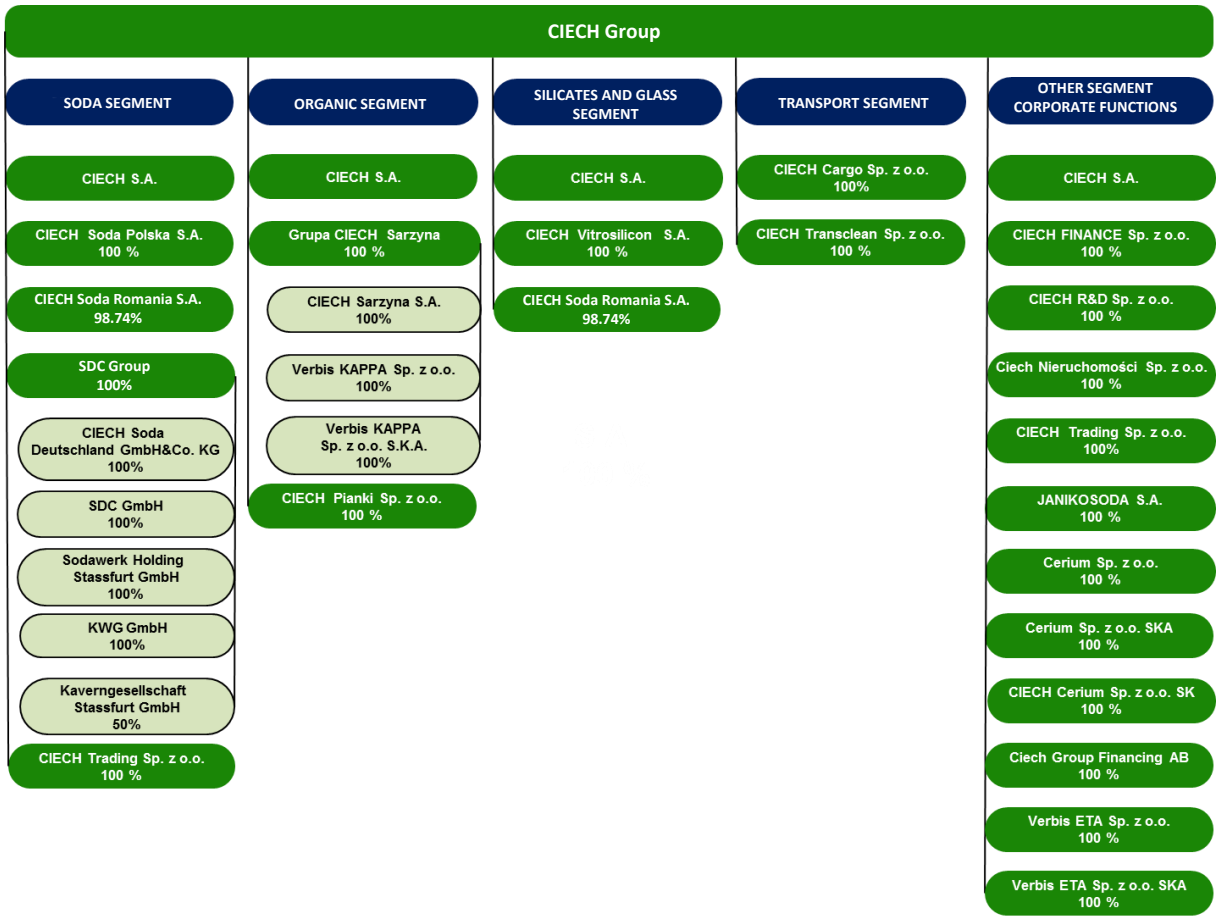
Source: CIECH S.A.

The strategic and operational goals of the CIECH Group are attained via organizational structure based on vertical functions, including the function of sales, production, procurement, and support.

1.2. Scope of activities of the consolidated entities within the CIECH Group

The CIECH Group's business activities are primarily divided by business segments, including in 2015: soda segment, organic segment, silicates and glass, and transport segment. A detailed description of the management segments is presented in item I. 4.1.

Segment structure of the CIECH Group as at 31 December 2015 – fully consolidated entities, or evaluated with the equity method in the consolidated financial statements of the CIECH Group



Source: CIECH S.A.

The level of shares held by CIECH S.A. / the CIECH Group in the equity of individual companies, along with the consolidation methods, are presented in item II.10.

1.3. Principles of organisation and management of the Group and changes in 2015

In 2015, the management model of the Company and the Group after changes in organisational structure implemented in the period 2012–2014, which consisted in the implementation of a matrix business model, in which the heads of specific segments within CIECH S.A, as a holding company, are responsible for their proper functioning in the entire CIECH Group, and after changes in the business model, i.e. the exclusion of the support functions from production of CIECH Soda Polska S.A. and CIECH Soda Romania S.A., was under further optimisation. In 2015, the support functions were excluded from other production companies – CIECH Sarzyna S.A. from January 2015, and from SDC Group companies – since April 2015.

The main assumptions for the above mentioned model and for the changes implemented in the Group structure are, among others:

- integration of business and support functions at CIECH S.A. level,
- concentration of production companies of the Group on their production activity,
- clear division of competences and responsibilities (operational management of production companies by the parent company),
- reduction of positions related to overlapping business and support functions,

- centralisation, among others, of the management in the areas of finance, IT, HR, or legal affairs.

The implemented business model increased the organisational effectiveness in the CIECH Group. In particular, higher effectiveness was reached in all areas of the Group's operations, along with higher flexibility and efficiency in response to occurring market changes, including a shorter decision-making process and a transparent division of responsibilities; also, overlapping competences between CIECH S.A. divisions and the Group companies were eliminated.

1.4. Ownership changes

In 2015, the following changes occurred in relation to the companies in which CIECH S.A. held shares directly and led to changes in the structure of the CIECH Group:

Ciech-Polsin Private Limited
On 11 March 2015, Ciech-Polsin Private Limited with its registered office in Singapore was deleted from the Register of Entrepreneurs; as a result, the company ceased to be consolidated in the CIECH Group statements.

Zach-Ciech Sp. z o.o. w likwidacji [under liquidation]
On 20 January 2015, Zach-Ciech Sp. z o.o. under liquidation, with the registered office in Chorzów, was deleted from the Register of Entrepreneurs.

CIECH Sarzyna S.A.
On 12 May 2015, the Extraordinary General Meeting of Shareholders adopted a resolution regarding the squeeze-out of minority shareholders. The squeeze-out concerned 30,849 shares constituting 0.363% of the share capital. The ownership of shares was transferred to CIECH S.A. on 16 July 2015. Since 16 July 2015, CIECH S.A. has been the owner of 100% of shares of CIECH Sarzyna S.A.

Cerium spółka z ograniczoną odpowiedzialnością spółka komandytowo-akcyjna
On 23 January 2015, the Court registered the increase of the share capital of Cerium spółka z ograniczoną odpowiedzialnością spółka komandytowo-akcyjna (hereinafter: "Cerium sp. z o.o. SKA"). The share capital was increased pursuant to a resolution of the Extraordinary General Meeting of Cerium sp. z o.o. SKA of 23 December 2014. The share capital was increased by PLN 1,369 thousand, through the issue of 1,368,625 series B registered common shares of the nominal value of PLN 1 each. The new issue shares were taken up by CIECH Soda Polska S.A., under private subscription, in exchange for an non-cash contribution in the form of the ownership right of movables. The market value of the ownership of those movables was PLN 136,863 thousand. The determination of the fair value of the ownership of the movables was done on the basis of evaluation of the non-cash contribution, performed by a valuer and on the basis of the opinion of a registered auditor. The surplus of the issue price of series B shares over the nominal value of the shares amounting to PLN 135,494 thousand was contributed to the statutory reserve capital of the company.

On 25 August 2015, the Extraordinary General Meeting of Cerium sp. z o.o. SKA made a decision on the increase of the share capital by PLN 10 thousand, through the issue of 10,000 series C registered common shares of the nominal value of PLN 1 each. The total issue price of the series C shares was PLN 21,982 thousand. The new issue shares were offered under private subscription to Janikowskie Zakłady Sodowe JANIKOSODA S.A. The subscription right of the previous sole shareholder, CIECH Soda Polska S.A., was excluded. The new issue shares were paid up by non-cash contribution in the form of all rights and obligations of Janikowskie Zakłady Sodowe JANIKOSODA S.A. in connection with its participation, as a limited partner, in CIECH Cerium sp. z o.o. sp. k. The value of the non-cash contribution, i.e. PLN 21,982 thousand, was determined on the basis of the subject of the contribution evaluation of 20 August 2015, made by an independent valuer, and on the basis of the opinion of a registered auditor of 24 August 2015. The share subscription agreement regarding series C shares was concluded on 25 August 2015 and has remained in force since that day. The agreement on the transfer of all rights and obligations of the limited partner, in connection with the performance of the share subscription agreement regarding series C shares of 25 August 2015, was concluded on 25 August 2015, and on that day all of the rights and obligations of the limited partner were transferred to Cerium sp. z o.o. SKA. The Court registered the increase of the share capital of Cerium sp. z o.o. SKA (the issue of series C shares) on 10 September 2015.

On 9 September 2015, the Extraordinary General Meeting of Cerium sp. z o.o. SKA made a decision on the increase of the share capital by PLN 10 thousand, through the issue of 10,000 series D registered common shares of the nominal value of PLN 1 each. The total issue price of the series D shares was PLN 38,621 thousand. The new issue shares were offered under private subscription to CIECH S.A. The subscription right of the previous shareholder – CIECH Soda Polska S.A. was excluded. The new issue shares were paid up by non-cash contribution equal to PLN 38,621 thousand, in the form of receivables from the companies within the CIECH Group. The value of the non-cash contribution was determined on the basis of the subject of the contribution evaluation of 7 September 2015, made by an independent valuer, and on the basis of the opinion of a registered auditor. The share subscription agreement regarding series D shares was concluded on 9 September 2015, and has remained in force since that day. The agreement on the transfer of receivables as the non-cash contribution in favour of Cerium sp. z o.o. SKA was concluded on 9 September 2015, and on that day, the receivables were transferred to Cerium sp. z o.o. SKA. The Court registered the increase of the share capital of Cerium sp. z o.o. SKA (the issue of series D shares) on 29 September 2015.

CIECH Soda Romania S.A.
On 15 January 2015, the Extraordinary General Shareholders' Meeting of CIECH Soda Romania S.A. made a decision on withdrawal of the Company's shares from the capital market, on the possibility of the shareholders' withdrawal from the Company on the terms specified by the law, and on the increase of the share capital by RON 45,000 thousand, by the issue of 180,000,000 shares of the value of RON 0.25 each. Under the decision of Autoritate de Supraveghere Financiara (equivalent to the Polish Financial Supervision Authority), on 26 June 2015, the

shares of CIECH Soda Romania S.A. were withdrawn from the capital market and deleted from the register of Autoritate de Supraveghere Financiara. The share capital increase was registered by the Romanian registry court on 11 August 2015.

On 4 September 2015, the Extraordinary General Meeting of CIECH Soda Romania S.A. adopted a resolution on the increase of the share capital through subscription of 1,760,000,000 new shares of the total value of RON 440,000 thousand. Following the subscription, the share capital of CIECH Soda Romania S.A. was increased from 445,201,363 shares of the total value of RON 111,300 to 2,100,338,803 shares of the total value of RON 525,085 thousand. CIECH Cerium sp. z o.o. sp. k., a partnership participating in the subscription, took up 1,655,137,440 new shares with the nominal value of RON 0.25 each, of the total value of RON 413,784 thousand. Therefore, following the subscription of new shares, CIECH Cerium sp. z o.o. sp. k. owned the total of 2,073,813,450 shares of the total nominal value of RON 518,453 thousand, which is 98.7370% of the share capital of CIECH Soda Romania S.A. The increase of the share capital was registered by the Romanian registry court on 26 October 2015.

Pursuant to the sales agreement of 17 December 2015, CIECH Cerium sp. z o.o. sp. k. sold to CIECH S.A. 2,073,813,450 shares of CIECH Soda Romania S.A., of the nominal value of RON 0.25 each, of the total nominal value of RON 518,453 thousand, constituting 98.7370% of the share capital. The sales price was PLN 78,323 thousand and RON 34,000 thousand (converted at the average rate published by the National Bank of Poland on 16 December 2015), which is equivalent to the total price of PLN 111,000 thousand. The ownership of the shares was transferred to CIECH S.A. on the day of conclusion by the parties of a statement on the transfer of ownership of the shares for the purpose of their entry into the Register of Shareholders of CIECH Soda Romania in Romania, i.e. on 18 December 2015.

CIECH Cerium spółka z ograniczoną odpowiedzialnością spółka komandytowa

On 22 June 2015, CIECH S.A. and other companies within the CIECH Group established CIECH Cerium spółka z ograniczoną odpowiedzialnością sp. k. The founding partners were:

- CIECH S.A. – cash contribution of PLN 10 thousand, limited liability amount of PLN 10 thousand
- Janikowskie Zakłady Sodowe JANIKOSODA S.A. – cash contribution of PLN 1 thousand, limited liability amount of PLN 1 thousand
- Cerium Sp. z o.o. – cash contribution of PLN 1.

The general partner responsible for the Company's liabilities, without limitation, is Cerium sp. z o.o.; on the date of establishment of the company, the limited partners responsible for the company's liabilities up to the limited liability amount were: CIECH S.A. and Janikowskie Zakłady Sodowe JANIKOSODA S.A. The company was entered into the Register of Entrepreneurs on 29 June 2015.

On 23 July 2015, the General Meeting of CIECH Cerium sp. z o.o. sp. k. adopted a resolution on the increase of contributions of the limited partners, i.e. the contributions of the following companies:

- CIECH S.A. – through the provision of a non-cash contribution in the form of receivables due to CIECH S.A. from CIECH Soda Romania S.A. In total, the receivables constituted the principle amount of the receivables, of the nominal value of EUR 86,022 thousand, and interest due as at 23 July 2015, of the nominal value of EUR 31,523 thousand, whose total fair value, determined on the basis of evaluation done by an independent valuer, was PLN 100,600 thousand. The receivables contributed by CIECH S.A. were transferred to CIECH Cerium Sp. z o.o. sp. k. on the day of conclusion of the agreement on the transfer of receivables, i.e. on 23 July 2015.
- Janikowskie Zakłady Sodowe JANIKOSODA S.A. – through the provision of a non-cash contribution in the form of 248,664,727 shares of CIECH Soda Romania S.A., of the nominal value of RON 0.25 each, of the total nominal value of RON 62,166 thousand, as at 23 July 2015 constituting 93.76% of the share capital of CIECH Soda Romania S.A., whose fair value was determined on the basis of evaluation done by an independent valuer, i.e. PLN 12,100 thousand. The shares contributed by this partner were transferred to CIECH Cerium Sp. z o.o. sp. k. on the day of conclusion of the agreement on the transfer of shares ownership, i.e. on 23 July 2015.

The increase in the contributions of the partners was entered into the National Court Register on 7 August 2015. At the same time, the increase of the limited liability amounts was registered, i.e.: up to PLN 5 thousand for CIECH S.A., and PLN 500 thousand for Janikowskie Zakłady Sodowe JANIKOSODA S.A.

In connection with the conclusion on 10 August 2015, by CIECH S.A. and Cerium sp. z o.o. SKA, of the Agreement on the transfer of all rights and obligations of the limited partner, due to CIECH S.A., on 10 August 2015 the contributions registered previously for CIECH S.A. were allocated to the new limited partner, i.e. Cerium sp. z o.o. SKA, responsible for the Company's obligations up to the limited liability amount of PLN 5,000 thousand. On the day of conclusion of the Agreement on the transfer of all rights and obligations of the limited partner, CIECH S.A. ceased to be the partner of CIECH Cerium sp. z o.o. sp. k. The total value of the rights and obligations of the limited partner was determined on the basis of evaluation done by an independent valuer, and on the basis of the "Opinion on the assessment of the fair value of All Rights and Obligations of the Limited Partner, i.e. CIECH Cerium spółka z ograniczoną odpowiedzialnością spółka komandytowa, due to CIECH Spółka Akcyjna," presented by an independent registered auditor on 5 August 2015, and amounted to PLN 100,097 thousand. An amendment to the agreement of CIECH Cerium sp. z o.o. sp. k., in the scope of substitution of a partner, was done on 20 August 2015. The new partner was entered into the National Court Register on 10 September 2015.

The General Meeting of CIECH Cerium sp. z o.o. sp. k. of 20 August 2015 adopted a resolution on the provision of an additional contribution to the company, by its partner, Janikowskie Zakłady Sodowe JANIKOSODA S.A., tj., i.e. a non-cash contribution in the form of 170,011,283 shares of CIECH Soda Romania S.A., of the nominal value of RON 0.25 each, of the total nominal value of RON 42,503 thousand, as at 20 August 2015 constituting 38.1875% of the share capital of CIECH Soda Romania S.A. The fair value was determined on the basis of evaluation done by an independent valuer and amounted to PLN 10,000 thousand. The shares contributed by Janikowskie Zakłady Sodowe JANIKOSODA S.A. were transferred to the partnership on the day of conclusion of the agreement on the transfer of shares ownership, i.e. on 20 August 2015. The increase of the partner's share was entered into the National Court Register on 10 September 2015. At the same time, the increase of the limited liability amount by Janikowskie Zakłady Sodowe JANIKOSODA S.A., up to the amount of PLN 1,000 thousand, was registered.

On 25 August 2015, the General Meeting of CIECH Cerium sp. z o.o. sp. k. adopted a resolution on the amendment of the agreement of the partnership, resulting from the conclusion, on 25 August 2015, of the Agreement on the transfer of all rights and obligations of the limited

partner. The Agreement was concluded between Janikowskie Zakłady Sodowe JANIKOSODA S.A. and Cerium sp. z o.o. SKA. Due to the above, the contributions previously held by Janikowskie Zakłady Sodowe JANIKOSODA S.A., were allocated to the limited partner, Cerium sp. z o.o. SKA; thus, the limited partner is responsible for the liabilities of CIECH Cerium Sp. z o.o. sp.k. up to the limited liability amount of PLN 1,000 thousand (in total, to the amount of PLN 6,000 thousand). On the day of conclusion of the Agreement on the transfer of all rights and obligations of the limited partner, Janikowskie Zakłady Sodowe JANIKSODA S.A. ceased to be the partner of CIECH Cerium sp. z o.o. sp. k. Cerium sp. z o.o. SKA was entered into the National Court Register as the only limited partner on 17 September 2015.

On 29 September 2015, the General Meeting of CIECH Cerium sp. z o.o. sp. k. adopted resolutions to approve:

- withdrawal of the partner, Cerium sp. z o.o. SKA, on the end of the day on 30 September 2015, with the return of the current value of the contributions assigned to the partner, which according to independent evaluation as at 20 August 2015, amounted to PLN 122,050 thousand. The contributions were returned on 30 September 2015;
- accession, as of 1 October 2015, of new limited partners, i.e.:
  1. CIECH Sarzyna S.A., with a cash contribution of PLN 40 thousand, which is responsible for the obligations of the company up to the limited liability amount of PLN 2,400 thousand,
  2. CIECH Vitrosilicon S.A., with a cash contribution of PLN 15 thousand, which is responsible for the obligations of the company up to the limited liability amount of PLN 900 thousand,
  3. Ciech Pianki Sp. z o.o., with a cash contribution of PLN 10 thousand, which is responsible for the obligations of the company up to the limited liability amount of PLN 600 thousand,
  4. CIECH Soda Polska S.A., with a cash contribution of PLN 25 thousand, which is responsible for the obligations of the company up to the limited liability amount of PLN 1,500 thousand,
  5. CIECH Cargo Sp. z o.o., with a cash contribution of PLN 10 thousand, which is responsible for the obligations of the company up to the limited liability amount of PLN 600 thousand.

Therefore, on 1 October 2015 Cerium Sp. z o.o. SKA ceased to be the partner of CIECH Cerium sp. z o.o. sp. k. The change in the composition of partners was entered into the National Court Register on 30 October 2015. The total sum of the limited liability amounts of CIECH Cerium sp. z o.o. sp. k. remains unchanged.

On 16 December 2015, the Extraordinary General Meeting of CIECH Cerium sp. z o.o. sp. k. approved:

- the provision of new contributions by the following partners:
  1) CIECH Sarzyna S.A. – with a cash contribution of PLN 200 thousand,
  2) CIECH Vitrosilicon S.A. – with a cash contribution of PLN 75 thousand,
  3) Ciech Pianki Sp. z o.o. – with a cash contribution of PLN 50 thousand,
  4) CIECH Cargo Sp. z o.o. – with a cash contribution of PLN 50 thousand,
- the following change of the limited liability amounts:
  1) CIECH Sarzyna S.A. is responsible for the Company's obligations up to the limited liability amount of PLN 3,031 thousand,
  2) CIECH Vitrosilicon S.A. is responsible for the Company's obligations up to the limited liability amount of PLN 1,137 thousand,
  3) Ciech Pianki Sp. z o.o. is responsible for the Company's obligations up to the limited liability amount of PLN 758 thousand,
  4) CIECH Soda Polska S.A. is responsible for the Company's obligations up to the limited liability amount of PLN 316 thousand,
  5) CIECH Cargo Sp. z o.o. is responsible for the Company's obligations up to the limited liability amount of PLN 758 thousand.

On 12 January 2016, the District Court registered the amendment of the agreement and the new contributions of the shareholders of CIECH Cerium Sp. z o.o., i.e.:

1) CIECH Sarzyna S.A. – PLN 240 thousand,
2) CIECH Vitrosilicon S.A. – PLN 90 thousand,
3) Ciech Pianki Sp. z o.o. – PLN 60 thousand,
4) CIECH Soda Polska S.A. – PLN 25 thousand,
5) CIECH Cargo Sp. z o.o. – PLN 60 thousand.

All other changes in the CIECH Group, which occurred in 2015, were a result, *inter alia,* of unification of the business names of the Group companies for marketing and image purposes of the CIECH Group. The changes affected the following companies:

Zakłady Chemiczne "Organika-Sarzyna" S.A. / CIECH Sarzyna S.A.
On 6 March 2015, the Extraordinary General Meeting of "Organika-Sarzyna" S.A. changed the Company's business name from Zakłady Chemiczne "Organika-Sarzyna" S.A. to CIECH Sarzyna S.A. The new business name of the Company has been applicable since the day of its registration by the Court, i.e. as of 18 March 2015.

Soda Polska CIECH S.A. / CIECH Soda Polska S.A.
On 23 February 2015, the Extraordinary General Meeting of Soda Polska CIECH S.A. changed the Company's business name from Soda Polska CIECH S.A. to CIECH Soda Polska S.A. The new business name of the Company has been applicable since the day of its registration by the Court, i.e. as of 20 April 2015.

TRANSCLEAN Sp. z o.o. / CIECH Transclean Sp. z o.o.
On 27 February 2015, the Extraordinary General Meeting of TRANSCLEAN Sp. z o.o. changed the Company's business name from TRANSCLEAN Sp. z o.o. to CIECH Transclean Sp. z o.o. The new business name of the Company has been applicable since the day of its registration by the Court, i.e. as of 10 April 2015.

Ciech Trademarks Sp. z o.o. / Centrum Badawczo-Rozwojowe Ciech Sp. z o.o. / CIECH R&D Sp. z o.o.
On 7 January 2015, the Extraordinary General Meeting of Ciech Trademarks Sp. z o.o. changed the Company's business name from Ciech Trademarks Sp. z o.o. to Centrum Badawczo-Rozwojowe Ciech Sp. z o.o. The new business name of the Company was applicable since the

day of its registration by the Court, i.e. as of 25 February 2015. On 27 February 2015, the Extraordinary General Meeting of Centrum Badawczo-Rozwojowe Ciech Sp. z o.o. decided to change the Company's business name from Centrum Badawczo-Rozwojowe Ciech Sp. z o.o. to CIECH R&D Sp. z o.o. The new business name of the Company has been applicable since the day of its registration by the Court, i.e. as of 31 March 2015.

Vitrosilicon S.A. / CIECH Vitrosilicon S.A.
On 23 February 2015, the Extraordinary General Meeting of Vitrosilicon S.A. changed the Company's business name from Vitrosilicon S.A. to CIECH Vitrosilicon S.A. The new business name of the Company has been applicable since the day of its registration by the Court, i.e. as of 20 April 2015.

TRANSODA Sp. z o.o. / CIECH Cargo Sp. z o.o.
On 1 April 2015, the Extraordinary General Meeting of TRANSODA Sp. z o.o. changed the Company's business name to CIECH Cargo Sp. z o.o. The new business name of the Company has been applicable since the day of its registration by the Court, i.e. as of 20 April 2015.

Sodawerk Stassfurt GmbH & Co. KG / CIECH Soda Deutschland GmbH & Co. KG
On 16 April 2015, the General Shareholders' Meeting decided to change the business name of the Company to CIECH Soda Deutschland GmbH & Co. KG. The new business name of the Company has been applicable since the day of its registration by the Court, i.e. as of 11 May 2015.

Soda Deutschland Ciech GmbH / SDC GmbH
On 16 April 2015, the General Shareholders' Meeting decided to change the business name of the Company to SDC GmbH. The new business name of the Company has been applicable since the day of its registration by the Court, i.e. as of 4 May 2015.

Uzinele Sodice Govora Ciech Chemical Group S.A. / CIECH Soda Romania S.A.
On 28 April 2015, the Court registered the new business name of the Company, i.e. CIECH Soda Romania S.A.

Ciech Trading S.A. / CIECH Trading S.A.
On 26 June 2015, the Extraordinary General Meeting of Ciech Trading S.A. decided to change the spelling of the Company's business name from Ciech Trading S.A. to CIECH Trading S.A. The new business name of the Company has been applicable since the day of its registration by the Court, i.e. as of 26 October 2015.

In 2015, the Management Board of CIECH S.A. changed the organisational structure of CIECH S.A., through the creation of:

- the Nowa Sarzyna branch (operating as an organisational unit within the structures of CIECH S.A.),
- a branch of CIECH S.A. in Germany,

to provide services to the companies in areas such as: procurement, accounting, controlling, finance, human resources and payroll, organisation and legal, IT.

In addition, on 1 November 2015, the following companies within the CIECH Group changed the addresses of their registered offices, from ul. Puławska 182, 02-670 Warsaw, to ul. Wspólna 62, 00-684 Warsaw:

- CIECH S.A.
- CIECH FINANCE Sp. z o.o.
- CIECH R&D Sp. z o.o.
- Ciech Nieruchomości S.A.
- Janikowskie Zakłady Sodowe JANIKOSODA S.A.
- Cerium Sp. z o.o.
- Cerium Sp. z o.o. SKA
- CIECH Cerium Sp. z o.o. Sp. k.
- CIECH Trading S.A.
- Verbis ETA Sp. z o.o.
- Verbis ETA Sp. z o.o. SKA

2. Employment

2.1. Employment structure

The state of employment in the CIECH Group (the parent company of CIECH S.A. and subsidiaries consolidated with the full method) at the end of 2015 amounted to 3,719 people. At the end of the comparable period i.e. 2014, the state of employment amounted to 3,475 people. About 75% employees work in Poland, the majority of which is employed by the production department.

	2015	2014
State of employment in people	**3,719**	**3,475**
White-collar workers	1,219	1,156
Blue-collar workers	2,500	2,319
Average employment in people	**3,668**	**3,550**
White-collar workers	1,190	1,165
Blue-collar workers	2,478	2,385

2.2. Composition of the Management Board and the Supervisory Board and changes in 2015

As at 31 December 2014, the Management Board consisted of:

- Dariusz Krawczyk – President of the Management Board
- Artur Osuchowski – Member of the Management Board
- Maciej Tybura – Member of the Management Board

On 22 July 2015, the Supervisory Board of CIECH S.A. recalled Mr Dariusz Krawczyk from the position of the President of the Management Board, without stating the reason. As the same time, on 22 July 2015, the Supervisory Board appointed Mr Maciej Tybura to the position of the President of the Management Board. Earlier, Maciej Tybura was a Board Member.

On 26 October 2015, the Supervisory Board of CIECH S.A. appointed Mr Artur Król a Member of the Management Board of CIECH S.A.

As at 31 December 2015, the Management Board of CIECH S.A. consisted of:

- Maciej Tybura – President of the Management Board
- Artur Król – Member of the Management Board
- Artur Osuchowski – Member of the Management Board

As at 31 December 2014, the composition of the Supervisory Board of CIECH S.A. was:

- Jan Kulczyk PhD – Chairman of the Board
- Tomasz Mikołajczyk – Deputy Chairman of the Board
- Wojciech Stramski – Secretary of the Board
- Piotr Augustyniak
- Mariusz Nowak
- Artur Olech

Owing to the death of Jan Kulczyk, PhD – the Chairman of the Supervisory Board of CIECH S.A., the Extraordinary General Meeting of Shareholders of 26 August 2015 appointed Mr Sebastian Kulczyk to participate in the Supervisory Board of CIECH S.A. On 8 October 2015, the Supervisory Board of CIECH S.A. appointed Mr Sebastian Kulczyk its Chairman.

As at 31 December 2015, the composition of the Supervisory Board of CIECH S.A. was:

- Sebastian Kulczyk – Chairman of the Board
- Tomasz Mikołajczyk – Deputy Chairman of the Board
- Wojciech Stramski – Secretary of the Board
- Piotr Augustyniak
- Mariusz Nowak
- Artur Olech

2.3. Remuneration for the management and supervisory bodies

Information on the remuneration for the management and supervisory bodies is provided in item II.43.5.

2.4. Agreements concluded between CIECH S.A. and the managing persons

In case of Dismissal of a Members of the Board form their positions there are one-time severance pay entitled amounting to six months' salaries. Non-competition agreements with the Members of the Board after termination of employment provides compensation payments in the amount of 50% of the monthly salary for a period not exceeding 24 months.

3. Strategy and the conditions for its development

3.1. Strategy for 2015–2019

On 3 November 2014, the Supervisory Board of CIECH S.A. adopted a resolution approving the "Strategy of the CIECH Chemical Group for 2014–2019." According to the adopted document, the strategic objective is the maximisation of the value of the CIECH Group, mainly through the development in the area of soda.

In addition, the strategic objectives of CIECH Group include:

1. Increase of revenues in the soda segment,
2. Doubling the share in the Polish market of plant protection products,
3. Increase in normalised EBITDA,
4. Increase of the value of the Company.

The strategy is to achieve the following financial objectives of the CIECH Group:

1. Average annual sales revenue (2014–2019): approx. PLN 3.8 billion,
2. Average normalised EBITDA (2014–2019): approx. PLN 660 million,
3. Average normalised EBITDA margin (2014–2019): approx. 17%,
4. Net debt to EBITDA ratio below 1.00 in 2019.

For the purpose of calculating the ratio, the estimated average annual dividend yield was determined at 3%. The value of the dividend and its distribution will depend on the market situation and the financial position of the CIECH Group.

The objectives will be implemented through, among others:

1. The strengthening of the leader's position in the soda segment in the key European markets through, among other things, effective acquisition of new clients, improvement of the quality of products, strengthening of the position of preferred supplier, and development of more processed types of baking soda.
2. Consistent strengthening of the market position in the organic segment through, among other things, an increase of the production effectiveness and an increase in the use of the production capacity (plastic and plant protection products).
3. Optimisation of the product portfolio, development of highly processed products to meet the customer requirements (plastic), geographical expansion (plant protection products), with the support of CIECH R&D Sp. z o.o., a company which is the Group's R&D centre.
4. Completion of investments in the reconstruction and improvement of the production capacity, which, in the long term, will provide high quality and production cost effectiveness within the segment of silicates and glass.
5. Active steps taken for the purpose of identification and implementation of new development initiatives focusing on the building of the CIECH Group's goodwill.

The Management Board of CIECH S.A. carries out an on-going analysis of the market environment and identifies innovative solutions aimed at the building of the CIECH Group's goodwill. It is possible to update the Strategy in the event of changes in the conditions of operation of the CIECH Group.

3.2. Summary of the performance of strategic activities in 2015

The CIECH Group has been continuously performing its strategic activities which impact the achievement of the financial objectives and the maximisation of the Group's goodwill. In terms of the main segments of activities, it is necessary to mention the following activities carried out in 2015:

Soda segment

- The most important project, named SODA +200, is the improvement of the production capacity of the soda plant in Inowrocław, from 600 to 800 thousand tonnes per year. Thanks to the first stage of investment, completed in 2015, the plant's capacity has increased by 60 thousand tonnes of products annually. The second stage of extension (additional 140 tonnes) has been completed in Q1 2016.
- Another important project is the investment in the intensification of the production of dry salt in Janikowo, completed in 2015. As a result, the manufacturing of this product has increased from 1 thousand tonnes to 1.7 thousand tonnes per day, which facilitated the processing of almost all wet salt to high quality dry salt. This investment is a response to the market demand for higher processed salts.

Organic segment

- CIECH Sarzyna S.A. is undergoing intensive changes. In the Agro area, one of their element was intensification in the process of registration of new products, construction of new distribution channels, significant strengthening of the sales force, and advertising campaigns for the flagship products (e.g. Chwastox and Agrosar).
- As for the Plastic areas, CIECH Sarzyna S.A. has optimised the current product portfolio and selectively developing new, high-margin products.

- Also, the R&D area is being developed to support the development of Agro and Plastic products.

Silicates and Glass Segment

- In this segment, CIECH Vitrosilicon S.A. was investing to increase the production capacity for sodium silicate, in connection with the contract signed with Solvay in 2014. The entire investment project should be deployed in 2016.

3.3. Characteristics of internal and external factors essential for development

Internal factors impacting the CIECH Group results

Maintaining cost and quality competitiveness

The competitiveness of the CIECH Group is a result of such basic factors as:

- cost competitiveness based on the economies of scale, specialisation, standardisation and effects of experience,
- quality leadership and quality management systems,
- competition based on the market strength of the company (position of the market leader).

Quality and stability of the management and staff

The market position of the CIECH Group is to a large extent a result of the high quality of the management and its mid-level employees. The CIECH Group HR policy guarantees its employees an opportunity for professional development and continuous skills upgrade.

External factors impacting the CIECH Group results

Situation in industries of recipients of products of the Group in Poland

Poland is the largest sales market of the CIECH Group. The direct, most important domestic recipients of the Group's products include: glass industry, chemical and plastic products industries, furniture, agriculture, construction, food industry. The development of these sectors of the economy depends on the economic situation in Poland.

According to the data of the Central Statistical Office, the sales in industry at fixed prices within 2015 increased by 4.9% as compared with the previous year (in 2014 – an increase of 3.3%). In 2015, the relevant dynamics of production in the industries of significant importance to the Group's activities (as receiving or target markets) were: manufacture of motor vehicles (10.7%), manufacture of furniture (8.7%) manufacture of rubber and plastic products (6.9%), manufacture of chemicals and chemical products without pharmaceutical products (5.2%), manufacture of food (3.6%), construction and assembly production (2.8%).

After the slowdown of economic growth in Poland in the period of 2012–2013 (with annual dynamics of GDP at 1.5%), in 2014–2015, a clear recovery of the economy was observed (GDP growth by 3.3% and 3.5%, respectively). This good economic situation observed last year should continue also in 2016 (expected GDP growth at 3.5%). Similar trends should be expected in the chemical industry which usually develops similarly to the whole economy.

Economic situation in Europe and in the world

The activity of the CIECH Group is based, in a considerable part, on the sales of chemical products on foreign markets. The level of profitability of sales depends on the global economic situation in Europe and in the world. A weakening of the world economic situation usually results in a reduction of the demand for raw materials on world markets and hence on the amount of export turnover of the Group.

The estimates for the European Union indicate a minor increase in the GDP dynamic, to 1.9% in the last year from 1.5% in 2014. In 2015, the largest Asian economies grew relatively quickly (India, China, and ASEAN countries, for which the GDP dynamics are estimated at: 7.3%, 6.9%, 4.7%). An above-average economic growth was also noted in the region of Sub-Saharan Africa (3.5% GDP). According to the IMF estimates, global GDP in 2015 increased by 3.1% (a little less than in 2013 and 2014, when the dynamics of 3.3% and 3.4% were noted). Among large economies, the worst situation was observed in Russia (GDP decrease by 3.7%) and in Brazil (decrease by 3.8%).

For 2016, IMF forecasts an acceleration of the global development (up to 3.4% GDP) and the retention of GDP dynamics at 1.9% in the European Union.

For the chemical sector, the American Chemical Chamber (ACC) assumes that after a moderate increase in the chemical production in 2014–2015 (by 3.0% and 2.8%, respectively), the following years will indicate a certain growth in productivity: by 3.3% in 2016 and by 3.7% in 2017. In the case of USA, this growth should reach 2.9% in 2016, and 4.4% in 2017. The European Council of Chemical Industry (CEFIC) forecasts that the year 2016 will bring an increase in the chemical production by only 1.0% (in comparison with the increase of 0.5% in 2015).

Financial condition of agriculture

A part of the CIECH Group revenues, including plant protection products (products made in the Group or goods), are generated from the sales to the agricultural sector. In the opinion of the Group, in the long-term perspective, the demand for chemicals for agriculture used in Poland and in Central and Eastern Europe should still grow. Significant factors that are favourable for the increase in the consumption of agrochemicals in Poland and thus in the demand for products and merchandise of the Group, include processes improving the financial condition and profitability of agricultural production, including: quotation of production and direct subsidies. This should be reflected in the increase in revenues of the Group. On the other hand, the lack of significant improvement in the purchasing power of the agricultural sector

may result in stagnation of the demand for plant pesticides and, at the same time, in stagnation of the Group's revenues in the agrochemical products.

According to the data of the Institute of Agricultural and Food Economics (IERiGŻ), in 2015 the market conditions of domestic agricultural production were only slightly better than in the previous year. A factor favourable to the agriculture is an increase in demand. On the other hand, drops in the prices of agricultural produce were deeper than the drops in the prices of the means of production. A significant, negative factor, was the drought which resulted in a decrease in the plant yield (approx. 1 million hectares of arable land – more than 100 thousand farms). In 2015, the value of the synthetic ratio of the economic situation in agriculture (SKWR) showed minor fluctuations, but in December 2015 it reached the level of 100.5, which is higher than in the previous year (99.7). In the coming period, the market conditions for the Polish agriculture may deteriorate due to the situation on the global markets. Low prices of energy fuels and a supply pressure on the agricultural markets will curb the growth of prices of agricultural products.

Competitors' activities in the scope of increase of production capacity

In the sectors of mass chemical products, in which the CIECH Group operates, the capital expenditures are an important barrier to entry, and in the case of the soda segment – an easy access to natural resources. For this reason, in the scope of the most important segment of the CIECH Group, the soda segment, green field investments are rare and generally done outside Europe.

The planned opening of soda ash and baking soda production plants in Turkey, with the total capacity of 3.3 million tonnes/year within the nearest 2–3 years, will be an exceptional event from the perspective of the last decades. The above investments may bring such results as: a temporary, significant oversupply of the product, and a decrease in prices in Europe and in the neighbouring regions, which may have a negative impact on the Group's results of operations.

Economic situation on raw material market

A part of the commercial turnover within the Group's operations is the import of raw chemicals to Poland. The raw material markets are of a cyclical nature related to fluctuations in the global economy. On the one hand, the rising prices of raw materials cause a reduction in the margins of commercial intermediaries and weakening demand at the part of their recipients. On the other hand, the falling prices are usually a symptom of a decreasing demand and the beginning of an economic downturn. The maintenance of a stable rate of economic growth and stable prices of chemical raw materials will have a positive impact on the commercial activity of the Group in the scope of import of raw materials. Significant demand and price fluctuations may be a result of economic changes due to, for instance, a rapid economic growth or economic stagnation. Strong fluctuations can have a negative impact on the operations related to trade in raw chemicals by the CIECH Group.

REACH system implementation

In accordance with the REACH regulation, the Group's companies selling substances in quantities exceeding 1 ton p.a. have completed or plan to complete full registration of these substances by defined deadlines, which will enable them to continue their operations in the current scope. To date, the CIECH Group has registered 21 substances with the tonnage range from 100 to more than 1,000 Mg/y. Until 31 May 2018, 12 marketed substances in the quantity of 1–100 Mg/y are planned to be registered.

Emission trading system

The emission trading system applies to:

- CIECH Soda Polska S.A. with 2 heat power station installations and 2 soda production installations,
- SDC Group with 1 heat power station installation and 1 soda production installation,
- CIECH Soda Romania S.A. with 1 soda production installation,
- CIECH Vitrosilicon S.A. with 2 glass production installations.

External analyses performed by the CIECH Group companies indicate that the amount of free CO_2 emission allowances in the 3rd settlement period (2013–2020) will be insufficient to cover the actual demand for this type of settlement units. The resulting deficit of CO_2 emission allowances may be balanced by applying one or several of the following measures:

- purchase of the emission allowances in an auction, stock market transactions, or over-the-counter transaction,
- equity investments aimed at decreasing the emissions of the generated heat, process emissions, increasing the energy efficiency,
- use of raw materials and emissions with lower emissions.

In addition to the direct costs connected with the purchase of CO_2 emission allowances, the CIECH Group companies will bear higher costs of electricity due to their assumption of the costs of purchase of emission allowances from the producers.

EUR/PLN and USD/PLN exchange rate relationships

The export sales of the CIECH Group are mainly dominated in EUR and USD. Strong EUR and USD increase the profitability of the Group's export sales. On the other hand, in the case of strengthening of the national currency in relation to EUR and USD, we can observe a decrease in the profitability of exports and a negative impact on the volume of export sales accomplished by the Group.

3.4. Risks to operations

Economic downturns or a slowdown in the global and European economy as well as related credit and financial market problems may have a negative impact on the activity of the CIECH Group.

The CIECH Group business is largely based on the sales of chemical products used as raw materials and semi-finished goods in a wide range of industries, including the glass, detergent, furniture, automotive, construction, food, pharmaceutical, chemical and consumer goods industries. The demand for the CIECH Group customers' products is affected by general economic conditions and other factors, including conditions in the construction, automotive and packaging industries, the costs of labour and the energy costs, the exchange rates fluctuations, the interest rate fluctuations, and other factors beyond control of the Group. As a result, the volume and profitability of the CIECH Group companies' sales depend on these variables as well as on the economic situation in Poland, Europe, and worldwide. As a result of this economic downturn of 2008–2009, the demand for the CIECH Group products dropped from peak levels in 2007–2008 and has not fully recovered to date.

In case of prolonged weakening of the global economy or a deterioration in the global economic conditions, the CIECH Group customers may experience cash flow shortages and a difficulty in obtaining funds for their operations. As a result, the existing or potential customers may postpone or cancel their plans to purchase products and may not be able to fulfil their obligations (partially or fully) in a timely manner. Adverse changes in the customers' financial position increase credit risk of the CIECH Group and results in an increased risk of limitation or discontinuation of business cooperation with such customers.

It is uncertain whether events that have an adverse effect on the industries and markets in which the CIECH Group operates, such as a downturn in the Polish, European and global economies, increases in interest rates, unfavourable exchange rate fluctuations, or other factors, will not occur. Any significant downturn in the CIECH Group customers' activities or in the Polish, European and global economic conditions could result in a reduction in the demand for the CIECH Group products and could negatively affect the operating activity and the financial standing of the CIECH Group. The risk is estimated to be moderate.

The soda and organic segments are cyclical, and the changes in the market demand and prices may negatively impact the CIECH Group operating margins and its cash flows.

The CIECH Group turnover is primarily attributable to the sales of soda and organic products, where the prices have historically been cyclical and sensitive to changes in the supply and demand, the availability and price of raw materials, the general economic conditions, and other factors that are beyond control of the CIECH Group. These industries are characterised by periods of increased demand, leading to high operating profits and margins, followed by periods of oversupply resulting primarily from significant production capacity increases or a decreased demand (e.g. due to economic slowdown), leading, in turn, to reduced operating profits and margins.

In 2009, Europe noted a dramatic (more than a dozen percent) drop in the demand for soda ash. This demand downturn was primarily due to a low demand from the glass production industry (in particular, flat glass), resulting from the general economic slowdown. The falling demand on many local markets resulted in an oversupply of soda ash, which caused a temporary reduction in the average selling price of soda ash. Between 2010 and 2015, the fluctuations on the Western European market of soda ash reached only a few percent annually. However, considering the sensitivity of the European Union economy to the global economic situation and the lack of certainty as to the further developments on other continents (particularly in China) in the nearest future, more significant decreases in the demand for soda in Europe cannot be excluded.

The markets for some other products of the CIECH Group, including epoxy resins used mainly in the construction and paint industry, behave similarly, experiencing alternating periods of high demand, causing prices and margins to increase, followed by periods of low demand, resulting in oversupply and declining prices and margins. The demand for epoxy resins is closely linked to the demand for end-use products of paint, construction and electronic industries, which, in turn, depends on the overall economic situation. The cyclicality may affect the prices of the CIECH Group's products and may negatively impact the CIECH Group's operating activity and financial standing. The risk is estimated to be moderate.

Growing competition may adversely affect the CIECH Group's operating activities and financial standing.

The growing competition from existing and new domestic and foreign producers may occur on the main markets and in industries in which the Group operates. The competition within the chemical industry depends on local market dynamics and varies significantly depending on specific product and its use. In addition, the competition in the chemical segment depends on many factors, including but not limited to: demand, product prices, reliability of supply, relevant production capacity, customer service quality, product quality, and availability of substitutes. It is not certain that the CIECH Group will be able to compete effectively against the current and future competitors. The increased competition or the entrance of new competitors to the market could have a negative effect on the operating activities and the financial standing of the CIECH Group.

This applies mainly to soda ash and to the expansion of capacities in the Middle East, and particularly, to the competition from manufacturers of soda based on natural raw materials. Several years ago, new, significant production capacities were achieved in the area of soda ash and baking soda (1.1 million tonnes/year) from trona deposits in Turkey, which are partially the source of supplies to the European markets. The CINER Group publicly informs that it is constructing in this country additional production facilities based on natural raw materials (of the

additional total capacity of 3.3 million tonnes of soda ash and baking soda annually), whose gradual start-up is planned for the next few years. The target dates of completion of investment projects in two locations (Kazan and Beypazari) announced by the company were postponed, and therefore, it is difficult to specify when these investment projects will be put into operation. According to the most recent information published in reports by IHS (an international company supplying information on diverse markets, including the chemical and soda ash markets) – the first new production capacity will be available in 2017 in Beypazari (500 tt/y of soda ash, 100 tt/y of baking soda), and in Kazan (1,500 tt/y of soda ash per year, 200 tt/y of baking soda); additional 1,000 tt/y of soda ash will be produced in Kazan in 2018.

According to the data provided by IHS, the European soda market is currently balanced. The availability of significant new production capacities may result in a temporary oversupply of the product and a decrease in average prices in Europe and in the neighbouring regions (also on the markets where CIECH operates), which may have a detrimental effect on the Group's results of operations. From the time of publishing the information about the Turkish investment, the CIECH Group has been taking active steps to develop the soda segment (e.g. by strengthening its production capacity, improving the quality of all products, developing new soda-based products, strengthening its customer relations, and improving the efficiency of use of the production capacity). All of this should allow the Group to compete against other soda manufacturers in Europe in an effective manner. Also, the closure of two European soda production plants in Portugal and in the UK, which took place in early 2014, and the estimated, significant decrease in the scale of expansion of the capacity in the soda industry in China (on the basis of the IHS report), are factors which may have a positive effect on the balance of demand and supply and on the significance of new investments in the Middle East.

In light of the above circumstances, the risk connected with the occurrence of new soda production capacities is estimated as average.

The supply relies on a limited number of suppliers of certain raw materials, which may cause supply disruptions and delays, or additional costs, if suppliers fail to deliver their products in a timely manner or fail to meet the quality requirements. In addition, the CIECH Group is exposed to risks related to long-term contracts.

The production process of the CIECH Group companies requires adequate and timely supplies of raw materials. Wherever possible, the CIECH Group attempts to diversify the supplies of materials from multiple suppliers. However, for certain required raw materials, there is only a limited number of possible suppliers. For example, most of the limestone and brine – two main raw materials used in the production of soda ash with the Solvay method – is purchased locally by soda producers from single suppliers. The soda ash production plants need to be located in close proximity to limestone and brine suppliers due to the high transportation costs of these raw materials in comparison with their price. The majority of key raw materials for production plant in Romania is obtained from individual suppliers. Furthermore, some production plants, in particular those manufacturing soda ash, are located in areas with a limited number of suppliers in the profitable radius.

In addition, certain raw materials, such as limestone, brine or energy, are purchased under long-term contracts, some of which extend to a period of 25 years. Although the key terms of the supply contracts, such as price and quality, are generally flexible and can be modified under certain circumstances to better reflect current business conditions, there is no guarantee that this flexibility will be sufficient to adapt the contracts to current business conditions in a way acceptable for the Group, which could have negative impact on the CIECH Group's operating activity and financial situation.

The CIECH Group strives to minimize the risks described above by ongoing cooperation with current suppliers and looking for optional suppliers. Due to the fact that the CIECH Group is perceived as a big and good customer for raw materials, the supplier withdrawals from cooperation are rare. The risk is estimated to be moderate.

The CIECH Group's operations may be negatively affected by changes of raw material and fuel costs, inability to retain or replace key suppliers, unexpected supply shortages or supply chain disruptions.

The CIECH Group's profit is largely dependent on attainable sales prices of raw materials and energy required for manufacturing of different products. The raw materials and energy used in the production process in soda segment of the CIECH Group are: coal, natural gas, electric energy and steam, limestone, salt brine, ammonia and blast-furnace coke. The price of coal, used in the production of electricity and steam in the CIECH Soda Polska production facilities in Janikowo and Inowroclaw, is decreasing. The market prices of coke have also been decreasing for some time, what makes the purchase price of this raw material for production plants in Poland, Romania and Germany lower.

The prices of many raw materials, constituting a significant portion of operating costs, can be variable. The availability and prices of these raw materials are influenced by factors that mostly are beyond the CIECH Group's control, such as market conditions, general global economic prospects, production constraints by the suppliers, fluctuations of oil or other commodity prices, infrastructure failures, political conditions, weather conditions, legal regulations and other.

The CIECH Group strives to minimize the risks described above by monitoring the situation on the market, negotiating conditions for subsequent periods with its current suppliers and looking for optional suppliers. The risk is estimated to be moderate.

Weather conditions may affect the CIECH Group sales revenue.

Unfavorable weather conditions can decrease the sales of products intended for plant protection (organic segment). Sales of plant pesticides and agrochemical products depends on weather conditions, because harvests of crops and decisions with regard to planting vegetation vary depending on whether vegetation season is exceptionally wet or dry. Bad weather conditions can cause smaller harvest and, thereby, lower

demand for the CIECH Group products. Weather conditions may have a delayed effect on operating results, as the CIECH Group sells products to distributors who, having excessive stocks after bad vegetation period, will be interested in a lower number of orders for the following period.

The situation in the soda segment is similar, as the sales of calcium chloride and mixes of chlorine and salt that are used mostly in winter for roads maintenance depend on weather conditions. During mild winters, the demand for de-icing products decreases and revenues from calcium chloride and related products sales may be lower than expected. The risk connected with weather conditions is estimated to be moderate.

Force majeure and dangerous character of manufactured chemical products may have negative impact on the Group's activities. In addition, production plants of the CIECH Group are subject to significant operating risks and may be subject to downtime.

Production activities of the CIECH Group companies can be interrupted as a consequence of various threats and risk factors, which are beyond the Group's control, such as environmental threats, strikes and some disasters, including fires, weather events, serious breakdowns of equipment, natural disasters, terrorist attacks and other accidents or events that may result in cessation of the operations. Any damages to facilities, including IT systems, causing short-term interruptions in operations of facilities and distribution and logistics services, for the time of repair or for other reasons, may have considerable, unfavourable impact on the CIECH Group's operating activities and financial situation. Suppliers are exposed to similar risk factors. Events caused by force majeure, based on the provisions of purchase agreements, may disrupt the production and/or increase the incurred costs. Such interruptions or costs increase may have a significant, negative impact on the Group's results.

Considerable amounts of chemical, hazardous raw materials as well as liquid and solid waste are being used, processed, produced, stored, transported and disposed of in chemical plants owned by the CIECH Group. Some of this waste is highly dangerous and may have harmful effects as a result of improper handling or unsatisfactory removal. Accidents involving these substances, which are often subject to high pressure and temperatures during the production process, storage and transport, may cause major damages to facilities, the environment and human health as well as interruptions, restrictions or delays in production. Any damages or injuries to people, equipment or property, or any other production or distribution disruptions can result in a significant reduction of operating revenues and a significant increase in costs related to replacement or repair and safeguarding of assets, which may have significant, negative impact on the CIECH Group's operating activities and financial situation. It may also entail legal consequences, such as breach of regulatory requirements and/or lawsuits for bodily injuries, damage or depletion of property and similar claims. The risk is estimated to be low.

The CIECH Group is a subject to very strict regulations, which may generate significant costs regarding compliance with the obligations resulting from the environmental protection regulations and OHS applicable to the CIECH Group's activities.

Dynamic legal changes in the area of the environmental protection and OHS significantly impact the CIECH Group's activity. These requirements regulate activities related to: (i) storage, use and management of hazardous substances and waste; (ii) water intake and sewage discharge; (iii) emission of pollutions to the atmosphere; (iv) human health and safety; (v) reclamation of contaminated areas and (vi) sales and use of the CIECH Group products. The CIECH Group companies operate under the current administrative decisions (integrated permits, water permits, waste management permits) regarding the manner and extent of use of the environment.

During the last several years, the CIECH Group has implemented a number of investments contributing to the environmental protection, such as modernization of electrofilters in its plants in Inowrocław and Janików. It will continue to carry out further projects in the scope of, among others, desulphurization and denitrogenization of exhaust fumes. The main goal of the investment is to increase the atmosphere protection level and adaptation of installations to new emission standards set forth in the Industrial Emissions Directive (IED), implemented in Polish law on 5 September 2014 as part of amendment of the Environmental Protection Law.

On 1 January 2016, more restrictive emission standards will be introduced for dust (20–25 mg/Nm^3), sulphur oxides (200–250 mg/Nm^3) and nitrogen oxides (200 mg/Nm^3) emissions for large combustion plans (LCP). The National Transitional Plan (PPK) assumes extended deadline to adjust LCP systems to new standards, until 30 June 2020 at the latest.

It should also be mentioned that the works on the BAT Conclusions for LCP are being carried out, which are expected to be published in 2016. The installations will have 4 years as of the entry of the BAT Conclusions into force to adapt to the requirements which are more stringent than those set in the IED Directive, i.e. for dust (15–20 mg/Nm^3), sulphur oxides (130–200 mg/Nm^3) and nitrogen oxides (150–180 mg/Nm^3) emissions.

The regulations on the soil protection and the necessity to elaborate reports on the initial state of soil by IPPC installations were also amended. Some of the CIECH Group plants have a long history of industrial activities and waste landfill. Due to the nature of the CIECH Group's activities, certain plots of land contain active sources of ground and water contamination. The Group incurs ongoing operating expenses and establishes provisions related to the reclamation of contaminated soil and groundwater purification. Proceedings were instigated against some plants, related to historical contamination of land, resulting in implementation of land and water environment reclamation works in consultation with competent authorities. Identifying previously unknown pollution or imposing of new obligations to test and eliminate contamination in plants of the CIECH Group may result in the necessity to incur supplementary expenses. The Group may be obliged to establish or steadily increase provisions for such obligations.

The CIECH Group's activity, in particular that of its soda companies, is significantly affected by legal changes in the scope of the emissions trading system. On 15 July 2015, the European Commission published a draft revision of the Emissions Trading System Directive (the EU ETS

Directive). The new directive will determine the principles underlying the functioning of the CO_2 emission permits markets as well as monitoring and reporting rules after the year 2020. There is a risk of the benchmark decrease by at least 11% until 2030. Currently, the benchmark for soda is set at the level of 0.843. The completion of works related to the revision of the Carbon Leakage List is scheduled at 2019. The project assumes the decrease of the number of sectors covered by the CL List from 175 to 50 after 2020. The soda industry runs the risk of losing the CL-exposed status and therefore the risk of loss of free permits after 2020.

Another material risk is related to the commenced revision of the Regulation (EC) No 2003/2003 of the European Parliament and of the Council of 13 October 2003 relating to fertilizers, which, with the currently proposed provisions, does not provide for the possibility to use soda lime for production of fertilizers. The risk is estimated to be moderate.

Compliance with the increasingly stringent legal requirements related to the manufacturing products research, evaluation, registration and safety analysis may lead to substantial additional costs or reduction or elimination of the availability and/or tradability of some raw materials used in products manufacturing.

The products manufactured and the raw materials used in production by the CIECH Group are subject to many legal regulations in the scope, among others, of registration and safety analysis of substances they contain. The EU Regulation (EC) No 1907/2006 on Registration, Evaluation, Authorization and Restriction of Chemicals ("REACH") imposes substantial obligations on the entire chemical industry concerning research, evaluation and registration of chemical substances produced or imported from non-EU member countries.

In accordance with the REACH regulation, the Group's companies selling substances in quantities exceeding 1 ton p.a. have completed or plan to complete full registration of these substances by defined deadlines, which will enable them to continue their operations in the current scope.

To date, the CIECH Group has registered 21 substances with the tonnage range from 100 to more than 1,000 Mg/y. Until 31 May 2018, 12 marketed substances in the quantity of 1–100 Mg/y are planned to be registered.
Implementation of the REACH requirements is expensive and time-consuming and results in increased production costs and reduced operating margins on chemical products. The CIECH Group estimates that the total expenses on achieving compliance with REACH will amount to approximately PLN 7.2 million in the years 2015–2019. Each delay in full registration of substances in accordance with legal requirements may lead to penalties or banning the sale of products containing these substances in the EU.

In connection with the REACH regulation or Regulation (EC) No 1272/2008 on classification, labelling and packaging of substances and mixed chemical products ("CLP Regulation"), certain substances in raw materials or products may be classified as having adverse impact on the environment, product users or employees. Their production can be subject to authorization in the European Chemicals Agency (ECHA) or completely restricted.

Any such laws or regulations which may be adopted in the future can adversely affect the availability and/or tradability of the raw materials used and products manufactured by the CIECH Group, lead to restriction or ban on their purchase or sale, or oblige the Group to incur increasing costs of fulfilling the requirements regarding registration, labelling and use of products. Furthermore, since some of the products manufactured by the CIECH Group are sold on markets on which proper classification is very important for the legal regime applicable to such substances, it cannot be excluded that the Group's classification will be questioned or challenged. Any such factors may have negative impact on the CIECH Group's operating activities and financial situation. The risk is estimated to be moderate.

In the event the patents and other intellectual property rights held by the CIECH Group do not provide a relevant protection of products, certain share of the market may be lost in favour of the competitors and the CIECH Group may not be able to carry out its business activity in the way ensuring its profitability.

In order to protect the intellectual property rights regarding its products and the ways in which they are created, developed, manufactured and sold, the CIECH Group holds and uses a number of patents, know-how developed by the Group, trade secrets, copyrights and trademarks as well as other internal information.

The CIECH Group uses various available methods for protecting the above rights, including confidential agreements/clauses, assignment agreements concerning inventions and proprietary data, agreements with employees, independent sales agents, distributors, consultants, universities and research units where it acts as a partner. Those agreements may, however, be violated. Government agencies or legislative authorities may require such information to be disclosed in order for the CIECH Group companies to obtain a permit to sell a product in question. An agency or a legislative authority may also disclose such information on its own initiative if they decide that the information is not a company or commercial confidential information. Trade secrets, know-how and other unpatented ownership technologies may also be disclosed otherwise or developed independently by competitors.

In addition, the CIECH Group also holds patents and patent applications protecting many components and products. The CIECH Group companies file with patent office's applications for granting exclusive rights in the form of patent or registry notifications. The above listed security measures provide only limited protection and they do not, for example, ensure the possibility to exclude the disclosure or independent elaboration, by a competitor, of the information being the property of the CIECH Group.

It cannot be ensured that the existing or future patents will let us obtain the appropriate protection or competitive advantage and that future patent applications will guarantee obtaining patents, that the patents will not be "circumvented", cancelled or that there will be possibility for their successful implementation. Moreover, the intellectual property rights held by the CIECH Group may be contested, which could

materially and adversely affect the Group's operational results. In certain cases, pending court disputes on intellectual property matters may be used to gain a competitive advantage. The CIECH Group companies used to be in the past and could be in the future a defendant in litigations concerning patents and other intellectual property rights. Instigation of proceedings against any of the CIECH Group companies may result in great costs of defence, as it is not certain that such proceedings would be settled to the benefit of that company. The unfavourable settlement of a dispute may result in a necessity to pay significant amounts and, concurrently, the research, production or sale of a technology and/or products may be forbidden.

Any proceedings pending before the patent office and/or the trademark office or in court may be concluded with unfavourable decisions concerning the inventions of the CIECH Group, e.g., making the scope of protection narrower or inapplicable. The costs of conducting such proceedings are considerable. Additionally, the legal systems in certain countries where the products of the CIECH Group are or may be sold may provide protection which is less stringent than in Europe or may completely fail to provide a protection of the intellectual property rights held by the CIECH Group. In some countries, the CIECH Group may also not be able to protect its trade secrets rights, trademarks rights or own non-patented technologies. The risk is estimated to be low.

The CIECH Group companies are subject to litigious proceedings, including anti-trust proceedings that could be detrimental to their interests if the final decision is unfavourable.

The CIECH Group is exposed to an inseparable business risk of susceptibility to diverse types of claims and legal proceedings. The CIECH Group companies were and still are involved in various legal proceedings, claims and investigations that are pending currently or were concluded during the last three years. In accordance with the accounting policy, provisions are created for such proceedings if it is highly probable that costs will be incurred and their amount may be reasonably assessed. It cannot be excluded that the pending disputes will enhance or that any future legal actions, claims, proceedings or investigations will be material. Additionally, in the future, the CIECH Group members may become a party to legal proceedings regarding, among others, intellectual property rights, producer's liability, bodily injuries, product guarantee, environmental or antitrust claims, or enter into settlements regarding legal proceedings and claims that may exert material adverse effect on their operating results.

The Antimonopoly Office's (UOKiK) decisions stating that any of the Group's activities resulted in limitation of competition in the context of the antimonopoly proceedings may affect the possibility of conducting operations and/or may result in a fine to be imposed, the consequences of which may materially and adversely affect the Group's operating results and its financial standing. The risk is estimated to be moderate.

Business, reputation and products of the CIECH Group may be affected by claims concerning liability of the manufacturer, complaints or unfavourable publicity in relation to the products.

The CIECH Group products present an inherent risk of bodily injuries which may occur as a consequence of their handling by unauthorized third parties or as a result of pollution or degeneration of a product, including the presence of external pollutants, chemicals, substances or other chemical substances or sediments during various phases of preparation, production, transport and storage processes. There is no guarantee that the CIECH Group products will not cause any diseases or injuries in the future, nor that companies of the Group will not be subject to claims or legal proceedings related to such issues. Although companies hold customary third party and manufacturer liability insurance, in the case of a claim related to the manufacturer's guarantees or third party liability there is no guarantee that they will be able to effectively establish an insurance claim in accordance with the company's policies or that the compensation obtained from the claim will be sufficient to cover actual damages.

The CIECH Group may be forced to withdraw its products from some jurisdictions, in the case of these products' non-compliance with the relevant quality or safety standards. There is no guarantee that, as a result, claims will not be lodged against the Group's companies concerning the responsibility of the manufacturer. Unfavourable decisions in cases related to the manufacturer's liability may have a significant, negative impact on the Group operating results. Besides that, the CIECH Group may be forced to increase its debt or redirect resources from other investments to satisfy such claims. In addition, unfavourable publicity with regards to the Group's products may have a significant impact on future sales, which may have a considerable, negative effect on the Group operating results. The risk is estimated to be moderate.

The CIECH Group may not have a valid legal title to some of the Group's real estate properties.

Some of the subsidiaries, including Soda Polska CIECH S.A., use certain real estate properties, the legal status of which may be unclear or questioned. Due to the fact that, as a rule, the purchase of real estate properties by the CIECH Group did not involve the public faith warranty of the land and mortgage registers and the lack of documents confirming or supporting legal title in relation to a part of owned real estate properties cannot be excluded, the CIECH Group companies may not be able to submit assurance in connection with ownership and legal status, potential defects of the legal title or restrictions concerning sales, which can affect rights with regards to all real estate properties. In this regard, the CIECH Group companies can also become the object of possible third party claims, which may have a considerable, negative effect on operating activities and financial situation of the Group. The risk is estimated to be low.

In the context of bankruptcy of the Infrastruktura Kapuściska S.A. subsidiary company, the CIECH Group may not be fully protected from liabilities related to bankruptcy.

The main production activity of Infrastruktura Kapuściska S.A. was discontinued in December 2012. On 14 March 2014, the District Court in Bydgoszcz issued a decision in closed session which approved the Infrastruktura Kapuściska S.A.'s petition and declared bankruptcy of Infrastruktura Kapuściska S.A. involving liquidation of assets. In the context of the bankruptcy proceedings, CIECH S.A. as a former parent company will not be liable for Infrastruktura Kapuściska S.A.'s liabilities, as Polish law does not provide basis for parent or affiliated company to be liable for such bankrupt company liabilities. Therefore, in the event of the actual bankruptcy of the company, CIECH S.A. might be obligated to fulfil only such specific obligations for which CIECH S.A. provided guarantees to Infrastruktura Kapuściska S.A. and within the scope of the provided guarantee. Potentially, it may be the guarantee provided by CIECH S.A. in exchange for specific obligations, declarations and representations of Infrastruktura Kapuściska S.A. provided in relation to the TDI Assets Sales and Transfer to BASF Agreement up to total the value of EUR 10 million; this guarantee is valid for the period of two to four years from the transaction settlement date (i.e. from 12 March 2013). Moreover, the Polish Civil Code regulations enable the subsidiary's creditors (including trade creditors) to use legal remedies against a third party if the third party concluded with the debtor a transaction that caused the debtor's insolvency. If, in case of submission of such claims by creditors (Actio Pauliana), court decision confirmed that a given action had been performed consciously by the debtor and the third party to the detriment of its creditors and, as a result, this entity (debtor) had become insolvent, or insolvent to a greater extent, and a third party had benefited from that action, under certain conditions described in the Polish Civil Code such an activity may be recognized as ineffective with regard to this particular creditor, who may claim compensation against third party' assets in the scope of benefits obtained by that third party from the debtor. In the event if the court or another competent authority recognize the claim as justified, it may have significant adverse impact on the CIECH Group's operating results or financial situation. The risk is estimated to be low.

Loss of important management, technical and administrative personnel, or the impossibility to recruit such personnel, may affect the CIECH Group's operations.

The nature of the CIECH Group's operations and its development plans require hiring personnel with high qualifications in various domains. Ability to maintain a competitive position and implement the business strategy depends significantly on the quality and the experience of personnel. The loss of competences important for the CIECH Group or impossibility to acquire them may have a considerable, negative effect on operating activities, which translate into financial situation. Due to the relatively high costs of acquiring personnel with desired competences and skills, the search or employees having appropriate experience constitutes an element of an ongoing policy. Our abilities to recruit, retain and continuously improve management, technical and administrative personnel are an element of risk management strategy minimizing the threat of loss of employees who are essential for the CIECH Group's operations. Since 2015, CIECH S.A. provides personnel recruitment services to the Group's companies. The risk of personnel loss is estimated to be moderate.

The CIECH Group's operations may be dependent upon downtimes or personnel disputes.

As at 31 December 2015, the CIECH Group employed 3,7 thousand persons, nearly 70% of whom belongs to trade unions.

The collective agreements terminated in the years 2012–2013 in the Group's companies were replaced with new, unified employee remuneration standards, the goal of which is to adapt the provisions of internal regulations to the Group's business plans and the economic situation. As a result of the bonus system negotiations process started in 2013 in the CIECH Group, in 2015 the Group's companies applied uniform bonus rules, according to which the additional benefits (bonuses) depend on the Group's results and the level of achievement of the operating targets assumed by the Group.

The risk that the trade unions will initiate a collective labour dispute as a tool affecting the employer's decisions was estimated to be moderate.

If the CIECH Group does not ensure effective internal control system, it may be unable to monitor or manage its activities effectively.

Effective internal controls are necessary to ensure the reliability of financial reports and effective monitoring of different CIECH Group companies' activities. If the control structure has significant defects, the CIECH Group may be unable to effectively monitor and manage its activities, which may cause harm to its interests and reputation. There is no assurance that the internal control will be able to expose all shortages; while their presence may have significant negative impact on the CIECH Group operating activities and financial situation. The risk is estimated to be moderate.

The CIECH Group companies tax expense may increase as a result of current and future tax inspections and potential changes in binding tax regulations.
Frequent changes in Polish tax regulations may have a negative impact on the results of the Group's operations and its financial situation.

For the purposes of calculation of income tax liabilities and all other tax liabilities, the CIECH Group companies follow their assessment of situation and make decisions to the best of their knowledge. Despite the belief that the tax estimates are reasonable, many factors may decrease their accuracy. Furthermore, the Polish tax system is known for its instability. Tax regulations are frequently corrected, often to the disadvantage of taxpayers. The instability of the Polish tax system results not only from changes in the law, but also from its reliance on tax regulations interpretations issued by the treasury authorities and on judicial decisions. Issued interpretations and judicial decisions are not

coherent and may be subject to potential corrections or changes. Another element influencing the lack of stability of the tax law is the necessity to implement changes resulting from adjusting the national legislation to the new European Union regulations.

The CIECH Group companies may be subject to tax authorities inspections, during which these authorities may disagree with the approach regarding tax treatment of certain significant items adopted by the companies, including past and future events, and therefore they may oblige companies to re-calculate and potentially increase their tax liability and pay interests on tax arrears.

Frequent changes in tax regulations had and may have future negative impact on activities of the CIECH Group companies, their financial situation, operating results and development possibilities. What is more, the lack of stability in the Polish tax regulations may hinder the ability for effective future planning and implementation of the business plan according to the assumptions. In addition, changes in the existing law can also increase the real tax rate, and the increased tax expense may have a significant, negative impact on the further development of the Group. The Group constantly monitors changes in the law and potential tax risks, taking steps to eliminate them or to reduce them substantially through a constant cooperation with reputable tax advisors and by official inquiries to the tax authorities. The risk is estimated to be moderate.

Fluctuations in currency exchange rates may have negative impact on the CIECH Group's operations, financial situation and cash flows.

Consolidated financial performance of the Group is reported in PLN. International character of the operations exposes the CIECH Group to foreign exchange risk as a result of different currencies in which sales, purchases and costs are settled, as a result of transactions entered into by the subsidiaries (which may be conducted in a currency different from their functional currency) and as a result of the effect of translation of the reported results, cash flows and statement of financial position items.

As a consequence of running operations in jurisdictions with functional currency other than zloty, the CIECH Group is susceptible to exchange rate risk associated with translation of one currency to another. The items of revenues and expenses are translated on the basis of average foreign exchange rates, and the financial assets and liabilities are translated using foreign exchange rates as at the balance sheet date. The CIECH Group is also exposed to a transactional exchange risk when a subsidiary performs transactions in a currency different from its functional currency.

As a result of foreign exchange exposure of raw materials purchases, products sales, loans granted and received, as well as cash kept in foreign currencies, the CIECH Group was and will be exposed to fluctuations in currency exchange rates that may have a significant effect on its operating results, financial assets and liabilities as well as cash flow in zlotys. Fluctuations in the foreign exchange rates may also significantly affect the comparability of the Group's results between the periods.

The CIECH Group's main source of exposure to foreign currency risk is related to EUR and USD. The estimated exposure to the currency exchange risk in Euro (excluding SDC Group) amounted to EUR 225.7 million and EUR 273.2 million, as at 31 December 2014 and 2015 respectively.

The group aims to naturally hedge its foreign currency exposure, including matching cash flows in given currencies resulting from sales and purchases and denomination of debts in certain currencies, in order to adjust it to the expected exposure to foreign currency risk in operating activities. The risk is estimated to be moderate.

The CIECH Group is exposed to impairment of receivables in case of the lack of payment by contractors.

The CIECH Group is exposed to operational credit risk that is associated with a risk of the lack of repayment of receivables by trade parties and other debtors. Financial difficulties experienced by contractors, including bankruptcy, restructuring and liquidation, or potential deterioration in industries in which they operate, increase this risk. As at 31 December 2015, approximately 24% of trade receivables of the CIECH Group was held by 10 largest customers (by sales revenues). The credit rating of those customers, being members of large international groups, is estimated by the rating agencies and business intelligence companies at the highest and the risk at the lowest level. The debt portfolio risk is minimized through debt insurance. As far as 10 largest customers of goods are concerned, 73% of their debt was insured. A significant portion of sales to uninsured customers takes place by prepayments or letter of credit.

Due to the concentration of the customers base, some amounts may remain due (overdue) from individual customers at any time, but the scale of debt insurance portfolio (70–80%) and the use of factoring for the insured portion of the portfolio results in insignificant impact of potential payments delays or loss of receivables from customers on the Group's operating results and financial liquidity. Payment terms granted to contracting parties range from 30 to 270 days, while the weighted average term (amount of the liability) ranges from 50 to 60 days.

Despite the fact that the CIECH Group adopted procedures and policies aiming at mitigation of the credit risk, such as receivables insurance, credit risk monitoring and credit limits granted to customers, such adopted procedures and policies do not protect the Group completely against the risk of the lack of payment by contracting parties. This risk is estimated to be low.

Fluctuations in interest rates may have a negative impact on the Group's financial performance.

The CIECH Group is exposed to the interest rate risk, resulting from the costs of financing of part of the debt and costs of financing of receivables with factoring based on the market interest rate level. The interest rate of the term loan (in the amount of PLN 1,045 million at

the end of 2015), of the domestic bonds (with face value of PLN 160 million at the end of 2015), of the revolving loan available under the revolving credit facility agreement (with maximum value of PLN 250 million) and costs of financing receivables with factoring, are based on the variable WIBOR and EURIBOR rate. The interest rate on the debt under the term loan (in the amount of EUR 69.7 million), working capital loans available in euro and the cost of financing the currency receivables with factoring are based on the variable EURIBOR rate. The interest rate risk for debts from bonds denominated in PLN with face value of PLN 80 million, from the term loan in the amount of PLN 1,045 million and EUR 69.7 million was hedged in by using variable interest rate hedging contract. The risk is estimated to be low.

Insurance policies held by the CIECH Group's companies may not protect, or not protect completely, against some disturbances related to the operation of business, global conflicts or inherent threats related to their activity and products.

The CIECH Group companies have insurance policies, concluded with international and local insurers, providing protection (with some restrictions with regard to the subject and substantive scope) against selected operational risks, including damage to the property insurance, loss of profits insurance, business liability insurance, product liability insurance, insurance of goods in transport, railway rolling stock and vehicles insurance, civil liability of company's officers and directors insurance and receivables insurance. The types and amounts of insurance currently held by the CIECH Group companies are in compliance with customary practices in the chemical sector and are adequate to the type of their activities. The insurance held does not cover all potential risks related to scope of activities or other threats, for which the Group might be responsible. For example, insurance policies may not protect against natural disasters, certain disturbances to business operations, global conflicts or inherent dangers related to operations and products of the Group. Moreover, the policies are subject to standard deductions, exclusions and limitations, which can affect the possibility to notify claims. As a result, it is not certain that the insurance held appropriately protects against all possible risks or that the insurance amounts are sufficient to prevent all significant losses. The risk is estimated to be moderate.

Debt-related risks

Obligations of the CIECH Group in the scope of debt service may have a significant, unfavourable effect on business, operating results, financial situation or ability to repurchase debt securities.

The CIECH Group has significant debt service obligations. As at 31 December 2015, debt amounted to approximately PLN 1,560 million, including finance lease agreements, and the obligations in the scope of this debt service will exist in the foreseeable future. Debt service obligations may have important consequences, including, but not limited to:

- difficulties in debt repayment;
- increase in vulnerability and reduction in flexibility in response to a deterioration of the situation in the industry or generally unfavourable economic and industrial conditions;
- limitation of ability to obtain additional financing in order to finance working capital, capital expenditure, development of operations, acquisitions and other corporate goals as well as increased costs of future borrowings;
- necessity to spend a considerable part of generated cash flows from operations on repayment of debt and interests, which means limitation of availability of funds for the purposes of operating activity financing, products development, capital expenditure and other corporate goals;
- restriction in flexibility in response to as well as planning with regard to changes in industry and environment in which the Group operates, and
- competitive disadvantage with regard to competitors which may be indebted to a lesser extent.

These factors may have a considerable, unfavourable effect on the possibility to meet the CIECH Group's debt service obligations.

Moreover, part of the Group debts bear interest rates based on the variable rate: WIBOR and EURIBOR. Fluctuations of WIBOR and EURIBOR or occurrence of market disturbances can increase the total interest expense and may have a considerable, negative effect on the possibility to settle the Group's debt. The CIECH Group concludes hedging transactions (IRS and CIRS transactions) in order to limit this risk's impact. With regard to the term loan of the Group, the loan margin depends on the Group's debt ratio. An unfavourable change of the ratio may provoke an increase of the loan margin and of the interest rate expense. The risk is estimated to be moderate.

The CIECH Group requires considerable amounts of cash for debt service and to maintain its operating activities. The ability to generate sufficient quantity of cash depends on many factors that are beyond the Group's control.

The ability of the CIECH Group to make scheduled payments to repay the Group's debt as well as to finance working capital and capital expenditures depends on the future operating activities and the ability to generate sufficient amounts of cash. To some extent, it depends on the success of the business strategy and general economic, financial, competitive, commercial, legal, regulations-related and other factors, many of which are beyond the Group's control.

There is no guarantee that cash flows generated by the Group from operating activities will be sufficiently high, that the forecasts concerning implementation of savings, increase in revenues and operating improvements will be achieved, or that the amount of debt financing possibly attainable by the Group in the future will be sufficient to enable timely debt repayment or financing of other needs with regards to liquidity.

If the CIECH Group's future cash flows from operating activities and other capital resources prove insufficient to repay liabilities timely or to satisfy liquidity related requirements, the Group may be forced to:

- limit or postpone business operations and capital expenditures;
- sell the assets;
- obtain additional debt or equity financing; or
- reorganize or refinance all or part of the debt on or before maturity.

There is no guarantee that the CIECH Group will be able to use any of the aforementioned possibilities on time or on satisfactory terms, or at all. Each failure to fulfil the obligation to make timely payments related to debt financing would probably result in lowering of the CIECH Group credit rating, which may also negatively affect the ability to contract new debts. Furthermore, the conditions of the debt, including the term loan, the domestic bonds and the revolving credit facility as well as any future debts, may limit the Group's ability to use any of the aforementioned possibilities. Moreover, any possibilities of debt refinancing might be available on the basis of higher interest rates and involve the need to comply with more restrictive conditions, which, as a consequence, could further restrict the activities and deteriorate the financial situation and financial results of the Group. There is no guarantee that any assets the sale of which might be necessary would be sold or that, in the event they are sold, the date of such sale and the amount of receipts would be acceptable. The risk is estimated to be moderate.

Despite the current debt level, CIECH S.A. and its subsidiaries may still be able to contract significant amounts of additional debt. This could additionally increase the risk related to the use of the financial leverage to a significant extent.

CIECH S.A. as well as its subsidiaries have, and may have in the future, the possibility to contract significant amounts of additional debt. Conditions of the term loan and revolving credit facility agreement, the domestic bonds agreement as well as agreements regulating other existing debts do not prohibit this completely, nor will they prohibit this in the future. The revolving credit facility agreement stipulates access to the revolving credit, which allows to contract debt periodically. Furthermore, the conditions of the term loan and revolving credit facility agreement and the domestic bonds issue do not prohibit the CIECH Group companies to contract other, non-debt liabilities. Any possible increase in the present level of indebtedness by the amount of a new debt would cause further increase of risk related to the indebtedness, which currently relates both to CIECH S.A. and its subsidiaries. The risk is estimated to be moderate.

The CIECH Group is subject to restrictive financing agreement conditions, which can limit its ability to finance future operations and own cash requirements, to implement business opportunities and activities.

The term loan and revolving credit facility agreement limits, among others, the ability of the CIECH Group companies to:

- contract or guarantee additional debts and issue some preference shares;
- make certain pledges or contract liabilities secured by a pledge;
- make certain payments, including dividends or other profit distribution forms, with regard to the shares of such entity;
- encumber or restrict the payment of dividends or other forms of profit distribution, loans or advances and payments for the transfer of assets to such entity;
- sell, lease or transfer certain assets;
- consolidation or mergers with other entities; and
- breach of security created to the benefit of the creditors.

All the above limitations are subject to important exceptions and qualifications. Despite the aforementioned exceptions and qualifications, the covenants could limit the CIECH Group companies' ability to finance future operations and cash needs to implement possible business opportunities and activities that may be in the interest of individual companies.

The term loan and revolving credit facility terms impose also the maintenance of a predefined net financial leverage ratio. The ability of the CIECH Group to meet financial ratios conditions may be subject to unfavourable impact of events beyond its control; thus, it cannot be guaranteed that the Group will be able to meet the above requirements with regard to the ratios. Breaching such covenants of financial contracts and the impossibility to remedy any effects of this breach or failure to obtain a waiver for the obligation to remedy the breach from creditors, would mean the Group's failure to meet the obligations resulting from such contract, which could cause non-performance of other financing contracts and cause the creditors to terminate financing granted on the basis of such contracts and declare all amounts owed to them due and payable. There is no guarantee that the value of the CIECH Group's assets will be sufficient to fully repay of the above indebtedness and other debt. The risk is estimated to be moderate.

The CIECH Group's ability to continue its operations depends on future operating results and the ability to generate cash.

The CIECH Group's cash flows are expected to be sufficient to meet the forecast financial needs. However, there is no guarantee that the Group will generate sufficient cash flows from operations, or that the amount of available future indebtedness will be sufficient to ensure the possibility of servicing and timely repayment of the debt and financing of other needs related to capital requirements or all operating losses, or to continue operations. If the CIECH Group's future cash flows from operating activities and other capital resources prove insufficient for timely repayment of liabilities or satisfaction of the needs related to liquidity, the Group may have to: limit or postpone business activities and capital expenditures; sell assets; contract additional debt or equity financing; reorganize or refinance all or part of the debt, on or before maturity; or resign from opportunities such as e.g. acquisition of other companies. The type, the date and the terms of each of the above possibilities depend on the CIECH Group's cash demand and conditions on financial markets. It cannot be guaranteed that any future sources of financing will be available to the Group in the specified timeframe, nor can be ensured the reasonable character of

conditions binding with regard to any future sources of financing. There is no guarantee that present expectations of cash flows from operating activities, which will depend on many future factors and conditions, many of which are beyond the Group's control, will be accurate. Such forecasts of cash flows are only estimates of future events, while the actual events will probably differ from the present estimates (the difference may be significant). There is no guarantee that any additional sources of financing will be available to the CIECH Group on reasonable commercial terms, if at all. The risk is estimated to be moderate.

3.5. Development prospects

The prospects for the CIECH Group's development result both from its market position and position in the chemical industry as well as the present and the forecast conditions of environment of the Group in Poland and worldwide.

The CIECH Group has a strong position on many product markets and is:

- the second European manufacturer of ash and baking soda (having maintained high cost competitiveness for many years);
- the only Polish manufacturer and the main supplier to the domestic market with regard to ash and baking soda, calcium chloride, epoxy resins;
- the largest Polish manufacturer of evaporated salt, plant pesticides, saturated polyester resins and glass lanterns;
- an important supplier to the European markets of ash and baking soda, calcium chloride, epoxy resins, sodium silicates.

It constitutes a solid base for the further improvement of the CIECH Group's competitiveness through development of the products, customers and geographical markets portfolio.

In the short-term perspective, the most important macroeconomic factors in the environment of the CIECH Group include:

- **Low level of the energy resources prices** (related to moderate rate of the global economy growth and significant GDP dynamics decrease in China).
- **Slight increase of economic activities in Europe** (slow growth rate of the EU industrial production; relatively high unemployment does not support significant growth in domestic demand).
- **Moderate pace of development in the target markets of the Group** (return to the growth dynamics of the EU construction production; slight increase of the EU chemical production).
- **Stabilization of the EU banking system situation** (increased credit activity of the banks).
- **Global economy situation**, in particular, the direction of the Chinese economy GDP's changes being difficult to foresee.

In the opinion of the Group, macroeconomic factors favouring further development and strengthening the CIECH Group's position on the current and related markets will be prevailing in the medium-and long-term perspective. Among such factors are:

POSITIVE

- **A relatively high GDP dynamics in Poland** (forecast dynamics of economic development of Poland being among the highest in the EU – annual average significantly above 3% of the GDP until the end of this decade, which creates solid grounds for further sustainable development of the country).
- **Good perception of Poland by foreign investors** (maintenance inflow of investments to our country at the minimum level of EUR 1 billion each year; stable position of Poland in international competitiveness rankings).
- **Significant potential for growth in demand for chemicals in Poland**, where their consumption per capita at the level of 400 EUR is still ca. 3–4-times lower than in the Western Europe (including the presence of the CIECH Group on relatively rapidly growing chemical markets in the Central and Eastern Europe).

NEGATIVE

- **Regulations of the European Union reducing the competitiveness of Polish entities** (negative impact of the EU ETS Directive on greenhouse gas emissions; significantly tightened conditions of the use of the environment by business entities starting with the year 2016 as a result of implementation of Industrial Emissions Directive).

4. Operating activities

4.1. Characteristics of the Group

The CIECH Group is a leader among chemicals manufacturers on the Central European market, leader in chemical industry in Poland, concentrating domestic and foreign production, trading and service companies operating in the chemical sector. The Group is an important domestic producer in the chemical sector, focusing its operations mainly on the European Union markets.

The core activity of the CIECH Group is the production and sale of chemical products manufactured by the CIECH Group. Additionally the CIECH Group sells chemical products purchased from producers from outside the Group.

In 2015, the main products sold by the Group on the Polish market included: soda ash, evaporated salt, baking soda, resins, plant protection products, glass packaging and other chemicals. The Group's most significant exportation products included: soda ash, baking soda, epoxy resins and sodium silicates. The biggest foreign sales markets for the CIECH Group were European Union countries.

The CIECH Group is the sole or dominant exporter of: soda ash manufactured in Poland (100%), baking soda manufactured in Poland (100%), calcium chloride manufactured in Poland (100%), and epoxy resins (80%). Additionally, the Group is a significant exporter of: soda glaze and salt. The core sales market for the CIECH Group is the European Union, including mainly Germany and Central Eastern European countries. A significant part of the Romanian soda ash is exported to overseas markets and sold to India, North Africa and Near East.

In 2015, the Group operated in four production segments: soda, organic, silicates and glass, and transport. The Group's products are offered to industry branches such as glass, furniture, chemical, agrochemical, trade/distribution, detergents, plastics, food, paints and varnishes, construction, car and consumer goods – and are used in agriculture. Main categories of the Group's products, their application and our business segments are the following:

Structure and scope of activity of the CIECH Group as at 31 December 2015

	Soda segment	Organic segment	Silicates and Glass segment	Transport segment
Companies	**CIECH Soda Polska CIECH Soda Deutschland CIECH Soda Romania**	**CIECH Sarzyna CIECH Pianki**	**CIECH Vitrosilicon CIECH Soda Romania**	**CIECH Cargo CIECH Transclean**
Products Services	**Soda ash Evaporated salt Baking soda energy**	**Epoxy resins Polyester resins Food-processing products Polyurethane foams Saturated and unsaturated**	**Lanterns and jars Sodium and potassium silicates**	**Transport, shipping services, transshipments, siding operations, railcar rental**
Customers	**Glass, food industries Detergents, pharmaceuticals industries, households**	**Agriculture, Furniture and paint industries**	**Chemical, food, detergents, paints industries, households**	**Mainly the CIECH Group companies**
Markets	**Global, European, domestic**	**Global, European, domestic**	**Global, European, domestic**	**domestic**

Source: CIECH S.A.

SODA SEGMENT

The CIECH Group is a producer of soda ash (it is the sole producer of soda in Poland), evaporated salt, bicarbonate and calcium chloride. The soda ash (both heavy and light) is used in the glass production (window glass and glass packaging), detergent production as well as metallurgy and chemical industry. 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. and in the German company CIECH Soda Deutschland GmbH&Co. KG.

In 2015, the soda segment generated sales revenues of PLN 2,241,228 thousand, EBITDA of PLN 629,924 thousand and the normalized EBITDA of PLN 655,793 thousand, whereas for the year 2014 the segment generated sales revenues of PLN 2,052,792 thousand, EBITDA of PLN 464,311 thousand and normalized EBITDA of PLN 436,095 thousand.

Characteristics of key production companies operating in the soda segment:

● **CIECH Soda Polska S.A.** – CIECH Soda Polska S.A. was established in 2007 after JANIKOSODA S.A. and SODA MĄTWY S.A. contributed their businesses in kind. JANIKOSODA S.A. obtained 46.49% of shares and SODA MĄTWY S.A. 53.51% of shares in the share capital of Soda Polska CIECH. On 12 June 2012, the company was transformed into a joint stock company. CIECH Soda Polska S.A. owns two production plants located in Inowrocław and Janikowo. It is the second producer of light and heavy soda ash on the European market. It also produces wet and dry evaporated salt (including Kujawska Salt). It holds the position of the biggest manufacturer of evaporated salt in the country. Other products of the company include, among others, baking soda, calcium chloride, precipitated chalk, absorbing masses. All the above listed products are widely used for industrial purposes. Their main recipients are the international glass concerns, domestic glass-works, detergent manufacturers, chemical, metallurgical, food, animal feed and pharmaceutical industries, water treatment sector and households.

Production of soda ash oscillates around the volume of 1,200 tt/year. The company holds the following certificates: ISO 9001, ISO 14001, GMP +B2, HACCP, Kosher; it also applies the GMP practices in manufacturing of baking soda for pharmaceutical purposes.

● **CIECH Soda Deutschland GmbH&Co. KG (SDC Group)** – German manufacturer of soda ash and baking soda with its registered office in Stassfurt. For 130 years, it has been involved in production of soda ash using the sources of limestone and stone salt. CIECH S.A. took the plant over in 2007 and a new plant for the production of dense soda was launched a year later. The company holds the following certificates: ISO 9001, ISO 14001, ISO 50001, Kosher, GMP+B2; it also applies the GMP practices in manufacturing of baking soda for pharmaceutical purposes and the ISO 22000 guidelines for food products.

● **CIECH Soda Romania S.A.** – acquired in 2006, it is the first CIECH Group's foreign production plant, a Romanian manufacturer of, among others, soda ash and soda derived goods. The company holds the ISO 9001 certificate.

ORGANIC SEGMENT

The CIECH Group is a manufacturer of a variety of organic compounds. In 2015, it was producing, among others, polyurethane foams, epoxy resins and polyester resins. These products are used in the following industries: furniture, automotive, paints and electronics. The Group produces also plant protection products used in agriculture.

The organic segment generated in 2015 the sales revenues of PLN 769,877 thousand, EBITDA of PLN 85,741 thousand and normalized EBITDA of PLN 85,391 thousand, whereas for 2014 the segment generated sales revenues of PLN 784,141 thousand, EBITDA of PLN 67,682 thousand and normalized EBITDA of PLN 68,272 thousand.

Characteristics of key production companies operating in the organic segment:

● **CIECH Sarzyna S.A**. – produces plant pesticides (herbicides, fungicides, insecticides, seed treatment), epoxy resins and polyester resins. Full range of products includes over thousand items and their variations, of different chemical, application and packaging forms appropriate for their target market and use. The most famous trademarks of the company include Epidian, Chwastox and Polimal. The core production activity is supplemented by operations involving goods formulation services, packaging or distribution, which may be carried out for the benefit of business partners on the basis of own production base, personnel potential and distribution network. The plants hold a certificate of the integrated management system's compliance with the ISO 9001, ISO 14001 and PN 18001 requirements as well as the Internal Control System certificate for the dual use goods.

● **Ciech Pianki Sp. z o.o.** – the company's activities include production and sales of PUR foam, focusing mainly on the Central Eastern European markets, the furniture market being the main recipient. The manufactured foams can be divided into 5 basic groups: light foams, standard foams, highly-flexible foams, non-flammable standard foams, highly-flexible non-flammable foams. Apart from the blocks, the company offers the following goods cut of blocks: boards, profiles, sets, cut blocks, bonellas, rolled slabs.

SILICATES AND GLASS SEGMENT

Silicates and Glass Segment includes mainly the products of CIECH Vitrosilicon S.A., CIECH Soda Romania S.A., saled under the trading activity of CIECH S.A., such as glass and soda glaze. The Group manufactures glass products, which include glass packaging (lanterns and jars). The goods made of glass are used in construction and food industries, and for production of headstone lamps.

The silicates and glass segment generated in 2015 the sales revenues of PLN 175,012 thousand, EBITDA of PLN 33,590 thousand and normalized EBITDA of PLN 33,437 thousand, whereas for 2014 the segment generated sales revenues of PLN 350,562 thousand, EBITDA of PLN 35,981 thousand and normalized EBITDA of PLN 36,068 thousand.

Characteristics of key production companies operating in the silicates and glass segment:

● **CIECH Vitrosilicon S.A.** – the company produces glass packaging: jars, headstone lamps, glassy sodium and potassium silicates, sodium and potassium water glass. CIECH Vitrosilicon S.A. has two production plants: in Iłowa, where the registered office of the Company's Management Board is located and where water glass and glass packaging are produced; and in Żary, where the production of glassy sodium and potassium silicates takes place. The company holds the following certificates: ISO 9001, ISO 14001.

● **CIECH Soda Romania S.A.** – acquired in 2006, it is the first CIECH Group's foreign production plant, a Romanian manufacturer of, among others, water glass and soda glaze. The company holds the ISO 9001 certificate.

TRANSPORT SEGMENT

It covers the activity of CIECH Cargo Sp. z o.o. and CIECH Transclean Sp. z o.o. dedicated mainly to the service of the road and railway transport within the CIECH Group.

The transport segment generated in 2015 the sales revenues of PLN 122,628 thousand, EBITDA of PLN 16,164 thousand and normalized EBITDA of PLN 13,349 thousand, whereas for 2014 the segment generated sales revenues of PLN 98,213 thousand, EBITDA of PLN 11,257 thousand and normalized EBITDA of PLN 13,590 thousand.

4.2. Significant events in 2015 and until the date of approval of the financial statements

New names of the CIECH Group's companies

In 2015, the CIECH S.A. Management Board decided to unify the names of companies belonging to the Group for the marketing and image-building purposes.

The names of the following companies were changed:

Former name	New name
Soda Polska Ciech S.A.	CIECH Soda Polska S.A.
S.C. Uzinele Sodice Govora – CIECH Chemical Group S.A.	CIECH Soda Romania S.A.
Sodawerk Stassfurt GmbH & Co. KG	CIECH Soda Deutschland GmbH & Co. KG
Zakłady Chemiczne "Organika-Sarzyna" S.A.	CIECH Sarzyna S.A.
Vitrosilicon S.A.	CIECH Vitrosilicon S.A.
TRANSODA Sp. z o.o.	CIECH Cargo Sp. z o.o.
TRANSCLEAN Sp. z o.o.	CIECH Transclean Sp. z o.o.
CIECH Trademarks Sp. z o.o.	CIECH R&D Sp. z o.o.

Completion of extension of the soda plant's production capacity – SODA +200 project and intensification of salt production.

Modernization of production plants is one of the pillars of the CIECH Group's development. The most important project implemented in 2015 is the improvement of the production capacity of the soda plant in Inowrocław, from 600 to 800 thousand tonnes per year. As a result of the first stage of investment under the name of SODA +200, completed in 2015, the plant's capacity has increased by 60 thousand tonnes of products annually. The subsequent 140 tonnes capacity has been commissioned in Q1 2016. According to current estimates, the total value of the SODA +200 program will amount to approx. PLN 300 million.

Simultaneously, in 2015 in the neighbouring Janików plant an investment aiming at intensification of the dry salt production from wet salt was completed. As a result, the manufacturing of this product has increased from 1 thousand tonnes to 1.7 thousand tonnes per day. It constitutes a response to the observed market demand. As a result, the plant in Janików will process almost the entire manufactured wet salt into high-quality dry salt.

Significant power coal purchase agreement

On 13 May 2015, CIECH Soda Polska S.A. concluded with Kompania Węglowa S.A. a power coal purchase agreement. The subject matter of the agreement is the sale by Kompania Węglowa S.A. to CIECH Soda Polska S.A. of power coal on FCA Kompania Węglowa S.A. mines terms (Incoterms 2010). The agreement was concluded for indefinite period; however, the commercial terms and the volume of the purchased product were set only for 2015. The estimated value of the agreement, according to the applied price formula and current products prices for the period of 5 years amounts to approx. PLN 340,000 thousand. The detailed information on the concluded agreement was presented in the current notification No 10/2015 on 13 May 2015.

On 30 November 2015, CIECH Soda Polska S.A. concluded an annexe to the agreement with Kompania Węglowa, specifying the commercial terms and volumes of the purchased product for another year of the Agreement, i.e. 2016. The Agreement was concluded under condition subsequent: for each consecutive year of the Agreement term, the parties will agree on commercial terms and volumes of the purchased product for another year of the Agreement by 30 November each year. In the event if the parties do not agree on the commercial terms and the volumes of the product for any subsequent year of the Agreement term, the Agreement will be terminated on 31 December of a given year. CIECH S.A. informed on the condition subsequent in the current report No 46/2015 of 11 November 2015.

New production line in the organic segment

On 28 January 2016, CIECH Sarzyna S.A., the largest Polish plant protection products manufacturer, presented a new production line in the House and Garden category. It is an element of the strategic organic development of the Group. The ZIEMOVIT brand portfolio includes, among others, two plant protection products – ZIEMOVIT Chwastox Trio 540 SL, offering not only high performance and quick action, but also wide range of weeds that may be eliminated with its three active substances – and ZIEMOVIT Agrosar 360 SL, which perfectly eliminates monocots and dicots.
The ZIEMOVIT offer also includes high quality granulated fertilizers for conifers and roses, promoting the growth and development of plants, improving their water management and increasing their resistance to drought.

Change of auditor

On 26 May 2015, the CIECH S.A.'s Supervisory Board adopted a resolution on change of the entity authorized to perform the half-year review and the audit of the separate financial statements of CIECH S.A. and the consolidated financial statements of CIECH Group for 2015, selecting a new entity charged with the task – PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw. Moreover, the Supervisory

Board selected PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw as the registered auditor to perform the half-year review and the audit of the separate financial statements of CIECH S.A. and the consolidated financial statements of CIECH Group for the years 2016 and 2017.

Changes in the composition of the Management Board and the Supervisory Board

On 22 July 2015, the Supervisory Board of CIECH S.A. recalled Mr Dariusz Krawczyk from the position of the President of the Management Board, without stating the reason. As the same time, on 22 July 2015, the Supervisory Board appointed Mr Maciej Tybura to the position of the President of the Management Board. Earlier, Maciej Tybura was a Board Member.

Owing to the death of Jan Kulczyk, PhD – the Chairman of the Supervisory Board of CIECH S.A., the Extraordinary General Meeting of Shareholders of 26 August 2015 appointed Mr Sebastian Kulczyk to participate in the Supervisory Board of CIECH S.A. On 8 October 2015, the Supervisory Board of CIECH S.A. appointed Mr Sebastian Kulczyk its Chairman.

On 26 October 2015, the Supervisory Board of CIECH S.A. appointed Mr Artur Król a Member of the Management Board of CIECH S.A.

On 6 March 2016, Mr. Wojciech Stramski resigned from the position of the member of the CIECH S.A.'s Supervisory Board. On 7 March 2016, the Extraordinary General Meeting of CIECH S.A. appointed a new member of the Supervisory Board, Mr. Dominik Libicki.

Ratings

On 25 November 2015, Standard & Poor's Rating Services agency announced the publication of the report in which, due to the improved results of CIECH S.A. and the decreased relative level of debt, it raised the corporate rating of CIECH S.A. and of the bonds issued by Ciech Group Financing AB (publ) from "B+" to "BB-" with a stable prospect (current report No 43/2015 of 25 November 2015).

On 3 December 2015, the Moody's Investors Service rating agency announced the publication of a report in which it raised the rating awarded at the request of the CIECH S.A. Company from "B1" to "Ba3", with a positive prospect. Moody's justified the increase in rating by improved results in 2014 and 2015, which were manifested by the improved EBITDA margin, the amount of generated cash flows and the effectively performed refinancing of (i) the debt resulting from, among others, the issue by a subsidiary of CIECH S.A., namely Ciech Group Financing AB (publ), of secured superior bonds in the amount of EUR 245,000 thousand and (ii) the debt resulting from the revolving credit facility agreement up to the amount of PLN 100,000 thousand (current report No 47/2015 of 3 December 2015).

Financing

The Extraordinary General Meeting of CIECH S.A. on 7 October 2015 expressed its consent for acquisition by CIECH S.A. or its subsidiaries of financing through issuance of bonds on international markets or on the Polish market, contracting bank loans or through combination of different financing instruments indicated above. The total financing amount will not exceed PLN 1,750,000 thousand or its equivalent in euro. The Extraordinary General Meeting authorized the CIECH S.A.'s Management Board to specify all and any other financing conditions as well as expressed its consent to establishment of the appropriate securities related to the financing. The details of resolutions adopted by the Extraordinary General Meeting were published in the current report No 34/2015 on 7 October 2015.

On 29 October 2015, a loans agreement was concluded between CIECH S.A as the borrower, and its subsidiaries: CIECH Soda Polska S.A., CIECH Sarzyna S.A. and CIECH Soda Deutschland GmbH & Co. KG as the guarantors and other subsidiaries of CIECH S.A. as temporary guarantors (Janikowskie Zakłady Sodowe Janikosoda S.A., CIECH Vitrosilicon S.A., CIECH Nieruchomości S.A., CIECH Transclean sp. z o.o., CIECH Trading S.A., CIECH Pianki sp. z o.o., CIECH Cerium spółka z ograniczoną odpowiedzialnością sp.k., Cerium spółka z ograniczoną odpowiedzialnością S.K.A., SDC GmbH, Sodawerk Holding Staßfurt GmbH, Sodawerk Staßfurt Verwaltungs-GmbH) and Bank Handlowy Warszawie S.A., Bank Millennium S.A., Bank Zachodni WBK S.A., Credit Agricole Bank Polska S.A., HSBC Bank Polska S.A., Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A. relating to refinancing the existing financial debt of the CIECH Group, financing the costs of refinancing as well as financing the general corporate aims of CIECH S.A. In accordance with the agreement's provisions, two other CIECH S.A.'s subsidiaries joined it as guarantors – KWG-Kraftwerksgesellschaft Staßfurt mbH and CIECH Soda Romania S.A.

Pursuant to the loans agreement, the Creditors have granted the following loans to CIECH S.A. (provided that the creditors will be given the documents conditioning the possibility of credit payment):

- the synthetic term loan in PLN and EUR to the total amount of PLN 1,340,000 thousand, granted by the creditors in order to: (i) refinance the debt resulting, among others, from the issue by the CIECH S.A.'s subsidiary – Ciech Group Financing AB – of hedged superior bonds for the amount of EUR 245,000 thousand, (ii) refinance the debt resulting from the revolving credit facility agreement of the highest priority to the amount of PLN 100,000 thousand, (iii) refinancing of the remaining CIECH S.A.'s debt resulting from other credits; (iv) financing of refinancing costs; and (V) financing of general corporate aims of CIECH S.A. (term loan);
- revolving credit facility in PLN to the total amount of PLN 250,000 thousand, granted by the creditors in order to finance the general corporate aims and the working capital of the CIECH Group, excluding acquisitions and prepayment for the term loan;

The interest rate of the Loans is a floating rate and it is determined on the basis of the WIBOR / EURIBOR base rate, plus margin, the level of which depends on the level of the net debt index to EBITDA. The initial value of the margin is 1.5%.

Cash from the loans is provided to CIECH S.A. on condition of the creditors receiving the standard documents and declarations, including e.g. legal opinions, certificates on the lack of tax arrears, insurance policies and on condition of the lack of violation of the loan until the date of payment.

The main repayment conditions of the loans are described in point I. 5.8. Detailed information on the loans agreement is presented in the current report No 38/2015 of 30 November 2015.

On 30 October 2015, Ciech Group Financing AB submitted a notification regarding its intention of early buyback and redemption on 30 November 2015 of the secured bonds with nominal value of EUR 245,000 thousand, issued on 28 November 2012 with the initial buyback date in 2019. According to the Indenture agreement provisions (the details of which are presented in the current report No 61/2012), the total amount required for buyback of the bonds on 30 November 2015 is EUR 263,426 thousand. The notification also stipulated that the earlier buyback and redemption of the bonds will be carried out on condition of disbursement by the creditors, on the basis of the loans agreement described above, of the loans in the amount no lower than the equivalent of the buyback amount (detailed information on the loans agreement is presented in the current report No 40/2015 of 30 October 2015).

With regard to liabilities related to the term loan, granted on the basis of the loans agreement (current report No 38/2015 of 30 October 2015), in order to reduce the risk of unfavourable changes of variable interest rates (resulting from the variability of the basic EURIBOR and WIBOR rates) and in order to change the currency of the interest and capital flows related to part of the term loan denominated in PLN from PLN into EUR, CIECH S.A. concluded on 13–19 November 2015 the cross currency interest rate swap (CIRS) and interest rate swap (IRS) transactions. CIRS Transactions involve replacement of the variable component of interest payable on the term loan in PLN of WIBOR 6M by fixed interest rate in EUR and conversion of flows related with disbursement and repayment of the principal amount of the term loan in PLN from PLN into EUR. The CIRS transactions nominal value weighted average fixed interest rate in EUR is 0.05% p.a. IRS transactions involve replacement of the variable component of interest payable on the term loan in EUR of EURIBOR 6M by fixed interest rate in EUR. The IRS Transactions nominal value weighted average fixed interest rate in EUR is 0.20% p.a. The transactions were concluded with the following banks: Powszechna Kasa Oszczędności Bank Polski S.A., Bank Zachodni WBK S.A., Credit Agricole Bank Polska S.A., Bank Millennium S.A., Bank Handlowy w Warszawie S.A., HSBC Bank Polska S.A. The transactions were concluded for a period starting on 25 November 2015 (i.e. the planned date of the first disbursement of the term loan pursuant to the loans agreement) and ending on 25 November 2020 (i.e. the final repayment date of the loan). They hedge, in total, the whole nominal amount of the term loan of PLN 1,045,031 thousand (in the case of the CIRS transactions) and of EUR 69,673 thousand (in the case of IRS transactions).Detailed information about the concluded transactions has been submitted in the current report No 41/215 of 19 November 2015.

25 November 2015 saw disbursement of the dual currency term loan granted by Bank Handlowy w Warszawie S.A., Bank Millennium S.A., Bank Zachodni WBK S.A., Credit Agricole Bank Polska S.A., HSBC Bank Polska S.A., Industrial and Commercial Bank of China (Europe) S.A. branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A. The disbursement amount is PLN 1,045,031 thousand and EUR 69,673 thousand. CIECH S.A. is planning to allocate a portion of the funds obtained from the Loan disbursement (following partial conversion under hedging transactions), in the amount of EUR 263,426 thousand, for early redemption of secured bonds with nominal value of EUR 245,000 thousand, issued by Ciech Group Financing AB (publ) on 28 November 2012. Detailed information has been provided in the current report No 42/2015 of 25 November 2015.

27 November 2015 saw:

- redemption of intra-group bonds with nominal value of EUR 245,000 thousand, issued on 6 December 2012 by CIECH S.A. (the intra-group bonds) and acquired by CIECH Group Financing as a result of Ciech Group Financing AB exercising the option of early redemption of the intra-group bonds. The amount of early redemption of intra-group bonds with interest accrued was EUR 263,502 thousand. Early redemption of the intra-group bonds took place in relation with Ciech Group Financing AB submitting, on 30 October 2015, a notification regarding its intention of early buyback and redemption of the secured bonds with nominal value of EUR 245,000 thousand, issued on 28 November 2012 (the HY bonds), in order for Ciech Group Financing AB to obtain funds for early buyback and redemption of the HY bonds.
- transfer of funds necessary for full buyback and redemption of the HY bonds in the amount of EUR 263,426 thousand, obtained through disbursement under the loans agreement of 29 October 2015, to the HY bonds Payment Agent. In connection with transfer of the above-mentioned funds, the liabilities of CIECH S.A., Ciech Group Financing AB and subsidiaries of CIECH S.A. providing guarantees for the HY bonds, related with the HY bonds, resulting from the agreement stipulating the terms and conditions of issue of the HY bonds and providing guarantees (the Indenture agreement), the conclusion of which was notified by CIECH S.A. in the current report No 61/2012 of 29 November 2012, are deemed fully fulfilled. Formal redemption of the HY bonds by the HY bond trustee pursuant to the Indenture Agreement took place on 30 November 2015 (without the need to take any additional actions).
- KWG-Kraftwerksgesellschaft Staßfurt mbH (a subsidiary of CIECH S.A.) granting a guarantee for liabilities of CIECH S.A. under the loans agreement of 29 October 2015 on terms corresponding to terms of guarantees granted by other guarantors specified in the current report No 38/2015 of 30 October 2015.

Detailed information about above-mentioned transactions has been submitted in the current report No 44/2015 of 27 November 2015.

In connection with issue by CIECH S.A., on 5 December 2012, of series 02 secured bearer bonds, governed by the Polish law, denominated in PLN, with total nominal value of PLN 160,000 thousand, without the early redemption option, with the maturity date falling on 5 December 2017 (notified by CIECH S.A. in the current report No 62/2012), on 27 November 2015, KWG-Kraftwerksgesellschaft Staßfurt mbH (a subsidiary of CIECH S.A.) made an offer to holders of all bonds regarding conclusion of a guarantee agreement (within the meaning of Articles 876–887 of the Polish Civil Code) for liabilities of CIECH S.A. regarding any payments under the bonds, in the form of an irrevocable guarantee

declaration. Guarantees can be established for up to 125% of the total nominal value of the bonds held by a given bond holder and, at the same time, up to no more than 125% of the total nominal value of all bonds. A given bond holder acquired rights under the guarantee upon delivery to KWG-Kraftwerksgesellschaft Staßfurt mbH, with a copy for CIECH S.A., of a declaration made by a given bond holder regarding acceptance of the guarantee, containing a depositary document confirming that: (i) a given bond holder is a holder of bonds and (ii) these bonds have been blocked until the business day following the date of submission of the declaration regarding acceptance of the guarantee. Submission of an offer of granting guarantees for the bond holders is associated with KWG-Kraftwerksgesellschaft Staßfurt mbH granting, effective as of 27 November 2015, guarantees for lenders of the loans granted to CIECH S.A. pursuant to the loans agreement of 29 October 2015. Detailed information has been included in the current report No 44/2015 of 27 November 2015. On February 26, 2016 CIECH Soda Romania S.A. guaranteed the obligations of Ciech S.A. under the loan agreement dated as of 29 October 2015 under the conditions equivalent to the conditions of guarantees granted by other guarantors . Detailed information is provided in the current report No. 4/2016 dated February 26, 2016 year.

4.3. Seasonality and cyclicality of activity

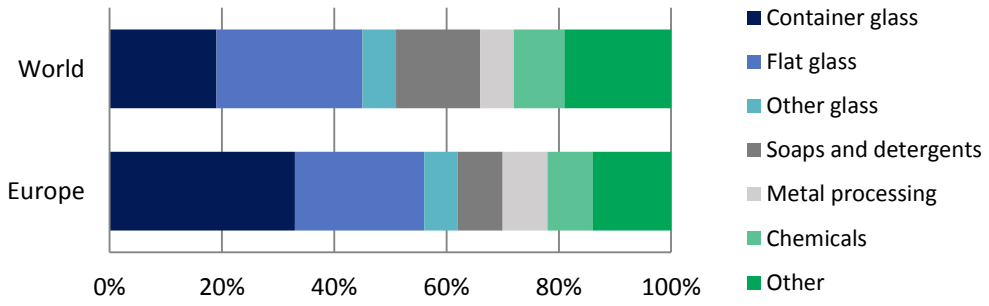
Seasonality associated with periodic demand and supply fluctuations has little impact on the CIECH Group general sales trends. Products clearly influenced by seasonality are plant protection chemicals. Most plant protection chemicals are used in the first half of the year, during the period of intensive plant growth, when approximately 90% of the total sales of these products takes place. Furthermore, in the soda segment, a seasonal relationship between the sales volume of some products and the course of winter is observable. For calcium chloride and other products (anti-ice salt and chloride mix, waste salt) a mild winter is a reason for decrease of sales, while the influence on the sales of salt is indirect. For other products, the Group's revenues and financial results are not influenced by any significant seasonal fluctuations over the year. Because of this, seasonality plays a relatively small role in the Group's overall sales.

4.4. Description of operating activities

Soda segment
Soda ash

Soda ash is one of the basic raw materials for the glass manufacturing industry. It is also used for the production of washing and cleaning products, in metallurgy and chemical industry, among others, to produce certain types of mineral fertilizers as well as dyes and pigments. On a global scale about one half of the currently produced soda ash is used for the production of glass. Further recipients of soda ash include the soap and detergent producers and the chemical industry. 1/5 of soda is used by other branches of industry.

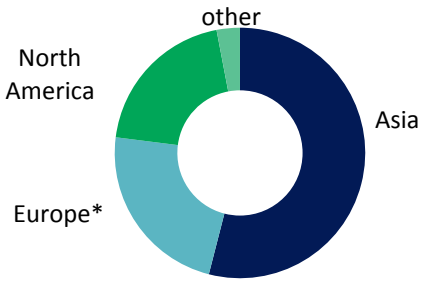
The structure of soda ash usage



Source: own compilation based on data from IHS Chemical

In Europe, much more soda ash is used for production of glass and metallurgy as compared to global use, but about 50% less is used for soaps and detergents.

Production capacities of soda ash in the world by region

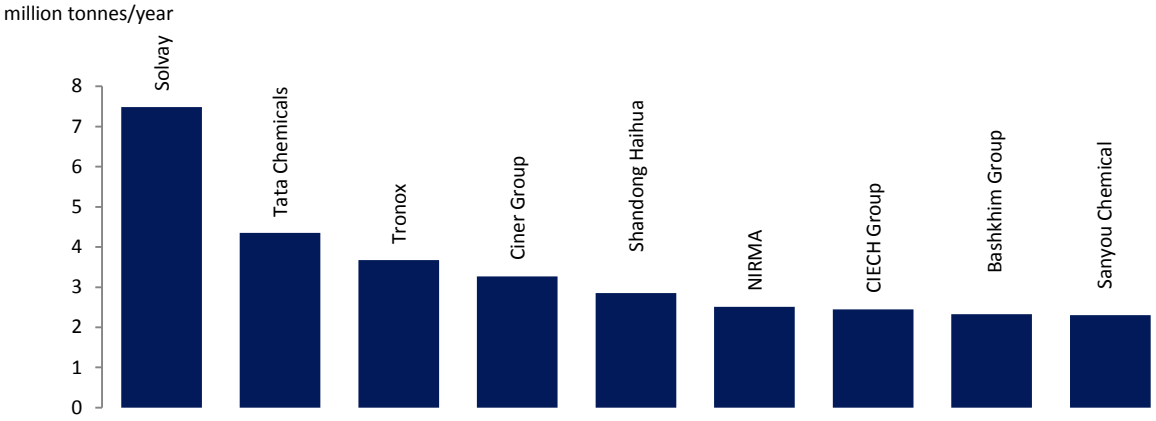


* Europe including all of Russia and Turkey

Source: own compilation based on data from IHS Chemical

The global production capacities of soda ash are estimated at about 66 million tonnes, of which over half is produced in Asia. The remaining potential is almost evenly spread between Europe and North America, which possess comparable production capacity. The largest soda ash producers in the world, with capacity of more than 3 million tonnes/year, are the following four concerns: Solvay, Tata Chemicals, Tronox and the Ciner Group. These companies have at their disposal a total of nearly 30% of global capacities.

Biggest producers of soda ash in the world by production capacities in 2015



Source: own compilation based on data from IHS Chemical

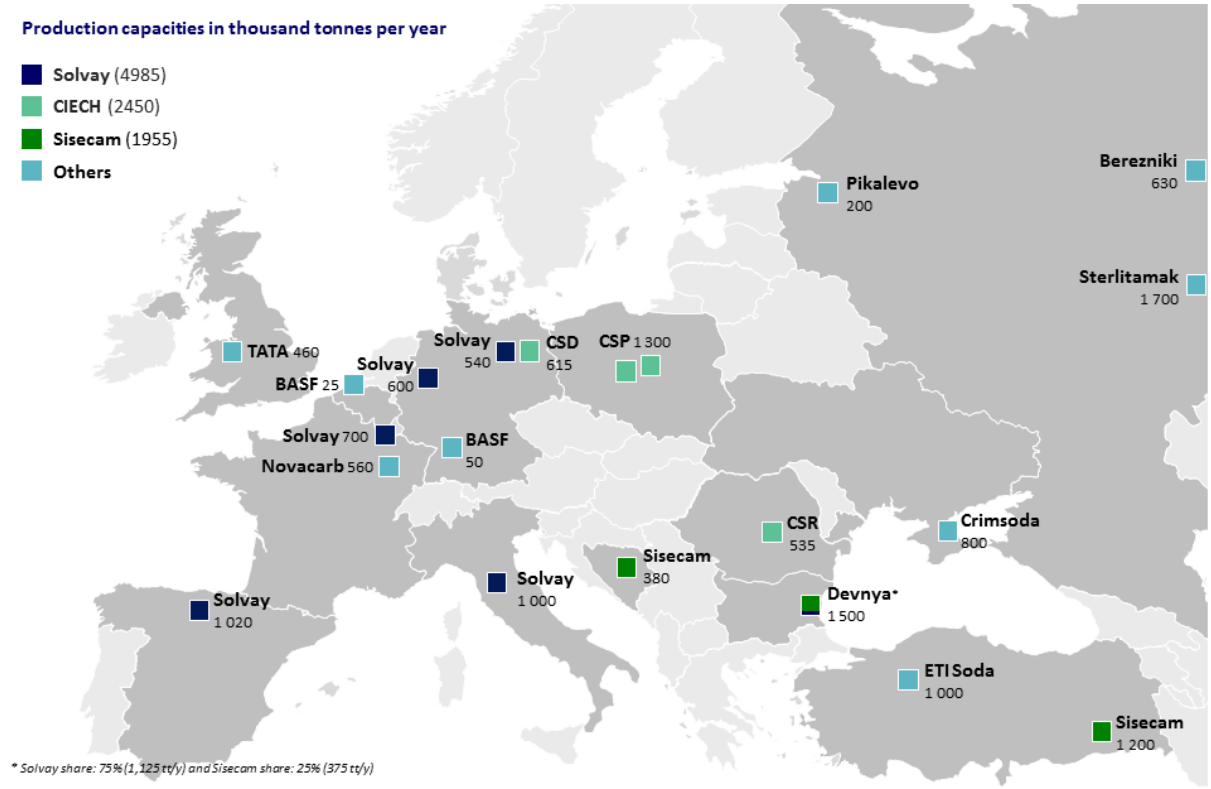
It is estimated that in the upcoming 2–3 years, the biggest increase in soda ash production capacity will take place in the Middle East (more than 3.5 million tonnes/year, mainly in Turkey, based on trona deposits) and in India (less than 2 million tonnes/year according to IHS). In 2015, investment plans in China were verified. As a result of a decision of the PRC government regarding reduction of investments in energy-consuming, environmentally burdensome sectors, many projects related with expansion of soda ash production capacities in this country have been withheld or cancelled.

In general, all investments planned in the soda sector for the next 5 years will not change, in a significant manner, the demand and supply situation in the soda ash global market. According to IHS estimates, demand for soda ash will be increasing annually on average by 2.5% until 2020, i.e. even slightly quicker than the increase of production capacities.

The main soda ash market for CIECH Group is Europe, especially Poland. The biggest producer in this region is Solvay company, which owned factories in 6 locations around Europe in 2015, with total production capacities estimated at approximately 5 million tonnes/year. CIECH Group is on the second position in the European market with production capacities of 2.45 million tonnes. The group is the only producer of soda ash in Poland and combined production capacities of plants in Inowrocław and Janikowo amount to 1.3 million tonnes/year. The other two factories of the Group, located in Germany and Romania, have production capacity of 0.61 and 0.54 million tonnes per year respectively. The Group's share of the soda ash market in Poland reaches nearly 100%, around 16% in Europe and about 4% globally. Another group with

production capacity comparable to that of the CIECH Group is Bashkhim Group (Russia) with Soda Sterlitamak and Berezniki Soda Plant factories.

Competitors of the CIECH Group in soda ash market in Europe and Turkey in 2015



Source: Own compilation based on IHS Chemical and others

European soda ash market (including CIS and Turkey) is estimated at about 14.8 million tonnes per year, of which approximately 6.1 million tonnes is attributable to Western Europe. European soda ash market as well as the Polish market are mature markets with no rapid changes, with yearly growth rates rarely exceeding several percent. One exception was in 2009, when the global economic crisis had a serious impact on the demand on soda ash markets due to high sensitivity of sectors which are end users. After a drop of about a dozen percent in consumption in 2009, Western European soda market has resumed average annual growth at 1%–2%. Growth dynamics in Central and Eastern Europe is usually higher by 1 percentage point.

The structure of soda ash usage hasn't changed much for many years. The demand for soda ash depends mostly on the demand for flat and packaging glass.

More than 30% of soda ash is used for production of glass containers: bottles, jars and other glass containers used in food, pharmaceutical and cosmetics-perfume industries. It is estimated that in 2015, usage of soda ash by European glass packaging industry probably slightly increased (by 1%). In the following years, this segment should keep stable similar increase in demand. In case of Poland, a continued increase in glass containers usage, powered by the development of consumer markets, is expected. The average usage of packaging glass per person (below 30 kg) in Poland is lower than in many Western Europe countries (40 kg or more), which shows big potential of this market. However, in the long run, increase of demand for soda ash among packaging glass producers may be reduced due to increasing usage of recycled cullet.

Construction and automobile industries are among the buyers of flat glass. Since both are vulnerable to shifts in economy, the demand for soda ash fluctuates.

The biggest end user of flat glass is the construction industry, in which visible recovery was recorded in the European Union already in 2015. After several years of lower demand or stagnation due to the economic crisis, previous year was characterised by an increase in EU construction production by 1.6%. In the following years, there should be a further increase by 2%–3% annually (according to Euroconstruct). Poland and the Central Europe are still the markets with large potential compared to Western Europe.

Another important customer for flat glass, whose production requires soda ash, is the automobile industry. European Union is among the biggest passenger car producers in the world with about 22% market share (second place after China according to the ACEA organization). Production results of the EU automotive industry after 9 months of 2015 (an increase of 6.8% in passenger cars) as well as estimates

concerning an increase in production of vans by 10% throughout 2015 point to a visible improvement in the economic situation in this sector. Forecasts for the automotive market in the European Union indicate likely continuation of the upward trend in car production also in 2016. However, an opposite trend will continue in Russia (after a two-digit decrease in production in 2015, the current year will continue with negative growth).

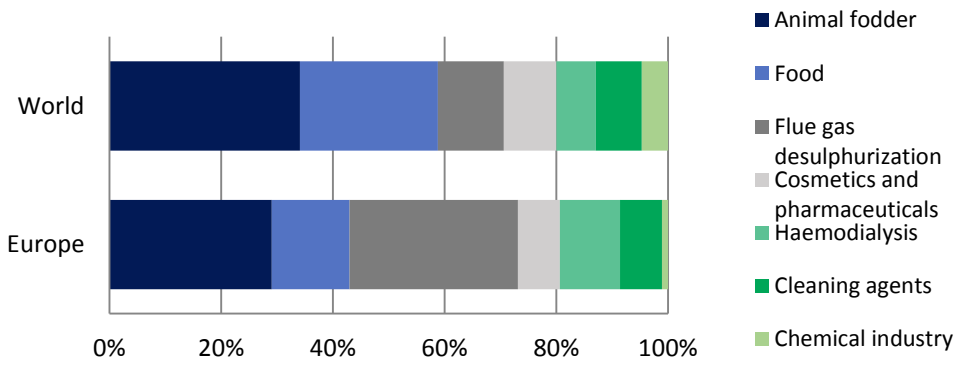
The positive growth dynamic (of 1.5%–2%) can be expected on the European soda ash market in 2016. In the perspective of several years, demand for the soda ash should still show positive growth year to year: globally by 2.5%, and in Europe by approximately 1.5% (and even 2.5% in Central and Eastern Europe).

Baking soda

Baking soda is used mainly in production of animal fodder (as an acidity regulator), food (among others as an ingredient of baking powder and sparkling drinks), pharmaceuticals, detergents and cosmetics, and for purifying exhaust fumes (mainly for desulphurisation). In the chemical industry it is used for production of pigments and explosives as well as a basic component of fire extinguishers. The baking soda market is divided into the segments of low, high and very high quality baking soda. The high quality segment covers food and pharmaceutical industries. Very high quality is required for medical purposes — e.g. in haemodialysis.

In Europe, baking soda is used mostly in production of fodder and exhaust gas purification (approximately 30% each). Other important segments are food production and haemodialysis. In the following years, due to growing requirements of environmental protection, a major increase in usage of baking soda for fumes desulphurisation is expected. Above average dynamics can also be expected within the scope of haemodialysis due to an increase in incidence of illnesses related with modern lifestyle in developed countries (primarily kidney diseases caused by diabetes).

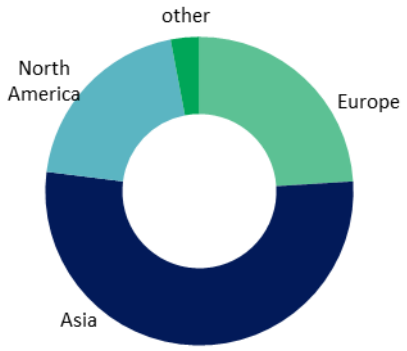
The structure of baking soda usage



Source: own compilation based on data from IHS Chemical

Global production capacities for baking soda are estimated at about 5.3 million tonnes per year. Asia is responsible for nearly 50% of these capacities. Europe share is nearly 25% and Northern America is 20%.

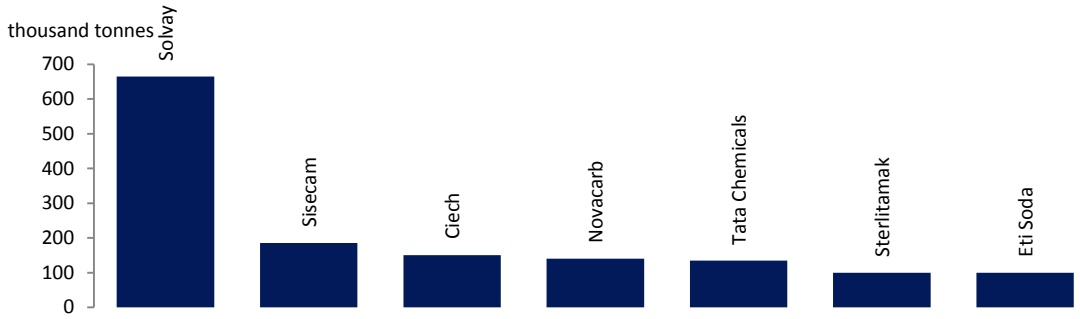
Production capacities of Baking soda by region



Source: own compilation based on IHS Chemical and others

The target market for the CIECH Group for baking soda is the local market and the foreign markets, especially Western Europe. The share in the baking soda market of the CIECH Group is about 13% in Europe and 3% globally. Baking soda is produced in two soda factories of the Group: in Inowrocław and in Stassfurt where production capacities are 90 and 60 thousand tonnes per year. CIECH Soda Polska is the only producer of baking soda in Poland with about 45% share in the market. The share in the German market is about 30%.

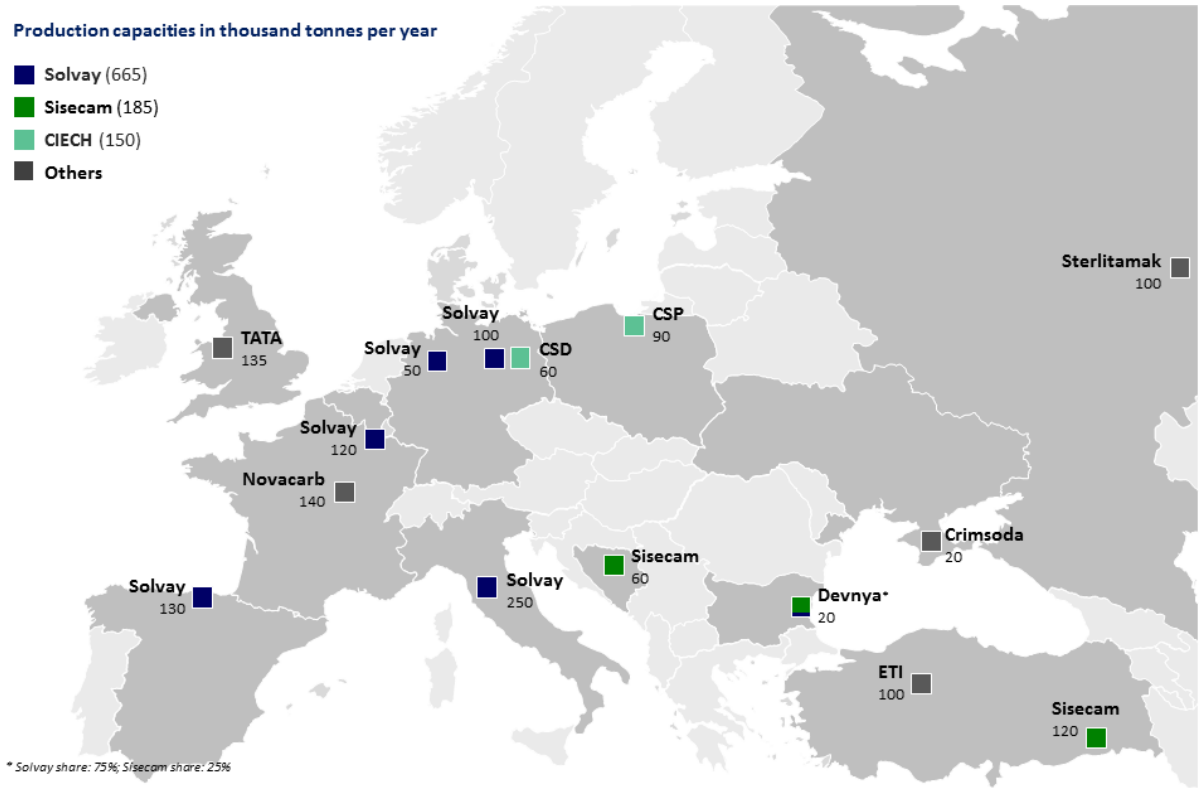
Biggest producers of baking soda in Europe and Turkey by production capacities in 2015



Source: own compilation based on IHS Chemical and others

In Europe (also including the nearby Turkey), the production capacities of baking soda are estimated at about 1.5 million tonnes per year. The biggest producer both in Europe and globally is Solvay, owning factories in several countries. Its combined production capacities in Europe are about 0.67 million tonnes per year (globally 1 million tonnes per year; after launch of a new plant in 2015 with capacity of 100 thousand tonnes per year in Thailand). Currently, the CIECH Group with production capacity at 150 thousand tonnes per year is the second largest producer in Europe (and third after Solvay and Sisecam in the region including Turkey). Other European leaders are Novacarb (140 thousand tonnes per year) and Tata Chemicals (135 thousand tonnes per year).

Competitors of the CIECH Group in banking soda market in Europe and Turkey in 2015



Source: Own compilation based on IHS Chemical and others

Much like the soda ash markets, Polish and European markets for baking soda are mature markets, not volatile to rapid changes, with yearly growth of a few percent per year. The fodder industry is usually the most vulnerable to economic shifts among the target sectors for baking soda. In Poland however, this sector is less vulnerable than in most markets in Europe. Drops in Poland are less severe than elsewhere in Europe. Sales in technical soda segment are expected to increase in the future as a result of increased demand from flue gas desulphurisation sector. European producers of baking soda continue to work towards intensification of production of baking soda at the expense of soda ash.

Average yearly usage of baking soda in the following years is expected to grow at least by 3%. However, there may be variations depending on the segment of the market and the region of Europe. The fodder, food and detergent segments should record an increase equal to the GDP growth, while the increase of the haemodialysis and desulphurisation segments should be much higher.

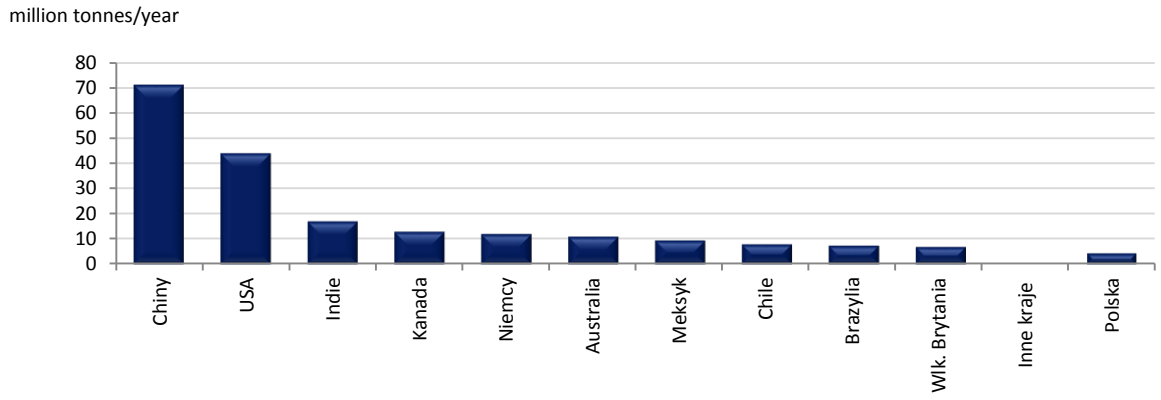
Globally, the forecast dynamics of baking soda market development should not exceed 4% on average annually.

Evaporated salt

Salt is usually present in the European market in two forms: rock salt and evaporated salt. Evaporated salt is one of the key products of the CIECH Group, which offers varieties intended, among others, for food, fodder, water treatment, and chemical industry.

World salt production amounts to approximately 280–290 million tonnes per year. The ten biggest producers (countries) are responsible for over 3/4 of global supply. Among them are only two European countries (Germany, producing approximately 12 million tonnes per year and the UK, producing 7 million tonnes per year). Polish contribution to the world salt production (approximately 4 million tonnes per year) is relatively small and amounts to about 1.5%.

Main salt producers in the world and Poland

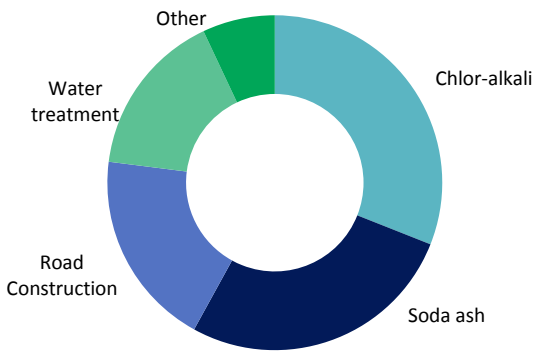


Source: own compilation based on USGS

Due to advantages of evaporated salt with regards to quality parameters, chemical industry in Western Europe abandoned using of rock salt. A similar process occurred in food and households industries. Rock salt is presently used primarily in highway maintenance for winter de-icing. Evaporated salt, on the other hand, is widely used in chemical industry (electrolysis, detergent and dye production) as well as water treatment and softening. It is also used in food industry (including: baking, fruit and vegetable processing and meat industry). Evaporated salt of pharmacological purity grade is also used in pharmaceutical industry.

In Europe, most of salt is used in chlorine-alkali industry. Less salt is used for production of soda ash and in highway maintenance. Globally, use of salt in highway maintenance is significant only in North America (about 1/3). In other regions of the world, chlorine-alkali industry is the main buyer of salt. Also, soda branch (production of soda ash) in China is an important salt consumer. In Asia (outside China), Latin America, Africa and the Middle East salt is used in significant quantities for direct consumption and food production.

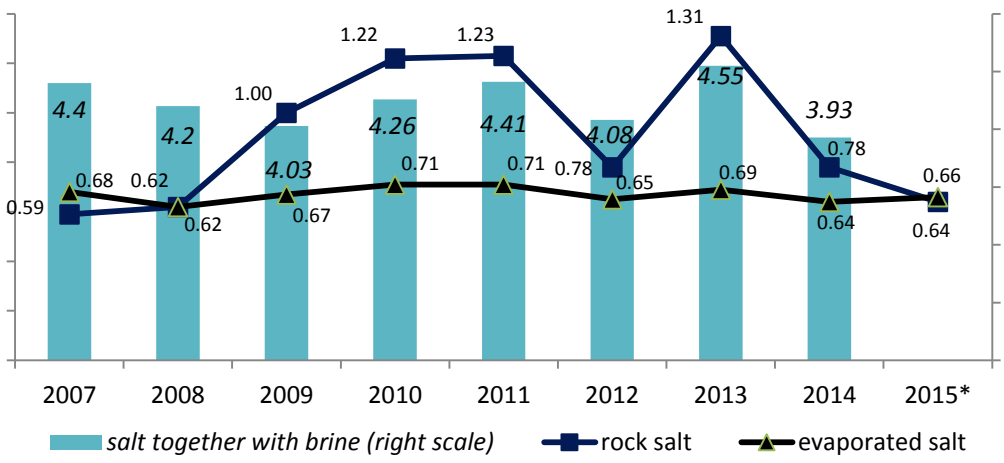
Salt consumption structure in Europe



Source: Estimates based on Roskill

Polish salt market structure differs slightly from the one in Europe. Salt is used mostly in highway maintenance and for direct consumption, while less in chemical industry.

Salt production in Poland with division into kinds in the years 2007–2015 (million tonnes)



*Source: own compilation based on the Central Statistical Office; * estimates based on preliminary data*

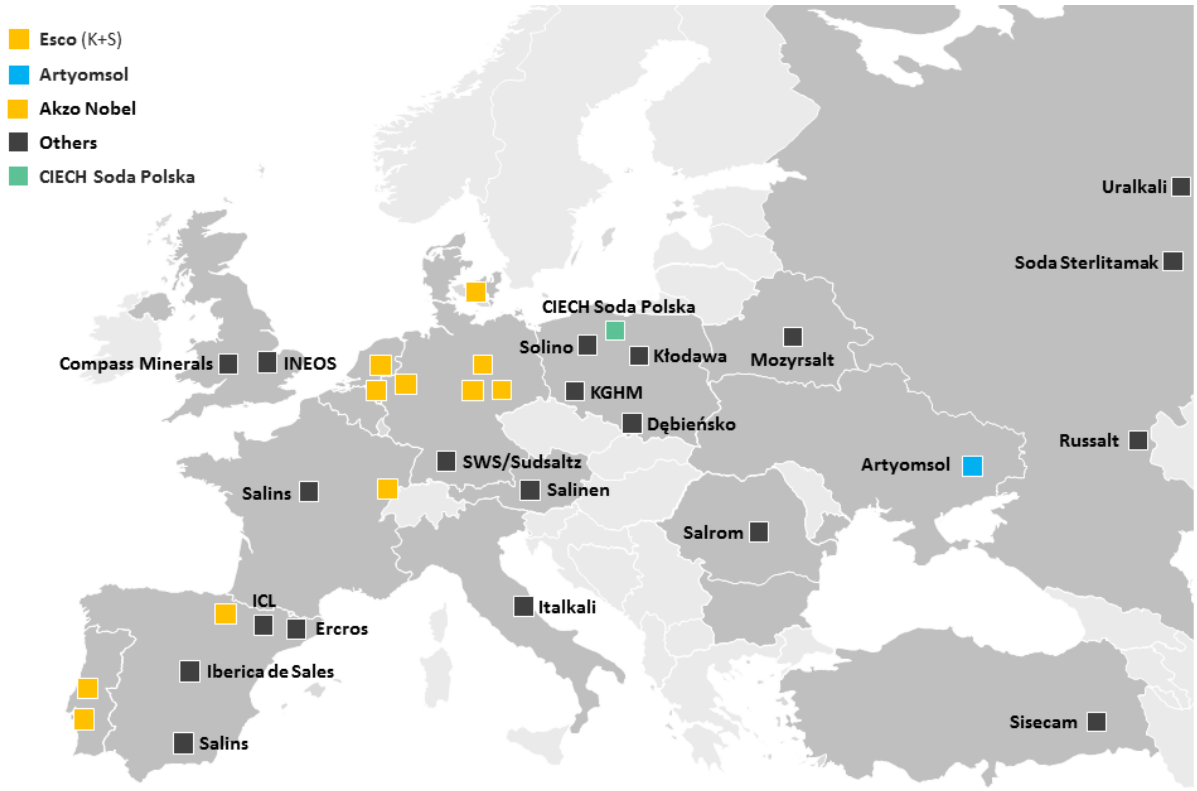
Poland belongs to leading salt producers in Europe. Total production of evaporated salt, rock salt and brine in the recent years oscillated between 4 and 4.5 million tonnes.

Polish salt market, like Europe, is mature. The amount of evaporated salt consumption remains on the stable level demonstrating resistance to the effects of economic slowdown. The increase of sales volume is small and results mostly from the increase of sales of highly processed salt products. On the other hand, the market of rock salt used mainly for winter road maintenance is variable. The demand for rock salt in case of atmospheric anomalies can change by several dozen percent. The CIECH Group does not supply the highway sector with large quantities of salt and as a result, atmospheric anomalies practically do not influence sales volumes.

The CIECH Group plays an important role in the following segments: table salt (food industry and direct consumption use majority of total salt produced by CIECH Soda Polska S.A.); chemical industry and water treatment.

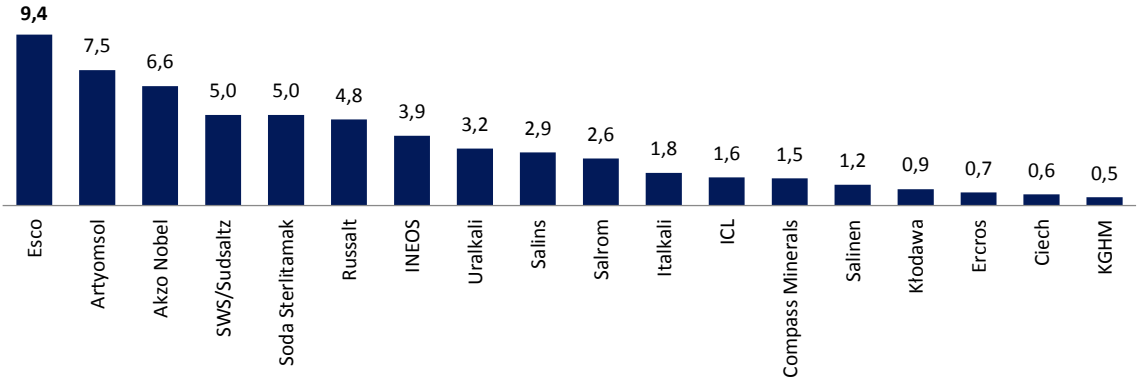
The CIECH Group with its production capacity of 620 thousand tonnes per year is the biggest producer of evaporated salt on the Polish market, with a market share of approximately 60%.

The biggest salt producers in Europe in 2015 operating in the free market



Source: Own compilation based on Roskill and others

Production capacities of main salt producers in Europe operating in the free market in 2015 (million tonnes/year)



Source: Own compilation based on Roskill and others

European salt production capacities are estimated at approximately 90 million tonnes per year (including producers using salt only for the purposes of their own chemical production, such as Solvay and Dow Chemical). The largest producer in Europe operating in the free market is Esco from the K+S Group, with capacities of more than 9 million tonnes per year and production plants in several countries of Western Europe. Other companies with large production capacities (above 5 million tonnes per year) include a Ukrainian company, Artyomsol (7.5 million tonnes per year; capacities used recently to a small extent) and a chemical concern, Akzo Nobel (6.6 million tonnes per year).

In the coming year, the directions and further development of the global salt market, estimated for about 290 million tonnes, will be determined by general economic development (because of important role of chemical industry in salt consumption) as well as seasonal factors (due to important role of salt in road maintenance in the developed countries). Development of plants in Asia (with regard to chlorine-

alkali and soda ash) will be especially important for the chemical sector. Taking into account the clear anticipated decrease in economic development dynamics in China and last year's resignation from many investments in soda ash production in this country, the previous optimistic forecasts for development of the global salt market (3% annually on average) may prove invalid. The forecast global salt consumption rate will not be higher than in previous years, i.e. it will amount to 1%–2% on average per year.

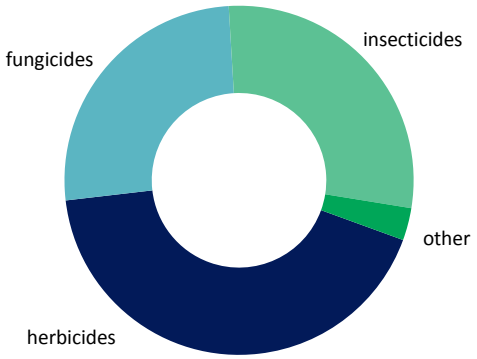
The prospects for salt market development in Europe, including Poland, are stable. The possible quantitative increases will depend on sales dynamics in the sector of highly processed products, e.g. for water treatment systems. Because of the dominating position of rock salt (used mainly in road maintenance) in the total salt market, salt sales will still be dependent on atmospheric conditions and can be subject to significant periodic fluctuations. Such events do not influence table salt segment and salt used for chemical industry. The growth rate of salt consumption in Europe and in Poland over the next couple of years is estimated at 1.5%.

Organic segment
Plant Protection Chemicals (PPC)

It is estimated that in 2015, the value of the global market of plant protection chemicals reached USD 52 billion and was approximately 1% lower than in the previous year (after eliminating the effect of considerable strengthening of the American dollar). The causes of the decrease included: lower prices of agricultural products, high levels of inventories of agrochemicals distributors and weather conditions (e.g. delayed seed sowing in South America caused by the El Nino effect).

More than 40% of sales of global plant protection chemicals is attributable to herbicides. Insecticides correspond to nearly 1/3, while fungicides — approximately 1/4 of the value of the global market.

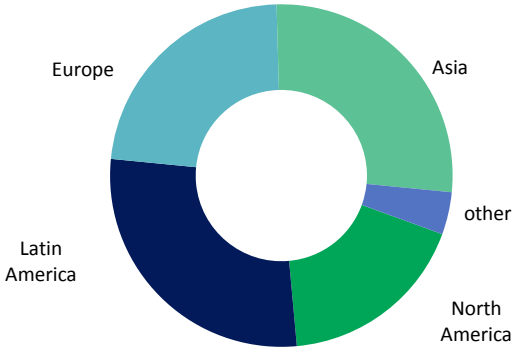
Structure of global PPC usage by type and by value



Source: own compilation based on Phillips McDougall

In 2015, the world market was still dominated by 6 main global producers, i.e. Syngenta, Bayer CropScience, BASF, Dow AgroScience, Monsanto and DuPont. These companies are also main contributors to the world markets because they significantly influence directions of the industry development, including: development of new technologies, introduction of innovative products to the market as well as shaping of the world legislation. Share of the above-mentioned producers in total world sales is estimated at about 75%. As a result of merger of Dow Chemical and DuPont, in 2016, the number of leading players was reduced to 5.

PPC consumption structure by regions (% of value)

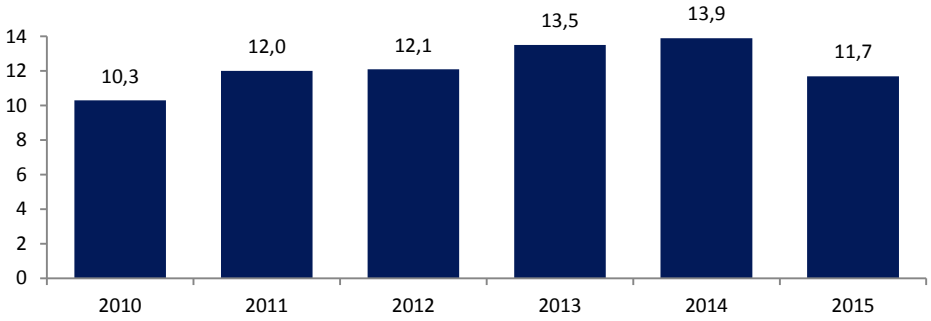


Source: own compilation based on Phillips McDougall

Latin America and Asia are currently the largest regional markets of plant protection chemicals with more than 30% of shares in global sales each. Slightly smaller markets are Europe and North America (about 20% each). The value of the European market in 2015 can be estimated at approx. USD 12 billion. Consumption of pesticides in the other regions amounts to the remaining few percent of global consumption.

In a long-term perspective — since the beginning of the 20th century — demand for PPC in Europe has been growing by 5% annually (by value). In the last several years, however, this dynamic has decreased, in particular, due to maturity of this market. A large, more than a dozen percent decrease in sales value in 2015, measured in USD, results primarily from strong depreciation of this currency and the crisis in Russia. Changes in PPC consumption in Europe in the last several years are presented in the chart below.

PPC consumption in Europe in the years 2011–2015 (USD billion)



Source: own compilation based on Phillips McDougall

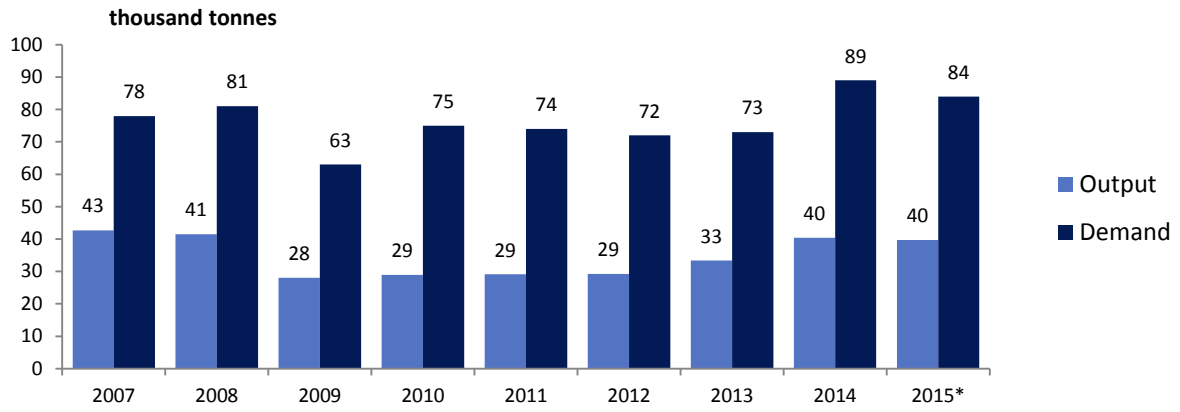
In Europe, the biggest markets for PPC are France, Germany, Italy, Spain, the UK and Russia.

In the last several years, the usage of plant protection chemicals in Poland fluctuated between 70–90 thousand tonnes per year (in volume). In the case of active substances tonnage, consumption amounts to around 20 thousand tonnes per year. In 2015, both domestic production and consumption dropped considerably (by several thousand tonnes in volume). The basic cause of this was the draught in the summer and in the second half of the year.

Despite the overall upwards trend in local PPC production in a long-term perspective, the Polish market is dominated by foreign suppliers with a very wide range of products.

Production and consumption of plant protection chemicals in Poland in the years 2007–2015

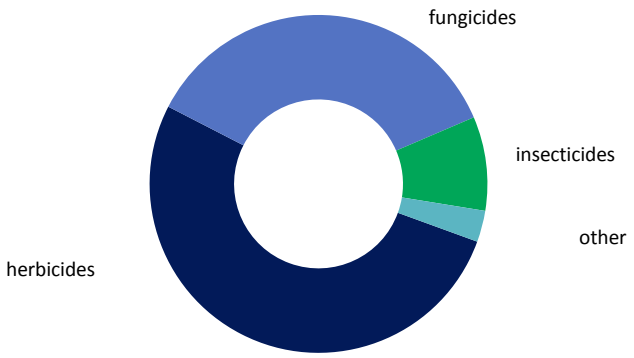
by volume (in thousand tonnes)



Source: own compilation based on the Central Statistical Office and Eurostat (estimates based on preliminary data)*

The value of the Polish plant protection chemicals market is currently estimated at about USD 750 million (EUR 680 million). The estimated PPC sales structure in the Polish market is presented below.

Structure of PPC sales in Poland by value



Source: own compilation based on Phillips McDougall

Significantly more herbicides and fungicides are used in Poland compared to world consumption because of high percentage of grains in general cultivated area and considerable importance of gardening. Insecticides are used in much smaller quantities.

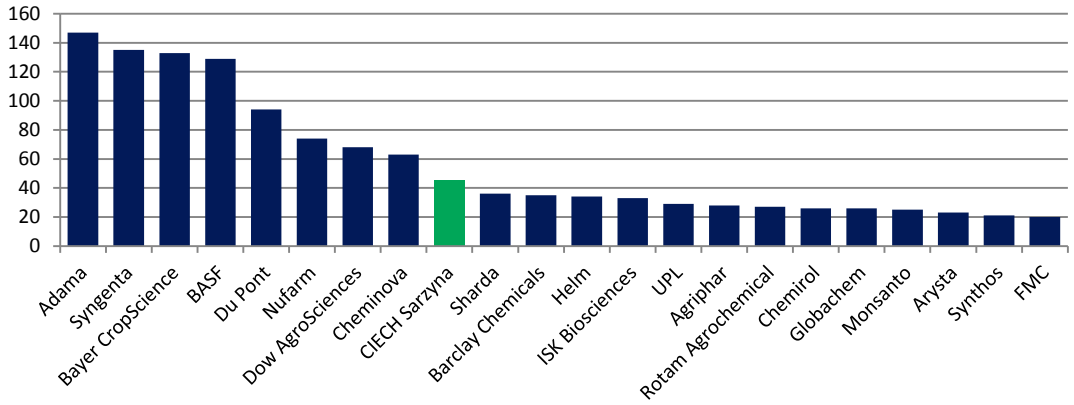
The Polish market of plant protection chemicals should systematically grow over the following several years. Unit consumption of products per 1 ha is still much lower in Poland than in Western European countries. Moreover, economic situation of Polish farmers should improve due to direct subsidies received from the European Union. Additionally, controversies concerning genetically modified plants (GMO) should effectively influence the higher demand level for traditional plant protection chemicals.

High level of import is specific to Polish market and amounts to approximately 80% of the market offer. As a result, Polish products constitute only 1/5 of the whole market. The reason of such a high disproportion is lack of sufficient offer of Polish producers, who have much less of financial resources to conduct research on new products, their registration and marketing.

Famous global concerns and Polish producers are main participants in the Polish market. CIECH Sarzyna is the biggest Polish enterprise in this industry. The company's activity regarding plant protection chemicals is focused on the Polish market, where the Group has a share of 6% (by value). This share is much higher with regards to grain herbicides segment, which is the company's main product group, and amounts to about a dozen percent.

The following graph presents competitive position of the individual producers of plant protection chemicals by the number of products registered in the Polish market.

Number of PPC registered in Poland among the biggest producers



Source: MRiRW [Ministry of Agriculture and Rural Development] (as at 04.01.2016)

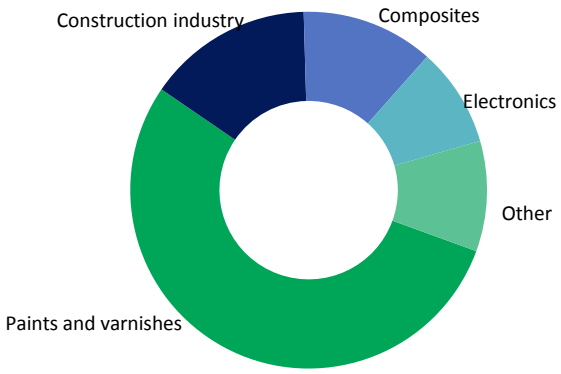
The PPC market in a long-term perspective belongs to the fast growing markets comparing to other chemical segments. The average yearly growth rate of the global market should reach 5%–6% in the next few years (by value). The main growth factors will be Latin American and Asian markets. The prospects for Europe as a whole assume much lower dynamics, of 2%–3%; for Poland, however, this rate should be approximate to the global rate.

Optimistic market forecasts concerning plant protection chemicals are based on the assumption of decreasing arable land area on the global scale and the resulting necessity of constant yield increase. On the other hand, various national and international regulatory bodies, whose task is to monitor pesticide use in order to lower their negative influence on the natural environment will stimulate the uncontrolled pesticide consumption.

Epoxy and saturated polyester resins

In Europe, epoxy resins are used primarily — in more than 50% — for the production of powder paints and varnishes (chemically resistant, insulation, electrical insulation). Another dozen percent of resins is used in the construction sector (screeds, sealants, fillers, binders, coatings, wall coverings). Over 10% of epoxy resins is consumed for the production of composites, about 10% — in the manufacture of electrical insulators. Only in Central Europe is the share of the coatings segment (paints, etc.) exceptionally high, reaching 2/3.

Application segments of epoxy resins in Europe



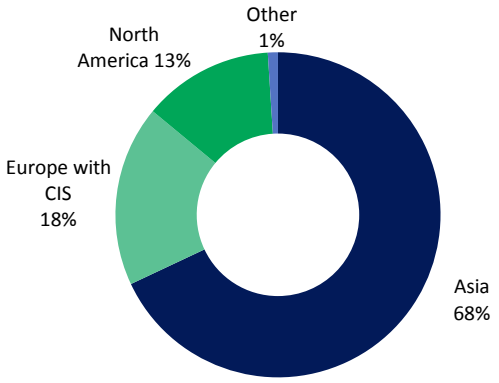
Source: own compilation based on the IHS data

Global production capacity of epoxy resins (liquid and solid) is estimated at 5.2 million tonnes per year: Asia (more than 2/3), Europe and CIS (about 18% — about 900 thousand tonnes per year), North America (about 13%). Investment projects with regard to new capacities are located mainly in Asia. The largest world resin manufacturers include: Hexion (previously Momentive), Dow Chemical, Nan Ya (Taiwan),

KUKDO (South Korea) and Huntsman Advanced Materials. The above-mentioned companies are collectively responsible for about 60% of the world production of these resins.

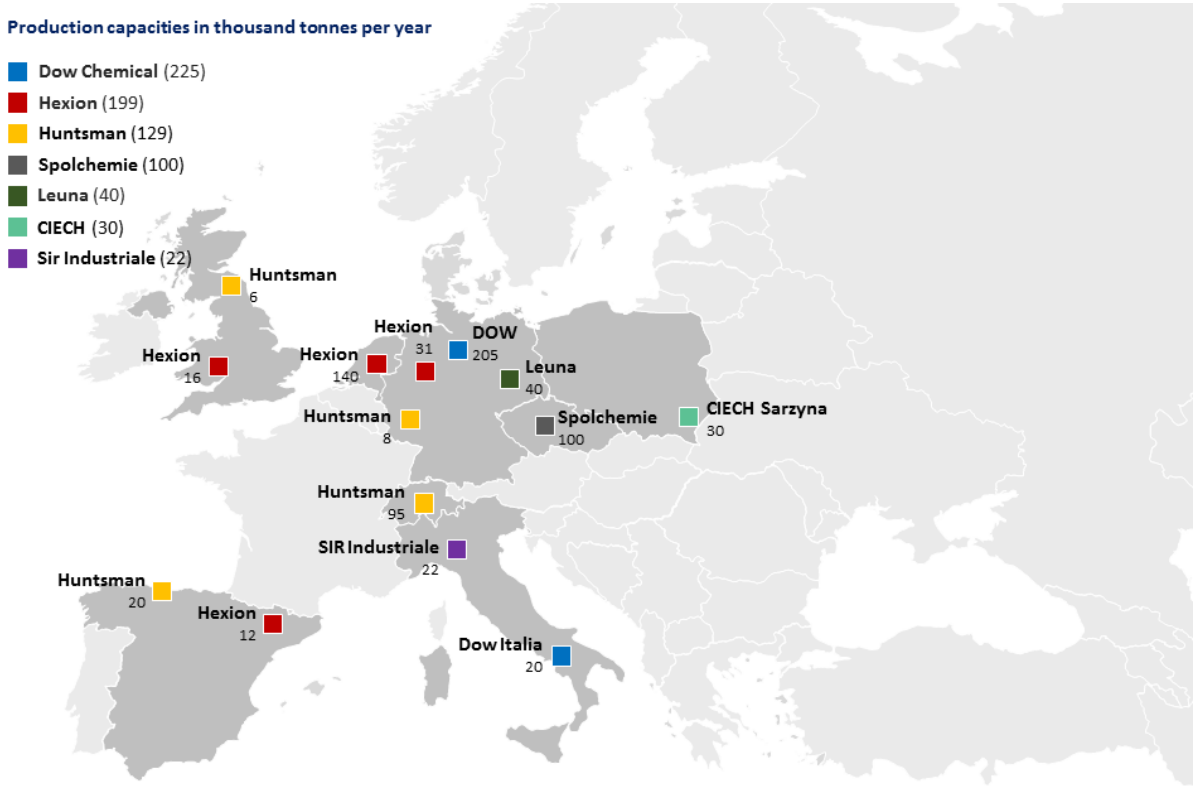
The CIECH Group, through CIECH Sarzyna, is the only producer of epoxy resins in Poland. Production capacity of the Group is estimated at 30 thousand tonnes per year and its share in the national market, estimated at approximately 15 thousand tonnes per year, is approximately 37%. The biggest competitors in Poland are suppliers from Germany, the Czech Republic and Italy.

Geographic structure of epoxy resins production capacity



Source: own compilation based on the IHS data

Main European competitors of the CIECH Group in the epoxy resins market in 2015



Source: CIECH S.A. estimations based on data of IHS and producers

The global market size of epoxy resins (liquid and solid) in 2015 is estimated at 3.1 million tonnes per year. The demand in Europe (including CIS) is estimated at about 410 thousand tonnes per year, which indicates a lower, by approximately 4%, average annual dynamics of market development in our continent over the last 5 years. However, in spite of increasing demand, usage of production capacities in Europe is very

low (50%). This is due to a considerable increase in production capacities in previous years and stagnation in resin consumption at the turn of the first and the second decade of this century (the 2008/2009 crisis).

In the long term, the prospects for increase of demand are quite optimistic (globally by 3%–4% yearly on average). A similar increase will characterise development in the largest market — Asia; it will be slightly slower in North America. The lowest increases of about 2%–3% are expected in Western Europe. Above average growth prospects are also assumed for a relatively small market of Central and Eastern Europe (with an average increase of at least 5%).

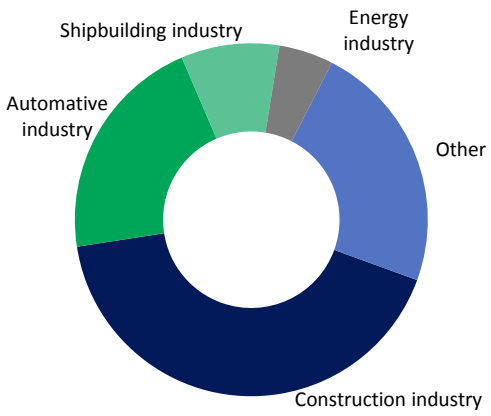
Europe and North America will still remain net exporters of epoxy resins (the main markets for the international trade will be China and India). The main consumption growth factor of epoxy resins in the following years will be glues and composites for aviation and wind power plants (in North America and Europe) as well as electronics and powder paints (in the Far East and South-East Asia region).

In the powder paint segment, important substitutes for epoxy resins are saturated polyester resins. The CIECH Group is also a producer of such resins through CIECH Sarzyna, with production capacities of 12 thousand tonnes per year (and 8th position among European producers). Saturated polyester resins are used primarily for production of solvent-free powder paints. The European market for these products is developing at the rate of 2%–3% on average per year.

Unsaturated polyester resins

The majority of unsaturated polyester resins in Europe is used in construction and transport industries. The demand of these two sectors amounts to more than 60% of the market share.

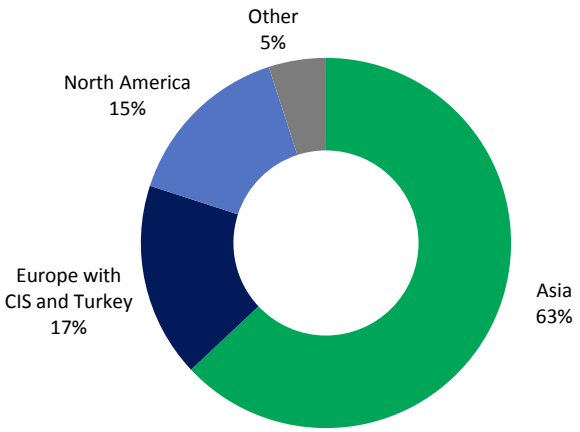
Application segments of unsaturated polyester resins in Europe



Source: own compilation based on the IHS data

The global production capacity of unsaturated polyester resins is estimated at approximately 7 million tonnes per year. Of that, approximately 1.2 million tonnes per year is produced in Europe (including CIS and Turkey).

Geographic structure of unsaturated polyester resins production capacity

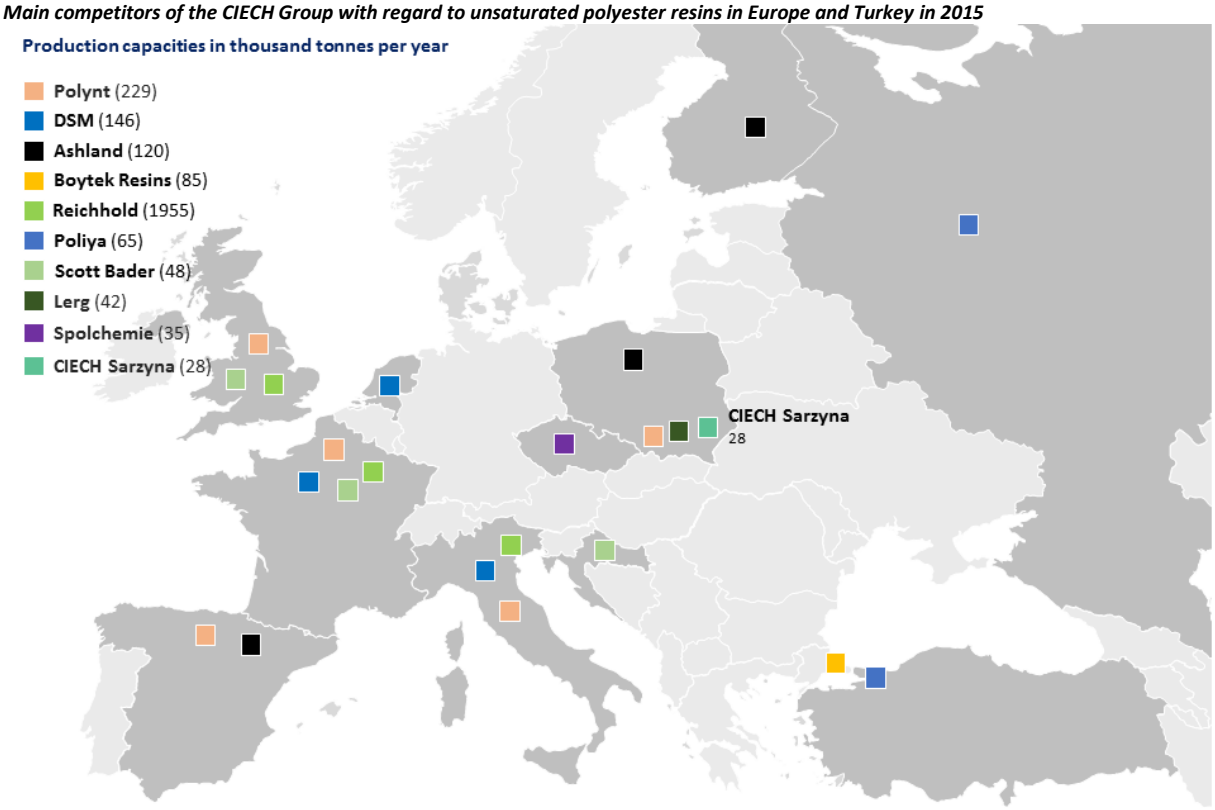


Source: own compilation based on the IHS data

More than 50 producers of these resins are active in Europe. The biggest six international concerns own about 60% of the European production capacity. These include international concerns: Polynt, DSM, Ashland, Reichhold and Turkish companies: Boytek Resins and Poliya. Small producers usually focus on high value market niches because of very strong competition.

The biggest producers of unsaturated polyester resins in Poland are Lerg S.A. and CIECH Sarzyna SA (with production capacity of 42 thousand tonnes per year and 28 thousand tonnes per year, respectively). A significant portion of sales is directed to the domestic market (of approximately 60 thousand tonnes per year), where the CIECH Group holds a strong position with approximately 20% share. Resins from CIECH Sarzyna are also supplied to other European markets.
Important competitors on the Polish market include: Polynt, Ashland, Reichhold, LERG, DSM.

Main competitors of the CIECH Group with regard to unsaturated polyester resins in Europe and Turkey in 2015



Source: CIECH S.A. estimations based on data of IHS and producers

The unsaturated polyester resins markets in Europe (including CIS) and Turkey is estimated at about 700 thousand tonnes per year.

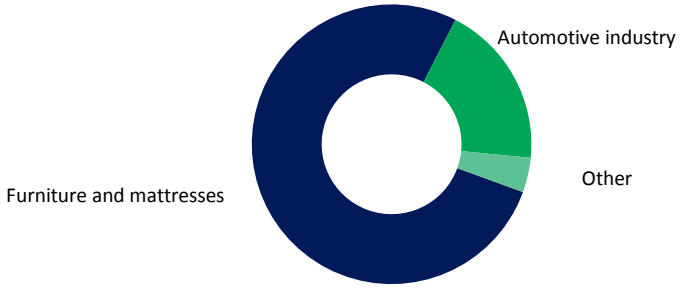
Because the use of resins is highly dependent on the economic situation in construction and transport industries, a moderate growth rate is expected for this market in Western Europe in the upcoming years (at the level of 2%). Increases in the Middle and East European regions should be significantly bigger (even at the level of 3%–4%). The demand for unsaturated polyester resins will grow fastest in Asia and in Africa (by 5% a year on the average).

Construction industry (pipelines, tanks, structural elements, synthetic marble, etc.) will have the most significant impact on resins sales on the European market in the coming years. Also automotive industry will be important (substitution of metal parts with the ones made of resins). However, these two sales directions will be characterized by a pretty slow increases. On the other hand, exceptionally fast demand increase is expected from currently not very important segment of wind power plants. This will depend mainly on support for development of renewable energy sources by the European governments.

Flexible polyurethane foams (PUR)

Flexible polyurethane foams are used mainly in production of furniture and sleeping mattresses, which amount to about ¾ of consumption of this material. Another 20% is used in automotive industry for production of seats and interiors. As a result, demand for foams is very sensitive to economic cycles.

Application segments of flexible polyurethane foams in Europe

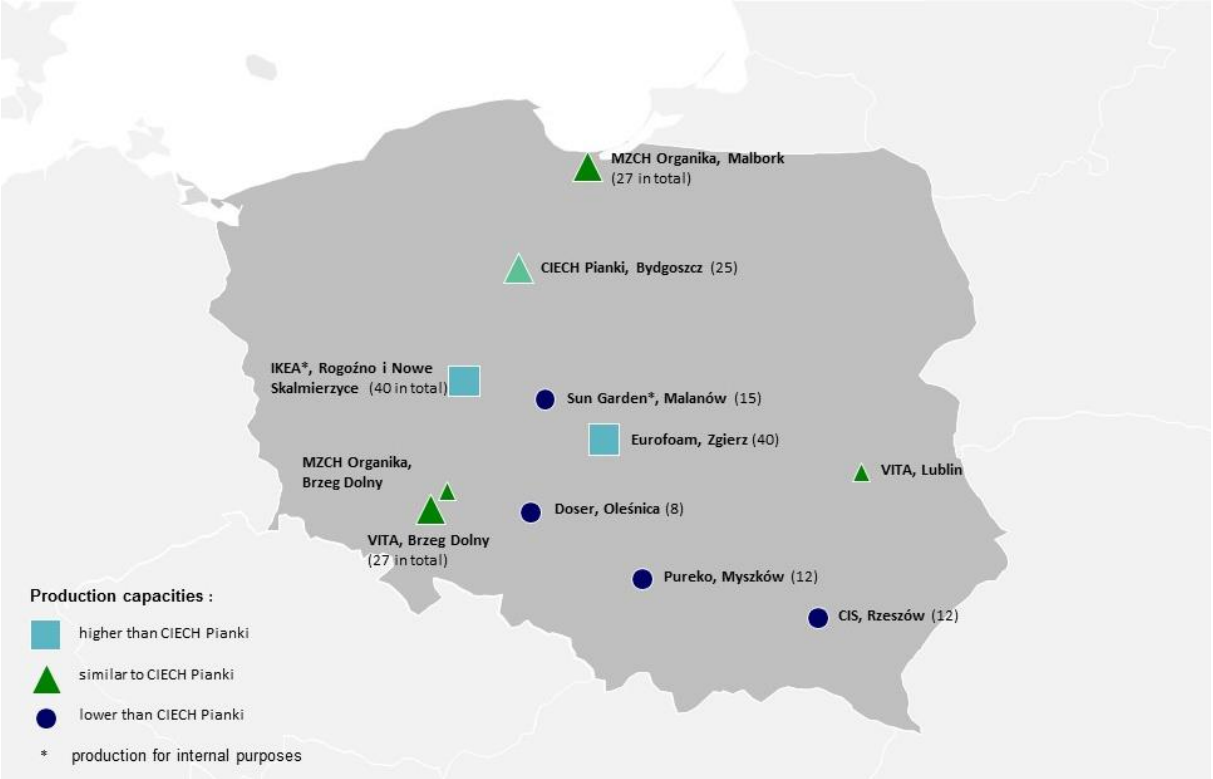


Source: CIECH S.A. estimations based on IAL Consultants data

Because of physical properties (low specific gravity) PUR foams are sold only on local markets. Therefore production base develops close to potential buyers. The CIECH Group is active mainly on the Polish market (where import is still insignificant). However, export sales are being developed as well. Furniture manufacturers and foam processing plants are clients of the Group.

Globally, production of polyurethane foams is very fragmented (over a thousand producers of total production capacity of over 5 million tonnes per year). Production capacities of Polish producers are estimated at about 210 thousand tonnes per year. Major competitors of the CIECH Group on the Polish market are: Eurofoam, MZCH Organika and Vita Polymers. Large production capacities of IKEA are designated mainly for internal purposes.

Competitors of the CIECH Group with regard to polyurethane foams – PUR in Poland in 2015



Source: CIECH S.A. estimations based on data of the producers

The CIECH Group through Ciech Pianki has about 15% share in the Polish market of this product.

European demand for polyurethane foams (used in the furniture industry) is estimated at about 1.3 million tonnes per year. Polish market demand is estimated at 160 thousand tonnes per year. The demand for foams depends on the situation in the industries that are the biggest consumers of the product i.e. furniture and automotive industries. In the case of the Polish furniture industry, very good economic situation has been recorded since 2013, and the last year was another year of high output growth in this sector vs. the average dynamics for the Polish industry as a whole. Economic results and the financial position of the furniture industry (oriented mainly at export) depend greatly on the economic situation on foreign markets and on exchange rates of the Polish currency. High price competitiveness of the national furniture industry supports its good position on foreign markets.

A further growth of the polyurethane foams European market by 2% a year on the average in West Europe and about 5% a year on the average in Central and Eastern Europe is expected over the following several years. The latter applies particularly to Polish dynamics, where the consumption is associated largely with the national furniture industry and its high position in the international markets (fourth world exporter of furniture).

Silicates and Glass Segment

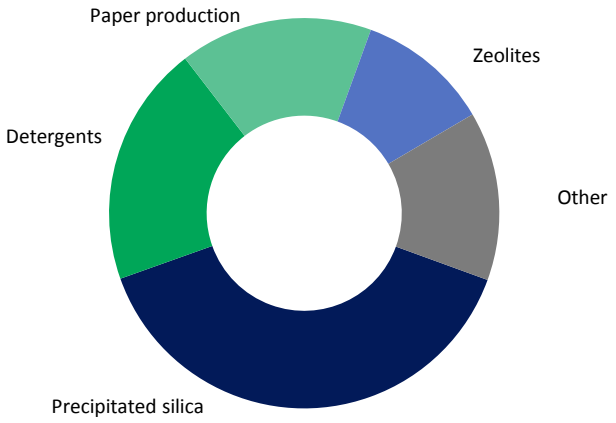
Sodium silicates (glassy sodium silicate and sodium water glass)

Sodium silicates are manufactured in solid form (glassy sodium silicate) and in liquid form (sodium water glass usually obtained by dissolving glassy sodium silicate in water). The CIECH Group, through CIECH Vitrosilicon S.A. and CIECH Soda Romania S.A., manufactures and sells glassy sodium silicate as well as sodium water glass.

Sodium silicates are used for production of precipitated silica (about 40% of consumption in Europe, used mainly in the tyre and beauty product industries), detergents (about 20%), paper, zeolites and in other industries.

In developing countries, applications related to production of detergents dominates, and the total consumption of these silica is proportional to the number of citizens.

Segments of use of sodium silicates in Europe

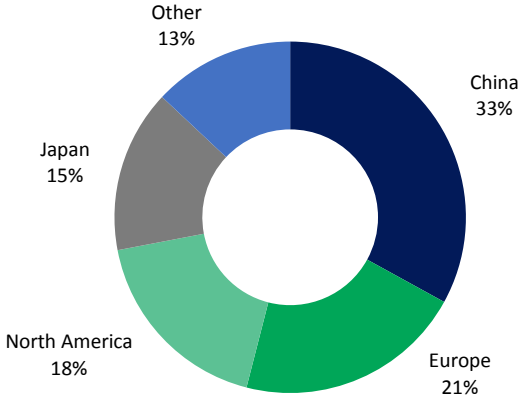


Source: own compilation based on the IHS data

Sodium silicates are one of the most popular non-organic chemicals, and are manufactured all over the world. However, due to their relatively low price and high importance of the liquid form in trade (silicates dissolved in water), international turnovers are performed usually on a local level, i.e. only on the European continent.

The largest production capacities are located in China (about 1/3). The most developed regions of the world (Europe, North America, Japan) are responsible for more than 50% of global production capacities in total.

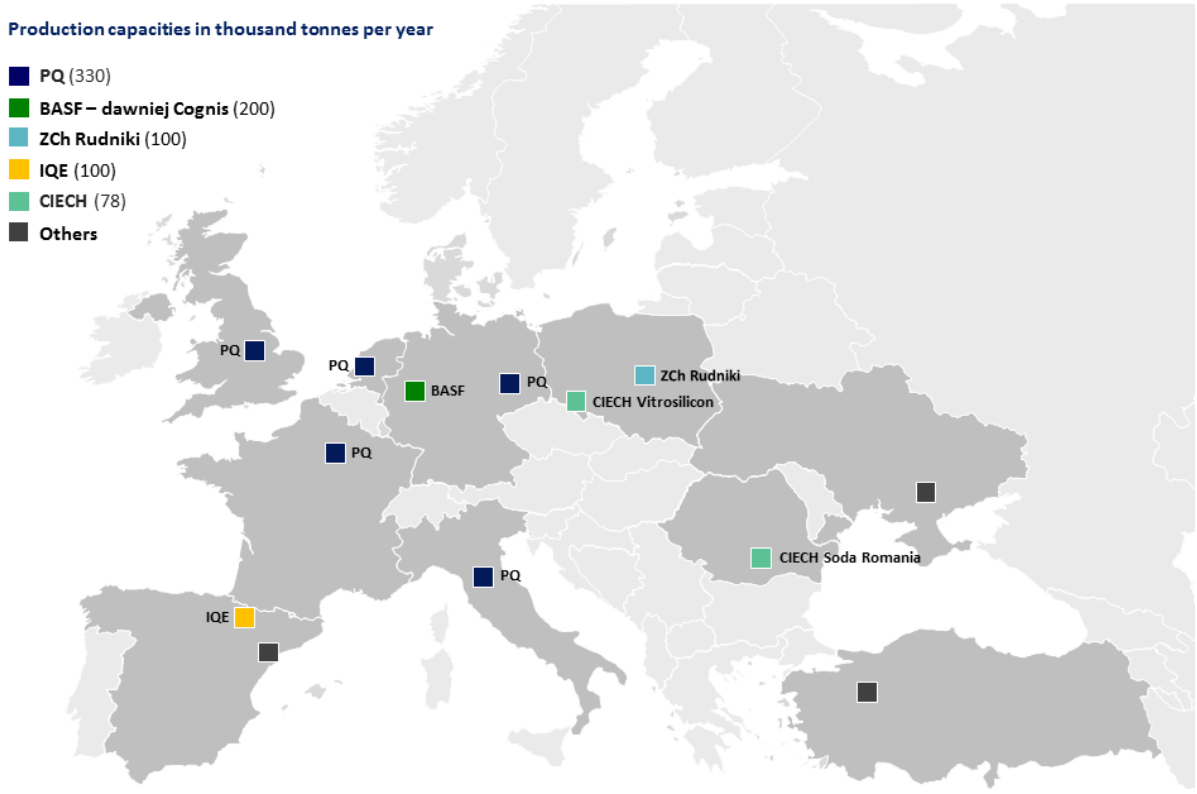
Geographic structure of production capacities of sodium silicates



Source: own compilation based on the IHS data

Production capacities of glassy sodium silicate in Europe are estimated at 1,400–1,500 thousand tonnes per year. However, about 1/3 of these capacities is used by producers, who in general do not offer silicates on the free market. A majority of production capacities is located in Western and Central Europe. PQ and BASF concerns as well as Polish entities, such as ZCh Rudniki and the CIECH Group are leaders of the European market. The Group estimates that a share of the CIECH Group (fourth supplier to European markets) in total production capacities in Europe is about 6%.

Competitors of the CIECH Group with regard to glassy sodium silicate in Europe in 2015

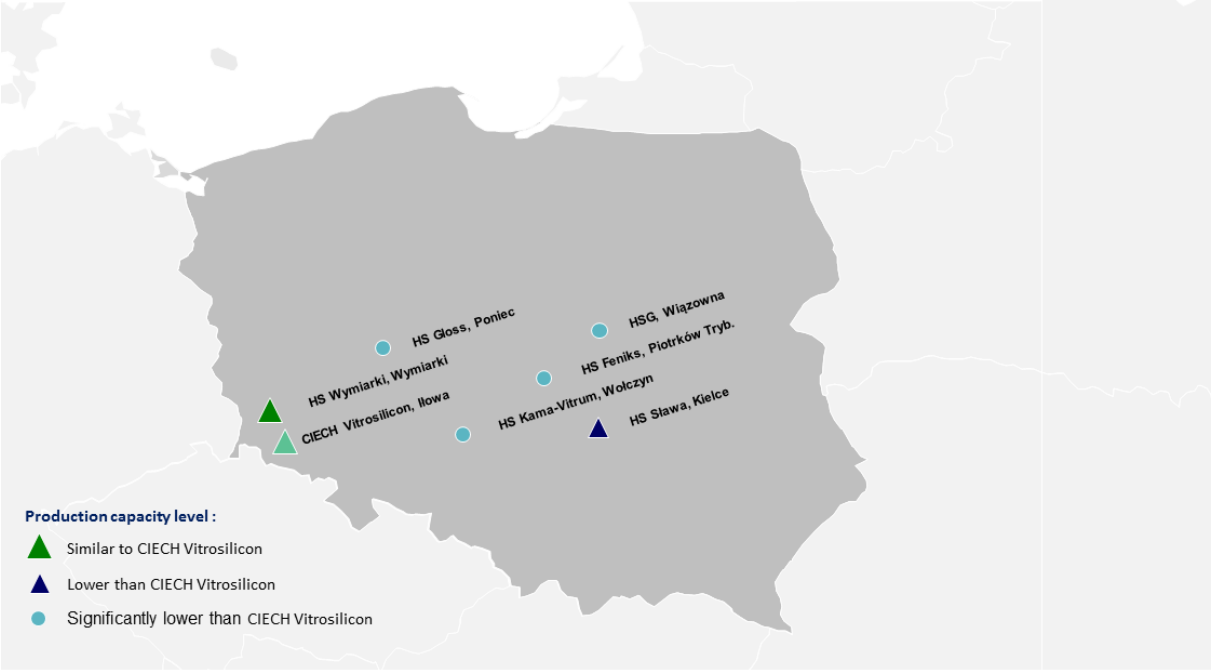


Source: CIECH S.A. estimations based on data of IHS and producers

The total demand for sodium silicates in Europe is estimated at 1,300 thousand tonnes per year (expressed in glassy sodium silicate), and its annual average growth dynamics is 1%–2%. A relatively low growth dynamics is due to maturity of the European market. Production of precipitated silica used for modern tyre manufacture is a segment with a relatively high growth dynamics (annual average of 3%–4%).
In Poland, sodium silicates have been traded mainly in liquid form – sodium water glass. The CIECH Group assessed its share in the domestic market in 2015 at 40%. Starting 2016, due to the implementation of the agreement for deliveries of silicates to the Solvay precipitated silica plant in Włocławek, this shall significantly increase.

Glass products (decorative lanterns, jars)
Glass products manufactured by CIECH Vitrosilicon are intended for niche markets: decorative lanterns are used to manufacture vigil lights; jars with clamp lids and twist-off jars are to be used for food products.
Decorative lanterns
Vigil lights are the products used mainly in Poland and in some Central European countries. Consequently, activity of the CIECH Group in this respect is focused on the domestic market. The demand for vigil lights is related to the tradition of visiting cemeteries, and sales are performed mainly around 1 November every year.
In Poland, there are only few producers of decorative lanterns (glass-works). At the same time, complete vigil lights are manufactured by about 300 companies that usually buy lanterns directly from producers. Major producers of decorative lanterns are: CIECH Vitrosilicon in Iłowa, HS Sława in Kielce and HS Wymiarki in Wymiarki.

Competitors of the CIECH Group with regard to decorative lanterns in 2015



Source: CIECH S.A. estimations based on data of CIECH Vitrosilicon and producers

The domestic market of decorative lanterns is estimated at about 260 million pieces per year. The CIECH Group, through CIECH Vitrosilicon with a share of about 45%, has been without any doubt a leader of this market since many years. Key advantages of the leader include: production potential and a wide and differentiated product range.
Plastic products are also sold on the market of vigil lights. However, these substitutes have a low share in the total demand (of about 10%) due to their low aesthetic characteristics.
In general, the market of decorative lanterns is a relatively stable and mature market, with limited growth dynamics (1% per year on average, taking into account the volume in long-term perspective).

Jars
Jars offered by the CIECH Group are addressed to the food processing industry (fruit and vegetable, meat, fish, production of mustard, mayonnaise and honey) as well as to trading companies.
CIECH Vitrosilicon S.A. specialises in the manufacture of DZK jars with glass lids and fastening clasps, used on niche markets (for storage of bulk products and products that do not require pasteurisation). The CIECH Group is the only producer of such jars, and a majority of sales is targeted at the domestic market. Competitive products on the Polish market are imported from Germany, China and Italy. The domestic market of DZK jars is estimated at about 2.7 million pieces per year. In accordance with the Group's estimations, the CIECH Group with a share of about 15% is the third supplier of these products on this market.

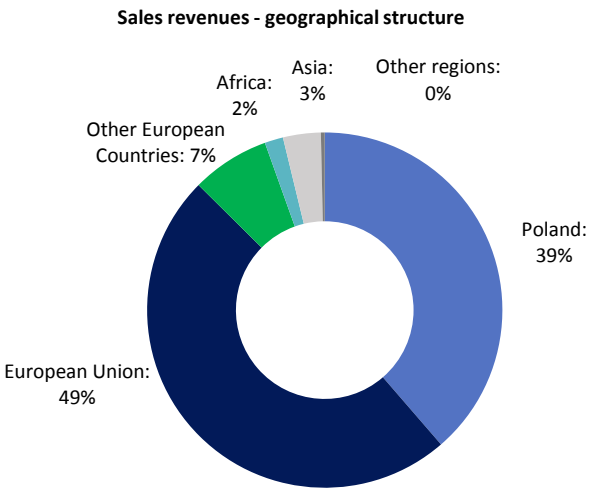
4.5. Main products and services, sales markets, and supply sources

The CIECH Group has a well-diversified portfolio of customers. In 2015, sales revenues to none of the partners of the CIECH Group exceeded 10% of the consolidated sales revenues of the CIECH Group. CIECH S.A. as the parent company and the company with biggest sales in the CIECH Group was not dependent in 2015 on one or more customers or suppliers and the sales revenues to none of its customers exceeded 10% of total sales revenues.
Important external suppliers for the CIECH Group in 2015 were, among others:

- Kompania Węglowa S.A. – coal supplier for CIECH Soda Polska S.A.;
- Erdgas Mittlesachsen GmbH – gas supplier for the SDC Group.

Geographical structure of the sales markets

Almost 40% of revenues from sales of products, goods and services of the CIECH Group in 2015 came from the domestic market while the biggest foreign recipients of products, goods and services offered by the Group companies were the European Union countries.



Source: CIECH S.A. estimates

in PLN thousand	01.01 - 31.12.2015	01.01 - 31.12.2014	2015/2014 Dynamics
Poland	**1,264,858**	**1,263,147**	**0.1%**
European Union	**1,596,556**	**1,559,344**	**2.4%**
- Germany	677,155	691,059	(2.0%)
- Romania	191,777	193,603	(0.9%)
- Czech Republic	155,177	128,727	20.5%
- Italy	119,754	111,267	7.6%
- The Netherlands	89,434	86,970	2.8%
- Finland	69,100	40,726	69.7%
- Sweden	45,562	39,519	15.3%
- Belgium	30,915	21,541	43.5%
- United Kingdom	30,251	46,640	(35.1%)
- Denmark	26,701	25,154	6.2%
- France	27,027	24,297	11.2%
- Luxembourg	22,252	21,242	4.8%
- Lithuania	18,230	18,831	(3.2%)
- Other EU countries	93,221	109,768	(15.1%)
Other European countries	**232,557**	**180,200**	**29.1%**
- Switzerland	103,640	104,765	(1.1%)
- Norway	39,614	28,927	36.9%
- Russia	16,102	14,924	7.9%
- other European countries	73,201	31,584	131.8%
Africa	**55,176**	**173,872**	**(68.3%)**
Asia	**112,441**	**48,472**	**132.0%**
- China	0	156	(100.0%)
- Other Asian countries	112,441	48,316	132.7%
Other regions	**11,426**	**18,865**	**(39.4%)**
TOTAL	**3,273,014**	**3,243,900**	**0.9%**

4.6. Key issues related to environmental protection

Equal concern for economic, social and environmental issues is an important element of the management strategy at the CIECH Group. In its manufacturing activities, the CIECH Group focuses on maintaining the technology regime and high quality of products, but also on minimising negative impact on the environment by limiting emission of pollution to the atmosphere, waters and soil, rational waste management and optimisation of energy consumption per one tonne of the output.

Production plants of CIECH Group operate under required permits and administrative decisions. The majority of production companies within the CIECH Group have implemented environment management systems in conformity with ISO 14001 regulations.

As a result of the introduction of more demanding environmental protection regulations, the CIECH Group has implemented a number of investments contributing to the environmental protection, such as modernization of electrofilters in its plants in Inowrocław and Janików. In the next years, further projects are planned in the scope of, among others, desulphurization and denitrogenization of exhaust fumes. The main goal of the investment is to increase the atmosphere protection level and adaptation of installations to new emission standards set forth in the Industrial Emissions Directive (IED).

The National Transitional Plan (PPK) extended the deadline to adjust LCP (Large Combustion Plant) systems to new standards, until 30 June 2020 at the latest. On 1 July 2020, very restrictive emission standards will be introduced for dust (20–25 mg/Nm^3), sulphur oxides (200–250 mg/Nm^3) and nitrogen oxides (200 mg/Nm^3) emissions for large combustion plans (LCP).

It should also be mentioned that the works on the BAT Conclusions for LCP are being carried out, which are expected to be published in 2017. The installations have only 4 years as of the entry of the BAT Conclusions into force to adapt to the requirements which are more stringent than those set in the IED Directive, i.e. for dust (15–20 mg/Nm^3), sulphur oxides (130–200 mg/Nm^3) and nitrogen oxides (150–180 mg/Nm^3) emissions.

Material legislative changes influencing activity of the CIECH Group include the duty to draw up initial site condition reports by owners of IPPC installations.

In accordance with the decision of the Marshal's Office in Toruń of 8 December 2015 on issuing the integrated permit for operation of the fuel combustion and energy generation installations for the power plant in Inowrocław, the duty to monitor ground water (tests once a quarter) and to monitor soil and land conditions (once every 10 years) is introduced. Additionally, until June 2017, it is necessary to draw up and present to the Marshal for approval the concept for improvement of the quality of degraded groundwater in the area of the plant in Inowrocław.

Considering regulations on the mission trading scheme, the Act of 12 June 2015 on trading greenhouse gases emissions allowances introduced very important amendments to the Polish law. The Act imposes the duty to file the application for issuing new permits for greenhouse gases emissions within 12 months of the day on which the new Act comes into force and a need to obtain an opinion of the National Centre for Emissions Management (KOBIZE) on Monitoring Plans, which will significantly extend the time required to obtain relevant permits.

At present, there is a significant oversupply of emission allowances on the market of CO_2 emissions allowances (EUA). The cumulative excess amounts to about 3 billion EUA. In order to control the surplus, the European Commission is considering various price-setting mechanisms (increase of the reduction target, extension of the number of sectors that have to use EUA settlements, e.g. transport, revision of the Carbon Leakage List, reduction of the list of sectors entitled to receive free allowances after 2020).

As a result of the climate conference in Paris, the European Commission obtained an additional mandate to reform the system that does not function correctly, in such way as not to allow for a drop of the allowance prices, and instead, ensure their gradual growth.

The climate summit in Paris ended up in signing a preliminary agreement by 196 countries, but no transparent rules and explicit goals were set.

The treaty will come into force not before it is signed by 55 countries responsible for 55% of global CO_2 emission. The treaty ratification process will last from April 2016 to April 2017.

4.6.1. Legal status of the use of the environment

CIECH Group's companies operate under the current administrative decisions regarding the manner and extent of use of the environment. All CIECH Group's companies operating IPPC plants received integrated permits.

The following table provides a list of integrated permits held by CIECH Group Companies.

Company	Permit for	Term
CIECH Soda Polska S.A. – Production Plant in Inowrocław	Integrated permit for installation to manufacture light soda ash and dense soda ash, baking soda, calcium chloride, absorbent masses and manufacture of agricultural lime.	Indefinite
CIECH Soda Polska S.A. – Production Plant in Janikowo	Integrated permit for installation to manufacture light soda ash and dense soda ash, waste disposal and other installations to manufacture wet and dry vacuum salt, agricultural lime, cargo transport by cableway.	Indefinite
CIECH Soda Polska S.A. – Power Plant in Inowrocław	Integrated permit for heat and power station's installation (4 OP-110 boilers).	Indefinite
CIECH Soda Polska S.A. – Power Plant in Janikowo	Integrated permit for heat and power station's installation (3 CKTI boilers and 2 OP-140 boilers).	Indefinite

Company	Permit for	Term
CIECH Soda Deutschland GmbH & Co. KG	Integrated permit for installations to manufacture light soda ash and dense soda ash and manufacture of baking soda.	Indefinite
KWG GmbH	Integrated permit for heat and power station's installation.	Indefinite
CIECH Soda Romania S.A.	Integrated permit for installation to manufacture soda ash.	12.09.2022
CIECH Sarzyna S.A.	Integrated permit for installations to manufacture unsaturated and saturated polyester resins, epoxy resins, curing agents for epoxy resins, phenol-formaldehyde resins, Ukanol DOP, Flodur, Adufer, orthophenylenediamine, o-FDA, phosphating concentrates and plant protection products (MCPA, MCPP, BCM carbendazim).	Indefinite
CIECH Vitrosilicon S.A. – Plant in Żary	Integrated permit for installations to manufacture sodium silicate glass and potassium silicate glass.	Indefinite
CIECH Vitrosilicon S.A. – Plant in Iłowa	Integrated permit for the installation to manufacture sodium and potassium water glass, glass packaging and CLAROGLASS glass blocks.	Indefinite
CIECH Pianki Sp. z o.o.	Integrated permit for the installation to manufacture PUR foams.	Indefinite

Changes in integrated permits in 2015.

CIECH Soda Polska S.A. – Production Plant in Janikowo

By virtue of a decision of the Marshall of the Kujawsko-Pomorskie Voivodeship of 24 July 2015, the integrated permit was changed ex officio in respect of its validity term, requirements concerning the protection of soil, land and ground waters.

CIECH Soda Polska S.A. – Power Plant in Janikowo

By virtue of a decision of the Marshall of the Kujawsko-Pomorskie Voivodeship of 18 September 2015, the integrated permit was changed ex officio in respect of its validity term, requirements concerning the protection of soil, land and ground waters.

CIECH Soda Polska S.A. – Production Plant in Inowrocław

By virtue of a decision of the Marshall of the Kujawsko-Pomorskie Voivodeship of 24 July 2015, the integrated permit was changed ex officio in respect of its validity term, requirements concerning the protection of soil, land and ground waters.

CIECH Soda Polska S.A. – Power Plant in Inowrocław

By virtue of a decision of the Marshall of the Kujawsko-Pomorskie Voivodeship of 8 December 2015, the integrated permit was issued for the energy and fuel production installation, with the rated power no less than 50 MW.

CIECH Soda Romania S.A.

By virtue of a decision of the Regional Agency for Environmental Protection Valcea of 7 January 2015, the integrated permit was changed in connection with the implemented technological changes (installation of calcinator No 4 and belt filter).

CIECH Soda Deutschland GmbH & Co. KG

In February 2014, the Company applied for a new water permit for the discharge of sewage do the Bode river. On 10 December 2014, the competent environmental authorities issued a preliminary decision – a water permit to discharge post-production sewage to the Bode river. The proceeding on the issue of a final decision in this respect is pending.

CIECH Vitrosilicon S.A. – Plant in Iłowa

By virtue of a decision of the Starost of the Żagań Poviat of 22 December 2015, the integrated permit was amended in connection with an increase in the volume of waste generated other than hazardous one.

Ciech Pianki Sp. z o.o.

By virtue of a decision of the Marshall of the Kujawsko-Pomorskie Voivodeship of 21 August 2015, the integrated permit was amended in connection with an increase in the PUR foam output.

By virtue of a decision of the Marshall of the Kujawsko-Pomorskie Voivodeship of 24 September 2015, the integrated permit was changed ex officio in respect of its validity term, requirements concerning the protection of soil, land and ground waters.

4.6.2. Environmental protection costs/costs of non-compliance with emission standards

The fees for the use of the environment in 2015 by the Polish subsidiaries of the CIECH Group amounted to a total of PLN 25,601 thousand, 99% of which was charged to Soda Polska CIECH S.A. – mainly for discharging sewage into surface waters or soil and releasing gases and dusts into the air.

The following table shows the amount of fees for the use of the environment in 2015.

Company	CIECH Soda Polska	CIECH Soda Deutschland	CIECH Soda Romania	CIECH Sarzyna	Ciech Pianki	CIECH Vitrosilicon
Value of fee	25,274	1 5701[1)]	11,202	261	2	64
Currency [in thousands]	PLN	EUR	RON	PLN	PLN	PLN

1) the estimated fee

Non-compliance with permissible emission standards

In 2015, at CIECH Soda Polska S.A., permissible emission standards were violated with respect to emission of dust, sulphur dioxide and nitrogen dioxide, which may result in imposing a fine of PLN 118 thousand in total. Ultimately, CIECH Soda Polska S.A. will apply for reducing the aforementioned amount by own resources spent on modernisation of the plants in the years 2015–2019.

CIECH Soda Polska S.A. – Power Plant in Janikowo

The due date for a fine of PLN 4,466 thousand for overpollution by OP-140 boiler No 5 in 2011 was deferred to 20 February 2019, and the due date for a fine of PLN 1,901 thousand for OP-140 boiler No 4 in 2011 was deferred to 31 December 2017.

CIECH Soda Polska S.A. – Power Plant in Inowrocław

The due date for a fine of PLN 25 thousand for overpollution by OP-110 boiler No 1 in 2011 and a fine of PLN 96 thousand for OP-110 boiler No 2 in 2011 was deferred to 31 December 2018.

The due date for a fine of PLN 43 thousand for overpollution by OP-110 boiler No 4 in 2011 and a fine of PLN 40 thousand for OP-110 boiler No 3 in 2011 was deferred to 31 December 2017.

CIECH Soda Romania S.A.

A penalty of RON 1.6 thousand was imposed on the Company for exceeding the admissible values of pollution in the sewage discharged to the Olt river.

4.6.3. Emission trading

Information on emission rights trading are included in section I. 3.3.

4.6.4. REACH

The REACH Directive binding from 1 June 2007 concerns safe usage of chemical substances produced or imported (from countries outside EU) in quantities exceeding 1 ton annually. Producers and importers who put substances to turnover in the EU customs area were obligated to registration – initial, until 1 December 2008 and after, the appropriate – in three terms, depending on the introducing substance tonnage. Detail information on REACH is included in section I. 3.3 and in section I. 3.4.

4.6.5. Environmental liabilities

Due to the nature of the CIECH Group's business, there are active sources of groundwater pollution on some of the Group's lands. The Group incurs ongoing operating expenses and establishes provisions related to the reclamation of contaminated soil and groundwater purification. The amount of provisions for environmental liabilities in CIECH Group as at 31 December 2015 amounted to PLN 70,393 thousand and as at 31 December 2014 amounted to PLN 70,660 thousand.

4.7. Achievements in research and development

In the CIECH Group, research, innovation and development activities are concentrated in a recently created company, CIECH R&D Sp. z o.o. that coordinates and carries out research and development activities for companies from the Group. The activities taken at the CIECH Group are focused on the development and improvement of products for key end markets, improvement of existing processes and improvement of productivity and energy efficiency as well as implementation of innovative technologies. Strategy for research, innovation and development aims in particular to:

- introduce innovative solutions for the main production processes;
- development of existing products and introduction of new products on the basis of existing technology lines;
- increase the efficiency of production processes;
- waste management.

In 2015, the research and development focused on the further optimization of baking soda and soda ash production processes as well as improvement of energy and cost efficiency. Furthermore, modified polyester resins, epoxy and hardeners complementing the company's portfolio for the key applications were lunched into the market. New plant protection products were registered and introduced to the market.

4.8. State aid used

In 2015, the CIECH Group companies received co-financing in the total amount of PLN 4.3 million. Additionally, in October 2015, the area of CIECH Soda Polska S.A.'s Plant in Janikowo was covered by the status of the Pomeranian Special Economic Zone. Due to the inclusion of the Plant into the SEZ and obtaining, in December, a permit to conduct tax exempt business activities, the company acquired the right to corporate income tax relief until 2026 up to the amount of PLN 14.35 million. Additionally, in November, CIECH R&D Sp. z o.o. signed with the Ministry of Economy the co-financing agreement for the establishment of a research and development centre in Nowa Sarzyna and Inowrocław. Under this agreement, until 2017, the company will receive non-refundable co-financing of PLN 2.1 million.

4.9. Agreements significant for activity of the Group

All agreements significant for activity of the CIECH Group are described in section I.4.2.

4.10. Contract with the entity authorized to audit financial statements

Information about contracts concluded with the entity authorized to audit the consolidated financial statement is presented in section section II.44.

4.11. Significant transactions with related parties other than on an arm's length basis

CIECH Group's companies did not conclude transactions on the terms other than market ones. Sales to and purchases from related entities are carried out at market prices.

Description of transactions concluded between related entities can be found in section II.43.

4.12. Material litigation pending before a court, an appropriate arbitration authority or a public administration authority

Significant disputed liabilities of the CIECH Group

As at 31 December 2015, the total value of significant disputed liabilities of CIECH S.A. and subsidiaries of CIECH S.A., pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies represents less than 10% of CIECH S.A.'s equity.

Significant disputed receivables of the CIECH Group

As at 31 December 2015, the total value of significant disputed receivables of CIECH S.A. and subsidiaries of CIECH S.A., pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies represents less than 10% of CIECH S.A.'s equity.

4.13. Sponsorship and charity policy

Sponsorship activities of CIECH S.A. are aimed at supporting the business and image of the CIECH Group. Activities implemented should result in measurable benefits translating into the sales growth or supporting the image of the company.

Sponsorship activities are carried out primarily in the cities, where production plants and the head office of the Group are located. Sponsorship activities involve mainly the activities supporting educational and cultural initiatives, or initiatives aimed at supporting local communities, in which the CIECH Group functions.

Charity activities of the CIECH Group are related primarily to education of children and youth, and popularisation of the chemistry knowledge (primary objective). The Group also supports local communities, inter alia, by donations, in particular, in the case of catastrophes and unexpected events, as well as by education.

5. Current and projected financial position of the CIECH Group

5.1. Principles for drawing up the annual financial statements

The consolidated financial statements have been prepared in accordance with accounting principles consistent with International Financial Reporting Standards (IFRS) comprising International Accounting Standards (IAS) and Interpretations of the Standing Interpretation Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) that were approved by the European Union (EU) and were effective as of 31 December 2015.

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss, available-for-sale financial assets, and investment real property at fair value.

The consolidated financial statements give a fair view of the financial and economic position of the CIECH Group as at 31 December 2015, and its result as well as cash flows for the year ended 31 December 2015.
The consolidated financial statements of the CIECH Group were prepared on a going concern basis. As at the date of approval of these consolidated financial statements, no facts or circumstances are known that would indicate any threat to the Group continuing as going concerns.

The accounting policy used to prepare the consolidated financial statements is presented in section III.3.

5.2. Review of key economic and financial parameters

5.2.1. Basic financial data

During 2015, the CIECH Group generated net result on continuing operations of PLN 346,005 thousand, net cash increased by PLN 153,877 thousand and the balance sheet total as at the end of 2015 amounted to PLN 3,910,273 thousand.

The following had a positive impact on the presented results:

- Growth of prices of soda ash on the European markets since the beginning of 2015 compared to the prior year.
- Balancing of the European market of soda ash (demand and supply balance).
- Low level of power factors (coal and gas) and boiler fuel (coke).
- Growth of the production of paints and varnishes in the country by 8.8% from January to December 2015 vs. the similar period of the previous year (by volume).
- Very low level of oil prices (by about 30% lower than in the previous year) and consequently, low prices of raw materials for the organic industry improving the efficiency of operations in the organic segment of the CIECH Group.
- Favourable economic situation in the domestic chemical industry. In 2015, the domestic chemical industry recorded a growth of sales in comparison to the previous year by 5.2% in case of chemicals and chemical products and by 6.9% in case of rubber products and plastics (in fixed prices).
- Increase in domestic sales of construction and assembly production of 2.8% during 2015 in comparison to the previous year (chemical industry produces many raw materials and semi-finished products used in this production).
- The economic recovery in the European Union compared to the previous year (increase of the GDP growth dynamics from 1.5% to 1.9% in accordance with the data of the European Commission), supported mainly by private consumption and exports.

The following had a negative impact on the presented results:

- The poor economic situation on the Chinese market of soda ash resulting in a drop in prices in China and higher activeness of suppliers from China on foreign markets, on which the CIECH Group operates (India, Africa and the Middle East).
- Drought resulting in reduced consumption of plant protection products on the European market of the CIECH Group, including in Poland.

The following table presents selected financial data with key financial ratios for 2015 and 2014.

PLN '000	**01.01-31.12.2015**	**01.01-31.12.2014**	**Change % 2015/2014**	**Change 2015/2014**
CONTINUING OPERATIONS				
Sales revenues	**3,273,014**	**3,243,900**	**0.9%**	**29,114**
Cost of sales	(2,398,910)	(2,563,050)	6.4%	164,140
Gross profit/(loss) on sales	**874,104**	**680,850**	**28.4%**	**193,254**
Selling costs	(192,855)	(214,267)	10.0%	21,412
General and administrative expenses	(155,784)	(150,377)	(3.6%)	(5,407)
Other operating income/expense	(35,649)	5,609	-	(41,258)
Operating profit/(loss)	**489,816**	**321,815**	52.2%	**168,001**
Net financial income/expenses	(212,597)	(142,993)	(48.7%)	(69,604)
Share of profit of equity-accounted investees	163	251	(35.1%)	(88)
Income tax	68,623	(45,291)	-	113,914
Net profit/(loss) on continuing operations	**346,005**	**133,782**	**158.6%**	**212,223**
DISCONTINUED OPERATIONS				
Net profit/(loss) on discontinued operations	-	32,571	-	(32,571)
Net profit / (loss)	**346,005**	**166,353**	**108.0%**	179,652
including:				
Net profit/(loss) attributed to non-controlling interest	3,018	(763)	-	3,781
Net profit/(loss) attributable to shareholders of the parent company	342,987	167,116	105.2%	175,871
EBITDA from continuing operations	707,538	526,302	34.4%	181,236
Normalized EBITDA from continuing operations*	748,422	511,126	46.4%	237,296

** Principles of calculating EBITDA and normalised EBITDA are described in section I.5.2.5 of this Report.*

PLN '000	**31.12.2015**	**31.12.2014**	**Change % 2015/ 2014**	**Value change 2015/ 2014**
Total assets	**3,910,273**	**3,205,697**	**22.0%**	**704,576**
Total non-current assets	2,860,347	2,486,072	15.1%	374,275
Total current assets including:	1,049,926	719,625	45.9%	330,301
- inventory	*293,631*	*257,770*	*13.9%*	*35,861*
- current receivables	*499,196*	*409,071*	*22.0%*	*90,125*
- cash and cash equivalents	*202,935*	*49,162*	*312.8%*	*153,773*
- short-term investments	*50,781*	*-*	*-*	*50,781*
- non-current assets held for sale	*3,383*	*3,622*	*(6.6%)*	*(239)*
Total equity	**1,341,504**	**985,474**	**36.1%**	**356,030**
Equity attributable to shareholders of the parent	1,345,576	994,774	35.3%	350,802
Non-controlling interest	(4,072)	(9,300)	56.2%	5,228
Total non-current liabilities	1,802,311	1,471,544	22.5%	330,767
Total current liabilities	766,458	748,679	2.4%	17,779

PLN '000	**01.01-31.12.2015**	**01.01-31.12.2014**	**Change % 2015/2014**	**Change 2015/2014**
Net cash flows from operating activities	457,090	442,576	3.3%	14,514
Net cash flows from investment activities	(486,100)	(283,666)	(71.4%)	(202,434)
Net cash flows from financial activities	182,887	(212,580)	-	395,467

Total net cash flows	**153,877**	**(53,670)**	**-**	**207,547**
including free cash flows	*(29,010)*	*158,910*	*-*	*(187,920)*

	01.01-31.12.2015	01.01-31.12.2014	Change 2015/2014
CONTINUING OPERATIONS			
Earnings per share (in PLN)	**6.51**	**2.55**	**3.96**
Net return on sales	10.6%	4.1%	6.5 p.p.
EBIT %	15.0%	9.9%	5.1 p.p.
EBITDA %	21.6%	16.2%	5.4 p.p.
Normalized EBITDA %*	22.9%	15.8%	7.1 p.p.

** Principles of calculating EBIT, EBITDA and normalised EBITDA are described in section I.5.2.5 of this Report.*

Principles of ratio calculation (according to the data for continuing operations):

***Net profit (loss) per share** – net profit (loss) / weighted average number of ordinary shares in the period (in accordance with the definition in IAS 33 Earnings per share)*
***Net return on sales** – net profit (loss) for a given period/net revenues from sales of products services goods and materials*
***EBIT %** – operating profit for a given period/net revenues from sales of products services goods and materials*
***EBITDA%** – (operating profit + amortization/depreciation for a given period)/ net revenues from sales of products, services, goods and materials in a given period*
***Normalized EBITDA %** – EBITDA excluding non-recurring events of which the more-important are described in point I.5.2.5 / net revenues from sales of products, services, goods and materials in a given period*

PLN '000	01.01-31.12.2015	01.01-31.12.2014
EBITDA*	707,538	526,303
Normalized EBITDA*	748,422	511,126
Capital expenditures (1)	(494,745)	(285,755)
Interest paid (2)	(126,763)	(114,339)
Cash and cash equivalents	202,935	49,162
Total debt	1,605,477	1,231,913
Net debt	1,402,542	1,182,751
Net debt/ Normalized EBITDA	1.9	2.3
Normalized EBITDA / interest paid	(5.9)	(4.5)

** Principles of calculating EBITDA and normalised EBITDA are described in section I.5.2.5 of this Report.*

(1) Capital expenditures are expenditures for the acquisition of property, plant and equipment, intangible assets and investment properties as per the consolidated cash flow statement.
(2) Interest paid are actual cash payments of interest as per the consolidated cash flow statement.

5.2.2. Sales revenues

Consolidated sales revenues net from continuing operations of the CIECH Group for 2015 amounted to PLN 3,273,014 thousand. In comparison with the prior year sales revenues increased by PLN 29,114 thousand. The changes were mainly due to market factors.

The positive contributors to the presented profits were as follows:

- increase in prices of soda;
- strengthening of USD to PLN and RON;
- higher soda sales volumes;
- increase in sales volumes of epoxy resins and saturated polyester resins.

The negative contributors to the presented sales revenues were as follows:

- high supply and intensive activities of competitors on the salt market, pressure on price reductions;
- decrease in electricity prices in Germany;
- decrease in sales prices of epoxy resins and saturated polyester resins related to a low level of raw material prices, strong competition on the plant protection product market, intensive activities of new distributors, low purchase activity of farmers;

- no trading sales of sulphur (expiration of the contract for supply of the product with the Azoty Group).

Due to the change in the presentation of operating segments in the CIECH Group, the activity of the CIECH Group in 2015 concentrated on four business segments: soda, organic, silicates and glass, and the transport segment. The structure of sales revenues, by business segment, has not changed significantly in comparison with 2014. Invariably, the greatest share in the revenue was attributed to the sales of soda segment products, i.e. 68.5%.

The summary below presents sales revenues by basic products and goods of the CIECH Group:

PLN '000	**2015**	**2014**	**Change**	**Change %**	**% of total revenues in 2015**	**% of total revenues in 2014**
Soda segment, including:	**2,241,228**	**2,052,792**	**188,436**	**9.2%**	**68.5%**	**63.3%**
Dense soda ash	1,267,148	1,103,225	163,923	14.9%	38.7%	34.0%
Light soda ash	436,637	378,206	58,431	15.4%	13.3%	11.7%
Salt	170,203	166,953	3,250	1.9%	5.2%	5.1%
Baking soda	153,580	150,367	3,213	2.1%	4.7%	4.6%
Energy	64,237	84,645	(20,408)	(24.1%)	2.0%	2.6%
Gas**	37,885	44,478	(6,593)	(14.8%)	1.2%	1.4%
Calcium chloride	18,282	23,868	(5,586)	(23.4%)	0.6%	0.7%
Other products	66,284	71,501	(5,217)	(7.3%)	2.0%	2.2%
Revenues from inter-segment transactions	26,972	29,549	(2,577)	(8.7%)	0.8%	0.9%
Organic segment, including:	**769,877**	**784,141**	**(14,264)**	**(1.8%)**	**23.5%**	**24.2%**
Resins	343,080	336,899	6,181	1.8%	10.5%	10.4%
Polyurethane foams	218,881	231,025	(12,144)	(5.3%)	6.7%	7.1%
Plant protection chemicals	192,678	204,825	(12,147)	(5.9%)	5.9%	6.3%
Other	12,101	11,352	749	6.6%	0.4%	0.3%
Revenues from inter-segment transactions	3,137	40	3,097	7,742.5%	0.1%	0.0%
Silicates and Glass segment, including:	**175,012**	**350,562**	**(175,550)**	**(50.1%)**	**5.3%**	**10.8%**
Sulphur	-	165,721	(165,721)	(100.0%)	0.0%	5.1%
Glass blocks and packaging – lanterns and jars	85,156	82,307	2,849	3.5%	2.6%	2.5%
Sodium silicate in lumps	51,230	61,565	(10,335)	(16.8%)	1.6%	1.9%
Sodium water glass	29,863	21,904	7,959	36.3%	0.9%	0.7%
Other	8,749	19,060	(10,311)	(54.1%)	0.3%	0.6%
Revenues from inter-segment transactions	14	5	9	180%	0.0%	0.0%
Transport segment, including:	**122,628**	**98,213**	**24,415**	**24.9%**	**3.7%**	**3.0%**
Transport services	13,205	12,457	748	6.0%	0.4%	0.4%
Revenues from inter-segment transactions	109,423	85,756	23,667	27.6%	3.3%	2.6%
Other segment, including:	**146,710**	**108,415**	**38,295**	**35.3%**	**4.5%**	**3.3%**
Revenues from third parties	103,815	73,542	30,273	41.2%	3.2%	2.3%
Revenues from inter-segment transactions	42,895	34,873	8,022	23.0%	1.3%	1.1%
Consolidation adjustments	**(182,441)**	**(150,223)**	**(32,218)**	**21.4%**	**(5.6%)**	**(4.6%)**
TOTAL	**3,273,014**	**3,243,900**	**29,114**	**0.9%**	**100.0%**	**100.0%**

** Restated data.*
*** Resale of gas supplies surplus.*
Source: CIECH S.A.

Sales in the soda segment

Sales in the soda segment for the year ended 31 December 2015 amounted to PLN 2,241,228 thousand, which is an increase of PLN 188,436 thousand (i.e. by 9.2%), compared to sales revenues for the year ended 31 December 2014 of PLN 2,052,792 thousand. This increase was due mainly to a higher product sales volume, increase in soda prices and weakening of local currencies ((PLN and RON) to EUR and USD.

Sales in the organic segment

Sales in the organic segment for the year ended 31 December 2015 amounted to PLN 769,877 thousand, which is a decrease of PLN 14,264 thousand (i.e. by 1.8%), compared to sales revenues of PLN 784,141 thousand for the year ended 31 December 2014. The decrease was due mainly to a drop in the sales volume of plant protection products and a decrease in sales prices of PUR foams.

Sales in the silicates and glass segment

Sales in the silicates and glass segment for the year ended 31 December 2015 amounted to PLN 175,012 thousand, which is a decrease of PLN 175,550 thousand (i.e. by 50.1%), compared to sales revenues of PLN 350,562 thousand for the year ended 31 December 2014. The decrease was mainly caused by the Group no longer trading sulphur.

Sales in the transport segment

Sales in the transport segment for the year ended 31 December 2015 amounted to PLN 122,628 thousand, which is an increase of PLN 24,415 thousand (i.e. by 24.9%), compared to PLN 98,213 thousand generated in the year ended 31 December 2014. The increase was mainly caused by increasing transport and logistic services provided to customers.

5.2.3. Gross sales result

Cost of goods sold for the year ended 31 December 2015 amounted to PLN 2,398,910 thousand, which is a decrease by PLN 164,140 thousand (i.e. by 6.4%) compared to PLN 2,563,049 thousand in the cost of goods sold in the year ended 31 December 2014. The cost of goods sold was mainly reduced due to lowering the prices of energy carriers (natural gas, coal) in the soda segment as well as oil-derivative products in the organic segment.

In 2015, the gross profit on sales amounted to PLN 874,104 thousand, while in the same period last year, it amounted to PLN 680,850 thousand.

The table below presents gross profit on sales per segments:

in PLN thousand	**01.01-31.12.2015**	**01.01-31.12.2014**
Soda segment	712,565	490,318
Organic segment	133,749	120,066
Silicates and Glass segment	44,940	80,265
Transport segment	13,166	11,775
Other*	(30,316)	(21,574)
Gross profit/(loss) on sales	**874,104**	**680,850**

** "Other" includes the segment of other activity, corporate functions and consolidation adjustments.*

Soda segment

The gross profit on sales in the soda segment for the year ended 31 December 2015 amounted to PLN 712,565 thousand compared to PLN 490,318 thousand for the year ended 31 December 2014. This improvement was impacted by an increase in the volume and prices of the soda products as well as decreased prices of energy carriers (natural gas, coal).

Organic segment

The gross profit on sales in the organic segment for the year ended 31 December 2015 amounted to PLN 133,749 thousand compared to PLN 120,066 thousand for the year ended 31 December 2014. The main reason for this increase was an improvement in the effectiveness of sales of plastics and PUR foams.

Silicates and Glass segment

The gross profit on sales in the silicates and glass segment for the year ended 31 December 2015 amounted to PLN 44,940 thousand compared to PLN 80,265 thousand for the year ended 31 December 2014. The decrease of the result was mainly caused by the Group no longer trading sulphur.

Transport segment

The gross profit on sales in the transport segment for the year ended 31 December 2015 amounted to PLN 13,166 thousand compared to PLN 11,775 thousand for the year ended 31 December 2014. The improvement was caused by increasing transport and logistic services provided to customers.

5.2.4. Operating result

Other operating income

Other operating income for the year ended 31 December 2015 amounted to PLN 52,927 thousand, which is a decrease by PLN 42,234 thousand in comparison to PLN 95,161 thousand for the year ended 31 December 2014. The decrease of other operating income was mainly caused by lower income in 2015 due to reversal of revaluation write-downs for the value of non-current assets.

Selling costs

Selling costs for the year ended 31 December 2015 amounted to PLN 192,855 thousand, which is a decrease of PLN 21,412 thousand (i.e. by 10.0%), compared to PLN 214,267 thousand for the year ended 31 December 2015. Selling costs amounted to 5.9% of the sales revenues for 2015 (as compared to 6.6% for the year 2014). This decrease mainly results from the lack of transaction costs relating to sulphur sales.

General administrative costs

General administrative costs for the year ended 31 December 2015 amounted to PLN 155,784 thousand, which is a increase of PLN 5,407 thousand (i.e. by 3.6%), compared to PLN 150,377 thousand for the year ended 31 December 2014.

Other operating expenses

Other operating expenses for the year ended 31 December 2015 amounted to PLN 88,576 thousand, which is at the similar level as in the year ended 31 December 2014, when they amounted to PLN 89,552 thousand.
The result of operating activities for 2015 was at the level of PLN 489,816 thousand and PLN 321,815 thousand for a comparable period.

5.2.5. EBITDA

EBITDA is the net profit/loss for a financial year plus income tax plus a share in net profit of subordinated entities evaluated with equity method plus costs/financial income plus profit/loss on sale of a discontinued operation plus amortization. EBITDA is not a liquidity ratio or business performance ratio calculated in accordance with IFRS. 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 serve debt. EBITDA and similar ratios are used by different companies for different purposes and are often calculated in a manner adapted to the conditions in which these companies exist. Care needs to be exercised when comparing the EBITDA with EBITDA of other companies.

PLN '000	**01.01–31.12.2015**	**01.01–31.12.2014**
Net profit/(loss) on continuing operations	346,005	133,782
Income tax	(68,623)	45,291
Share of profit / (loss) of equity-accounted investees	(163)	(251)
Financial expenses	219,003	151,364
Financial income	(6,406)	(8,371)
Amortisation/depreciation	217,722	204,487
EBITDA	**707,538**	**526,302**

Normalised EBITDA is another additional ratio of business performance. Normalised EBITDA is EBITDA adjusted for costs/revenues that were classified by the management as one-off due to their nature. We believe that normalised EBITDA is an important ratio when estimating and measuring the Group's recurring business performance. Other companies may calculate normalised EBITDA in a manner different from the manner applied by the CIECH Group. Normalised EBITDA is not a measure of financial performance under IFRS and is therefore not audited. It should not be used as a ratio of liquidity or as an alternative to operating profit or net profit for a year or as another measure of results calculated in accordance with IFRS. The table below contains a reconciliation of EBITDA to normalised EBITDA for the indicated periods.

PLN '000	***01.01-31.12.2015***
EBITDA	**707,538**
One-offs:	**(40,884)**
Provisions for liabilities and the forecasted losses	(23,891)
Investment property measurement	(6,347)
Cost of refinancing	(5,142)
Profit / (loss) on liquidation of a subsidiary	(2,834)
Impairment losses of non-current assets	(1,286)
Other	(1,384)
Normalised EBITDA	**748,422**

PLN '000	***01.01-31.12.2014***
EBITDA	**526,302**
One-offs:	**15,175**
Impairment losses of non-current assets	20,519
Investment property measurement	(6,454)
Change in provisions	4,029
Restructuring costs	(2,728)
Other	(190)
Normalised EBITDA	**511,126**

PLN '000	**01.01–31.12.2015**	**01.01–31.12.2014**
EBITDA (a)	707,538	526,302
One-offs:	(40,884)	15,176
Impairment loss (b)	(2,119)	17,791
Cash items (c)	(1,143)	625
Non-cash items (without impairment loss) (d)	(37,622)	(3,239)
Normalised EBITDA	**748,422**	**511,126**

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

(b) Cash items include, among others, profit/loss of the sale of property, plant and equipment and other items (including costs associated with discontinued operations, fees and compensations).

(c) Non-cash items include: fair value measurement of investment properties, profit/loss on discontinued operations, costs of liquidation of inventories and property, plant and equipment, the costs of suspended investment environmental provisions, provisions for liabilities and expected losses, costs of unused production capacity and other items (including extraordinary costs and other provisions).

EBITDA for continuing operations in the year ended 31 December 2015 amounted to PLN 707,538 thousand, which is an increase of PLN 181,236 thousand, compared to PLN 526,302 thousand for the year ended 31 December 2014. The increase of EBITDA was primarily due to the significant increase of the gross profit on sales as well as the result on other operating activities.

The EBIT margin ratio amounted to 15.0% at the end of 2015 (9.9% in the preceding year) and the EBITDA margin ratio amounted to 21.6% (16.2% in the preceding year). The EBIT margin ratio excluding one-off events amounted to 16.2% at the end of 2015 (9.5% in the preceding year), and the EBITDA margin ratio excluding one-off events amounted to 22.9% (15.8% in the preceding year).

The table below presents EBITDA and normalised EBITDA per segments:

in thousand PLN

EBITDA	**01.01–31.12.2015**	**01.01–31.12.2014**
Soda segment	629,924	464,311
Organic segment	85,741	67,682
Silicates and Glass segment	33,590	35,981
Transport segment	16,164	11,257
Other	(57,881)	(52,929)
TOTAL	**707,538**	**526,302**

in thousand PLN

Normalised EBITDA	01.01–31.12.2015	01.01–31.12.2014
Soda segment	655,793	436,095
Organic segment	85,391	68,272
Silicates and Glass segment	33,437	36,068
Transport segment	13,349	13,590
Other	(39,548)	(42,899)
TOTAL	**748,422**	**511,126**

5.2.6. Financing activities and net result

Financial income for 2015 amounted to PLN 6,406 thousand and recorded a decrease as compared to the preceding year, when they amounted to PLN 8,371 thousand. Finance costs for 2015 amounted to 219,003 thousand and recorded an increase as compared to the preceding year, when they amounted to PLN 151,364 thousand.

The financing activities were negatively impacted by high costs of debt services incurred in Q4 2015, relating to refinancing an external debt as well as negative exchange differences.

The consolidated net profit for 2015 amounted to PLN 346,005 thousand (of which PLN 342,987 thousand was a net profit attributable to the owners of the parent company and 3,018 thousand as the profit of non-controlling shares). This result was influenced mainly by operating profit partially offset by negative result from the financing activities (the main negative factor was the external debt service cost, mainly interest on bonds and costs of refinancing). The net result of the Group was also positively impacted by income tax in the amount of PLN 68,623 thousand.

Financial performance on different types of activities

PLN '000	01.01-31.12.2015	01.01-31.12.2014	Change % 2015/2014	Change 2015/2014
CONTINUING OPERATIONS				
1. Operating profit/loss	489,816	321,815	52.2%	168,001
2. Net financial income/expenses	(212,597)	(142,993)	(48.7%)	(69,604)
3. Share of profit of equity-accounted investees	163	251	(35.1%)	(88)
4. Income tax	68,623	(45,291)	-	113,914
5. Net profit/loss (1+2+3+4) on continuing operations	**346,005**	**133,782**	**158.6%**	**212,223**
6. Net profit/loss attributed to non-controlling interest on continuing operations	3,018	(763)	-	3,781
7. Net profit/loss attributable to shareholders of the parent company (5-6) on continuing operations	**342,987**	**134,545**	**154.9%**	**208,442**
8. Net profit/(loss) on discontinued operations	-	32,571	-	(32,571)
9. Net profit/(loss) for the year (5+8)	**346,005**	**166,353**	**108.0%**	**179,652**

Source: CIECH S.A.

5.2.7. Assets

As at the end of December 2015, the CIECH Group's non-current assets amounted to PLN 2,860,347 thousand. Compared to the status as `at 31 December 2014, the value of current assets increased by PLN 374,275 thousand. This change is mainly related to the conducted investments in tangible assets and recognition of assets due to deferred tax. A negative impact on the change in the value of non-current assets was also caused by reclassification of the loans granted to the item of short-term loans as well as the decrease of the fair value of investment property.

The Group's current assets amounted to PLN 1,049,926 thousand as at 31 December 2015. The current assets' structure was predominated by: trade and other receivables constituting 44.7%, inventory constituting 28.0% as well as cash and cash equivalents constituting 19.3% of

total current assets. Compared to the end of December 2014, the value of current assets increased by PLN 330,301 thousand. This increase results from increasing the state of cash (the outcome of refinancing debt in Q4 2015), increasing receivables as a result of increased sales in the soda segment as a result of increased prices. Furthermore, the stock of inventories also increased which results mainly from increasing the stock of raw materials in the soda segment as well as the segment of finished goods and products in the soda and organic segments.

5.2.8. Liabilities

As at 31 December 2015, the CIECH Group's liabilities (non-current and current) amounted to PLN 2,568,769 thousand, which is an increase compared to the end of December 2014 by PLN 348,546 thousand (i.e. by 15.7%).

The debt ratio (current and non-current liabilities/total assets) amounted to 65.7% as at 31 December 2015 (at the end of December 2014 to 69.3%). The consolidated net debt of the Group calculated as the sum of non-current and current liabilities due to credits, loans and other debt instruments (bonds + finance lease + liabilities resulting from derivatives + liabilities resulting from reverse factoring) decreased by cash and cash equivalents amounted to PLN 1,402,542 thousand as at 31 December 2015 and increased in comparison to the balance as at the end of December 2014 by PLN 219,790 thousand.

5.2.9. Cash resources

The sources of liquidity include cash flows generated from operating activities, cash from the sale of assets, cash from EU grants for capital expenditure, cash available due to the revolving credit facility agreement and overdraft. The Group also uses factoring agreements.

Debt instruments currently used

The Group's sources of debt financing include: issued domestic bonds, term loan, revolving credit, overdrafts as well as lease liabilities).

5.2.10. Cash flows

In 2015 total net cash flows were positive and amounted to PLN 153,877 thousand. Compared to the same period of the previous year, the cash flows generated by the Group were higher by PLN 207,547 thousand. The cash flows from operating activities amounted to PLN 457,090 thousand and increased by PLN 14,514 thousand as compared to the same period in 2014.
In 2015, the net cash flows from investing activities were negative. The surplus of outflows over investment inflows amounted to PLN 486,100 thousand. Acquisition of property, plant and equipment by the Group companies had the main impact on net cash flows from investment activities.
The net cash from financing activities was positive and amounted to PLN 182,887 thousand. When compared to the same period in 2014, it was higher by PLN 395,467 thousand (in 2015, the Group recorded high inflows due to refinancing debt, in 2014 the negative balance of cash flows for financing activities was related to expenditure for purchasing denominated bonds in PLN covering the amount of PLN 160 million).

5.2.11. Working capital and selected financial ratios

CIECH Group's profitability ratios

In 2015 profitability ratios of continuing operations of the CIECH Group were at a higher level compared to the ratios in 2014.

	01.01–31.12.2015	01.01–31.12.2014
CONTINUING OPERATIONS		
Gross return on sales	26.7%	21.0%
Return on sales	16.1%	9.7%
EBIT margin	15.0%	9.9%
EBITDA margin	21.6%	16.2%
Operating profit margin (normalized*)	16.2%	9.5%
Normalized EBITDA margin*	22.9%	15.8%
Net return on sales (ROS)	10.6%	4.1%
Return on assets (ROA)	8.8%	4.2%
Return on equity (ROE)	25.8%	13.6%

** principles of calculating EBITDA and normalised EBITDA have been described in section I.5.2.5 of this Report.*

Principles of ratio calculation (according to the data for continuing operations):
***gross return on sales** – gross profit on sales for a given period / net revenues from sales of products, services, goods and materials for a given period;*
***return on sales** – profit for a given period / net revenues from sales of products, services, goods and materials for a given period;*
***EBIT margin** – operating profit for a given period / net revenues from sales of products, services, goods and materials for a given period;*

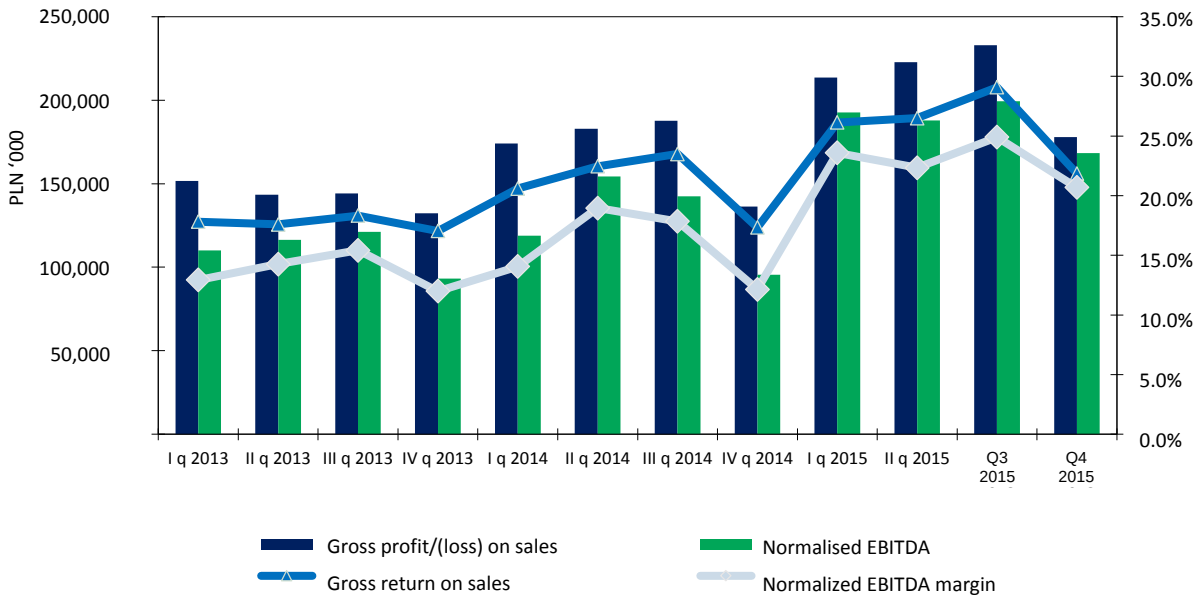
***EBITDA margin** – (operating profit + amortisation/depreciation for a given period)/ net revenues from sales of products, services, goods, and materials in a given period;*

***normalised EBIT margin** – operating profit for a given period excluding one-off events, the more important of which were described in section I.5.2.5 / net revenues from sales of products, services, goods and materials for a given period;*

***normalised EBITDA margin** – EBITDA excluding one-off events, the more important of which were described in section I.5.2.5 / net revenues from sales of products, services, goods and materials for a given period;*

***net return on sales (ROS)** – net profit for a given period / net revenues from sales of products, services, goods and materials for a given period;*
***return on assets (ROA)** – net profit for a given period/total assets at the end of a given period;*
***return on equity (ROE)** – net profit for a given period/total equity at the end of a given period.*

CIECH Group's return levels



Normalised EBITDA – excluding one-off events reported in particular quarters

Source: CIECH S.A.

Liquidity of the Group and working capital

Liquidity ratios as at 31 December 2015 increased as compared to their level as at 31 December 2014. The current ratio calculated as total current assets to total short-term liabilities amounted to 1.37 as at 31 December 2015 while the quick ratio amounted to 0.99.

CIECH Group's liquidity ratios

	31.12.2015	31.12.2014
Current ratio	1.37	0.96
Quick ratio	0.99	0.62

Principles of ratio calculation:

***current ratio** – the ratio of current assets to the current liabilities at the end of a given period; measures a company's ability to cover current liabilities using current assets.*

***quick ratio** – the ratio of current assets less inventory to current liabilities at the end of a given period; measures a company's ability to gather cash in short term to cover its current liabilities.*

Ability to generate cash flows

PLN '000	**01.01–31.12.2015**	**01.01–31.12.2014**
Financial surplus (net profit + depreciation)	563,727	338,269
Other adjustments to net profit	9,710	(25)
Adjusted financial surplus	**573,437**	**338,244**
Change in working capital	(116,347)	104,332
Net cash from operating activities	**457,090**	**442,576**
Net cash from investing activities	(486,100)	(283,666)
Free cash flow	**(29,010)**	**158,910**

In 2015, the CIECH Group generated negative free cash flows i.e. it was unable to finance its capital expenditure with cash flows from operating activities. The adjusted financial surplus did not reach the required level to contribute to generating positive free cash flows.

The CIECH Group's working capital

Working capital, defined as the difference between current assets and short-term liabilities, adjusted by relevant balance sheet items (cash and cash equivalents and short-term loans) as at the end of December 2015 was negative and amounted to PLN 76,742 thousand, which is an increase of PLN 118,505 thousand compared to the end of 2014.

PLN '000	**31.12.2015**	**31.12.2014**
1. Current assets, including:	1,049,926	719,625
Inventory	*293,631*	*257,770*
Trade receivables	*284,707*	*268,020*
2. Cash and cash equivalents and short-term investments	253,716	49,162
3. Adjusted current assets (1-2)	**796,210**	**670,463**
4. Current liabilities, including:	766,458	748,679
Trade liabilities	*273,332*	*322,179*
5. Short-term credits and other current financial liabilities*	46,990	36,452
6. Adjusted current liabilities (4-5)	**719,468**	**712,227**
7. Working capital including short-term credits(1-4)	**283,468**	**(29,054)**
8. Working capital (3-6)	**76,742**	**(41,764)**

** Other short-term financial liabilities include current finance lease liabilities + current liabilities from derivatives + leaseback liability.*

Trade working capital is the difference between current assets (trade receivables and inventory) and trade liabilities. The recorded levels of working capital and trade working capital vary due to a number of factors such as the impact of raw material prices and sales prices, the volatility of working capital related to trade activities (high-value transactions), production downtime and repair works, changes in key suppliers' payment terms, foreign exchange rates, the Group companies' decisions regarding inventory maintenance, the business operating level and the seasonal nature of operations.

In the past, the CIECH Group financed the working capital requirements from available cash, cash revenues and through active management of working capital. In order to ensure adequate financial liquidity, the Group companies have the access to a revolving credit facility and factoring limits. The Group assumes that the cash flows from operations, together with cash provisions and revolving credit facility with factoring limits will be sufficient to fund working capital requirements, anticipated capital expenditures and timely service of debt.

Working capital and trade working capital requirements are characterised by moderate seasonality. To some extent, seasonal requirements of working capital and trade working capital may apply to the organic segment, in particular regarding activities related to plant protection chemicals, with the peak of working capital and trade working capital requirements at the beginning of the year and decrease in the second half of the year. This situation is mainly the result of the plant protection product sales cycle, where the majority of sales transactions occur in the first and second quarter of the year (i.e. before the growing season), while receivables are usually paid in the third and fourth quarter, after the end of the season. Plant protection chemicals accounted for approximately 5.9% of sales revenues of the Group in 2015.

Indebtedness

The debt ratio decreased in comparison to December 2014 and accounts for 65.7%. At the same time, the relative level of net debt (net financial liabilities in relation to EBITDA) improved as compared to the end of 2014. The ratio adjusted by one-off events is at a lower level in comparison to the previous year (net financial liabilities in relation to normalised EBITDA).

The CIECH Group's debt ratios

	31.12.2015	31.12.2014
Debt ratio	65.7%	69.3%
Long term debt ratio	46.1%	45.9%
Debt to equity ratio	191.5%	225.3%
Equity to assets ratio	34.3%	30.7%
Gross debt	1,605,477	1,231,914
Net debt	1,402,542	1,182,752
EBITDA annualized	707,538	526,303
EBITDA normalized (annualized)	748,422	511,126
Net debt / EBITDA annualized	2.0	2.2
Net debt / EBITDA normalized (annualized)*	1.9	2.3
Gross debt / EBITDA annualized	2.3	2.3
Gross debt / EBITDA normalized (annualized)*	2.1	2.4

** principles of calculating EBITDA and normalised EBITDA have been described in section I.5.2.5 of this Report.*

Principles of ratio calculation (according to the data for continuing operations):
***debt ratio** – the ratio of current and non-current liabilities to total assets; measures the share of external funds in financing of a company's activity;*

***long-term debt ratio** – the ratio of non-current liabilities to total assets; measures the share of non-current liabilities in financing of company's activity;*

***debt to equity ratio** – the ratio of total liabilities to equity;*

***equity to assets ratio** – the ratio of equity to total assets; measures the share of equity in financing of a company's activity;*

***net debt** – liabilities from loans, bonds and borrowings (plus overdraft) and other debt instruments (finance lease + liabilities resulting from derivatives + liabilities resulting from reverse factoring) less cash and cash equivalents;*

***gross debt** – liabilities from loans, bonds and borrowings (plus overdraft) and other debt instruments (finance lease + liabilities resulting from derivatives + liabilities resulting from reverse factoring).*

5.2.12. CIECH Group results for Q4 2015

Unaudited financial results *PLN '000*	01.10-31.12.2015	01.10-31.12.2014
CONTINUING OPERATIONS		
Sales revenues	**814,171**	**786,161**
Cost of sales	(609,549)	(649,881)
Gross profit/(loss) on sales	**204,622**	**136,280**
Other operating income	21,271	62,859
Selling costs	(48,750)	(52,026)
General and administrative expenses	(41,505)	(42,523)
Other operating expenses	(26,189)	(13,396)
Operating profit/(loss)	**109,449**	**91,194**
Financial income	705	3,103
Financial expenses	(123,723)	(31,498)
Net financial income/expenses	**(123,018)**	**(28,395)**
Share of profit / (loss) of equity-accounted investees	88	(21)
Profit/(loss) before tax	**(13,481)**	**62,778**
Income tax	101,371	(794)
Net profit/(loss) on continuing operations	**87,890**	**61,984**
DISCONTINUED OPERATIONS		
Net profit/(loss) on discontinued operations	**-**	**49,725**
Net profit / (loss)	**87,890**	**111,709**
including:		

Unaudited financial results *PLN '000*	01.10-31.12.2015	01.10-31.12.2014
Net profit/(loss) attributable to shareholders of the parent company	87,729	111,004
Net profit/(loss) attributed to non-controlling interest	161	705
Earnings per share (in PLN):		
Basic	1.66	2.11
Diluted	1.66	2.11
Earnings/(loss) per share (in PLN) from continuing operations:		
Basic	1.66	1.16
Diluted	1.66	1.16

The results in Q4 2015 were mainly impacted by the continuation of a positive trend in the result in the soda segment, result of pre-season sales in the organic segment, costs related to debt refinancing, creating additional provisions for liabilities and anticipated losses, changes in provisions due to changing the ratios of the discount and creating assets for deferred tax.

5.3. Information about changes in contingent assets or liabilities and other issues

Significant disputed liabilities of the CIECH Group

As at 31 December 2015, the total value of significant disputed liabilities of CIECH S.A. and subsidiaries of CIECH S.A., pursued in all types of proceedings in front of court, body appropriate for arbitration proceedings or public administration bodies amounted to less than 10% of CIECH S.A equity.

Significant disputed receivables of the CIECH Group

As at 31 December 2015, the total value of significant disputed receivables of CIECH S.A. and subsidiaries of CIECH S.A., pursued in all types of proceedings in front of court, body appropriate for arbitration proceedings or public administration bodies amounted to less than 10% of CIECH S.A equity.

Contingent assets and contingent liabilities, including guaranties and sureties

PLN '000

Other contingent items	31.12.2015	31.12.2014
1. Contingent assets	**18,864**	**18,864**
- other contingent receivables*	18,864	18,864
2. Contingent liabilities	**630,105**	**824,918**
- guarantees and sureties granted **	528,601	704,968
- other***	101,504	119,950
RAZEM	**648,969**	**843,782**

** contingent assets valued at PLN 18,864 thousand which are claimed against GZNF „FOSFORY" Sp. z o.o. demanding a payment as a compensation for making an alleged untrue declaration by GZNF to CIECH S.A. about the condition of Agrochem Człuchów Sp. z o.o. with its registered office in Człuchów.*

*** description in section „sureties and guaranties"*

**** including mainly:*

- *contingent liability in CIECH Soda Romania S.A. resulting from a claim filed by the employees of CIECH Soda Romania S.A. – the amount of PLN 20,374 thousand (RON 21,626 thousand),*
- *contingent liability in SDC Group regarding environmental protection in the amount of PLN 15,520 (EUR 3,642 thousand),*
- *contingent liability in CIECH Soda Polska S.A. regarding environmental penalty fees in the amount of PLN 30,974 thousand,*
- *contingent liability in CIECH Soda Polska S.A. resulting from in blanco promissory note to the National Fund for Environmental Protection and Water Management for the received financing in case of a possible financial correction in the amount of PLN 33,483 thousand.*

Contingent liabilities as at 31 December 2015 amounted to PLN 630,105 thousand, which signifies an decrease by PLN 194,813 thousand compared to 31 December 2014. Change in value of other contingent liabilities in comparison with their value as at 31 December 2013 results mainly from:

- expiry of guarantees to the value of 155% of the liabilities relating to the issuance of foreign bonds in the amount of EUR 245,000 thousand, in connection to their early repayment (the amount of the expired guarantee is PLN 574,345 thousand).

- selected companies granting guarantees to the value of 125% of the liability due to term loans and revolving credit facility – total amount of the granted guarantees: PLN 397,986 thousand.
- reclassification of a contingent liability in respect of VAT payable in the amount of PLN thousand (RON 10,554 thousand) to provisions for liabilities in CIECH Soda Romania S.A.,
- decrease in grants in CIECH Soda Polska S.A. by the amount of PLN 13,443 thousand,
- the subsidy received by CIECH Soda Polska S.A. under the programme entitled "Reduction of dust emission in CHP Inowrocław through the modernisation of electrofilters" amounting to PLN 3,755 thousand.

Sureties and guaranties granted at 31 December 2015:

Beneficiary's name	Total amount of liabilities covered by guarantee/surety in whole or in specific part		Guarantee period	Financial terms, including guarantee fee due to the company	Principal	Nature of relations between CIECH S.A. and the principal
	currency in thousands	in PLN thousand				
CIECH S.A.						
Anwil S.A.	PLN 15,000 thousand	15,000	2017-06-30	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to the liability.	CIECH Trading S.A.	Subsidiary
Bank Pekao S.A.	EUR 5,000 thousand	21,308	2016-12-23	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to the liability	CIECH Soda Deutschland GmbH&Co.KG	Subsidiary
BASF Polska Sp. z o.o., BASF SE	EUR 10,000 thousand	42,615	Until 12 March 2017 at the latest	Guarantee for certain liabilities and warranties made by Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej under the Agreement for Sale and Transfer of TDI assets to BASF.	Infrastruktura Kapuściska S.A. w likwidacji	Unrelated company
Bioagra-Oil S.A.mbH	PLN 250 thousand	250	2016-09-30	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to the liability	CIECH Trading S.A.	Subsidiary
BZ WBK Faktor Sp. z o.o.	PLN 18,000 thousand	18,000	No time limit	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to the liability	CIECH Trading S.A.	Subsidiary
BZ WBK Faktor sp. z o.o.	PLN 49,500 thousand	49,500	No time limit	Commission of 1.5% p.a. of the guaranteed liability	CIECH Finance Sp. z o.o.	Subsidiary
Spolana a.s.	EUR 1,500 thousand	6,392	Liabilities incurred and outstanding by 31.12.2016	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to the liability.	CIECH Trading S.A.	Subsidiary
Zakłady Chemiczne ALWERNIA S.A.	PLN 1,000 thousand	1,000	Liabilities incurred and outstanding by 31.12.2016	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to the liability.	CIECH Trading S.A.	Subsidiary
GEA Process Engineering A/S	EUR 1,038 thousand	4,423	2016-05-04	Commission of 1.5% p.a. of the guaranteed liability	CIECH Soda Polska S.A.	Subsidiary
Azoty Group Zakłady Azotowe Kędzierzyn S.A.	EUR 200 thousand	852	2016-09-30	Commission of 1.5% p.a. of the guaranteed liability	CIECH Trading S.A.	Subsidiary

Beneficiary's name	Total amount of liabilities covered by guarantee/surety in whole or in specific part		Guarantee period	Financial terms, including guarantee fee due to the company	Principal	Nature of relations between CIECH S.A. and the principal
	currency in thousands	in PLN thousand				
PGE Polska Grupa Energetyczna S.A.	PLN 10,000 thousand	10,000	2016-12-31	Commission of 1.5% p.a. of the guaranteed liability	CIECH Soda Romania S.A.	Subsidiary
Siemens Industrial Turbo- machinery s.r.o	EUR 1,753 thousand	7,470	Lease instalments outstanding by 30.04.2019	Commission of 0.4% p.a. of the guaranteed liability	KWG	Subsidiary
VITROBUDOWA Sp. z o.o.	PLN 67,035 thousand	67,035	90 calendar days from signing the final acceptance report	Commission of 1.5% p.a. of the guaranteed liability	CIECH Vitrosilicon S.A.	Subsidiary
Selected subsidiaries in Poland, Germany and Romania						
holders of Series 02 domestic bonds	PLN 248,000 thousand *(guarantee granted up to the amount of 155% of liabilities related to the issue of domestic bonds in the amount of PLN 160,000 thousand)*	PLN 248,000 thousand	2017-12-05	Commission of 0.55% p.a of the difference between the limit of the guarantee collateralised by assets and a surplus of the guarantee limit;	CIECH S.A.	Parent company
banks: Bank Handlowy w Warszawie S.A., Bank Millennium S.A., BZWBK S.A., Bank PKO BP S.A., Credit Agricole Bank Polska S.a., HSBC Bank Polska S.A., ICBC (Europe) S.A. Branch in Poland	PLN 1,618,789 thousand (*guarantee granted up to the amount of 125% of the liability related to the term loan in the amount of PLN 1,045,031 thousand and revolving loan in the amount of PLN 250,000 thousand)* EUR 87,091 thousand (guarantee granted up to the amount of 125% of the liability related to the *term loan in the amount of EUR 69,673 thousand*)	PLN 1,989,928 thousand	2023-12-31	Commission of 0.55% p.a of the difference between the limit of the guarantee collateralised by assets and a surplus of the guarantee limit;	CIECH S.A.	Parent company
Total amount of guarantees and sureties granted		**2,481,774**				

CIECH's Group entities did not receive any guaranties, sureties from other companies in 2015.

Letters of support

As at 31 December 2015, CIECH S.A. was the obliged party in the following letter of support:

Letter of support (Patronatserklärung) regarding Sodawerk Staßfurt GmbH&Co. KG seated in Staßfurt ("SWS") granted to RWE Gasspeicher GmbH ("RWE") relating to liabilities of SWS 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 SWS received payments of EUR 34.8 million from RWE by 31 December 2015. In the letter of support, CIECH S.A. has committed, among other things, to ensure that SWS will have sufficient funds to fulfil its financial commitments against RWE resulting from the above-mentioned agreement.

5.4. Explanation of differences between financial results and the previously published forecasts of results for 2015

CIECH Group did not publish forecasts for 2015.

5.5. Investing activities – property investments

Investments implemented in 2015

The CIECH Group has and constantly updates its capital expenditure program for production facilities in order to develop or maintain the current levels of production in particular plants and to fulfil the obligation related to new legal regulations. The capital expenditures are also necessary in relation to modernisation of old equipment and energy efficiency improvement as well as to the increase the production capacity by elimination of bottlenecks or in relation to improvement of the control process.

The investment expenditures incurred by the CIECH Group companies in a twelve-month period ended 31 December 2015 amounted to approximately PLN 495 million. Investment expenditures in 2014 amounted to PLN 286 million. In 2015, the main capital expenditures of companies were used for the implementation of several large-scale projects, including the extension and modernisation of plants in the soda segment such as intensification of soda ash production and intensification of dry salt production. Furthermore, the company started execution of large projects relating to development of flue gas desulphurisation and denitrification systems in the Polish cogeneration plants belonging to the CIECH Group. Other capital expenditures were used mainly in relation to projects which aim at improving and retaining the production capacity as well as improving the effectiveness of our plants. The Group divides its capital expenditures into modernisation/reconstruction investments and development investments. The first category includes all expenditures required to maintain optimum technical condition of owned assets (including compliance with environmental regulations, replacement of equipment, etc. The second category includes projects which are designed to improve the Group's position. Decisions relating to executing investment projects are made on the basis of a business plan and such indicators of investment effectiveness as: total cost of assets, net present value, internal rate of return and payback period.

Investments implemented in 2015 at the CIECH Group concentrated mainly on the soda business and included, among others:

- intensification of soda ash production by 200 thousand tonnes per year to the level of 800 thousand tonnes per year in Soda Polska CIECH S.A. (Inowrocław),
- intensification of soda monohydrate production (by 100 thousand tonnes per year) at CIECH Soda Polska S.A. (Inowrocław),
- intensification of dry salt production at CIECH Soda S.A. Polska (Janikowo),
- modification of the system for filtering post-soda lime suspension at CIECH Soda Polska S.A. (Janikowo),
- development of flue gas desulphurisation and denitrification systems at the cogeneration plants belonging to the CIECH Group (Inowrocław and Janikowo).

The main investments executed by the Group in the remaining segments are as follows:
- development of a new co-packing centre at CIECH Sarzyna S.A.,
- intensification of glassy sodium silicate at CIECH Vitrosilicon S.A.

Capital expenditures planned for the upcoming 12 months

For 2016, the Group plans capital expenditures at the level of PLN 623 million. Apart from development capital expenditures, the CIECH Group is going to implement (in all of the CIECH Group subsidiaries) a package of modernisation and reconstruction investments to maintain the current production infrastructure. Additionally, environmental investment projects will be implemented which are focused on adjusting the Group's industrial facilities to the changing legal requirements, especially those considering industrial emissions (Industrial Emissions Directive).

The Group intends to finance the planned investments from generated cash flows and other external sources of debt financing.

5.6. Investing activities – capital investments

In 2015, no capital investments have been carried out at the CIECH Group.

5.7. Evaluation of the ability to complete investment plans in relation to owned assets

The sources of financing of investing activities in CIECH S.A. and the CIECH Group are as follows:

- cash flows from operating activities,
- external sources of funding in the form of European Union funds,
- external sources of funding in the form of bank loans and issued bonds.

5.8. Financial resource management

Debt financing of the Group

Debt financing of the Group in the form of bonds and loans is composed of:

- Domestic bonds issued by CIECH S.A. – as at 31 December 2015, the nominal debt amounted to PLN 160 million,
- Loans are granted to CIECH S.A. pursuant to the loans agreement of 29 October 2015:
    - term loan in the amount of PLN 1,045,031 thousand and EUR 69,673 thousand (the total amount of the loan as at 31 December 2015 was PLN 1,341,942 thousand)
    - revolving credit facility granted to CIECH S.A. in the amount of up to PLN 250,000,000 (the amount of used credit as at 31 December 2015 amounted to PLN 0).
- bank overdrafts granted to CIECH Soda Deutschland GmbH & Co. KG in the amount of EUR 5,000 thousand – as at 31 December 2015 the debt amounted to EUR 4,913 thousand (i.e. PLN 20,937 thousand).

Domestic Bonds

On 5 December 2012, CIECH S.A. issued Domestic Bonds for the total principal amount of PLN 320 million.

General information

The Domestic Bonds have a 5 year maturity. Two series of bonds were issued:

- Series 01 with a total nominal value of PLN 160,000 thousand with the option allowing CIECH S.A. for early redemption of the bonds before their maturity date, i.e. after 18 and 42 months from the issue date, with maturity date on 5 December 2017;
- Series 02 with a total nominal value of PLN 160,000 thousand without the option of early redemption of the bonds by CIECH S.A., with maturity date on 5 December 2017;

Series 01 Bonds were redeemed before the maturity date on 5 June 2014.

Domestic Bonds are senior obligations of CIECH S.A. secured by sureties issued by guarantor companies in the Group and are treated equally when it comes to the order of payment with existing and future debts of CIECH S.A. which are not subordinated to the Domestic Bonds when considering the order of payment and are structurally subordinated to all existing and future liabilities of subsidiaries of CIECH S.A. which are not guarantors.

Domestic bonds are secured by means of a common package of securities shared between the creditors, e.g. domestic bonds and creditors being parties to a loan agreement, pursuant to the principles specified in the Intercreditor Agreement. Only those holders of the Domestic Bonds who enter into the Intercreditor Agreement will benefit from the security as well as the rights and obligations under the Intercreditor Agreement. Any holder of the Domestic Bonds who does not enter into the Intercreditor Agreement will not benefit from the security.

Coupon

The interest rate of the Domestic Bonds is the sum of the margin of 490 basis points in the case of Series 02 and the semi-annual WIBOR rate (as defined in the terms of Domestic Bonds). Interest for Domestic Bonds is payable in semi-annual periods.

Early mandatory redemption – Payment Default

CIECH S.A. is subject to mandatory redemption of the Domestic Bonds at their nominal value plus the accrued and unpaid interest before the maturity date in the case of payment default on interest or principal of the Domestic Bonds.

Early mandatory redemption – Change of Control

CIECH S.A. is subject to mandatory redemption of the Domestic Bonds at 100.7% of their nominal value plus the accrued and unpaid interest before the maturity date in the case a third party or third parties acting together obtain in one or more transaction directly or indirectly more than 50% of votes in CIECH S.A.

Other conditions for early redemption

CIECH S.A. is subject to mandatory redemption of the Domestic Bonds at their nominal value plus the accrued and unpaid interest before the maturity date in the case one of the events listed below occurs and, in some cases, when such redemption is supported in voting by two thirds of the holders of Domestic Bonds:

- non-payment of the due and payable indebtedness in the amount exceeding 10% of consolidated share capital;
- acceleration of repayment of the indebtedness in the amount exceeding 10% of consolidated share capital;
- if CIECH S.A. or its subsidiaries incur additional indebtedness and EBITDA-to-net interest ratio is lower than 2.5 on a pro forma consolidated financial statement basis;
- if CIECH S.A. or its subsidiaries sell any of the assets in the soda segment and does not receive at least 75% in cash or cash equivalents and do not use the proceeds in the manner set forth in the Domestic Bonds;
- if CIECH S.A. or any of its subsidiaries sell any of the other assets and do not receive at least 75% in cash or cash equivalents and do not use the proceeds in the manner set forth in the Domestic Bonds;
- if any licenses and permits necessary for CIECH S.A. to perform its obligations under the Domestic Bonds expire or are revoked;
- if CIECH S.A. or any of its subsidiaries acquire another company which is not engaged in the current core business activity of the group or the surviving entity does not assume the obligations under the Domestic Bonds;
- if CIECH S.A. or any of its subsidiaries acquire another company whose business or activity is fully or partially coherent with the current core business activity of the group and the EBITDA-to-net interest as a result of such acquisition ratio is lower than 2.5 on a pro forma financial statement basis;
- if CIECH S.A. merges with another company unless CIECH S.A. is the surviving company or the surviving company assumes the obligations under the Domestic Bonds and in addition no event of default under the Domestic Bonds occurs and the EBITDA-to-net interest ratio on a pro forma consolidated financial statement basis is not lower than 2.5;
- if CIECH S.A. does not pay any amount exceeding 10% of its consolidated equity that was due and payable pursuant to a final and binding judgment or administrative decision;
- if the claims under Domestic Bonds no longer enjoy at least pari passu ranking with all other unsecured and unsubordinated claims of other creditors subject to claims enjoying statutory priority;
- if the securities granted by the subsidiaries of CIECH S.A. in respect of the Domestic Bonds cease to be legal, valid and enforceable;
- if CIECH S.A. or the Guarantors incur additional indebtedness secured over the assets of CIECH S.A. or the Guarantors and the net secured debt to EBITDA ratio is higher than 3.5 (3.0 if the additional indebtedness is incurred after 31 December 2014);
- if a non-Guarantor subsidiary of CIECH S.A. incurs additional indebtedness and the net secured debt to EBITDA ratio (such debt being treated as secured debt for the purposes of calculating the ratio) is higher than 3.5 (3.0 if the additional indebtedness is incurred after 31 December 2014);
- if any representation or warranty made by CIECH S.A. in the proposal to subscribe of the Domestic Bonds or in the terms and conditions of the Domestic Bonds appears to be untrue entirely or in part as of the date on which it has been made;
- if the documentation pursuant to which the transaction security is to be established is not duly executed on or the motions for the registration of all the relevant transaction securities are not filed with the relevant courts by the applicable dates;
- if the transaction security ceases to be legal, valid and enforceable;
- if any execution is effected or injunction issued against any assets of CIECH S.A. for an amount exceeding 10% of its consolidated equity;
- if CIECH S.A. or its subsidiary gives the benefit of the holders of the Bonds a security or guarantee to secure the Bonds and an equivalent instrument is not given by it simultaneously for the benefit of the holders of the Domestic Bonds; and
- if CIECH S.A. defaults in respect of its other obligations and such default is not cured within 45 days of its occurrence.

CIECH S.A. is subject to obligatory redemption of Domestic Bonds at their nominal value plus the accrued and unpaid interest before the date of redemption in case one of the events listed below occurs (without the need for voting by the holders of Domestic Bonds):

- the Security Agent receives enforcement instructions from the relevant Instructing Group under the Intercreditor Agreement;
- insolvency proceedings;
- dissolution or liquidation of CIECH S.A.;
- cessation of business; and
- if all the shares of CIECH S.A. are fully de-listed from the regulated market in Poland.

Governing law

Domestic Bonds are subject to, interpreted and enforced according to the provisions of the Polish laws.

Loans Agreement

On 29 October 2015, a loans agreement ("Loans Agreement") was concluded between CIECH S.A as the borrower, and its subsidiaries: CIECH Soda Polska S.A., CIECH Sarzyna S.A. and CIECH Soda Deutschland GmbH & Co. KG as the guarantors ("Guarantors"), and other subsidiaries of CIECH S.A. as temporary guarantors (Janikowskie Zakłady Sodowe Janikosoda S.A., CIECH Vitrosilicon S.A., CIECH Nieruchomości S.A., CIECH Transclean sp. z o.o., CIECH Trading S.A., Ciech Pianki sp. z o.o., CIECH Cerium spółka z ograniczoną odpowiedzialnością sp.k., Cerium spółka z ograniczoną odpowiedzialnością S.K.A., SDC GmbH, Sodawerk Holding Staßfurt GmbH, Sodawerk Staßfurt Verwaltungs-GmbH ("Temporary Guarantors") and Bank Handlowy Warszawie S.A., Bank Millennium S.A., Bank Zachodnim WBK S.A., Credit Agricole Bank Polska S.A., HSBC Bank Polska S.A., Industrial and Commercial Bank of China (Europe) S.A. (joint stock company) Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A. ("Creditors") relating to refinancing the existing financial debt of the Issuer, financing the costs of refinancing as well as financing the general corporate aims of the Issuer.

Pursuant to the provisions of the Agreement, two other subsidiaries of CIECH S.A. have entered into it as the guarantors, namely KWG-Kraftwerksgesellschaft Staßfurt mbH (the company entered into the Agreement on 27 November 2015) and CIECH Soda Romania S.A. (the company entered into the Agreement on 26 February 2016) ("Successive Guarantors").

Granted loans:

Pursuant to the Loans Agreement, the Creditors have granted the following loans to the Company:

- dual currency term loan in PLN and EUR to the maximum amount of PLN 1,340,000 thousand, granted by the Creditors for the following purposes: (i) refinancing the debt resulting from e.g. issuing by a subsidiary of CIECH S.A., namely Ciech Group Financing AB (publ), secured superior bonds in the amount of EUR 245,000 thousand, (ii) refinancing the debt resulting from the revolving credit facility agreement with the highest priority to the amount of PLN 100,000 thousand, (iii) refinancing the remaining debt of CIECH S.A. resulting from other loans; (iv) financing costs relating to refinancing; and (v) financing the general corporate aims of the Company ("Term Loan"); the Term Loan was paid out on 25 November 2015 in the amount of PLN 1,045,031 thousand and EUR 69,673 thousand,
- revolving credit facility in PLN to the total amount of PLN 250,000 thousand, granted by the Creditors in order to finance the general corporate aims and the working capital of the Company's capital group, excluding acquisitions and prepayment for the Term Loan (hereinafter referred to as the "Revolving Credit", and "Loans" jointly with the "Term Loan");

Interest rate:

The interest rate of the Loans is a floating rate and it is determined on the basis of the WIBOR / EURIBOR base rate, plus margin, the level of which depends on the level of the net debt index to EBITDA. The initial value of the margin is 1.5%.

Conditions of paying out:

Cash from the Loans is provided to the Company on condition of the Creditors receiving the standard documents and declarations, including e.g. legal opinions, certificates on the lack of tax debt, insurance policies and on condition of the lack of violating the loan until the date of paying out.

Loans repayment conditions

The main repayment conditions of the Loans are as follows:

- depreciation of the Term Loan in the value of 14.93% of the loan amount on 30 December 2018, 30 December 2019 and 30 December 2020 each, repayment of the remaining part five years from the first payout of the Term Loan,
- repayment of the Working Capital Loan with the lapse of the interest period selected by the Company for a given loan amount used, with mechanism of automatic revolving of the used amount for subsequent interest periods,
- cases of gross breach, allowing the creditors to request an earlier repayment of the loans:
    - no payment of the amounts due to the Creditors
    - violating the financial index provided for in the Loans Agreement;
    - no repayment of the refinanced financial debt by 31 December 2015;
    - lack of purchase of series 02 bonds (domestic bonds) by 5 December 2017;
    - ceasing the entire business activity conducted by the Company or its important part;

- violations of the law;
- the final date of repayment of the Term Loan and the Revolving Credit – five years from concluding the Loans Agreement.

Security of loan repayment:

The Loans have been secured by sureties granted by each Guarantor or Temporary Guarantor, towards each of the Creditors, in the value of 125% of the maximum involvement of each Creditor in a given currency, whereas the total amount of sureties granted by each Guarantor or Temporary Guarantor shall not exceed 125% of the amount of Loans.

In the period from the date of purchasing domestic bonds, the security of the loans granted pursuant the Loans Agreement, will be constituted by, e.g. securities established by the Company, Guarantors, Temporary Guarantors and Successive Guarantors, in order to secure the parallel debt created pursuant to the Intercreditor Agreement concluded on 28 November 2012, including:

- mortgage established on the property of some subsidiaries of CIECH S.A.;
- pledges (register and financial pledges in relation to the companies seated in Poland and the corresponding securities in Germany and Romania), on the shares, stock or rights of shareholders in partnerships, Guarantors, Temporary Guarantors and Successive Guarantors;
- registered pledges on property and other assets of CIECH S.A., Guarantors and Temporary Guarantors seated in Poland;
- financial pledges on the rights to the means deposited on the bank accounts of CIECH S.A., Guarantors, Temporary Guarantors and Successive Guarantors (including securities corresponding to financial pledges in Germany and Romania);
- assignments of rights resulting from insurance policies issued in relation to the assets being the subject of securities as well as assignments relating to the loans granted within the group or credit instruments of different type as well as significant commercial contracts of CIECH S.A. and the selected Guarantors and Temporary Guarantors;
- statement of submission to enforcement proceedings of CIECH S.A., Guarantors and Temporary Guarantors seated in Poland;
- power of attorney to the bank accounts of CIECH S.A., Guarantors and Temporary Guarantors seated in Poland.

Release of a part of securities upon purchasing domestic bonds:

Pursuant to the Loans Agreement, after the Company makes a full purchase of the domestic bonds, the securities granted by Temporary Guarantors will be released (the securities of Guarantors and Successive Guarantors will remain in force), while the package of securities for the receivables of the Creditors will be limited in the following extent:

- pledges (registered pledges and pledges on shares in relation to the companies seated in Poland and the corresponding securities in Germany and Romania), on the shares and stock of Guarantors and Successive Guarantors;
- registered pledge on property and other assets of CIECH S.A.;
- financial pledges on the rights to the means deposited on the bank accounts of the Issuer, Guarantors and Successive Guarantors (including securities corresponding to financial pledges in Germany and Romania);
- statement of submission to enforcement proceedings of the Issuer and Guarantors;

Other essential terms of the Loans Agreement:

Pursuant to the Loans Agreement, CIECH S.A. and the Guarantors are also obliged to the following:

- abiding by the limitations specified in the Loans Agreement relating to disposal of assets, with an exception of the allowable disposals under the Loans Agreement;
- refraining from paying a dividend in the case of exceeding the financial index specified in the Loans Agreement;
- refraining from taking out loans or granting loans in the case of exceeding the financial index specified in the Loans Agreement;

Intercreditor Agreement

On 28 November 2012, CIECH S.A. and particular companies of the Group have concluded an intercreditor agreement ("Intercreditor Agreement") in order to regulate the relations and the possible priority between: (i) creditors and other super senior creditors due to the initial loan agreement and any other loan agreements which will replace the initial loan agreement; (ii) entities who will enter into the Intercreditor Agreement as Parties of certain allowed agreements securing against risks (hereinafter referred to jointly as "Risk Security Agreements"; entities who will enter into the Intercreditor Agreement as Parties to the Risk Security Agreements shall be herein after referred to as the "Parties to the Risk Security Agreements"); (iii) the Trustee acting on its own behalf and on behalf of the owners of bonds issued on foreign markets; (iv) Espirito Santo Investment Bank as the administrative agent for the purpose of domestic bonds ("Domestic Bondholder Agent"), on behalf of holders of Domestic Bonds ("Authorised Domestic Bondholders"), who joined the Intercreditor Agreement; (v) Representative of the Creditor or Equivalent Creditors (pursuant to the definitions specified in the Intercreditor Agreement) of any Equivalent Debt (defined below), who will enter into the Intercreditor Agreement; (vi) internal creditors and debtors within the group, and (vii) bank PKO BP S.A. as the Security Agent.

The Intercreditor Agreement sets out:

- the relative ranking of certain indebtedness of the Debtors;
- the relative ranking of certain security granted by the Debtors;
- when payments can be made in respect of certain indebtedness of the Debtors;
- when enforcement actions can be taken in respect of that indebtedness;
- the terms pursuant to which that indebtedness will be subordinated upon the occurrence of certain insolvency events;
- provisions concerning a repayment of received amounts; and
- when securities and guarantees will be released to permit a sale of any assets subject to transaction securities.

As at 31 December 2015, the Parties to the Intercreditor Agreement are as follows:

- the CIECH Group companies: CIECH S.A., Ciech Group Financing AB, CIECH Soda Polska S.A., CIECH Sarzyna S.A., CIECH Soda Deutschland GmbH & Co. KG, Janikowskie Zakłady Sodowe Janikosoda S.A., CIECH Vitrosilicon S.A., CIECH Nieruchomości S.A., CIECH Transclean sp. z o.o., CIECH Trading S.A., Ciech Pianki sp. z o.o., CIECH Cerium spółka z ograniczoną odpowiedzialnością sp.k., Cerium spółka z ograniczoną odpowiedzialnością S.K.A., SDC GmbH, Sodawerk Holding Staßfurt GmbH, Sodawerk Staßfurt Verwaltungs-GmbH, CIECH Soda Romania S.A., KWG-Kraftwerksgesellschaft Staßfurt mbH,
- banks being the Parties to the Loans Agreement dated 29 October 2015 acing as Equivalent Creditors
- domestic bondholders who did not enter into the Intercreditor Agreement
- administrative agent for the purpose of domestic bonds
- security agent.

Below, there is a specification of loans granted by CIECH S.A to subsidiaries in 2015.

Borrower	Repayment date	The amount of loans granted and paid in PLN thousand as at 31 December 2015 (gross amount)	Conditions of granting	Value of loans granted in the currency in thousands
CIECH NIERUCHOMOŚCI S.A.	2016-12-31	PLN 5,000	interest WIBOR 3M + margin	PLN 5,000 thousand
CIECH Soda Polska S.A.	2016-12-31	PLN 113,000	fixed interest rate	PLN 113,000 thousand
JANIKOSODA S.A.	2016-12-31	PLN 42,000	interest WIBOR 6M + margin	PLN 42,000 thousand
CIECH Cerium sp. z o.o. S.K.	2016-12-31	PLN 45,193	interest WIBOR 6M + margin	PLN 122,050 thousand
KWG – Kraftwerksgesellschaft Strassfurt mbH	2018-08-30	PLN 34,092	fixed interest rate	EUR 8,000 thousand
CIECH Soda Deutschland GmbH&Co.KG	2018-08-30	PLN 42,615	fixed interest rate	EUR 10,000 thousand
CIECH Soda Deutschland GmbH&Co.KG	2018-12-31	PLN 17,472	fixed interest rate	EUR 4,100 thousand
CIECH Sarzyna S.A.	2016-12-31	repaid	fixed interest rate	PLN 35,000 thousand
Ciech Sarzyna S.A.	2016-12-31	PLN 35,000	fixed interest rate	PLN 35,000 thousand
CIECH Trading S.A.	2016-12-31	PLN 6,000	fixed interest rate	PLN 6,000 thousand
CIECH Cerium sp. z o.o. S.K.	2015-12-21	repaid	fixed interest rate	RON 140,000 thousand

The list of loans concluded between the subsidiaries in the CIECH Group in 2015.

Lender	Borrower	Repayment date	The amount of granted and paid loan in PLN thousand as at 31 December 2015 (gross amount)	Conditions of granting	Value of loans granted in the currency in thousands
Cerium Sp. z o.o. SKA	Ciech Pianki Sp. z o.o.	2016-12-30	10,000	interest WIBOR 6M + margin	PLN 10,000 thousand
Verbis ETA Sp. z o.o. SKA	CIECH Soda Polska S.A.	2016-12-31	40,000	interest WIBOR 6M + margin	PLN 40,000 thousand
Verbis ETA Sp. z o.o. SKA	CIECH Soda Polska S.A.	2016-12-31	35,000	interest WIBOR 6M + margin	PLN 35,000 thousand
Cerium Sp. z o.o. SKA	CIECH Soda Polska S.A.	2016-12-31	75,000	interest WIBOR 6M + margin	PLN 75,000 thousand
Algete Sp. z o.o.	CIECH Sarzyna S.A.	2016-12-31	2,500	interest WIBOR 6M + margin	PLN 2,500 thousand
Cerium Sp. z o.o. SKA	CIECH Sarzyna S.A.	2016-12-31	34,000	fixed interest rate	PLN 34,000 thousand
Algete Sp. z o.o.	CIECH Sarzyna S.A.	2016-06-30	2,200	interest WIBOR 6M + margin	PLN 2,200 thousand
Algete Sp. z o.o.	CIECH Sarzyna S.A.	2016-12-31	1,900	interest WIBOR 6M + margin	PLN 1,900 thousand
Cerium Sp. z o.o. SKA	CIECH S.A.	2016-12-31	40,000	fixed interest rate	PLN 40,000 thousand
Cerium Sp. z o.o. SKA	CIECH S.A.	2016-12-31	19,000	fixed interest rate	PLN 19,000 thousand
Cerium Sp. z o.o. SKA	CIECH Pianki Sp. z o.o.	2015-12-30	repaid	fixed interest rate	PLN 7,700 thousand
Cerium Sp. z o.o. SKA	CIECH Pianki Sp. z o.o.	2015-09-30	repaid	interest WIBOR 6M + margin	PLN 8,000 thousand
Cerium Sp. z o.o. SKA	CIECH Cerium sp. z o.o. S.K.	2015-12-17	repaid	interest WIBOR 6M + margin	PLN 600 thousand
Cerium Sp. z o.o. SKA	CIECH Cerium sp. z o.o. S.K.	2015-12-17	repaid	interest WIBOR 6M + margin	PLN 50 thousand
Cerium Sp. z o.o. SKA	CIECH Cerium sp. z o.o. S.K.	2015-12-17	repaid	interest WIBOR 6M + margin	PLN 50 thousand
Verbis KAPPA SKA	CIECH Sarzyna S.A.	2016-12-31	PLN 1,500	interest WIBOR 6M + margin	PLN 1,500 thousand

Sureties and guarantees granted as at 31 December 2015 were described in detail in section II.42.

5.9. The anticipated financial position of the Group, major events with a significant impact on the Group's performance that may have an impact in the subsequent periods

The Management Board of CIECH S.A., on the basis of assumptions of Group's Strategy implemented in 4Q 2014, anticipates that in 2016 the financial performance should still display an upward trend.

Further improvement in results will be fostered by:

- an increase in the production capacity of soda ash in CIECH Soda Polska S.A. in Inowrocław,
- further actions aimed at optimising the utilisation level of capacity in all production companies of the Group,
- an increase in the efficiency of Agro sector in CIECH Sarzyna

- continuous process of improving business and operational processes in all companies of the CIECH Group.

However, one should keep in mind that the financial performance of the CIECH Group is affected by both the situation on main markets of Group's operations and the global macroeconomic situation.

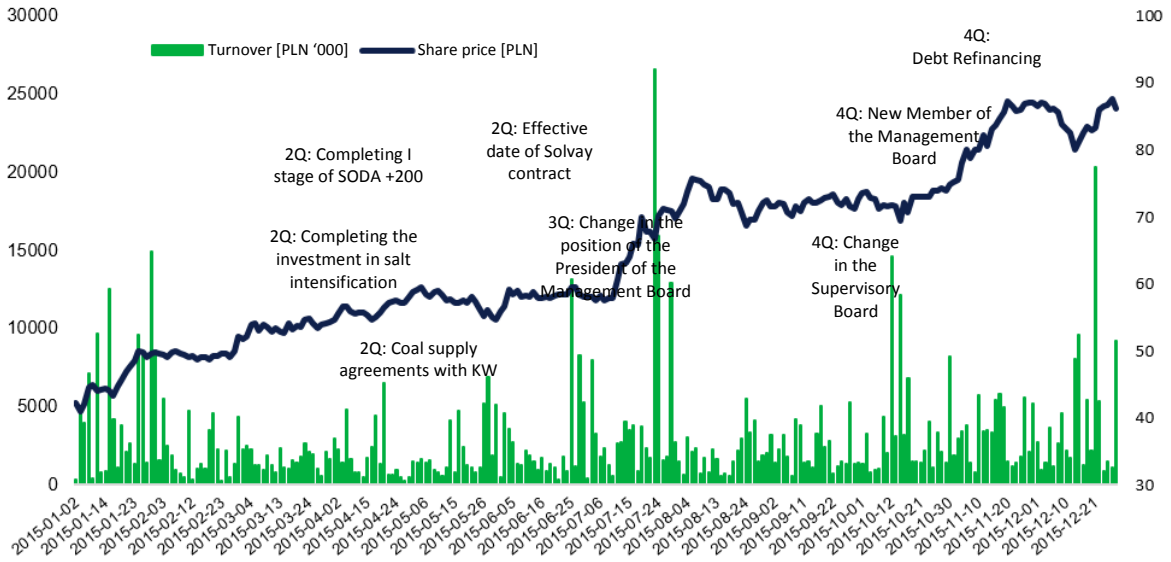
6. Information concerning shares

6.1. CIECH S.A. on the WSE (Giełda Papierów Wartościowych w Warszawie)

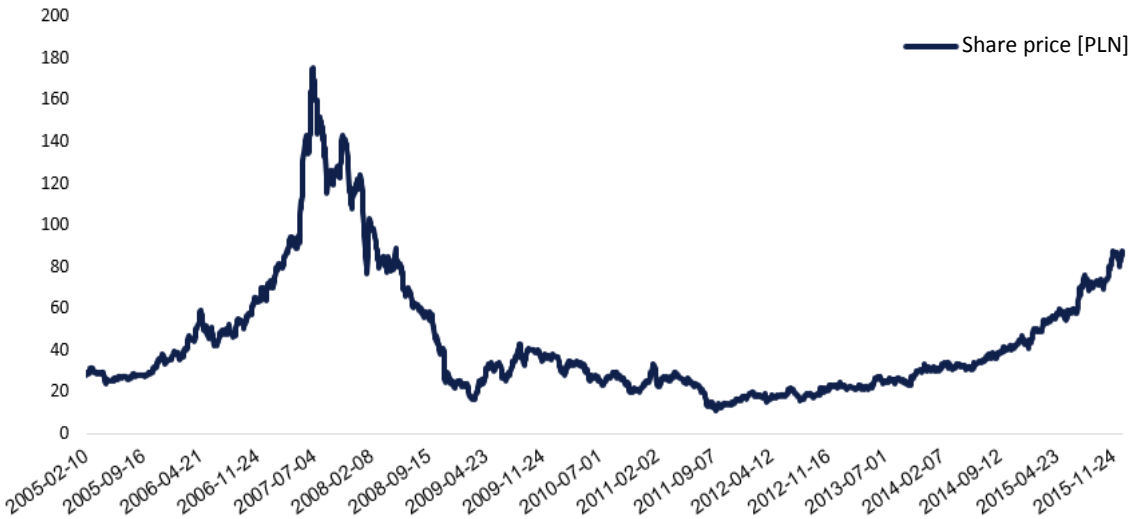
Shares of CIECH S.A. debuted on the Warsaw Stock Exchange on 10 February 2005. In February 2011, the company completed the process of issuing shares with pre-emptive rights, and as a result, it issued ordinary bearer shares, which were first quoted on 30 March 2011. At present, the shares of CIECH S.A. are quoted on the primary market of the Stock Exchange in the continuous trading system and their price is used for computing WSE's indexes: WIG, mWIG40, WIG-Poland, and the sector index: WIG-CHEMIA.

In 2015, the price of shares of CIECH S.A. displayed a significant upward trend and did much better as compared to the market. The closing price during the last 2015 session amounted to PLN 86.00, which is a 101.83% increase as compared to the closing price at the end of 2014. At the end of 2015, the market capitalization of CIECH S.A. amounted to PLN 4.53 billion.

Share prices and turnover of CIECH S.A. in 2015



Price of shares of CIECH S.A. since their first quotation on the WSE



Key data concerning shares of CIECH S.A.

Shares of CIECH S.A. are highly liquid. The turnover of shares of CIECH S.A. in 2015 amounted to PLN 254.37 million. Average volume at a session amounted to 47.05 thousand and the average number of transactions at a session – 278.

	2013	2014	2015
Number of shares [pcs]	52,699,909	52,699,909	52,699,909
Closing share price as at the last quotation day in the year [PLN]	31.05	42.61	86.00
Capitalization of the company as at the end of the year [PLN million]	1,636	2,246	4,532
Maximum price in the year [PLN]	33.70	46.70	88.00
Minimum price in the year [PLN]	20.40	29.86	40.51
Turnover volume per session			
average [pcs of shares]	59,505	45,897	47,048
median [pcs of shares]	35,435	28,747	28,363

Recommendations and reports of brokerage houses

The shares of CIECH S.A., a company representing the chemical sector, are used in computing, among others, the mid-cap index of mWIG40. The company is regularly assessed and rated by reputable institutions of the capital market.

In 2015, the following recommendations were issued with regard to shares of CIECH S.A:

Date	Institution	Recommendation	Target price
2015-01-22	BOŚ DM	BUY	57.40
2015-01-26	DM mBanku	HOLD	46.90
2015-01-27	Ipopema Securities	SELL	43.00
2015-02-19	DM BDM	REDUCE	43.20
2015-03-03	DM BZ WBK	BUY	62.00
2015-03-06	mBank	REDUCE	46.90
2015-03-17	Unicredit	BUY	62.40
2015-03-18	Raiffeisen	BUY	62.50
2015-04-22	BOŚ DM	BUY	70.00
2015-05-08	BZ WBK	HOLD	65.00
2015-05-21	Erste	HOLD	58.85
2015-05-28	Raiffeisen	BUY	65.00
2015-06-23	DM PKO BP	SELL	43.65
2015-07-10	Wood&Co	BUY	69.80
2015-07-15	BOŚ DM	BUY	80.00
2015-09-16	DM Trigon	BUY	83.00
2015-10-08	DM Haitong	BUY	84.10
2015-10-20	ING Securities	BUY	88.30
2015-11-16	DM Trigon	BUY	83.00
2015-11-18	BOŚ DM	BUY	110.00
2015-11-24	DM mBanku	HOLD	81.30
2015-11-30	BZ WBK	BUY	100.00
2015-12-09	DM Trigon	SELL	84.00
2015-12-18	ING Securities	BUY	103.90

6.2. Issue of securities and utilization of proceeds from issue of shares

Shares of CIECH S.A. debuted on the Stock Exchange on 10 February 2005. The prospectus of CIECH S.A. was made available to the public on 6 January 2005. In the prospectus, the Issuer determined the investment plan comprising a number of projects with total outlays of PLN 500–600 million, implemented in 2005–2006. In order to finance the investment plan, CIECH S.A. used up all proceeds from share issuance, its own funds and third-party funds in the form of long-term investment loans.

In February 2011, the company completed the process of issuing shares with pre-emptive rights as a result of which it issued 23,000,000 ordinary bearer shares. The allocation of shares of the new issue took place on 25 February 2011. As a result of the issue, the company gathered PLN 436 million net proceeds. According to purposes of the issue specified in the Prospectus, PLN 245 million was intended as the debt reduction towards banks financing CIECH S.A. and its subsidiaries. The remaining amount of net proceeds, i.e. PLN 191 million, along with other proceeds mainly from restructuring activities, were intended for co-financing the Group's investment plan.

In 2015, the CIECH Group managed by CIECH S.A. used no proceeds from the issue of shares.

6.3. Shareholder structure of CIECH S.A.

Shares of CIECH S.A. are quoted on the Warsaw Stock Exchange. 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.

To the best knowledge of CIECH S.A., as at the day of approving this report, entities holding significant blocks of shares (at least 5%) included two entities listed below: KI Chemistry s. à r. l. with its registered office in Luxembourg and ING Otwarty Fundusz Emerytalny.

Shareholder	Type of shares	Number of votes at the General Meeting of Shareholders	Share in the total number of votes at General Meeting of Shareholders	Stare in share capital (%)	Number of votes at the General Meeting of Shareholders
KI Chemistry s. à r. l. with its registered office in Luxembourg*	**Ordinary bearer**	**26,952,052**	**26,952,052**	**51.14%**	**51.14%**
ING Otwarty Fundusz Emerytalny**	Ordinary bearer	5,000,000	5,000,000	9.49%	9.49%
Other	Ordinary bearer	20,747,857	20,747,857	39.37%	39.37%

** on the basis of the list of entities holding at least 5% of votes at the Extraordinary Meeting of Shareholders of CIECH S.A. on 7 March 2016, CR 8/2016 prepared and published pursuant to Article 70(3) of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized Trading, and on Public Companies.*

*** on the basis of the list of entities holding at least 5% of votes at the Extraordinary Meeting of Shareholders of CIECH S.A. on 7 October 2015, CR 35/2015 prepared and published pursuant to Article 70(3) of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized Trading, and on Public Companies.*

6.4. Number of shares of CIECH S.A. and other CIECH Group entities held by managers and supervisors of CIECH S.A.

Mr Artur Osuchowski – Member of the Management Board of CIECH S.A., held 65,195 shares of CIECH S.A. as at 31 December 2015. Other Management Board Members of CIECH S.A. and Supervisory Board Members of CIECH S.A. did not hold any shares of the Company.

Managers and supervisors of CIECH S.A. as at 31 December 2015 did not hold any shares in other companies of the CIECH Group.

6.5. Information about the acquisition of treasury shares by CIECH S.A.

CIECH S.A. and other entities of the CIECH Group did not hold and did not acquire any treasury shares of CIECH S.A.

6.6. Agreements that may lead to changes in the structure of shares held by the current shareholders

In 2015, after the reporting date and prior to the date of publication of this report, no agreements were signed that could influence the changes in the proportions of shares held by current shareholders.

6.7. Information concerning the control system of employee share schemes

In 2015, there were no employee share schemes offered in the CIECH Group.

6.8. Ratings

At the end of 2015 ratings awarded by two prominent rating agencies — Standard & Poor's and Moody's — improved. In November 2015, Standard & Poor's Rating Services agency announced the publication of the report in which, due to the improved results of CIECH S.A. and the decreased level of debt, it raised the corporate rating of CIECH S.A. and of the bonds issued by Ciech Group Financing AB from "B+" to "BB-" with a stable prospect.

In 2015, Moody's Investors Service rating agency announced the publication of a report in which it raised the rating awarded at the request of the Company from "B1" to "Ba3", with a positive prospect. Moody's justified the increase in rating by improved results in 2014 and 2015, which were manifested by the improved EBITDA margin, the amount of generated cash flows and the effectively performed refinancing of (i) the debt resulting from, among others, the issue by a subsidiary of CIECH S.A., namely Ciech Group Financing AB (publ), of secured superior bonds in the amount of EUR 245,000 thousand, (ii) the debt resulting from the revolving loan facility agreement up to the amount of PLN 100,000 thousand.

7. CORPORATE GOVERNANCE

7.1. The set of principles of corporate governance which the Company is subject to

This statement is a separate part of the Director's Report of CIECH S.A., constituting a part of the annual report of CIECH S.A. for the financial year 2015.

Pursuant to § 2 of the Resolution of the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) No 718/2009 of 16 December 2009 regarding the submission by listed entities of the reports on principles of corporate governance, the submission of this report is equivalent to the submission of the report pursuant to § 29(5) of the Stock Exchange Regulations.

In 2015, CIECH S.A. with its registered office in Warsaw ("Company" or "Issuer") was subject to the principles of corporate governance contained in the document adopted by the Resolution No 17/1249/2010 of the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) of 19 May 2010 (as amended). The consolidated text of the "Code of Best Practices of Companies Listed on WSE" binding for CIECH S.A. in 2015 constitutes the appendix to the Resolution of the WSE's Supervisory Board No 19/1307/2012 of 21 November 2012. This set is available at the website of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) at http://www.corp-gov.gpw.pl.

The Management Board of CIECH S.A. states that in the financial year ending as at 31 December 2015, CIECH S.A. and its authorities complied with the corporate governance rules contained in the "Code of Best Practice for WSE Listed Companies" as enacted by the resolution of the WSE Supervisory Board No 19/1307/2012 of 21 November 2012 with exceptions described in item I.7.2.

The Management Board of CIECH S.A. announces that since 1 January 2016 CIECH S.A. and its authorities have complied with the principles of corporate governance of "Code of Best Practice for WSE Listed Companies 2016", apart from the principles presented in EIB Report No 1/2016 of 29 January 2016 concerning specific principles contained in the "Code of Best Practice for WSE Listed Companies 2016" described in item I.7.2 below.

7.2. Principles of corporate governance, which were not applied by the Issuer in 2015

In 2015, the Company reported a deviation from principles and recommendations, regarding:

1) maintaining a website whose scope and method of presentation should be based on the model investor relations web service available at http://naszmodel.gpw.pl/. At the same time, the Company represents that information posted on its website contains most of the information required by the model service. Internet service is a reliable and useful source of information about the Company for the capital market representatives. The contents of the Internet service is prepared in a transparent and diligent manner, to enable investors and analysts to make decisions on the basis of information presented by the Company. The Company provides equal access to the information published on its corporate website to all persons concerned.

2) providing shareholders with the possibility to participate in the General Meeting of Shareholders with the use of means of electronic communication, in the following manner:
   - a real-time broadcast of the General Meeting;

- providing shareholders with the possibility of a bilateral communication by using real-time means of electronic communication, which enable shareholders to speak during the General Meeting, while they are in a different place than the place of the meeting, and
- exercising the voting right during the General Meeting of Shareholders by means of electronic communication in person or through a proxy.

The Company will analyse the possibility of following recommendations in this respect, provided that IT systems available on the market will guarantee safe and efficient conduct of the General Meeting of Shareholders.

3) posting shareholders' questions regarding items on the agenda, asked before and during the General Meeting of Shareholders, together with answers to those questions, on the corporate website. The Company does not maintain a detailed record of the proceedings of general meetings, including all statements and questions. The Chairman decides to include certain issues in the minutes of the general meeting, following provisions of the law and legitimate demands of shareholders.

4) recording of the proceedings of ordinary general meetings in audio or video form. In the future, the Company will analyse the possibilities of conforming to recommendations of corporate governance in this respect and will consider the possibility of recording the proceedings of the general meetings.

5) remuneration policy, due to the fact that provisions of the applicable law confronted with CIECH S.A. Articles of Association and the Supervisory Board Regulations on rules for determining the remuneration of the supervisory and management bodies members are sufficient in the opinion of the Issuer. Principles and the level of remuneration of the Management Board are determined by the Supervisory Board, and the remuneration level of the Supervisory Board members is established by the General Meeting of Shareholders. The remuneration policy is not a separate item on the agenda of the General Meeting of Shareholders and it is not put to the vote. The Company did not post any "declaration on remuneration" on its website. However, the Company made available the information that should be presented in such declaration in other documents.

6) balanced proportion of women and men within management and supervisory function. The Company represents that in the selection process of candidates for members of the management and supervisory bodies, the authorised bodies act in the best interest of the Company and its shareholders taking account of qualifications of the candidates, their expertise and experience. Below we present the list of women and men in supervisory and management bodies of the Company in the period of the last three years, including 2015.

Number of women and men in the Company's Supervisory Board in the last three years:

As at	Number of women	Number of men
31 December 2013	1	7
31 December 2014	-	6
31 December 2015	-	6

Number of women and men in the Company's Management Board in the last three years:

As at	Number of women	Number of men
31 December 2013	-	3
31 December 2014	-	3
31 December 2015	-	3

The Company represents that since 1 January 2016 there will be departures from principles and recommendations concerning:

Information policy and communication with investors

I.Z.1.8. the list of selected financial data of the Company for the last 5 years of operation, in the form enabling the processing of this data by the recipients.

The Company's commentary concerning the manner of applying the above principle.

Currently at CIECH S.A. website there is financial data for the last 5 years of operation in the form of comprehensible tables with figures. At the latest by the end of Q1 2016, the aforementioned data will be posted in the editable .xls file.

I.Z.1.9. information concerning the planned dividend payment and dividends paid by the Company over the last 5 financial years, comprising data on the dividend date, the payment date and amounts of dividends – total and per share.

The Company's commentary concerning the manner of applying the above principle.

In accordance with the law, the aforementioned information about dividends is presented in relevant current reports.

I.Z.1.15. information comprising the description of the Company's diversity policy with regard to Company's authorities and its key managers; the description should take account of the following elements of diversity policy, such as sex, education, age, professional experience as well as it should outline the goals of the diversity policy and the manner of its implementation in a given reporting period; if the Company does not develop and implement the diversity policy, it publishes the explanation for such decision on its website.

The Company does not apply this principle.

CIECH S.A. does not find it necessary to develop and apply the diversity policy with regard to the authorities of the Company and its key managers. The fact that particular persons serve management, supervisory and key functions in the Company's structure depends mainly on their competences and experience. In the opinion of CIECH S.A., these criteria allow to select candidates who guarantee the effective implementation of the strategy and, as a result, the Company's growth and benefits for shareholders.

I.Z.1.16. information on the planned broadcast of the General Meeting of Shareholders – no later than 7 days before the date of the meeting.

The Company does not apply this principle.

CIECH S.A. does not post information on the planned broadcasts of general meetings of shareholders on its website, because such broadcasts are not made by the Company.

I.Z.1.17. grounds for draft resolutions of the General Meeting of Shareholders concerning the vital issues and decisions or issues and decision which may raise doubts of shareholders – on the date enabling the participants of the General Meeting of Shareholders to read them and pass the resolution having sufficient background.

The Company does not apply this principle.

Such grounds will be published, if they are prepared in accordance with provisions of the law.

I.Z.1.20. the record of the proceedings of the general meeting of shareholders, in the form of audio or video,

The Company does not apply this principle.

CIECH S.A. does not publish the minutes of the General Meeting of Shareholders, in audio or video form, on its website, because it does not record the proceedings in such form. The Company prepares and immediately publishes information required by the law on its website, among others, the contents of the resolutions taken at the General Meeting of Shareholders, enabling the investors to read the minutes.

The Management Board and the Supervisory Board

II.Z.2. The Supervisory Board is required to express its consent for the Management Board Members to serve as members of management boards or supervisory boards of companies other than Group companies.

The Company's commentary concerning the manner of applying the above principle.

Internal documents of CIECH S.A. do not require the Management Board Members to obtain the consent from the Supervisory Board to sit on the management boards and supervisory boards of companies, which are not a part of the Capital Group. However, the aforementioned provisions are contained in employment contracts.

II.Z.7. Provisions of Annexe I to the Commission Recommendation, referred to in the principle II.Z.4 shall apply with regard to tasks and operations of committees of the Supervisory Board. If the function of the Audit Committee is performed by the Supervisory Board, the above principles shall apply respectively.

The Company does not apply this principle.

The Supervisory Board comprises, among others, the Remuneration Committee composed of two members who do not meet the independence criterion. Both Members are highly qualified, thus the Remuneration Committee operates effectively. The independence criterion does not have an impact on the reliability of the actions implemented by the Committee.

II.Z.8. The Chairman of the Audit Committee meets the independence criteria indicated in the principle II.Z.4.

The Company does not apply this principle.

The Chairman of the Audit Committee does not meet the independence criterion. Owing to professional qualifications and many years of experience, the Audit Committee operates effectively, and failure to meet the independence criterion does not have an effect on the actions performed by the Committee.

II.Z.10.1. the assessment of the Company's situation taking account of the assessment of the systems of internal control, risk management, compliance and internal audit function; this assessment comprises all material internal controls, including controls concerning financial reporting and operating activities.

The Company does not apply this principle.

The assessment of the Supervisory Board refers to operations of control systems, risk management, compliance (to be implemented in 2016) and operations of the internal audit in CIECH S.A., but not in the company itself. The situation of CIECH S.A. is presented in the financial statements, assessed by the Supervisory Board.

II.Z.10.4. the assessment of rationality of the Company's policy, referred to in the recommendation I.R.2, or information about lack of such policy.

The Company does not apply this principle.

The sponsorship and charity activities performed by CIECH S.A. have no significant effect on the operational and financial situation of the Company. In the Company's opinion, the Supervisory Board does not have to prepare and present the assessment of the rationality of the policy, referred to in the recommendation I.R.2.

Systems and internal functions

III.Z.1. The responsibility for the implementation and maintenance of effective systems of internal control, risk management, compliance and internal audit function rests with the Company's Management Board.

The Company's commentary concerning the manner of applying the above principle.

The compliance system will be implemented in 2016.

III.Z.4. At least once a year, the person responsible for the internal audit (if such function is distinguished in the Company) and the Management Board provide the Supervisory Board with their assessment of the efficiency of operations of systems and functions, referred to in the principle III.Z.1, together with a relevant report.

The Company's commentary concerning the manner of applying the above principle.

Whereas the assessment of the efficiency of operations of systems and functions, referred to in the principle III.Z.1., together with a relevant report are presented to the Audit Committee, i.e. a part of the Supervisory Board.

III.Z.6. If there is no organisationally distinguished function of the internal audit, the Audit Committee (or the Supervisory Board, if it serves the function of the Audit Committee) assesses whether there exists a need to distinguish such function.

Not applicable.

There is the Control and Audit Bureau in CIECH S.A.

General Meeting of Shareholders and relations with shareholders

IV.Z.2. If this is justified by the shareholder structure of the Company, the Company ensures a generally available real-time broadcast of the proceedings of the general meeting of shareholders.

The Company does not apply this principle.

In the opinion of CIECH S.A., the shareholder structure is dispersed, but this does not justify the necessity to ensure the generally available real-time broadcast of the proceedings of the general meeting of shareholders.

IV.Z.7. A break in the general meeting of shareholders may take place only in specific situations, each time indicated in the grounds for the resolution on the break order, prepared on the basis of reasons presented by the shareholder applying for the break.

The Company does not apply this principle.

In accordance with the applicable law, the break in the proceedings is decided by the vote of shareholders and this is their only instruction. Thus CIECH S.A. may not guarantee the application of the above principle each time.

IV.Z.8. The resolution of the general meeting of shareholders on the order of a break explicitly indicates the date of resuming the proceedings, whereas this date may not form an obstacle for most shareholders, including the minority shareholders, to participate in the proceedings.

The Company does not apply this principle.

In accordance with the applicable law, the date of resuming the proceedings of the general meeting of shareholders is decided by vote of shareholders. Thus CIECH S.A. may not guarantee the application of the above principle each time.

IV.Z.9. The Company is committed to assure that draft resolutions of the general meeting of shareholders contained the grounds, if it helps the shareholders to pass the resolution having sufficient background. If a particular item is listed on the agenda of the general meeting of shareholders on demand of the shareholder or shareholders, the Management Board or the chairman of the general meeting of shareholders asks for the grounds of the proposed resolution. In vital cases or in cases which may raise doubts of shareholders, the Company will submit the grounds, unless it will otherwise provide the shareholders with information which allow passing the resolution having sufficient background.

The Company does not apply this principle.

CIECH S.A. is committed to guarantee that in justified cases draft resolutions of the general meeting of shareholders will comprise the grounds. However, this may not be possible, for example, if the item is put on the agenda of the general meeting of shareholders by a shareholder who submitted the draft resolution without grounds, the Management Board of CIECH S.A. may not be able to submit the justification unknown to it. Therefore, the Management Board of CIECH S.A. may not guarantee that this principle will always be applied.

IV.Z.12. The Management Board should provide the participants of the general meeting of shareholders with the financial performance of the Company and other significant information contained in the financial statements to be approved by the general meeting.

The Company does not apply this principle.

Pursuant to the applicable law, CIECH S.A. prepares the financial statements comprising information material in the opinion of the Management Board. Documents are public (available, among others, at ciechgroup.com website) and the participants of the general meeting may read them. Additionally, the concept of "other material information" is too vague to declare the application of this principle.

IV.Z.13. In the case of a demand by the shareholder for information about the Company, the Management Board of the Company is required to reply to the shareholder's demand or inform it about the refusal to give this information no later than within 30 days, if the Management Board took such decision pursuant to Article 428 §2 or §3 of the Code of Commercial Partnerships and Companies.

The Company does not apply this principle.

In accordance with the applicable law, in the course of proceedings of the general meeting of shareholders, the Management Board provides the shareholder, on its demand, with information about the Company, but only if it is justified for the purposes of the assessment of the item on the agenda, pursuant to Article 428 of the Code of Commercial Partnerships and Companies. In the opinion of CIECH S.A., if the Company undertakes to apply the aforementioned principle, it could lead to numerous frauds on the part of shareholders.

IV.Z.18. The resolution of the general meeting of shareholders on the stock split should not determine the nominal value of the shares at the level lower than PLN 0.50, because this could translate to a very low market value of these shares and, consequently, pose a threat to the correctness and credibility of the valuation of a listed company.

The Company's commentary concerning the manner of applying the above principle.

The principle applied when, as the result of determining the new nominal value of shares, the unit market value of shares is very low.

Conflict of interest and transactions with related parties

V.Z.5. Prior to conclusion by the Company of a material agreement with a shareholder holding at least 5% of the total number of votes in the Company or with related party, the Management Board asks the Supervisory Board to express its consent to such transaction. Prior to giving its consent, the Supervisory Board assesses the effect of such transaction on the interest of the Company. The above obligation does not apply to typical transactions concluded on arm's length terms in the course of the Company's day-to-day operations between the Company and its related parties, which are the capital Group companies.

If the decision concerning the conclusion by the Company of a material agreement with a related party is taken by the general meeting, prior to taking such decision, the Company provides all shareholders with the access to information necessary to perform the assessment of the effect of this transaction on the Company's interest.

The Company's commentary concerning the manner of applying the above principle.

Relevant provisions will be introduced to the Regulations of the Supervisory Board.

V.Z.6. In its internal regulations, the Company determines criteria and circumstances, which may lead to the conflict of interest in the Company, and the rules of conduct, if the conflict of interest occurs or is likely to occur. The internal regulations of the Company comprise, among others, the methods of preventing, identifying and solving conflicts of interest, and rules for excluding a member of the Management Board or the Supervisory Board from the participation in solving the issue subject to conflict of interest or at risk of such conflict.

The Company does not apply this principle.

Internal regulations of CIECH S.A. have not governed the above issues before. The Company is analysing the matter with regard to possible introduction of relevant provisions to the Regulations of the Supervisory Board and the Regulations of the Management Board, reflecting the provisions of the Law.

Remunerations

VI.Z.1. Incentive schemes should be constructed in a way ensuring, among others, that the level of remuneration of the Company's Management Board Members and its key managers depends on the long-term financial standing of the Company and the long-term increase in the value for shareholders and the stability of enterprise operations.

Not applicable.

There are no incentive schemes in CIECH S.A., but Management Board Members and key managers are covered by the bonus system based on precisely selected KPIs. In the opinion of CIECH S.A., this a an effective incentive strategy.

VI.Z.2. In order to relate the remuneration of the Management Board Members and key managers with long-term business and financial goals of the Company, the period between vesting of options or other instruments under share-based incentive schemes of the Company and the possibility to exercise them should be at minimum two years.

Not applicable.

CIECH S.A. did not provide for incentive schemes based on share-related instruments under the system of remuneration for the members of Company's bodies and key managers.

VI.Z.4. The Director's Report of the Company comprises the report on the remuneration policy, including, at least:

1) general information about the remuneration system established in the Company,

2) information on the conditions and the remuneration level of each Management Board Member by fixed and variable components of remuneration, indicating key parameters for determining variable components of remuneration and rules for severance payments and other payments related to the termination of the employment contract, commission contract or another relationship of similar nature – separately for the Company and for each entity of the Capital Group,

3) information on non-financial components of remuneration due to particular Management Board members and key managers,

4) indication of significant changes, which were introduced in the remuneration policy in the last financial year, or information about their lack,

5) assessment of operation of the remuneration policy with regard to the implementation of its goals, in particular the long-term increase in the value for shareholders and the stability of enterprise operations.

The Company does not apply this principle.

CIECH S.A. does not have the remuneration policy, thus the principle may not applied. However, in accordance with the applicable law, CIECH S.A. presents information on the remuneration of Management Board members and Supervisory Board members in its Director's Report.

7.3. Internal control and risk management system in the process of developing financial statements and consolidated financial statements

The Management Board of CIECH S.A. is responsible for the internal control system in the Company and its efficiency in the process of preparing financial statements and periodical reports developed and published in accordance with the Regulation of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and on conditions for deeming equivalent information required by the law of a Non-Member State.

The Company's effective internal control and risk management system in the financial reporting process operates through:

- preparation of procedures specifying the principles and division of responsibilities for the development of financial statements, including the guarantee of their quality,
- establishment of the scope of reporting based on applicable International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) adopted for implementation in the European Union and related interpretations announced in the form of European Commission Regulations,
- development, implementation and supervision of the use of coherent accounting principles in the CIECH Group's companies,
- semi-annual reviews and annual audits of published financial statements of CIECH S.A. and the CIECH Group by an independent auditor,
- procedures for authorization of financial statements prior to their publication.

The Management Board member responsible for financial matters supervises the process of preparing the Company's financial statements and periodical reports from the subject-matter point of view. The Finance and Accounting Division is responsible for the organization of work related to the preparation of financial statements and reports directly to the Member of Management Board of CIECH S.A. The uniformity of standards applied in the Group guarantees that all companies apply uniform accounting principles of the CIECH Group and uniform consolidation principles in accordance with IAS/IFRS.

The scope of data disclosed in published periodical reports results from the Company's accounting records and additional information submitted by individual organizational units of CIECH S.A. Companies of the Capital Group submit the required data in the form of reporting packages for the purpose of developing consolidated financial statements of the Group. The scope of data disclosed within the Capital Group is defined by the disclosure obligations specified in IAS/IFRS and results from them. Monitoring of changes in IAS/IFRS is conducted on an ongoing basis in order to determine the necessity for updating the scope of reporting.

In accordance with applicable regulations, the Company submits its financial statements to be reviewed and audited by the independent registered auditor.

The Supervisory Board selects the registered auditor from a group of reputable auditing firms, guaranteeing high standard of services and the required independence. So far, agreements for carrying out the audit of financial statements by the registered auditor were concluded by the Supervisory Board with the selected auditor on an annual basis.

On 4 June 2013, the Supervisory Board of CIECH S.A. selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw as the registered auditor to perform the half-year review and to audit the annual separate financial statements of CIECH S.A. and the consolidated financial statements of the CIECH Group for 2013, 2014 and 2015 with the possibility of termination of the contract after each year.
On 26 May 2015, the Supervisory Board of CIECH S.A. changed the registered auditor selected to audit the financial statements for 2015 by:

- the resignation from the services of KPMG Audyt sp. z o.o. sp. k. with its registered office in Warsaw, and
- the selection of PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw to perform the half-year review and the audit of the separate financial statements of CIECH S.A. and the consolidated financial statements of the CIECH Group for 2015,

moreover, it selected PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw to be the registered auditor and perform the half-year review and the audit of separate financial statements of CIECH S.A. and the consolidated financial statements of the CIECH Group for 2016 and 2017.
Procedures for authorization of financial statements prior are specified in the Company. Reports for the Q1, Q3 and Q4 (Q4 – if published) are not verified by the auditor, and prior to their publication, they are analysed by the Audit Committee of the Supervisory Board and approved by the Management Board. Semi-annual and annual periodical reports are submitted to the Supervisory Board and Company Shareholders after the conclusion of the appropriate review or audit by the auditor. Annual reports adopted by the Management Board of the Company, after being opined by the Audit Committee and assessed by the Supervisory Board, are approved by the General Meeting of Shareholders.
Prior to the publication of annual or half-year financial statements, conclusions from the audit of the financial statements are presented to the Audit Committee. Representatives of the Audit Committee analyse the results of the audit and review at closed meetings with the Company auditor. The registered auditor also presents a Letter to the Management Board, which contains recommendations for the Management Boards of Group Companies based on results of the audit or review of the financial statements in a given year. The recommendations from the auditor are discussed by the Audit Committee along with the management of the Finance and Accounting Division for the purpose of their implementation.

Financial data constituting the basis of financial statements and periodical reports comes from the finance and accounting system, where transactions are recorded in accordance with the Company's accounting policy (approved by the Management Board) on the basis of International Accounting Standards. The accounting records of CIECH S.A. are kept in the ERP integrated IT system. The modular structure of the system provides a transparent division of competences, coherence of operation records in ledgers, and inspection of reconciliation of the general ledger and subsidiary ledgers. The capabilities of the system allow it to adapt to changing accounting principles or other legal regulations on an ongoing basis. The system keeps full technical and operational documentation which is updated periodically pursuant to Article 10 of the Accounting Act of 29 September 1994.

The access to the informational resources of the IT system is limited by appropriate authorizations for authorized employees. The employees have access only to those areas of the system that they are concerned with. The access control is present at every stage, starting with the input of source data, through data processing and ending with the generation of output information.

The effects of the application of control and risk management procedures in the preparation of CIECH S.A. and the CIECH Group's financial statements are reflected in the efficiency and high quality reports, as confirmed by the opinions issued by certified auditors after financial statements audit, high scores of report recipients, and high rankings of CIECH S.A. in The Best Annual Report contest, organized by the Institute of Accounting and Taxes under the patronage of the Warsaw Stock Exchange.

The selection of the entity authorized to audit the financial statements of CIECH S.A. and the CIECH Group is the responsibility of the Company's Supervisory Board (after prior recommendation of the Audit Committee to the Supervisory Board), which has specified the following principles of Auditor selection for the purpose of ensuring the independence of the opinion:

- the entity authorized to audit financial statements may not conduct audits of the Company/Group for more than 5 subsequent years;
- the entity authorized to audit financial statements may again carry out audits of the Company/Group after at least 2 years have passed;
- a key registered auditor may not carry out financial revision of the Company/Group for a period of more than 5 subsequent years;
- a key registered auditor may again carry out financial revision of the Company/Group after at least 2 years have passed.

7.4. Shareholders of CIECH S.A. holding significant blocks of shares

Shares of CIECH S.A. are quoted on Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange).

As at 31 December 2015, the share capital amounted 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.

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:

Shareholder	Type of shares	Number of votes at the General Meeting of Shareholders	Share in the total number of votes at General Meeting of Shareholders	Stare in share capital (%)	Number of votes at the General Meeting of Shareholders
KI Chemistry s. à r. l. with its registered office in Luxembourg*	**Ordinary bearer**	**26,952,052**	**26,952,052**	**51.14%**	**51.14%**
ING Otwarty Fundusz Emerytalny**	Ordinary bearer	5,000,000	5,000,000	9.49%	9.49%
Other	Ordinary bearer	20,747,857	20,747,857	39.37%	39.37%

** on the basis of the list of entities holding at least 5% of votes at the Extraordinary Meeting of Shareholders of CIECH S.A. on 7 March 2016, CR 8/2016 prepared and published pursuant to Article 70(3) of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized Trading, and on Public Companies.*

*** on the basis of the list of entities holding at least 5% of votes at the Extraordinary Meeting of Shareholders of CIECH S.A. on 7 October 2015, CR 35/2015 prepared and published pursuant to Article 70(3) of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized Trading, and on Public Companies.*

7.5. Shareholders with special control rights with a description of such rights

As at the publication date of the financial statements, all shares of CIECH S.A. are ordinary bearer shares. Articles of Association of CIECH S.A. does not provide for any special control rights for the shareholders.

7.6. Restrictions concerning the exercise of the voting rights

In CIECH S.A. there are no restrictions concerning the exercise of the voting rights, such as the voting rights of holders of a specific part or number of votes, time limits concerning the exercise of voting rights, or regulations, according to which, in the case of company's cooperation, equity rights related to securities are separated from the securities themselves. Restrictions concerning the exercise of voting rights in the Company may result only from generally applicable provisions of the law.

7.7. Restrictions concerning the transfer of ownership rights to the issuer's securities

The Articles of Association of CIECH S.A. do not impose any restrictions concerning the transfer of ownership rights to securities issued by the CIECH S.A.

7.8. Description of rights for making decisions on the issue or redemption of shares

The rights of managers are specified by the provisions of the Code of Commercial Partnerships and Companies and Articles of Association of the Company. Managers do not hold specific rights to take the decision about the issue or redemption of shares.

7.9. Principles of amending the Issuer's Articles of Association

The amendment of Articles of Association of the Company is introduced under the principles specified in the provisions of the Code of Commercial Partnerships and Companies. Articles of Association do not include detailed regulations with regard to the above regulations. The amendment of Articles of Association requires a resolution of the Company's General Meeting of Shareholders and an entry in the Register of Entrepreneurs. The resolution of the General Meeting of Shareholders concerning the amendment of the Company's Articles of Association is passed by a majority of three quarters of votes. After the amendment to Articles of Association is entered into the Register of Entrepreneurs, CIECH S.A. makes a current report on this, subject available to the public. The Company's General Meeting of Shareholders may authorize the Supervisory Board to determine the consolidated text of Articles of Association.

7.10. The operations of the general meeting, its basic rights, and the description of shareholder rights and the manner of their exercise

The operations of the General Meeting of Shareholders of CIECH S.A. and its rights are governed by the Company's Articles of Association and the Regulations of the General Meeting of Shareholders of CIECH S.A. These documents are available on the corporate website of CIECH S.A. www.ciechgroup.com in the sections: "Investor relations/Corporate documents".

The General Meeting of Shareholders of CIECH S.A. is held as ordinary or extraordinary meeting in accordance with the provisions of the Code of Commercial Partnerships and Companies and Articles of Association under the principles specified in the Regulations of the General Meeting of Shareholders. The General Meeting of Shareholders is convened in a manner and under principles specified in the generally applicable provisions. The General Meeting of Shareholders is convened by an announcement uploaded to the Company's website and through the submission of a current report. The announcement is to be made at least twenty six days before the date of the General Meeting of Shareholders. The Annual General Meeting is convened by the Company's Management Board. The Supervisory Board may convene the Annual General Meeting if the Management Board does not convene it by the fixed date. The following are entitled to the right to convene an Extraordinary General Meeting:

1) the Management Board,
2) the Supervisory Board if it deems its convening as necessary,
3) shareholders representing at least half of the share capital or at least half of the total number of votes in the Company.

A shareholder or shareholders representing at least 1/20 of the share capital may demand the convening of an Extraordinary General Meeting and may put specific items on the agenda of this Meeting. The demand should be reported to the Management Board in writing or in electronic form to the e-mail address indicated on the Company's website, along with substantiation. A shareholder or shareholders representing at least 1/20 of the share capital may:

1) demand the inclusion of specific items in the agenda of the next General Meeting – such demand should be reported to the Management Board in writing or in electronic form to the e-mail address indicated on the Company's website, no later than twenty one days before the fixed date of the Meeting and is to contain substantiation or a draft of the resolution concerning the proposed item on the meeting agenda;
2) submit drafts of resolutions concerning the items put on the agenda of the General Meeting or items that are to be included to the meeting agenda to the Company in writing or by means of electronic communication to the e-mail address indicated on the Company website before the date of the General Meeting.

According to the Regulations of the General Meeting, the Meeting may be cancelled if its convening encounters extraordinary obstacles (forces majeure) or if it is apparently aimless. Cancellation of a Meeting, the agenda of which contains specific items included upon the request of authorized entities, or which was convened upon such a request, is only possible with the consent of the requesting parties. Cancellation takes place in the same way as convening, in such a way that shareholders will be subject to the least negative effects. Changing of the date of the Meeting takes place in the same way as its cancellation, even if the proposed meeting agenda is not subject to change.

According to Articles of Association of CIECH S.A., the competences of the General Meeting include in particular:

1) consideration and approval of the Management Board's report on Company's activities, the financial statements for the previous year, the consolidated financial statements and the report on the capital group's activities, in which the parent company is the Company, as long as the Company prepares them, and the annual written statement of the Supervisory Board, as well as acknowledging the fulfilment of duties by Company's bodies;
2) taking resolutions on the distribution of profit or covering the losses;
3) the adoption of Regulations of the General Meeting;
4) the amendment of Articles of Association of the Company;
5) the amendment of the scope of operations of the Company;
6) the sale or lease of the enterprise or of its organized part and establishment of a limited property right on it;
7) the appointment and dismissal of the Supervisory Board members and determination of the amount of remuneration for the Supervisory Board Supervisory Board Members;
8) the increase or reduction in the share capital;
9) passing resolutions concerning the bonds issue, including bonds exchangeable for shares;
10) the merger of the Company with other companies, division and transformation of the Company;
11) dissolution of the Company;
12) expressing the consent for the acquisition of shares by the Company for the purposes of redemption and establishing the conditions of share redemption;
13) passing other resolutions provided for in the provisions of the law or in these Articles of Association.

According to § 21(2)(3) of the Articles of Association of CIECH S.A., the items raised at the General Meeting of CIECH S.A. are considered and opined on by the Supervisory Board of CIECH S.A.

Shareholders may participate in the General Meeting and exercise the voting right in person or through a proxy. The power of attorney should be granted in writing or in electronic form. A shareholder granting or revoking the proxy for participation in the General Meeting in electronic form will inform the Company by e-mail to the address wza@ciechgroup.com.

According to the Regulations of the General Meeting of CIECH S.A., the General Meeting is attended by the participants of the General Meeting and members of the Management Board and the Supervisory Board, in composition which allows them to provide factual answers to questions asked during the Meeting. In addition, the following persons may take part in the Meeting:

1) experts, advisers and Company's employees, the presence of which is deemed purposeful by the Management Board, Supervisory Board or the Chairman,
2) persons servicing the Meeting,
3) representatives of mass media, as long as the Meeting does not object to their presence by way of resolution,
4) persons referred to Article 370 § 3 and Article 395 § 3 sentence 2 of the Code of Commercial Partnerships and Companies.

The Chairman of the Meeting is selected from the participants of the Meeting. The Chairman directs the course of the Meeting in accordance with the adopted meeting agenda, provisions of the law, Articles of Association and Regulations of the General Meeting, ensuring an efficient course of the Meeting with respect to the rights and interests of all Shareholders.

The competences of the Chairman of the General Meeting include in particular:

1) keeping watch over adherence to the regulations, including the Regulations of the General Meeting by participants of the Meeting and if necessary, making of the appropriate order decisions in this respect,
2) opening discussions on individual items on the meeting's agenda, giving the floor,
3) taking the floor in the case of statements:
   - ✓ exceeding the established time limit for statements or replicas, or
   - ✓ on items not included in the meeting's agenda, or
   - ✓ containing insulting content,
4) closing discussions on individual items of the meeting's agenda,
5) closing the lists referred to in § 42 (44) of General Meeting Regulations of CIECH S.A. (list of candidates for members of the Management Board, including the President of the Management Board or Supervisory Board),
6) establishing – on the basis of accepted applications – the contents of draft resolutions of the Meeting,
7) calling for votes, watching over the correct course of voting, signing of all documents containing voting results and announcement of voting results,
8) issuing order dispositions applicable in the meeting place,
9) settling procedural doubts and clarification – if necessary, on the basis of obtained legal opinions – of legal and regulatory matters,
10) stating the conclusion of the meeting's agenda,
11) adjourning the Meeting after the conclusion of the meeting agenda,
12) making other decisions of an order nature.

The Chairman may independently order breaks at the meeting other than the breaks ordered by the Meeting pursuant to Article 408 § 2 of the Code of Commercial Partnerships and Companies. Breaks should be ordered by the Chairman in such a way, that the Meeting can be concluded on the day of its commencement.

The Chairman may introduce the consideration of an application and making of a resolution on appointing an extraordinary general meeting to the meeting agenda, as well as other ordinal matters, including in particular:

1) admission to the meeting place of the persons referred to in § 8 (2) p. 1–3 in General Meeting Regulations of CIECH S.A,
2) application for a change in the order of considering matters contained in the meeting agenda,
3) selection of commissions provided for in the Regulations.

Participants of the Meeting may place substantive applications concerning the matters included in the meeting's agenda, ordinal applications and an application for convening an extraordinary general meeting.

Drafts of resolutions proposed for acceptance by the Meeting are uploaded to the Company website. Resolutions of the CIECH S.A. General Meeting are passed by absolute majority of votes unless the regulations of the Code of Commercial Partnerships and Companies stipulate otherwise.

The Regulations of the General Meeting of Shareholders do not provide for the possibility of voting by correspondence as referred to in Article 411^1 of the Code of Commercial Partnerships and Companies.

The Articles of Association do not provide for the possibility of participating and expressing opinion by means of electronic communication in the course of the Meeting.

Voting is carried out as open voting. Secret ballot is ordered:
1) during elections,
2) for applications for dismissal/appointment of members of Company's bodies,
3) for applications for dismissal of Company liquidators,
4) for applications for holding accountable the persons specified in items 2) and 3),
5) in personnel matters,
6) upon the demand of even one of the participants of the Meeting.

The right to demand secret ballot is not applicable when resolutions are made on order matters. The Meeting may repeal the secret of ballot in matters concerning the selection of the commissions appointed by it.

7.11. Composition and code of conduct of the management and supervisory bodies of the Issuer and their committees The Management Board of CIECH S.A.

According to § 23(1) of the Company's Articles of Association, the Management Board consists of at least two members. The Supervisory Board appoints the Chairman of the Management Board and other Board members. The Supervisory Board determines the number of Board Members. The joint term of the Management Board members lasts three years.

The seat of a Board Member expires at the latest with the day on which a General Meeting is held approving the financial statements for the last full financial year of the Member's function as a Board Member. The expiration of a Member's seat also takes place as a result of death, resignation or dismissal from the Board.
The Management Board's competences include all matters and economic decisions and other decisions not reserved by the regulations of the Code of Commercial Partnerships and Companies or the stipulations of the Company's Articles of Association as belonging solely to the General Meeting or Supervisory Board.
Two Board Members jointly or one Board member together with an proxy are authorized to make declarations of will and to sign them on behalf of the Company.

The current joint term of the Company's Management Board commenced on 22 May 2013. A detailed description of segregation of duties of individual Board Members has been specified in the resolution of the Management Board.
The Management Board of CIECH S.A. operates on the basis of the regulations passed by the Management Board and approved by the Supervisory Board. Resolutions of the Management Board are adopted by an absolute majority of votes cast. In the event of equal split of votes, the vote of the President of the Management Board prevails. In accordance with the principles of best practices, Management Board Regulations state that in the event of a conflict of the Company's interest with the personal interests of a Board Member, his spouse, relatives or kinsman of the second degree or persons with whom he has a personal relationship, he should abstain from participation in the settlement of such matters, and request for this to be noted in the Board's meeting protocol.
According to the Management's Regulations, Management Board's resolutions are required in respect of matters exceeding the scope of ordinary Company's activities including in particular:

1) the approval and amendment of the Management Board's Regulations;
2) the approval and amendment of the Company's Organizational Regulations;
3) the acceptance of applications referred to the Supervisory Board or General Meeting;
4) convening of General Meetings and acceptance of proposed agendas;
5) the acceptance of annual and long-term financial plans and development strategies for the Company;
6) the grant of proxy or general power of attorney;
7) taking out credit and loans;
8) the grant of loans and gifts;
9) the disposal of a right or assumption of a liability exceeding the amount of PLN 500 thousand;
10) the application for bank guarantees, assumption of liabilities under promissory notes, the grant of all types of guarantees and the establishment of other securities.

A Board's resolution is also required in matters not exceeding the scope of ordinary Company's activities if its passing is requested by any of the Management Board's Members.

As of 1 January 2015, the Company's Management Board performed its function in the following composition:

1) Dariusz Krawczyk – President of the Management Board,
2) Artur Osuchowski – Management Board Member,
3) Maciej Tybura – Management Board Member.

On 22 July 2015, the Supervisory Board of the Issuer dismissed Dariusz Krawczyk – the President of the Management Board, determined that the number of Members of the Management Board is 2 (two) persons and entrusted the function of the President of the Management Board of CIECH S.A. with the Management Board Member — Maciej Tybura.
On 26 October 2015, the Supervisory Board of the Issuer determined that the number of Management Board Members is 3 (three) persons, appointed Artur Król and entrusted him with the function of the Management Board Member.
As at 31 December 2015, the Company's Management Board performed its function in the following composition:

1) Maciej Tybura – President of the Management Board,
2) Artur Król – Management Board Member,
3) Artur Osuchowski – Management Board Member.

The body responsible for establishing the principles and level of remuneration for the Management Board members is the CIECH S.A. Supervisory Board.
Detailed information about CIECH S.A.'s Management Board Members is presented below.

Name and surname	Maciej Tybura
Position	**President of the Management Board of CIECH S.A. since 22 July 2015, Management Board Member of CIECH S.A. since 13 October 2014,**
Qualifications	Graduated from Poznan University of Economics with a specialization in Corporate Finance and Accounting. In addition, he is a graduate of postgraduate MBA (University of Economics in Wroclaw) and Cost Management (Wroclaw School of Economics).
Experience	At the beginning of his career, he was associated with the Hoghtief Group and Wrozamet (1997–2002), where he worked on strategic planning, investments and controlling. He served several management functions in companies of KGHM Group, including the position of the Vice President of the Management Board of KGHM Polska Miedź S.A. (2008–2012).

	A member of numerous Supervisory Boards: CIECH S.A., PCC Exol, KGHM International, Telefonia Dialog, Pol-Miedz Trans, Walcowania Metali Nieżelaznych, PIGO. He still serves as the Chairman of the Supervisory Board of KGHM TFI and PHP Mercus, and sits on the Supervisory Board of Tauron Polska Energia.
Scope of responsibilities in the CIECH Group	**Supervision over organisational units:** • Group Management Office • Strategy Department • Human Resources Department • Audit and Control Department • Legal Counsel team • IT Department • Communications Department • Assets Management Department • PURCHASE DIVISION, including: ✓ Raw Materials Purchase Department ✓ Investment and Technical Purchases Department • Finance and Accounting Department, including: ✓ Accounting Department ✓ Finance Management Department ✓ Controlling Department ✓ Inowrocław Branch ✓ Nowa Sarzyna Branch

Name and surname	Artur Król
Position	**Management Board Member of CIECH S.A. since 26 October 2015**
Qualifications	He graduated from the Wrocław University of Technology, Faculty of Computer Science and Management, in Management and Marketing. He is also a graduate of post-graduate course at Warsaw School of Economics – "Value Based Management".
Experience	He has been associated with KGHM Polska Miedź S.A. Group from the beginning of his career. He started his work in the Corporate Governance Department, next he was the Head of Implementation Department (later Marketing and Development) in Fundusz Inwestycji Kapitałowych KGHM Metale S.A. In 2006–2008 he worked in Wałbrzyskie Zakłady Koksownicze "Victoria" S.A. where he served as the Investment and Development Director. In 2008–2012, he was the founder and General Manager of the Central Purchase Department at KGHM Polska Miedź S.A. He also served as the President of the Management Board in Przedsiębiorstwo Budowy Pieców Przemysłowych "PIEC-BUD" Wrocław Sp. z o.o. (2013-2014). Recently, the General Manager of the Branch of Huta Miedzi "Głogów" (2014–2015). Artur Król was the member of the following Supervisory Boards: KGHM Ecoren S.A., KGHM Shanghai Copper Trading Co. Ltd, PHP Mercus Sp. z o.o.
Scope of responsibilities in the CIECH Group	**Supervision over organisational units:** • PRODUCTION DIVISION, including: ✓ Production Department ✓ Facilities Maintenance Department ✓ Energy Department • Environmental Department • Investment Management Department • Department of Continuous Improvement of the Group Systems

Name and surname	Artur Osuchowski
Position	**Board Member of CIECH S.A. since 2 April 2008**

Name and surname	Artur Osuchowski
Qualifications	Graduate of the Private Higher School of Business and Administration in Warsaw, Faculty of Economics, majored in Finance and Banking. Completed professional courses in management of company value, appraisal of companies on the capital market, restructuring of company's activity. Holder of the scholarship of the "Die Zeit" weekly, American Council of Germany, Dreager Foundation.
Experience	In 1996–1997, the analyst in the Management Accounting Department at Raiffeisen Bank Polska. From 1998 to 2001, senior consultant in the Corporate Finance department at Ernst & Young (responsible for mergers and acquisitions on the capital market and strategic projects related to restructuring and reorganization of companies' operations). In 2001–2003, he was senior consultant at the Corporate Finance Department at Capgemini. Responsible for mergers and acquisitions on the capital market and strategic projects related to restructuring and reorganization of companies' operations. In 2003–2008, he acted as the manager at KPMG Advisory in the Economic Consulting Department. Responsible for the development of services in the scope of strategic projects, reorganization of companies' operations and projects related to the financing of operations, as well as the support of direct investments.
Scope of responsibilities in the CIECH Group	**Supervision over organisational units:** • Project Management and Entities Supervision • Marketing and Communication Department • European Funds Department • SALES DIVISION, including: ✓ Soda Ash Sales Department ✓ Baking Soda Sales Department ✓ Salt Sales Department ✓ Sales Logistics and Administration Department ✓ Sales Analysis Support Department ✓ Business Development Position • Independent positions, including: The Representative of the Management Board of CIECH S.A. for Integrated Quality Management System and Information Security; Coordinator of Integrated Management System in the Group, the Representative of the Management Board of CIECH S.A.; Information Security Administrator of CIECH S.A.

Supervisory Board of CIECH S.A.

Pursuant to § 20(1) the Supervisory Board consists of five to nine Members appointed by the General Meeting. The joint term of the Supervisory Board Members lasts three years.
The Supervisory Board of CIECH S.A. operates on the basis of the regulations passed by the Supervisory Board and approved by the General Meeting. The appointment and dismissal of Supervisory Board members are the competences of the General Meeting. The Supervisory Board appoints the Chairman of the Supervisory Board from among its members and, if necessary, his deputy and secretary. The Supervisory Board supervises the Company's operations.

The competences of the Supervisory Board include in particular:

1) the assessment of the Management Board's report on the Company's activity and financial statements for the previous financial year and the consolidated financial statements and the Board's report on the activity of the Group, in which the Company is a parent company as long as the Company develops them in respect of their compliance with ledgers and documents and the factual state and Management Board's motions, concerning the distribution of profit or covering of losses and the submission to the General Meeting of an annual written report on the results of these assessments;
2) giving opinions on the Company's activity programs developed by the Management Board;
3) considering and giving opinions on matters that are to be the subject of resolutions of the General Meeting;
4) adoption of the Supervisory Board's regulations;
5) approval of the Management Board's regulations;
6) appointment and dismissal of the Management Board Members, including the President of the Management Board;
7) determination of rule for remuneration and their levels for the Management Board Members, including the President of the Management Board;
8) selection of registered auditor to carry out an audit of the Company's financial statements and of the consolidated financial statements of the Capital Group;
9) expression of consent to acquire or sell real estates, perpetual usufruct or share in the real estate;
10) expression of consent for disposal of rights or assuming liabilities exceeding the amount of PLN 20,000,000 (in words: twenty million zlotys) excluding:
   a) purchase and sales of raw materials, intermediate goods, and products related to the operations of the Company;

b) assuming liabilities related to the main operations of the Company in the amount not exceeding 10% of the Company's equity;
c) activities requiring the consent of the General Meeting.
11) giving opinions about the candidates for the members of supervisory boards of companies, in which the Company is a partner or a shareholder;
12) approving drafts of annual business plans and budget of the Company, Capital Group and their amendments;
13) expressing the consent to charge assets of the Company with the amount (sum of security) exceeding PLN 10,000,000.00 (in words: ten million zlotys), in the form of one-off transaction or a series of related transactions;
14) expressing the consent to grant sureties and guarantees by the Company to entities other the subsidiaries within the meaning of the Code of Commercial Partnerships and Companies;
15) expressing the consent to make the payment of interim dividend;
16) expressing the consent to exercise by the Company of the ownership rights awarded to it as the partner and shareholder of the subsidiary, to the extent determined in item 10) above.

The Supervisory Board passes resolutions with an absolute majority of votes in the presence of at least half of the members of the Supervisory Board and in the event of a tied vote the Supervisory Board Chairman's vote is decisive. According to the Articles of Association of CIECH S.A., the Supervisory Board may pass resolutions without convening a meeting, by way of written vote or vote by means of direct communication at a distance, however in order for the adoption of a resolution to be effective in such a case, it is necessary to inform all Supervisory Board members of the content of the draft of the resolution. Supervisory Board Members may participate in the adoption of resolutions by the Supervisory Board by casting their vote in writing through another Supervisory Board Member. Casting of a vote in writing may not be concerned with matters introduced to the agenda during a meeting of the Supervisory Board.
Supervisory Board meetings are held as needed, however, no less frequently than once per quarter.
Every year, the Supervisory Board of CIECH S.A. submits a report on the Activity of the Supervisory Board for the given financial year to the Annual General Meeting of the Company. The report contains a detailed discussion on the activity of the Supervisory Board, discussion on the implementation by the Company's Management Board of action plans, the assessment of the Company's Management Board report on the activity of the Company and the CIECH Group, financial statements of the Company and the CIECH Group and the motion of the Company's Management Board concerning division of profits or covering of losses.
Having in mind of the highest standards and best practices and in order to provide the possibility for reliable assessment of the Company by shareholders, the Supervisory Board of CIECH S.A. makes a concise assessment of the situation of CIECH S.A. This assessment is presented annually during the Annual General Meeting of the Company, at a time allowing CIECH S.A.'s shareholders to become acquainted with the document.
As at 1 January 2015 the Supervisory Board performed its function in the following composition:

1) Jan Kulczyk, PhD – Chairman of the Supervisory Board
2) Tomasz Mikołajczak – Vice Chairman of the Supervisory Board
3) Wojciech Stramski – Secretary of the Supervisory Board
4) Piotr Augustyniak
5) Mariusz Nowak
6) Artur Olech.

Owing to the death of Jan Kulczyk, PhD. – the Chairman of the Supervisory Board, the Extraordinary General Meeting of Shareholders appointed Mr Sebastian Kulczyk as a Member of the Supervisory Board as of 26 August 2015.
On 8 October 2015 the Supervisory Board selected Mr Sebastian Kulczyk for the position of the Chairman of the Supervisory Board.
As at 31 January 2015 the Supervisory Board performed its function in the following composition:

1) Sebastian Kulczyk – Chairman of the Supervisory Board
2) Tomasz Mikołajczak – Vice Chairman of the Supervisory Board
3) Wojciech Stramski – Secretary of the Supervisory Board
4) Piotr Augustyniak
5) Mariusz Nowak
6) Artur Olech.

The body responsible for establishing the principles and levels of remuneration for the Supervisory Board members is the General Meeting. Detailed information on the levels of remuneration paid to individual Supervisory Board Members can be found in the section II.43.5.
Detailed information about CIECH S.A. Supervisory Board Members is presented below.

Name and surname	Sebastian Kulczyk
Position	**Chairman of the Supervisory Board of CIECH S.A. since 8 October 2015,** **does not conduct competitive activities towards CIECH S.A.**
Qualifications	A graduate in management and marketing from the Faculty of Law of the Adam Mickiewicz University in Poznań. He studied at the London School of Economics.
Experience	Since 2010 he has been associated with Kulczyk Investments Group, and since December 2013 he has been Chief Executive Officer of Kulczyk Investments S.A.

Name and surname	Tomasz Mikołajczak
Position	**Deputy Chairman of the Supervisory Board of CIECH S.A. since 10 July 2014, Supervisory Board Member since 7 July 2014.** **does not conduct competitive activities towards CIECH S.A.**
Qualifications	A graduate of the Faculty of Law and Administration of the University of Warsaw. Since 1998 he is registered on the list of legal advisor at the Regional Chamber of Legal Advisors in Warsaw.
Experience	Since 1980, a private investor, who has conducted his business activity mainly through a holding company Towarzystwo Inwestycji Kapitałowych S.A., through which short- and medium term investments of the private equity type are made. He mainly invests in the sectors of real estate, telephony and IT, construction and industrial automatics, as well as in companies dealing with infrastructure design and construction. Since the beginning of his activity, Tomasz Mikołajczak has implemented several privatization processes as a strategic investor, he also participated in acquisitions of many companies and in restructuring processes. He privately also invests in the capital market and in financial instruments. He is an academic and advisor of many young entrepreneurs, who effectively operate in many areas of the Polish market. A member of Supervisory Boards of Kulczyk Investments S.A., Kulczyk Holding S.A., Polish Energy Partners S.A. and Polenergia Holding S.à.r.l., as well as the Chairman of the Audit Committee of the Polish Business Round table.

Name and surname	Wojciech Stramski
Position	**Secretary to the Supervisory Board of CIECH S.A. since 10 July 2014, Supervisory Board Member since 7 July 2014.**
Qualifications	He graduated from the Marshall School of Business at the University of Southern California. He is a member of the Association of Chartered Certified Accountants (ACCA Member) and the Association of International Internal Auditors (IIA). He also holds accreditation which allows him to conduct effectiveness verification of the internal audit function according to IIA standards.
Experience	He started his professional career at KPMG within the structure of the team responsible for the conduct of financial audits of companies from various sectors. For two years, as a Manager of the Risk Advisory Services Department at KPMG in Poland, he rendered advisory services in the area of, among other things, logistic processes. For more than 8 years he has focused his activity on issues connected with identification and implementation of solutions, both of an operational and strategic nature, supporting the growth in companies' goodwill. He has worked for large companies, such as Altria Corporate Services in Switzerland (a holding of the Philip Morris Group) and for the Honeywell Group. The scope of his duties included but was not limited to: the conduct of operational effectiveness studies of departments of Philip Morris and Honeywell in the EMEA region for the Audit Committee of the Supervisory Board in the USA, for the purposes of ensuring the of goodwill by both those entities. Before joining the Kulczyk Holding in 2012, he was a Member of the Management Board of Magro International (companies belonging to Kulczyk Holding and Pon Holding) and a manager of the Internal Audit Department at KPI Polska Group. In Kulczyk Holding he serves the function of a Director of the Portfolio Management Department, where he supervises investment undertakings of the KI/KH Group.

Name and surname	Piotr Augustyniak
Position	**Supervisory Board Member of CIECH S.A. since 7 July 2014.** **does not conduct competitive activities towards CIECH S.A.**
Qualifications	A graduate from the University of Warsaw, the Faculty of English Philology and the Faculty of Business Administration.

Name and surname	Piotr Augustyniak
Experience	Currently he conducts his own business activity (financial advisory services). In 1994–2011, he was employed at Enterprise Investors (EI), first as an analyst, then investment director, vice president, and in 2006–2011, as a partner. In the period from June to December 2001, he served the role of the President of the Management Board of Energoaparatura S.A. In 1993–1994, he was employed by the Ministry of Ownership Transformation, first as a project manager and then as a manager of the privatization team. In 1992–1993, he was employed as an assistant of the financial officer in the Ownership Transformation Foundation at the Ministry of Ownership Transformation. In 1991–1992, he worked at New York Times (Warsaw) as a translator. As a partner at EI, he was responsible for monitoring, entry of companies in the Warsaw Stock Exchange, transactions of sale of significant blocks of shares in the EI portfolio on the public and private markets. He participated in more than 40 transactions connected with EI companies, in particular sales on the private market of controlling blocks of shares (Bauma, Agros Nova, Opoczno), introduction of companies to the Warsaw Stock Exchange (Comp Rzeszów (currently Asseco Poland), PEP, Opoczno, Teta, Sfinks, AB, Magellan], financial restructuring of Slovak logistic company of STD Donivo (development and supervision of the restructuring plan encompassing negotiations with a group of banks financing the company). Member of supervisory boards of several Polish and foreign companies (such as: Polfa Kutno, Energoaparatura, Elektrobudowa, Wizów, Sfinks, Bauma, Opoczno).

Name and surname	Mariusz Nowak
Position	**Supervisory Board Member of CIECH S.A. since 7 July 2014.** **does not conduct competitive activities towards CIECH S.A.**
Qualifications	A graduate from the University of Szczecin, the Faculty of Economy and the Faculty of Cybernetics and Computer Science. He also holds the title of MBA of Ecole Nationale des Ponts et Chaussees in Paris.
Experience	A specialist in the field of finance, accountancy and business administration. In Kulczyk Investments and Kulczyk Holding since 2012. Earlier, starting in March 2010, the Financial Director of Kulczyk Pon Investments and the President of the Management Board of Magro International. In 1991–2010, he worked in various positions for the Wavin group, and in 2007, he assumed the function of the Managing Director of Wavin Ekoplastik. Member of the Supervisory Boards: PEKAES S.A., PEP S.A., Autostrada Wielkopolska S.A., Autostrada Wielkopolska II S.A., Autostrada Eksploatacja S.A. and AWSA Holland II BV.

Name and surname	Artur Olech
Position	**Supervisory Board Member of CIECH S.A. since 7 July 2014,** **does not conduct competitive activities towards CIECH S.A.**
Qualifications	A graduate from the Faculty of Law at the University of Warsaw and from the Faculty of Finance and Banking at the Warsaw School of Economics.
Experience	From October 1998 to February 2014, a member of the Management Board of the Generali Group. In 2010–2014, the President of the Management Board, in 2008–2010, the Vice President of the Management Board, responsible for life and pension insurance. In 2003–2008, Member of the Management Board. In 1997–1998, Director of Volkswagen Bank Polska/Volkswagen Leasing Polska-Warszawa. In 1996–1997, employed as an analyst by the Polish Institute of Managemenet (PIM Sp. z o.o.). In 1994–1997, employed in the position of a Foundation Project Manager by CASE Consulting (Fundacja Centrum Analiz Społeczno-Ekonomicznych) in Warsaw. He attended numerous training sessions for top management, including training at the Harvard Business School, Kellogg School of Management and Chicago GSB. In 2012, he was granted the Personal Award for Top Manager in Insurance Industry (by Wprost magazine). Responsible for the project entitled: "Exit Processes in Transitional Economy" on behalf of the World Bank, implemented within CASE Consulting (Fundacja Centrum Analiz Społeczno-Ekonomicznych) under the supervision of Prof. Leszek Balcerowicz.

Committees of the Supervisory Board of CIECH S.A.

The following Committees function within the framework of the Supervisory Board of CIECH S.A.: Audit Committee of the Supervisory Board of CIECH S.A. and Remuneration Committee of the Supervisory Board of CIECH S.A.

Audit Committee

The Audit Committee of the Supervisory Board of CIECH S.A. was appointed by Resolution No 57/IV/2005 from 16 February 2005.

According to the Audit Committee Regulations the tasks of the Audit Committee include in particular:

1) monitoring of the financial reporting process
2) monitoring of the effectiveness of the internal control system
3) monitoring of the effectiveness of the internal audit system
4) monitoring of the effectiveness of the risk management system
5) monitoring of the performance of financial review activities
6) monitoring of the independence of the auditor and the entity authorised to audit the Company's financial statements.

The Audit Committee of the Supervisory Board of CIECH S.A. submits an annual report on its activity which is a part of the Report on the activity of the Supervisory Board of CIECH S.A. provided to Shareholders during the Annual General Meeting of CIECH S.A.

As at 1 January 2015 the Audit Committee was as follows:

1) Wojciech Stramski – Chairman of the Committee
2) Piotr Augustyniak – Committee Member
3) Artur Olech – Committee Member

As at 31 December 2015, the Audit Committee performed its functions in an unchanged composition.

Remuneration Committee of the Supervisory Board of CIECH S.A.

The Remuneration Committee was appointed by Resolution No 66/IV/2005 of the Supervisory Board of CIECH S.A. According to the Remuneration Committee Regulations, the primary task of the Committee is to advise the Supervisory Board on matters related to the establishment of the principles and amounts of remuneration of the CIECH S.A.'s Management Board members.

In particular the Committee's tasks include:

1) presenting the Supervisory Board with proposals of the principles of remuneration of CIECH S.A.'s Management Board members, which should account for all forms of remuneration, in particular as regards: base remuneration, remuneration system based on results, retirement system and severance payments;
2) presenting the Supervisory Board with regarding the amounts of remuneration for each CIECH S.A.'s Management Board member;
3) presenting the Supervisory Board with drafts of agreements, regulating the performance of responsibilities CIECH S.A's Management Board members;
4) discussion (with or without the involvement of the Management Board) of all problems or reservations that may arise in matters related to the remuneration of CIECH S.A.'s Management Board;
5) consideration of all other matters to which the Committee or Supervisory Board has paid attention;
6) informing the Supervisory Board of all significant matters in the general context of the Committee's activity.

The Remuneration Committee of the Supervisory Board of CIECH S.A. submits an annual report on its activity, which is a part of the Report on the activity of the Supervisory Board of CIECH S.A., provided to Shareholders during the Ordinary General Meeting of CIECH S.A.

As at 1 January 2015 the composition of the Remuneration Committee was as follows:

1) Tomasz Mikołajczak – Chairman of the Committee,
2) Mariusz Nowak – Committee Member

As at 31 December 2015, the Remuneration Committee performed its functions in an unchanged composition.

7.12. Information concerning agreements signed between the issuer and persons in management positions providing for compensation in the event of their resignation or dismissal from their position without substantial reason or when their dismissal takes place as a result of the issuer's merging through a takeover

In the case of dismissal of Board Members from their positions, they are entitled to a one-time cash severance package in the amount of six months remuneration. The non-competition agreement with Board Members after the termination of the employment provides a compensation in the amount of 50% of monthly remuneration for a period that does not exceed 24 months.

II. THE CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE CIECH GROUP

PLN '000	*note*	**01.01-31.12.2015**	**01.01-31.12.2014***
CONTINUING OPERATIONS			
Sales revenues	***14***	**3,273,014**	**3,243,900**
Cost of sales	*15*	(2,398,910)	(2,563,050)
Gross profit/(loss) on sales		**874,104**	**680,850**
Other operating income	*16.1*	52,927	95,161
Selling costs		(192,855)	(214,267)
General and administrative expenses		(155,784)	(150,377)
Other operating expenses	*16.2*	(88,576)	(89,552)
Operating profit/(loss)		**489,816**	**321,815**
Financial income	*16.5*	6,406	8,371
Financial expenses	*16.6*	(219,003)	(151,364)
Net financial income/expenses		**(212,597)**	**(142,993)**
Share of profit / (loss) of equity-accounted investees	*13*	163	251
Profit/(loss) before tax		**277,382**	**179,073**
Income tax	*17*	68,623	(45,291)
Net profit/(loss) on continuing operations		**346,005**	**133,782**
DISCONTINUED OPERATIONS			
Net profit/(loss) on discontinued operations*	***9***	**-**	**32,571**
Net profit / (loss)		**346,005**	**166,353**
including:			
Net profit/(loss) attributable to shareholders of the parent company		342,987	167,116
Net profit/(loss) attributed to non-controlling interest	*12*	3,018	(763)
Earnings per share (in PLN):			
Basic	*18*	6.51	3.17
Diluted	*18*	6.51	3.17
Earnings/(loss) per share (in PLN) from continuing operations:			
Basic		6.51	2.55
Diluted		6.51	2.55

** Restated data regarding introduced adjustments is presented in section II.3.3.*

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME OF THE CIECH GROUP

PLN '000	**01.01-31.12.2015**	**01.01-31.12.2014***
Net profit/loss for the financial year	**346,005**	**166,353**
Other comprehensive income before tax, *which may be reclassified to profit or loss*	**11,809**	**3,087**
Currency translation differences	(3,368)	29,973
Cash flow hedge	15,124	(26,986)
Other components of other comprehensive income	53	100
Other comprehensive income before tax *that may not be reclassified to profit or loss*	**676**	**(256)**
Valuation of actuarial provisions	676	(256)
Income tax attributable to other comprehensive income	**(3,052)**	**6,071**
Income tax attributable to other comprehensive income *that may be reclassified to profit or loss*	(2,924)	6,003
Income tax attributable to other comprehensive income *that may not be reclassified to profit or loss*	(128)	68
Other comprehensive income net of tax	**9,433**	**8,902**
TOTAL COMPREHENSIVE INCOME	**355,438**	**175,255**

Total comprehensive income including attributable to:	**355,438**	**175,255**
Shareholders of the parent company	351,693	174,404
Non-controlling interest	3,745	851

** Restated data regarding introduced adjustments is presented in section II.3.3.*

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CIECH GROUP

PLN '000	*note*	**31.12.2015**	**31.12.2014**
ASSETS			
Property, plant and equipment	*19*	2,305,005	2,036,738
Right of perpetual usufruct	*20*	31,409	32,357
Intangible assets, including:	*21*	140,875	116,516
- goodwill	*22*	62,378	62,387
Investment property	*23*	34,308	42,567
Non-current receivables	*24*	89,612	78,264
Investments in associates and jointly-controlled entities measured under the equity method	*13*	4,918	4,944
Other long-term investments	*25*	40,471	46,404
Deferred income tax assets	17	213,749	128,282
Total non-current assets		**2,860,347**	**2,486,072**
Inventory	*26*	293,631	257,770
Short-term investments	*28*	50,781	-
Income tax receivables		29,544	25,109
Trade and other receivables	*27*	469,652	383,962
Cash and cash equivalents	*29*	202,935	49,162
Non-current assets held for sale	*9*	3,383	3,622
Total current assets		**1,049,926**	**719,625**
Total assets		**3,910,273**	**3,205,697**
EQUITY AND LIABILITIES			
Share capital	*30*	287,614	287,614
Share premium		470,844	470,844
Cash flow hedge		(16,004)	(28,254)
Actuarial gains		434	(114)
Other reserve capitals	*30*	78,521	78,521
Currency translation reserve		(53,092)	(47,716)
Retained earnings		577,259	233,879
Equity attributable to shareholders of the parent		**1,345,576**	**994,774**
Non-controlling interest	*12*	**(4,072)**	**(9,300)**
Total equity		**1,341,504**	**985,474**
Loans, borrowings and other debt instruments	*32*	1,494,775	1,176,455
Finance lease liabilities	*32, 38*	21,884	15,825
Other non-current liabilities	*32*	113,485	92,819
Employee benefits	*34*	12,829	12,720
Provisions (other long-term)	*35*	74,704	75,244
Deferred income tax liability	*17*	84,634	98,481
Total non-current liabilities		**1,802,311**	**1,471,544**
Loans, borrowings and other debt instruments	*36*	19,809	27,707
Finance lease liabilities	*38*	4,999	4,190
Trade and other liabilities	*36*	585,935	619,639
Reverse factoring liabilities		18,998	-
Income tax liabilities		55,020	34,813
Provisions (short-term provisions for employee benefits and other provisions)	*34.35*	81,697	62,330
Total current liabilities		**766,458**	**748,679**
Total liabilities		**2,568,769**	**2,220,223**
Total equity and liabilities		**3,910,273**	**3,205,697**

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

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY OF THE CIECH GROUP

	Attributable to shareholders of the parent company									
PLN '000	Share capital	Share premium	Cash flow hedge	Other reserve capitals	Actuarial gains	Foreign exchange differences on entities operating abroad	Retained earnings	**Total equity attributable to shareholders of the parent company**	Non-controlling interest	**Total equity**
Equity as at (beginning of the period) 01.01.2015:	**287,614**	**470,844**	**(28,254)**	**78,521**	**(114)**	**(47,716)**	**233,879**	**994,774**	**(9,300)**	**985,474**
Transactions with the parent company recognised directly in equity	-	-	-	-	-	(1,231)	340	(891)	1,483	592
Change in the Group's structure	-	-	-	-	-	(1,231)	340	**(891)**	1,483	**592**
Total comprehensive income for the period	**-**	**-**	**12,250**	**-**	**548**	**(4,145)**	**343,040**	**351,693**	**3,745**	**355,438**
Net profit / loss	-	-	-	-	-	-	342,987	342,987	3,018	346,005
Other comprehensive income	-	-	12,250	-	548	(4,145)	53	8,706	727	9,433
Equity as at (end of the period) 31.12.2015:	**287,614**	**470,844**	**(16,004)**	**78,521**	**434**	**(53,092)**	**577,259**	**1,345,576**	**(4,072)**	**1,341,504**

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

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY OF THE CIECH GROUP

	Attributable to shareholders of the parent company									
PLN '000	Share capital	Share premium	Cash flow hedge	Other reserve capitals	Actuarial gains	Foreign exchange differences on subordinated entities	Retained earnings	**Total equity attributable to shareholders of the parent company**	Non-controlling interest	**Total equity**
Equity as at (beginning of the period) 01.01.2014:	**287,614**	**470,844**	**(6,395)**	**78,521**	**74**	**(76,951)**	**157,781**	**911,488**	**(14,199)**	**897,289**
Transactions with the parent company shareholders recognised directly in equity	-	-	-	-	-	-	(91,118)	(91,118)	4,048	**(87,070)**
Dividend payment	-	-	-	-	-	-	(59,551)	(59,551)	-	(59,551)
Change in the Group's structure	-	-	-	-	-	-	(31,567)	(31,567)	4,048	(27,519)
Total comprehensive income for the period	**-**	**-**	**(21,859)**	**-**	**(188)**	**29,235**	**167,216**	**174,404**	**851**	**175,255**
Net profit / loss	-	-	-	-	-	-	167,116	167,116	(763)	166,353
Other comprehensive income	-	-	(21,859)	-	(188)	29,235	100	7,288	1,614	8,902
Equity as at (end of the period) 31.12.2014:	**287,614**	**470,844**	**(28,254)**	**78,521**	**(114)**	**(47,716)**	**233,879**	994,774	**(9,300)**	**985,474**

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

CONSOLIDATED STATEMENT OF CASH FLOWS OF THE CIECH GROUP

PLN '000	*note*	**01.01-31.12.2015**	**01.01-31.12.2014***
Cash flows from operating activities			
Net profit/(loss) for the period		**346,005**	**133,782**
Adjustments			
Amortisation/depreciation		217,722	204,487
Recognition of impairment allowances		2,294	4,079
Foreign exchange (profit) /loss		63,838	5,998
Investment property revaluation		6,347	6,454
(Profit) / loss on investment activities		1,735	(7,864)
(Profit) / loss on disposal of property, plant and equipment		(3,399)	547
Dividends and interest		127,598	125,511
Income tax		(68,623)	(13,377)
(Profit) / loss on the settlement of construction contracts (caverns)		(7,641)	(2,752)
Share of (profit) / loss on equity accounted investees		(163)	(251)
Change in liabilities due to loan arrangement fee		22,156	5,401
Net profit/(loss) on discontinued operations		-	32,571
Valuation of financial instruments		1,862	-
Other adjustments		(3,596)	(11,232)
Cash from operating activities before changes in working capital and provisions		**706,135**	**483,354**
Change in receivables	37	(58,880)	177,053
Change in inventory	37	(36,000)	(40,562)
Change in current liabilities	37	(21,467)	(32,159)
Change in provisions and employee benefits	37	19,293	(8,320)
Cash generated from operating activities		**609,081**	**579,366**
Interest paid		(126,763)	(114,339)
Cash flows from construction contracts		(3,712)	(3,523)
Income tax paid		(21,516)	(18,928)
Net cash from operating activities		**457,090**	**442,576**
Cash flows from investment activities			
Inflows		**18,216**	**4,934**
Disposal of a subsidiary**		(3,443)	(11,387)
Disposal of intangible assets and property, plant and equipment		6,552	7,093
Disposal of financial assets		1,101	1
Disposal of investment property		3,937	902
Dividends received		626	1,304
Interest received		2,808	2,789
Grants received		6,575	4,232
Other inflows		60	-
Outflows		**(504,316)**	**(288,600)**
Acquisition of a subsidiary (after deduction of acquired cash)		-	(507)
Acquisition of intangible assets and property, plant and equipment		(494,039)	(278,046)
Acquisition of financial assets		(28)	-
Acquisition of investment property		(706)	(7,709)
Development expenditures		(9,513)	(1,915)
Other outflows		(30)	(423)
Net cash from investment activities		**(486,100)**	**(283,666)**

PLN '000	*note*	**01.01-31.12.2015**	**01.01-31.12.2014***
Cash flows from financial activities			
Inflows		**1,338,262**	**52,132**
Net proceeds from shares and other capital instruments issue and capital premium		2,355	1,570
Proceeds from loans and borrowings		1,333,059	50,554
Other financial inflows		2,848	8
Outflows		**(1,155,375)**	**(264,712)**
Dividends paid to parent company		-	(59,551)
Loans and borrowings expenditure		-	(30,259)
Silent partner's paid		(50,218)	
Redumption of debt securities		(1,098,012)	(160,000)
Payments of finance lease liabilities		(7,130)	(10,908)
Other financial outflows		(15)	(3,994)
Net cash from financial activities		**182,887**	**(212,580)**
Total net cash flows		**153,877**	**(53,670)**
Cash and cash equivalents as at the beginning of the period	**29**	**49,162**	**105,593**
Impact of foreign exchange differences		*(104)*	*(2,761)*
Cash and cash equivalents as at the end of the period	**29**	**202,935**	**49,162**

** Restated data regarding introduced adjustments is presented in section II.3.3.*

*** This item includes cash and cash equivalents deconsolidated as a result of liquidating CIECH Polsin Pte. Ltd. in the first quarter of 2015 and loss of control over Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej (the consequence of the bankruptcy of the company) in the first quarter of 2014.*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSOF THE CIECH GROUP

1. General information

These consolidated financial statements of the CIECH Group for the period from 1 January 2015 to 31 December 2015, including comparative data, were approved by the Management Board of CIECH S.A. on 21 March 2016.

CIECH Spółka Akcyjna, seated in Warsaw, ul. Wspólna 62, registered under number 0000011687 at the District Court for the Capital City of Warsaw, 13th Commercial Department of the National Court Register, is the parent entity of the CIECH Group.

The CIECH Group is the leader of chemical industry in Poland, comprising domestic and foreign production, trade and service companies conducting their operations within the chemical sector. The Group is a major domestic manufacturer in the chemical industry, mainly focused on European markets and other regions of the world. The Group also deals in trading and distribution of chemical goods produced by manufacturers from outside of the CIECH Group.

The Management Board of CIECH S.A. declares that to the best of its knowledge the consolidated financial statements for the year ended 31 December 2015, including corresponding figures, have been prepared in accordance with the generally acceptable accounting principles and that they represent a true, accurate and fair reflection of the CIECH Group's financial position and the results of operations. Furthermore, the Management Board of CIECH S.A. declares that the financial statements for 2015 contain a true image of the Group's developments, achievements, and condition, including the description of major risks and threats.

The Management Board of CIECH S.A. declares that PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw, entered into the list of entities authorised to audit financial statements under the registry no. 144 kept by the National Chamber of Statutory Auditors was chosen in accordance with the binding legal regulations for the auditor of the Group's financial statements for the period from 1 January 2015 to 31 December 2015. The above entity, including the certified auditors performing the audit, satisfy all the conditions required in order to issue an unbiased and independent opinion and audit report, pursuant to the applicable domestic legal regulations.

2. Basis for preparation of the consolidated financial statements

2.1. The Management Board statement of compliance with International Financial Reporting Standards

The Management Board of CIECH S.A. declares that these consolidated financial statements for the current and including corresponding 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).

2.2. Basis of valuation

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

Preparation of financial statements in accordance with EU IFRS requires the Management Board to make professional judgements, estimates and assumptions which affect the adopted principles and presented values of assets, equity and liabilities, income and expenses. Detailed information on estimates made is provided in section II.4.

These consolidated financial statements of the CIECH Group were prepared on a going concern basis. All entities belonging to the CIECH Group operate according to the financial year corresponding to the calendar year, except for Cerium Sp. z o.o. SKA and Cerium Sp. z o.o., whose financial year ends on 30 September.

2.3. Reporting and functional currency

The consolidated statement of profit or loss of the CIECH Group is prepared in the cost by function format. The Group's consolidated statement of cash flows is prepared under the indirect method.

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

The functional currencies for the significant foreign subsidiaries are as follows:

- SDC Group and the CIECH Group Financing AB – functional currency – EUR; reporting currency in the consolidated financial statements of the CIECH Group – PLN
  - EUR spot rate as at reporting date 31 December 2015 – PLN 4.2615 (at 31 December 2014 – PLN 4.2623)
  - Average exchange rate (calculated as the arithmetic average of the average exchange rates as announced by the National Bank of Poland for EUR for the last day of each month, from January to December) for the period from 1 January to 31 December 2015 – PLN 4.1848 (for the comparable period – PLN 4.1893).
- CIECH Soda Romania S.A. – functional currency RON; reporting currency in consolidated financial statements of the CIECH Group – PLN
  - RON rate as at reporting date 31 December 2015 – PLN 0.9421 (at 31 December 2014 – PLN 0.9510)
  - Average exchange rate (calculated as the arithmetic average of the average exchange rates as announced by the National Bank of Poland for RON for the last day of each month from January to December) for the period from 1 January to 31 December 2015 – PLN 0.9421 (for the comparable period – PLN 0.9440).

3. Description of the most important accounting policies applied

Accounting Policy

These consolidated financial statements have been prepared on the historical cost basis except for investment property and certain financial instruments measured at fair value.

3.1. Basis of consolidation

3.1.1. Subsidiaries

Subsidiaries are entities controlled by the Parent Company. Control occurs when the Group has the power to govern either directly or indirectly the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing the control, the influence of both existing and potential voting rights exercisable at the reporting date are considered. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

3.1.2. Consolidation adjustments

Intra-group balances, transactions and any unrealised income and expenses arising from intra-group transactions as well as the Group's revenues and costs, impairment of intragroup doubtful receivables, impairment of investments, intragroup dividends and intragroup sales of fixed assets are all eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly-controlled entities are eliminated from the consolidated financial statements proportionally to Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains but only to the extent that they are not evidence of impairment.

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

3.1.3. Foreign currency

Financial statements of foreign operations

The parent company's functional currency is the presentation currency of these consolidated financial statements. Foreign operation subsidiaries producing their financial statements in currencies other than the presentation currency of these consolidated financial statements translate their results of operations as well as financial position into the presentation currency as follows:

- all items of income and expense in the functional currency of a subsidiary are translated to the presentation currency at the exchange rate applicable as at the transaction day. Appropriate average rates for the period may be used where such simplified approach would not have a significant effect of the consolidated financial result,
- all assets and liabilities are translated at the closing exchange rate at the reporting date,
- components of shareholders' equity are translated at historical rates e.g. share capital is translated at the exchange rate at the date of a related business combination, items of other comprehensive income and expense transactions recognised directly in equity are translated at respective transaction-date exchange rates or, for simplicity, at the average exchange rate for the period.

The difference arising on the translation of components of the equity at exchange rates different from the exchange rate at the reporting date applied to other statement of financial positions items is presented in equity as "Currency translation reserve". When the exchange differences relate to a foreign operation that is consolidated but not wholly-owned by the entity preparing consolidated financial statements, a portion of the accumulated exchange differences from translation is allocated to non-controlling interest.

Goodwill related to a foreign operation should be considered to be expressed in the functional currency of the foreign operation and should be translated into the presentation currency of the consolidated financial statements at the exchange rate as at the reporting date. The resulting translation differences are recognised in other comprehensive income and presented within "Currency translation reserve".

A monetary item receivable from or payable to a foreign operation may form part of the net investment in the foreign operation if the settlement is neither planned nor likely to occur in the foreseeable future. Foreign exchange gains and losses arising from monetary item that in substance forms part of the net investment in the foreign operation are recognised in the consolidated financial statements in other comprehensive income and are presented within equity as "Currency translation reserve".

In the event of loss of control over a foreign operation, the cumulative exchange differences related to that foreign operation, recognised in equity as "Currency translation reserve" are reclassified to profit or loss upon the loss of control over a foreign operation (as a reclassification adjustment).

3.2. Important accounting principles (policy)

3.2.1 Financial instruments

The principles of measuring and recognising financial assets described below do not refer to the measurement of shares of subsidiaries, finance lease agreements, insurance agreements, financial instruments under employee programmes and financial instruments issued by the entity and constituting its equity instruments.

The most significant assets subject to the measurement principles for financial instruments include:

1. investments in other entities,
2. bonds issued by other entities,
3. other securities issued by other entities (e.g. participation units),
4. loan receivables,
5. trade receivables,
6. cash,
7. derivatives (options, forwards futures, swaps, embedded derivatives) with positive fair value,
8. other financial assets.

The most significant liabilities subject to the measurement principles for financial instruments include:

1. borrowings,
2. loans,
3. bonds issued by the Group,
4. trade payables,
5. derivatives with negative fair value,
6. other financial liabilities.

Classification of financial instruments

Financial assets are classified into:

1. financial assets at fair value through profit or loss,
2. loans and receivables,
3. held-to-maturity financial assets,
4. available-for-sale financial assets.

Financial liabilities are classified into:

1. financial liabilities measured at fair value through profit or loss,

2. other financial liabilities.

Loans, receivables and deposits are initially recognised on the date when they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial asset that is created or retained by the Group is recognised as a separate asset or liability.

Issued debt instruments and subordinated liabilities are initially recognised by the Group on the date when they originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the date of the transaction, i.e. the date on which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when the obligation is repaid, redeemed or when it expires.

(i) Financial assets at fair value through profit or loss

Financial assets designated at fair value through profit or loss are presented within current assets and measured at fair value, and changes therein are recognised directly in profit or loss. Financial assets at fair value through profit or loss include the financial assets:

- held for trading,
- forming part of a portfolio of financial assets that are managed together to generate short-term profits,
- designated at the time of initial recognition as measured at fair value through profit or loss.

Upon initial recognition, financial assets may be designated at fair value through profit or loss provided that the following criteria are met:

- such classification eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch),
- the assets form part of a group of financial assets that are managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management strategy,
- financial assets include embedded derivatives that should be separately recognised.

Financial assets at fair value through profit or loss also include derivatives, provided that the conditions for applying hedge accounting have not been satisfied.

(ii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets quoted on an active market, with fixed or determinable payments and fixed maturity, that the Group has the positive intent and ability to hold to maturity, other than loans and receivables and financial assets designated upon initial recognition at fair value through profit or loss and financial assets available for sale.

The Group does not classify any financial assets as held-to-maturity if in the current financial year or in the preceding two financial years it sold or reclassified more than a non-significant amount of held-to-maturity investments, save for the sale or reclassification performed:

- so close to maturity or financial asset's call date that changes in the market interest rates would not have a significant effect on the financial asset's fair value;
- after the Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- as a result of an isolated event that is beyond the Group's control, is non-recurring and could not have been reasonably anticipated by the entity.

Financial assets held-to-maturity after initial recognition are measured at amortised cost using the effective interest method.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than financial assets, which:

- the Group intends to sell immediately or in near term, which shall be classified as held for trading and those that the Group upon initial recognition designates at the fair value through profit or loss;
- upon initial recognition were designated by the Group as available for sale; or
- the Group may not recover substantially all of its initial investment, other than due to credit deterioration, which shall be classified as available for sale.

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

(iv) Available-for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets after initial recognition are measured at fair value and changes therein are recognised in other comprehensive income. Interest on any debt instruments included in this category, calculated using the effective interest method, is presented directly in profit or loss.

In the absence of a quoted market prices in an active market and the inability to reliably determine the fair value of equity instruments using alternative methods, available-for-sale financial assets are measured at cost less any impairment losses.

(v) Financial liabilities

Financial liabilities held for trading, including, in particular, derivatives with negative fair value, not designated as hedging instruments, are recognised at fair value with changes therein recognised directly in profit or loss.

Other financial liabilities are measured at amortised cost using the effective interest method.

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 recognised in the current period profit or loss under finance income or costs
Liabilities at fair value through profit or loss	At fair value	Remeasurement changes recognised in the current period profit or loss under finance income or costs
Other financial liabilities	At amortised cost using the effective interest rate (IRR)	Remeasurement changes adjust the carrying amount of the liability and are recognised in current period profit or loss
Loans and receivables	At amortised cost using the effective interest rate (IRR)	Remeasurement changes adjust the carrying amount of the asset and are recognised in current period profit or loss
Held-to-maturity financial assets	At amortised cost using the effective interest rate (IRR)	Remeasurement changes adjust the carrying amount of the asset and are recognised in current period profit or loss
Available-for-sale financial assets	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

Hedge accounting and embedded derivatives

Hedge accounting

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 aforesaid derivatives, the entity may apply hedge accounting if, and only if, all the following conditions are met:

- ✓ at the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. In this documentation, the Group shall include identification of the hedging instrument for the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk,
- ✓ the Group expects that the hedge will be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship,
- ✓ for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss,
- ✓ the effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured,
- ✓ the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

If the aforesaid conditions are not met, the derivative should be measured in accordance with the principles as for financial instruments held for trading.

The entity may apply the following hedging relationships:

Fair value hedges:
A hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment or an identified portion of such an asset liability or firm commitment that is attributable to a particular risk and could affect profit or loss.

Fair value hedge shall be accounted for as follows:

- ✓ the gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) shall be recognised in profit or loss; and
- ✓ the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in profit or loss. This applies if the hedged item is otherwise measured at cost. The gain or loss attributable to the hedged risk is recognised in profit or loss if the hedged item is an available-for-sale financial asset.

Cash flow hedge:
A hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, and that (ii) could affect profit or loss.

Cash flow hedge shall be accounted for as follows:

- ✓ the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised in other comprehensive income and presented in equity; the ineffective portion of the gain or loss on the hedging instrument shall be recognised in profit or loss.

- ✓ if a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive income (effective hedge) shall be reclassified from other comprehensive income to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss.
- ✓ if a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, then the entity reclassifies the associated gains and losses that were recognised in other comprehensive income (effective hedge) to profit or loss as a reclassification adjustment in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as the periods that depreciation expenses occurred in) or the entity removes the associated gains and losses that were recognised in other comprehensive income and includes them in the initial cost or carrying amount of the hedged item.
- ✓ for cash flow hedges other than those covered above, amounts that had been recognised in other comprehensive income shall be reclassified from equity (effective hedge) to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss.

Hedges of a net investment in a foreign operation:

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

- ✓ It is a hedge of a net investment in foreign operations with functional currency different than the one of the parent entity, by foreign currency liabilities.
- ✓ revaluation of foreign currency liabilities designated for hedge accounting is recognised in other comprehensive income and offset with the opposite revaluation of net investments in foreign operation in consolidated financial statements.
- ✓ accumulated amount in other comprehensive income is transferred to the profit and loss statement in the case of partial or overall sale of shares in a foreign entity.

3.2.2 Property, plant and equipment

(i) Owned property, plant and equipment

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

(ii) Tangible fixed assets used under finance lease agreements

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership of an item of property, plant and equipment are classified as finance leases. Upon initial recognition the leased item of property, plant and equipment is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset's carrying amount is decreased by accumulated depreciation and accumulated impairment losses.

In the case of an asset used under a finance lease, if it is not reasonably certain that the lessee will obtain ownership of the asset by the end of the lease term, then the tangible asset is depreciated over one of the following two periods, whichever shorter:

- the lease term,
- the expected useful life of the asset.

When an agreement is classified as a finance lease, the underlying asset is recognised within the Company's (lessee's) property, plant and equipment and is depreciated in accordance with principles specified in section (iv). Payments under operating lease agreements are recognised as an expense over the lease term.

(iii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment are capitalised. Other costs are capitalised only to the extent that it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. Other subsequent costs are recognised in the profit and 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. Repair costs are capitalised when the amount of outlays is related to parts recognised as a separate component of an item of property, plant and equipment. If those components are not separated at the time of recognising an item of property, plant and equipment, it may be done upon bearing subsequent expenditures.

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

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

(iv) 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	**20–50**	**years**
Machinery and equipment	**2–20**	**years**
Means of transport	**2–20**	**years**
Other	**1–15**	**years**

Depreciation periods and residual values are reviewed at each reporting date with any resulting adjustments made prospectively as a change in estimate.

3.2.3 Right of perpetual usufruct

Purchased rights of perpetual usufruct of land are recognised as separate items in the statement of financial position. Perpetual usufruct rights obtained based on an administrative decision are recorded off-balance sheet (recognised as operating lease).

Rights of perpetual usufruct of land are depreciated on a straight-line basis over the lease term.

3.2.4 Intangible assets

(i) Goodwill

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

The Group initially measures goodwill as the difference between:
the aggregate of:

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

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

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

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

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

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

(ii) Other intangible assets

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

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

(iii) Subsequent costs

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.

(iv) Amortisation

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

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

Amortisation periods and residual values are reviewed at each reporting date with any resulting adjustments made prospectively as a change in estimate.

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

(v) Costs of completed development

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

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

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

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

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

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

3.2.5 Associates and joint ventures

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Joint venture is a contractual arrangement whereby two or more parties undertake an economic activity subject to joint control and have rights to the net assets of the arrangement.

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

3.2.6 Borrowing costs

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

3.2.7 Investment properties

Investment property is held to earn rentals or for capital appreciation (or both). Investment property is remeasured at fair value. At initial recognition, investment property is accounted for in accordance with policies applicable for property, plant and equipment i.e. purchase price or cost. In subsequent reporting periods change in fair value of investment property is recognised in profit or loss in the period when change occurred and is presented in other operating expenses. Investment properties held under operating lease may be classified and accounted for as investment property if they meet the definition of investment property and the Group elects to do so.

3.2.8 Trade and other receivables

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

3.2.9 Inventories

Raw materials and goods are measured at cost being the purchase price increased by other costs incurred in bringing the asset to its present location and condition or place on the market but not higher than the selling price possible to achieve.
Finished goods and work in progress are measured at cost including direct manufacturing costs and reasonable portion of costs indirectly connected with the manufacturing process, but not higher than the selling price possible to achieve.
The cost of inventory is based on the first-in first-out principle (FIFO).

3.2.10 Cash and cash equivalents

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

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

3.2.11 Impairment losses

(i) Impairment of non-financial assets

The carrying amounts of the Group'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 recoverable amount of the respective cash-generating unit is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date, irrespective of the existence of the aforesaid indications.

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

Impairment losses are recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the 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 and 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses can be reversed, if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation or depreciation, if no impairment loss had been recognised.

(ii) Impairment of non-derivative financial assets

At each reporting date the Group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets measured at amortised cost

If any objective evidence indicates that loans and receivables measured at amortised cost are impaired, the impairment loss is the amount of the difference between the carrying amount of the financial asset and the present value of estimated future cash flows (excluding future losses on unrecoverable receivables that have not yet been incurred) discounted at the original (i.e. determined at initial recognition) effective interest rate. The carrying amount of assets is reduced through the use of allowances. The amount of allowance is recognised in profit or loss.

The Group first assesses whether there is any objective evidence of impairment of individually significant financial assets, and also whether any indications of impairment exist in respect of financial assets that are not individually significant. If the analysis does not reveal any objective evidence of impairment of an individually assessed financial asset, regardless of whether it is significant or not, the Group includes such an asset in a group of financial assets with similar credit risk and evaluates them collectively in terms of impairment. Assets that are individually assessed for impairment and for which an impairment loss was recognised or it was considered that the existing allowance should not change, are not taken into account when assessing the group of assets for impairment.

If in a subsequent period the amount of impairment loss decreases and the decrease can be objectively associated with an event occurring after the recognition of the impairment loss, the previously recognised impairment loss is reversed. The subsequent reversal of the impairment loss is recognised in profit or loss to the extent that the asset's carrying amount at the reversal date does not exceed its amortised cost.

In particular, in relation to trade receivables from entities in liquidation or bankruptcy, or not admitted to bankruptcy, or in relation to receivables that are contested by debtors (disputed receivables), or where payments due are delayed and either the debtor's financial standing makes the collection no longer probable or such delay exceeds 180 days, an impairment loss is recognised in the full amount due after taking into account the amounts of any existing security which the Board considers highly probable of execution.

Available-for-sale financial assets

If objective evidence indicates that available-for-sale financial assets are impaired, the amount of the difference between the asset's acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and reclassified into profit or loss. Reversals of impairment losses on equity instruments classified as available-for-sale cannot be recognised in profit or loss. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

Financial assets measured at cost

If objective evidence indicates that impairment may exist in respect of an unquoted equity instrument that is not recognised at fair value due to the fact that its fair value cannot be reliably measured, or a derivative which is linked to or must be settled through delivery of such an unquoted equity instrument, the amount of impairment loss is determined as the difference between the carrying amount of the financial asset and the present value of its estimated future cash flows discounted at the current market rate of return for similar financial assets.

3.2.12 Equity

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

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

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

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

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

A liability for a dividend payable is recognised when authorised.

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

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

Non-controlling interest

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

Non-controlling interest is measured:

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

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

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

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

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

3.2.13 Employee benefits

Jubilee awards, retirement benefits and disability pay

Based on the Group's remuneration plan, the employees of its companies are entitled to long-term jubilee awards and to retirement benefits. The Group's obligations in respect of the above benefits is the amount of benefit entitlement that employees have earned as a result of their service in the current and prior years. Net defined benefit liabilities are calculated separately for each plan by estimation of future payments required to settle the obligation resulting from employee service in the current and prior periods (discounted to its present value and reduced by the fair value of plan assets).

The discount rate is the rate of return for low-risk debt securities with similar maturity date as the Group's liabilities as at the end of the reporting period. An appropriate estimation is made by an authorised actuary with the application of forecast discounted unit right method.

The Company recognises in the statement of profit or loss:

- ✓ Current service cost, which is the change in liability resulting from increase in value of the defined benefit obligation due to increase in the period of service and age of employees;
- ✓ Past service cost connected with plan amendment during the current period;
- ✓ Interest – change in liability resulting from unwinding of discount.

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

3.2.14 Provisions

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

(i) Restructuring

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.

(ii) Reclamation

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

3.2.15 Trade and other liabilities

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

- ✓ those due to be settled within 12 months of the end of the reporting period;
- ✓ other payables, which do not meet the current liability conditions, are classified as non-current liabilities.

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.

3.2.16 Contingent liabilities

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

3.2.17 Revenue and costs

Revenue from the sale of products and goods is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the customer.

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed. Revenue is not recognised when significant doubts exist as to the collectibility of the amounts due or the reimbursement of costs, or as to the amounts of potential returns of goods and products.

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

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

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

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

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

- ✓ gains/ losses on disposal and liquidation of non-financial long-term assets,
- ✓ gains/ losses on sales of emission rights,
- ✓ recognition/ reversal of impairment losses (including allowances for doubtful receivables) and provisions (e.g. for retirement and disability benefits),
- ✓ revenue / expenses associated with construction contracts – when the outcome of the contract can be estimated reliably, contract revenue and expenses are recognised in accordance with the stage of completion of the contract. The stage of completion is determined by comparing the work physically performed to the contracted work, or as a proportion between the costs incurred for work performed to date and the estimated total contract costs or completion of a physical proportion of the contract work. An expected loss on a construction contract should be recognised as an expense as soon as such loss is probable,
- ✓ income from rental of investment property is recognised in profit or loss on a straight-line basis over the lease term. Any lease incentives granted are an integral part of the net consideration agreed for the use of the asset,
- ✓ gains / losses on remeasurement of fair value of investment property.

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

- ✓ interest on borrowings determined based on the effective interest method,
- ✓ interest earned by the Group on cash and cash equivalents (bank deposits and accounts loans granted and receivables) – accounted for in the profit and loss on accrual basis using the effective interest method,
- ✓ dividend income – recognised in profit or loss when the Group's right to receive payment is established,
- ✓ net foreign exchange gains or losses,
- ✓ gains/ losses on sales of financial assets,
- ✓ gains/ losses on derivatives.

3.2.18 Tax

Current tax

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

Deferred tax

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

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

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

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

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

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

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

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

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

3.2.19 Foreign currency receivables, liabilities and revenue

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 National Bank of Poland except for prepayments made for deliveries, which are translated using sell exchange rate of the bank effective on the payment date.

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 National Bank of Poland except for received prepayments.
Prepayments for deliveries denominated in foreign currencies are recognised at the exchange rate applicable as at the transaction day.
Currency translation differences arising upon the repayment of a liability or its translation (unrealised) are presented within financial income or expense.

Revenue from the sales of products and goods is recognised in profit or loss, at the NBP's average exchange rate from the date preceding the date of invoice, when the significant risks and rewards of ownership have been transferred to the customer.

3.2.20 Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and that the entity will comply with all relevant conditions of the grant. Grants are recognised as income in profit or loss on a systematic basis when the entity recognises, as expenses, the related costs that the grants are intended to compensate. Grants that relate to the acquisition of an asset are initially recognised at their fair value in deferred income and then reclassified into profit or loss as the asset is depreciated or amortised.

3.2.21 Discontinued operations and non-current assets 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.

A discontinued operation is a component of the Group's business that has been disposed of or is held for sale, and that represents:

- ✓ a separate major line of business,
- ✓ part of a co-ordinated plan to dispose of a separate major line of business or a geographical area of operations,
- ✓ a subsidiary acquired exclusively with a view to resale.

A component of the Group comprises operations and cash flows that can be distinguished clearly, both operationally and for financial reporting purposes. The above assets are measured at the lower of their carrying amount and net selling price.

3.2.22 Determination of fair values

Fair values have been determined for measurement and for disclosure purposes based on the following methods.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of other items of property, plant and equipment is based on market approach and cost approaches using quoted market prices for similar items when available. Where appropriate, fair value is based on depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation and obsolescence.

(ii) Intangible assets

The fair value of the Group's intangible assets is based on the discounted cash flows expected to be derived from the use and possible sale of the assets.

(iii) Investment property

The portfolio of investment property is appraised by an external independent valuator with proper professional qualifications and experience for the location and category of property appraised. The fair values of the items of investment property are based on their market values. Fair value is based on the market value of property, which is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

The fair value of investment property under construction is determined by estimating the fair value of the completed investment property and then deducting from that amount the estimated costs to complete the construction financing costs and a reasonable profit margin.

(iv) Inventory

The fair value of inventory acquired in a business combination is determined on the basis of its estimated selling price in the ordinary course of business less the estimated costs of preparation for sale, selling costs and a reasonable profit margin based on the effort required to complete and sell the inventory.

(v) Equity instruments and debt instruments

The fair value of equity and debt securities is determined by reference to their quoted bid price as at the reporting date or, if unquoted, determined using an appropriate valuation technique. Valuation techniques used include market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(vi) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress but including receivables from service concession arrangements are estimated as the present value of future cash flows discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

(vii) Derivatives

The fair value of forward exchange contracts is based on their quoted market price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of interest swap contracts is based on broker quotes. These quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument, and include adjustments to take account of the Company's and, when appropriate, the counterparty's, credit risk.

(viii) Non- derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities with no conversion option.
For finance leases, the market rate of interest is determined by reference to similar lease agreements.

3.2.23 Carbon dioxide emission rights

The following principles are applied in accounting for emission rights:

- ✓ The emissions rights received free of charge are recognised in the statement of financial position at the grant date and also in subsequent periods in their nominal amounts (nil). Any charges for granting the rights as well as applicable registration charges are recognised as deferred expenses or charged to income statement if not significant. These charges neither reflect nor determine the value of the rights.
- ✓ The payments made are charged to cost of sales in proportion to their use in a given settlement period.
- ✓ At the reporting date, the number of rights granted for the period is compared to their actual utilisation; if the utilisation exceeds the number of rights granted for the year, a provision is recognised for the shortfall at the current market value unless the entity is able to prove that it will not be required to buy additional rights to cover the shortfall. The provision is charged to cost of sales.
- ✓ When additional rights are purchased on the market, such rights are measured at purchase cost and presented as intangible assets. If at the reporting date the entity is able to prove that specific rights purchased on the market are held for resale and it is highly probable that benefits of these rights will be realised in a sale transaction, these specific rights are recognised at cost and presented in the financial statements as inventories.
- ✓ The acquired emission rights are not subject to amortisation as their residual values correspond to their purchase cost. However, at each reporting date the rights are subject to impairment testing with impairment losses recognised where necessary. Impairment losses are charged to other operating expenses.
- ✓ When rights are purchased to cover a shortfall upon the settlement of the annual limit, such rights at their book values are applied against the provision previously recognised for the shortfall.
- ✓ When the rights granted are sold, any proceeds of such sale are recognised according to general principles as other operating income. The related cost of sales is also recognised. Any profit on the sale of rights is presented within the profit on the sale of non-financial assets line in the income statement.
- ✓ FIFO method is applied to the utilisation of purchased rights and the cost of the rights sold.

3.3. Changes in accounting policies and the scope of disclosures

Apart from the changes in accounting policies resulting from new standards, amendments to standards and interpretations described above, the Group made the following changes in accounting policies:

- In 2015, the CIECH Group organised its assets in line with their current operating activities. As of 1 January 2015, the CIECH Group introduced a new classification of companies into reporting segments – a new transport segment was identified, which includes two companies dedicated to road and rail transport in the CIECH Group – CIECH Cargo Sp. z o.o. and CIECH Transclean Sp. z o.o. So far, the results and assets of these companies had been presented in the Soda Segment (CIECH Cargo Sp. z o.o.) and the Organic Segment (CIECH Transclean Sp. z o.o.). Corresponding figures were restated, respectively. The accounting principles applied in segment reporting are in line with the Group's accounting policy based on the IFRS.
- Additionally, the presentation of discontinued operations was changed and their results are presented in aggregate as "Net profit (loss) from discontinued operations" in the Consolidated Statement of Profit or Loss. The CIECH Group has changed the respective comparatives as well.
- Furthermore, a change in presenting subsidies in the statement of cash flows was introduced – until now, they were indicated as financing activity inflows while currently they are presented as investing activities.

Amendments to IFRS that came into force from 1 January 2015, have had no significant impact on the consolidated financial statements of the CIECH Group.

The remaining accounting policies presented above were consistently applied to all periods presented in these consolidated financial statements.

New Standards, amendments to Standards and Interpretations:

The following new and revised standards and interpretations which became effective on 1 January 2015 were applied for the first time in these consolidated financial statements:

a) Annual improvements to IFRS 2011–2013

In December 2013, the International Accounting Standards Board issued "Annual improvements to IFRS 2011–2013", which consist of improvements to 4 standards. The improvements include changes in presentation, recognition and measurement, as well as terminology and editorial changes. The CIECH Group applied the above amendments, however they did not have a material impact on the consolidated financial statements.

b) IFRIC 21 "Levies"

The interpretation clarifies the accounting recognition of obligations to pay levies that are not income taxes. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The mere fact that an entity will continue to operate in the next period, or draws up a report in accordance with the going concern principle, does not create an obligation to recognise a liability. The same recognition principles are applied to annual and interim financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The CIECH Group applied the above interpretation, however it did not have a material impact on the consolidated financial statements.

Published standards and interpretations which are not yet effective and have not been adopted early by the CIECH Group

The following new Standards, amendments to Standards and Interpretations are not yet mandatorily effective for the annual periods ended on 31 December 2015, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective. The Group is currently evaluating the impact of the above-mentioned standards, amendments to standards and interpretations on the consolidated financial statements.

a) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39. The standard is effective for annual periods beginning on or after 1 January 2018.

The standard introduces one model providing for only two classification categories for financial assets: measured at fair value and measured at amortised cost. The classification is performed as at the initial recognition and depends on the financial instrument management model adopted by the entity, as well as the characteristics of contractual cash flow from those instruments.

IFRS 9 introduces a new model for the determination of revaluation write-downs – the model of expected credit losses.

Most of the IAS 39 requirements with regard to classification and measurement of financial liabilities have been moved to IFRS 9 in an unchanged form. The key change is the requirement imposed on entities to present in other comprehensive income the effects of changes in their own credit risk in respect of financial liabilities designated for measurement at fair value through profit or loss.

In the area of hedge accounting, the objective of the amendments is to align hedge accounting to risk management practices better.

As at the date of drawing up these consolidated financial statements, IFRS 9 has not yet been approved by the European Union.

b) Defined benefit plans: Employee contributions – amendments to IAS 19

Amendments to IAS 19 "Employee benefits" were published by the International Accounting Standards Board in November 2013 and are effective in the European Union for annual periods beginning on or after 1 February 2015.

The amendment allows entities to recognise employee contributions as a reduction in the employment costs in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.

c) Annual improvements to IFRS 2010–2012

In December 2013, the International Accounting Standards Board issued "Annual improvements to IFRS 2010–2012", which consist of improvements to 7 standards. Improvements contain changes in the presentation, recognition and measurement, as well as terminological and editorial changes. Improvements are effective in the European Union for annual periods beginning on or after 1 February 2015.

d) IFRS 14 "Regulatory deferral accounts"

IFRS 14 is effective for annual periods beginning on or after 1 January 2016. The standard permits first-time adopters of IFRS to continue to recognise amounts related to rate regulation in accordance with their previously binding accounting policies. To enhance comparability with entities that already apply IFRS and do not recognise such amounts, IFRS 14 requires that the effect of rate regulation be presented separately from other items both in the statements of financial position as well as in the income statements and statements of other comprehensive income.

As at the date of drawing up these consolidated financial statements, IFRS 14 has not yet been approved by the European Union.

e) Amendments to IFRS 11 regarding acquisitions of interest in joint operations

This amendment to IFRS 11 regulates that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. The amendment is effective in the European Union for annual periods beginning on 1 January 2016.

f) Amendments to IAS 16 and IAS 38 regarding depreciation and amortisation

The amendment clarifies that a depreciation method that is based on revenue is not appropriate because the revenue generated in the business which uses the asset also reflects factors other than the consumption of the economic benefits of the asset.

The amendment is effective in the European Union for annual periods beginning on 1 January 2016.

g) IFRS 15 "Revenue from contracts with customers"

IFRS 15 "Revenue from Contracts with Customers" was issued by the International Accounting Standards Board on 28 May 2014 and is effective for annual periods beginning on or after 1 January 2018.

The rules provided for in IFRS 15 will apply to all contracts resulting in revenue. The fundamental principle of the new standard is to recognise revenue at the time of transfer of goods or services to the client, in the amount of the transaction price. Any goods or services sold in packages that can be distinguished within the package are to be reported separately, moreover, any discounts and rebates on the transaction price should in principle be allocated to the individual elements of the package. In the case where the amount of revenue is variable, in accordance with the new standard, the amount of variables is included in the revenue, if there is a high probability that in the future there will be no reversal of the recognition of revenue as a result of the revaluation. Furthermore, in accordance with IFRS 15 costs incurred to acquire and secure a contract with a customer must be activated and accounted for over the period of consumption of the benefits of this contract.

As at the date of drawing up these consolidated financial statements, IFRS 15 has not yet been approved by the European Union.

h) Amendments to IAS 16 and IAS 41 concerning crops

The amendments require the recognition of certain bearer plants, such as vines, rubber trees or oil palms (i.e. those that produce crops for many years and are not intended for sale in the form of planting or harvesting at harvest time) in accordance with IAS 16 "Property, plant and equipment" because their cultivation is analogous to production. As a result of these amendments, such plants are within the scope of IAS 16 and not IAS 41. Crops from these plants remain in the scope of IAS 41.

i) Amendments to IAS 27 concerning equity method in separate financial statements

The amendments of IAS 27 establish the possibility of equity method application for investments in subsidiaries, joint ventures and associates in separate financial statements.

j) Amendments to IFRS 10 and IAS 28 concerning sale or contribution of assets between an investor and its associates or joint ventures

These amendments address current inconsistency between the requirements in IFRS 10 and those in IAS 28. The accounting approach depends on whether contributions of non-monetary assets to an associate or a joint venture constitutes a business.

If the non-monetary assets meet the definition of a "business", the investor will show the full gain or loss on the transaction. If a transaction involves assets that do not constitute a business, a partial gain or loss is recognised (excluding the part representing the interests of other investors).

The amendments were published on 11 September 2014. The effective date of the amendment regulations has not yet been set by the International Accounting Standards Board.

As at the date of drawing up these consolidated financial statements, the amendment has not yet been approved by the European Union.

k) Annual improvements to IFRS 2012–2014

In September 2014, the International Accounting Standards Board issued "Annual improvements to IFRS 2012–2014", which consist of improvements to 4 standards: IFRS 5, IFRS 7, IAS 19 and IAS 34. The improvements are effective in the European Union for annual periods beginning on 1 January 2016.

l) Amendments to IAS 1

In December 2014, as part of works related to the so-called disclosure initiative, the International Accounting Standards Board issued an amendment to IAS 1. The purpose of the amendment is to clarify the concept of materiality and explain that when an entity decides that given information is immaterial, it should not disclose such information even if such disclosure is, in principle, required by other IFRS. The amended IAS 1 clarifies that items presented in the statement of financial position, income statement and statement of other comprehensive income can be aggregated or disaggregated, depending on their materiality. The amendment also provides additional guidelines concerning

the presentation of subtotals in these statements. The improvements are effective in the European Union for annual periods beginning on 1 January 2016.

m) Amendments to IFRS 10, IFRS 12 and IAS 28 concerning exclusion of investment entities from consolidation

In December 2014, the International Accounting Standards Board issued a so-called narrow-scope amendment. The published amendment to IFRS 10, IFRS 12 and IAS 28 "Investment entities: applying the consolidation exception" specifies in detail the requirements concerning investment entities and introduces certain facilitations.

The standard clarifies that an entity should measure all subsidiaries being investment units at fair value through profit or loss. Moreover, it was clarified that exemption from preparing consolidated financial statements where a parent company prepares publicly available financial statements applies irrespective of the fact whether subsidiaries are consolidated or measured at fair value through profit or loss in accordance with IFRS 10 in the financial statements of the ultimate parent entity or the parent entity. The changes are effective for annual periods beginning on 1 January 2016.

As at the date of these consolidated financial statements, the Improvements to IFRS have not yet been approved by the European Union.

n) IFRS 16 "Leases"

IFRS 16 "Leases" was issued by the International Accounting Standards Board on 13 January 2016 and is effective for annual periods beginning on or after 1 January 2019.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset and liability due to its payment obligation. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements from IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As at the date of drawing up these consolidated financial statements, the amendment has not yet been approved by the European Union.

o) Amendments to IAS 12 relating to the recognition of deferred tax assets on unrealised losses

The amendment to IAS 12 clarifies the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will be required to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains.

The amendment is effective for annual periods beginning on or after 1 January 2017.

As at the date of drawing up these consolidated financial statements, the amendment has not yet been approved by the European Union.

p) Amendments to IAS 7: Disclosure Initiative

The amendment to IAS 7 is effective for annual periods beginning on or after 1 January 2017.

As at the date of drawing up these consolidated financial statements, the amendment has not yet been approved by the European Union.

4. Judgements and estimates

The preparation of the financial statements in accordance with IFRS requires from the Management Board adoption of certain professional judgements, assumptions and estimates that affect the valuation of assets, liabilities, revenues and expenses reported in the financial statements and notes to the financial statements.

The estimates and assumptions associated with them are based on historical accuracy and various other factors that are considered to be reasonable under the specific circumstances, and their results provide a basis for professional judgement about the value of assets and liabilities that are not directly apparent from other sources. In significant matters the Management Board bases its estimates on opinions of independent experts.

Actual value may differ from the estimated value. The estimates and assumptions associated with them are subject to ongoing verification. Revisions of accounting estimates is recognised in the period in which the changes were made, only if it affects that period or the present and future in case they concern both the current and future periods.

The main estimates and judgements presented in this report relate to, inter alia, the following matters.

Investment property valuation. The CIECH Group presents investment property at fair value, recognising the fair value measurement in the statement of profit and loss. The property valuation is made with:

- comparative method based on observable market data, including the price of comparable investment properties and adjusted with the specific factors such as the capability of the property, its location and condition, or
- income method (based on a discounted cash flow model) in the absence of comparable market data.

Key assumptions used in determining the fair value of investment property are presented in section II.5.

Impairment of property, plant and equipment. Impairment of assets occurs when the carrying amount of asset or cash-generating unit exceeds its recoverable value, defined as the fair value less costs to sell or value in use, depending on which is higher. The calculation of fair value less costs to sell is based on available data from transactions involving sales of similar assets on market conditions or by using observable market prices less costs necessary to be incurred by the sale of the asset. 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. Key assumptions used in determining the recoverable amount are presented in sections II.19, II.21 and II.22.

Provisions. For measurement of the provisions, the Group is required to make estimates, assumptions regarding discount rates, expected costs and payment terms. 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. Detailed information on the assumptions for the valuation of provisions is presented in sections II.34 and II.35.

Taxes. 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, the CIECH Group subsidiaries base their calculations on estimates related to the term and amount of future taxable income. Detailed information on these estimates related to the deferred tax assets is presented in section II.17.

Depreciation and amortisation rates. These are determined on the basis of the expected useful lives of property, plant and equipment and intangible assets and are subject to annual verification. Detailed information on the used depreciation and amortisation rates is presented in sections II.3.2.2 and II.3.2.4.

5. Determination of fair values

The following list presents the fair value of financial instruments.

	31.12.2015		31.12.2014	
PLN '000	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Cash and Cash equivalents	202,935	202,935	49,162	49,162
Stocks and shares	-	-	413	413
Loans granted	34,000	34,000	34,000	34,000
Trade receivables	284,351	284,351	267,902	267,902
Assets due to evaluation of derivatives	45,859	45,859	-	-
Long-term deposits	34	34	34	34
Factoring receivables	26,967	26,967	13,440	13,440
Assets	**594,146**	**594,146**	**364,951**	**364,951**
Loans and borrowings	1,354,857	1,362,879	21,384	21,384
Debt securities issues	159,727	160,000	1,182,778	1,303,469
Trade liabilities	273,332	273,332	322,179	322,179
Liabilities due to evaluation of derivatives.	45,012	45,012	7,067	7,067
Finance lease liabilities	26,913	26,913	20,015	20,015
Reverse factoring liabilities	18,998	18,998	-	-
Faktoring liabilities	-	-	669	669
Financial liabilities	**1,878,838**	**1,887,134**	**1,554,092**	**1,674,783**

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.

Evaluation to fair value is grouped according to three-level hierarchy:

- **Level 1** – fair value based on market listing stock exchange prices (unadjusted) offered for identical assets or liabilities on active markets.
- **Level 2** – the CIECH Group 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 evaluation techniques which are not based on observable market inputs.

Assets and liabilities measured at fair value

PLN '000	31.12.2015			31.12.2014		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets	**-**	**45,859**	**34,308**	**-**	**-**	**42,567**
Investment properties	-	-	34,308	-	-	42,567
Hedging instruments		45,859	-	-	-	-
Liabilities	**-**	**(45,012)**	**-**	**-**	**(7,067)**	**-**
Hedging instruments	-	(45,012)	-	-	(7,067)	-
Total	**-**	**847**	**34,308**	**-**	**(7,067)**	**42,567**

As at 31 December 2015, the CIECH Group held the following types of financial instruments measured at fair value: an interest rate swap contract, currency forward USD/PLN, currency forward EUR/PLN, and CIRS (currency and interest rate swap) contract EUR/PLN.

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 between interest and discounted 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. Input data to the valuation are the market interest rate and spot exchange rate from Reuters, based on which the forward rate is calculated.

As at 31 December 2015, the fair value of the interest rate swap contract amounted to net PLN -1,909 thousand (PLN 1,997 thousand – other non-current liabilities; PLN 2,012 thousand – trade and other liabilities; PLN 2,300 thousand – other long-term investments). As at 31 December 2015, the fair value of the currency and interest rate swap contract amounted to net PLN 3,727 thousand (PLN 39,831 thousand – other non-current liabilities; PLN 26,778 thousand - other long-term investments; PLN 16,781 thousand – short-term investments). As at 31 December 2015, the fair value of the USD/PLN forward was negative and amounted to PLN -254 thousand, the fair value of the EUR/PLN forward as at 31 December 2015 was negative and amounted to PLN -718 thousand – total fair value of these financial instruments was presented in trade and other liabilities. According to the fair value hierarchy, it is Level 2.

Investment properties are also measured at the fair value in the financial statements. According to the fair value hierarchy, it is Level 3. Investment real estate portfolio is evaluated by an external, independent property appraiser. In measuring the fair value of land located in Warsaw, constituting the Group's property, and land under the perpetual usufruct in Bydgoszcz, a comparative method was applied. This approach means measuring the value through an analysis of recent sales or listings of comparable assets. These transactions or offers are adjusted in order to take into account differences of the valuated assets and comparable assets on the day of their sale, for example date of sale, location, area, technical status and other. According to the method of average price adjustments, estimating the property value that is the subject of valuation is based on the average price adjustment of similar properties, that form the base for the comparison creating adjustment coefficients corresponding to different characteristics of these properties. The calculations are based on comparative properties, described by attributes influencing the level of properties prices and transaction prices of these properties.
For the valuation of buildings in Bydgoszcz, an income method was used (investment approach) as the best method reflecting the nature of the property. The fair value was estimated as the market capitalisation of net income using the market yield between 12% and 18%.

Valuation of tangible assets identified as technical infrastructure (including assets that are necessary to keep properties operational but which are not traded on the secondary market and – not being able to be separately leased – do not generate income) is synthetically included in the total value of investment property valuated under the income approach method. For accounting purposes, the value of this group of assets was determined primarily using the economic viability method (taking into account their characteristics, with the going concern assumption). Appropriate ratios for the loss of value in use and loss of economic value were applied. The values of assets determined in the above manner formed the basis for estimating the market value, where continued use (in accordance with the purpose of the real property) may be deemed justified. In the final balance sheet, the value of buildings was decreased by eliminating those that did not generate any added value, but only determined the standard and usefulness of the building; other assets increased the value of real property.

The measurement of the fair value of investment property does not include transaction costs, which the entity might additionally bear, future capital expenditures regarding development or improvement of the investment property, as well as future benefits regarding those expenditures.
The verification of the fair value of investment properties is conducted at least once a year at the balance sheet date ending the financial year.

In 2015, there were no transfers within the fair value hierarchy of instruments measured at fair value.

Financial instruments not measured at fair value

The CIECH Group holds the issued domestic bonds whose book value, as at 31 December 2015, amounts to PLN 159,727 thousand, and whose fair value amounts to PLN 160,000 thousand (Level 2 of fair value hierarchy). The Company recognised that the fair value of the issued bonds does not differ significantly from their nominal value due to the fact that these bonds carry variable interest rates.

The CIECH Group has taken out term and working capital loans whose book value, as at 31 December 2015, amounts to PLN 1,354,857 thousand, and whose fair value amounts to PLN 1,362,879 thousand (Level 2 of fair value hierarchy). The Company recognised that the fair value of the loans taken out does not differ significantly from their nominal value due to the fact that these loans carry variable interest rates.

As at 31 December 2014, the CIECH Group held the issued foreign bonds whose book value amounted to PLN 1,023,647 thousand, and whose fair value amounted to PLN 1,143,469 thousand (Level 1 of fair value hierarchy).

In the case of the remaining financial instruments held by the CIECH Group (classified mainly as cash, loans and receivables, financial liabilities measured at amortised cost other than loans and bonds and financial liabilities excluded from the scope of IAS 39), the fair value is close to the book value.

6. Financial risk management

Quantitative and qualitative information on financial risks

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.

The CIECH Group is exposed to the following financial risks:

- customers credit reliability risk;
- liquidity risk;
- market risks, including:
  - ✓ currency risk,
  - ✓ interest rate risk,
  - ✓ products and raw material price risk.

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

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

Interest rate risk

The Group finances its activity mainly through term loans and bonds. The amount of the costs of interest-bearing debt held by the Group depends on the reference rate. This refers to both term loans made available under a loan agreement dated 29 October 2015 in the amount of PLN 1,045 million and EUR 70 million, domestic bonds issued on 5 December 2012, with a total nominal value of PLN 320 million (current debt amounts to PLN 160 million), a revolving loan made available under a loan agreement dated 29 October 2015 in the amount of PLN 250 million (debt at the end of 2015 amounts to PLN 0), overdraft facilities and a part of lease and factoring contracts.

Therefore, the Group is exposed to risk of change in finance costs due to changing interest rates on existing debt. This may result in increased financial costs and, consequently, deterioration of the CIECH Group financial result. The risk is partially reduced by the assets owned by the CIECH Group (bank deposits), interest bearing in accordance with variable interest rate, and by concluding hedging transactions.

In 2015, the CIECH Group benefited from the following hedging transactions:

- interest rate swap transaction to hedge the variable interest rate levels applicable to the calculation of interest on the bonds issued on 5 December 2012. The transaction hedges indebtedness of nominal value of PLN 80 million and was concluded in March 2013,
- interest rate swap transaction to hedge the variable interest rate levels applicable to the calculation of interest on the term loan made available in November 2015. The transaction hedges indebtedness of nominal value of EUR 70 million and was concluded in November 2015, and
- 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 November 2015. The transaction hedges indebtedness of nominal value of PLN 1,045 million and was concluded in November 2015.

The table below presents the consolidated statement of financial position items exposed to interest rate risk (excluding derivatives):

PLN '000	**31.12.2015** Total carrying amount	**31.12.2014** Total carrying amount
Fixed interest rate instruments	**-**	**(1,023,647)**
Financial liabilities	-	(1,023,647)
Floating interest rate instruments	(1,338,528)	**(151,335)**
Financial assets	202,969	49,196
Financial liabilities	(1,541,497)*	(200,531)**

**including PLN 80 million hedged by IRS, EUR 70 million hedged by IRS, PLN 1,045 million hedged by CIRS – IRS transaction isolated as part of decomposition of CIRS.*
***including PLN 80 million hedged by IRS.*

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.

PLN '000	**Statement of profit or loss**		**Equity***	
	increase by 100 bp	**decrease by 100 bp**	**increase by 100 bp**	**decrease by 100 bp**
31.12.2015				
Floating interest rate instruments	(13,385)	13,385	-	-
Interest rate swap transactions (IRS)	-	-	50,449	(53,497)
Cash flows sensitivity (net)	**(13,385)**	**13,385**	**50,449**	**(53,497)**
31.12.2014				
Floating interest rate instruments	(1,513)	1,513	-	-
Interest rate swap transactions (IRS)	-	-	1,938	(2,022)
Cash flows sensitivity (net)	**(1,513)**	**1,513**	**1,938**	**(2,022)**

** Do not include financial result on capital.*

Currency risk

Currency risk is an inevitable component of commercial activity denominated in foreign currencies. Due to the nature of conducted import and export operations, the CIECH Group is subject to currency exposure related to the significant lead of export over import. Sources of currency risk which exposed companies within the Group in 2015 included: purchase of raw materials, product sales, loans taken out and cash in foreign currencies. Unfavourable changes in currency exchange rates may worsen the CIECH Group's financial results.

Foreign exchange risk analysis is focused on the level of operating cash flows. The SDC Group was excluded from the analysis since its functional currency is EUR and all reported operating cash flows of this company are performed in this currency.

In 2015, the CIECH Group used hedging contracts, such as forward options, to partially cover currency risk. The CIECH Group tries to naturally hedge the foreign currency exposure, including matching of currency flows arising from sales and purchases as well as strategic debt denominated in EUR, in order to fit it to the expected exposure to currency risk in operations.

The tables below present the maximum exposure of financial instruments to currency risk denominated in foreign currencies:

PLN '000	**31.12.2015**	
	EUR	**USD**
Trade receivables	66,796	45,423
Cash and cash equivalents	31,245	1,432
Loans granted	224,986	-
Trade liabilities	(55,114)	(5,780)
Loans and borrowings	(296,911)	-
Hedging instruments: CIRS (forward transactions isolated as part of decomposition of CIRS)	(1,052,203)	-
Forward instruments	(83,099)	(6,242)

PLN '000	31.12.2015	
	EUR	USD
Net value	**(1,164,301)**	**34,833**

PLN '000	31.12.2014	
	EUR	USD
Trade receivables	83,750	60,755
Cash and cash equivalents	8,209	263
Loans granted	174,639	-
Trade liabilities	(64,220)	(27,225)
Loans, borrowings and bonds	(1,065,221)	-
Forward instruments	(99,098)	(26,129)
Net value	**(961,941)**	**7,664**

The table below presents the estimated currency exposure of the CIECH Group in euro as at 31 December 2015 due to financial instruments (excluding SDC Group figures):

Exposure to currency risk in EUR	**('000 EUR)**	**Impact on the statement of profit or loss**	**Impact on statement of other comprehensive income***
Assets			
Loans granted to SDC Group	52,795	x	
Trade and other receivables	15,674	x	
Cash including bank deposits	7,332	x	
Liabilities			
Trade and other liabilities	(12,933)	X	
Term loan liabilities	(69,673)		x
Hedging instruments: Forward	(19,500)		x
Hedging instruments: CIRS (forward transactions isolated as part of decomposition of CIRS)	(246,939)		x
Total exposure	**(273,214)**		

**evaluation of financial instruments designated for hedge accounting is referred to other comprehensive income while ineffectiveness is recognised in the profit and 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 2015.

Analysis of sensitivity to foreign exchange rate changes	**('000 PLN)***	**Impact on the statement of profit or loss**	**Impact on statement of other comprehensive income**
Currency items of statement of financial position	(68)	629	(697)
Hedging instruments: Forward and CIRS	(2,664)	-	(2,664)

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

The table below presents the estimated currency exposure of the CIECH Group in USD as at 31 December 2015 due to financial instruments:

Exposure to currency risk in USD	**('000 USD)**	**Impact on the statement of profit or loss**	**Impact on statement of other comprehensive income***
Assets			
Trade and other receivables	11,644	x	
Cash including bank deposits	367	x	

Exposure to currency risk in USD	('000 USD)	Impact on the statement of profit or loss	Impact on statement of other comprehensive income*
Liabilities		x	
Trade and other liabilities	(1,482)	x	
Hedging instruments: Forward	(1,600)		x
Total exposure	**8,928**		

**evaluation of financial instruments designated for hedge accounting is referred to other comprehensive income while ineffectiveness is recognised in the profit and 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 2015.

Analysis of sensitivity to foreign exchange rate changes	('000 PLN)*	Impact on the statement of profit or loss	Impact on statement of other comprehensive income
Currency items of statement of financial position	105	105	-
Hedging instruments: Forward	(16)	-	(16)

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

Raw material price risk

A significant portion of the CIECH Group'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 the CIECH Group. 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 CIECH Group.

The CIECH Group reduces price risk through regulating price policy, concluding agreements with suppliers, hedging and insuring supplies and containing an appropriate price formula.

Credit risk

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

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

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

The CIECH Group is exposed to credit risk connected with the credit rating of customers being parties to products and goods sales transactions. That risk is limited by using internal procedures to establish amounts of credit limits for customers and to manage trade receivables (the Group uses securities in the form of a letter of credit, bank guarantees, mortgages, receivables insurance and non-recourse factoring). 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 Group's companies make use of services provided by companies specialising in insuring receivables.

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

According to the CIECH Group's Companies, assets that are not overdue and not covered by a write-down are of high credit quality.

At the end of the reporting period, in the Group there was an external loan granted by CIECH Trading S.A. to Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej in the amount of PLN 34,000 thousand. Book value of the loan responds to the value of mortgage collateral held by enity.

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

PLN '000	**31.12.2015**	**31.12.2014**
Cash and cash equivalents	202,935	49,162
Loans and receivables	345,352	315,376
TOTAL	**548,287**	**364,539**

The tables below present the maximum exposure of trade receivables and loans granted to credit risk as at the end of reporting period by operating and geographical segments.

PLN '000	**31.12.2015 Trade receivables from factoring**	**31.12.2014 Trade receivables from factoring**	**31.12.2015 Loans granted**	**31.12.2014 Loans granted**
Poland	138,209	89,831	34,000	34,000
European Union (excluding Poland)	123,686	158,616	-	-
Other European countries	20,858	5,455	-	-
Africa	8,628	663	-	-
Asia	19,081	-	-	-
Other regions	856	3,560	-	-
TOTAL	**311,318**	**258,125**	**34,000**	**34,000**

PLN '000	**31.12.2015 Trade receivables from factoring**	**31.12.2014 Trade receivables from factoring**	**31.12.2015 Loans granted**	**31.12.2014 Loans granted**
Soda segment	206,492	175,264	-	-
Organic segment	73,594	79,262	-	-
Silicates and Glass segment	18,104	16,131	-	-
Transport segment	17,329	11,468	-	-
Other activities	30,210	27,846	34,000	34,000
Consolidation adjustments	(34,411)	(28,618)	-	-
TOTAL	**311,318**	**281,343**	**34,000**	**34,000**

The table below presents trade receivables by age from maturity date.

PLN '000	**31.12.2015**	
	Total gross value of receivables	**Impairment loss**
Not overdue	266,428	2,096
Up to 1 month	32,866	280
1 to 3 months	8,430	44
3 to 6 months	5,245	147
6 months to 1 year	2,716	2,068
Over 1 year	23,015	22,747
TOTAL	**338,700**	**27,382**

PLN '000	31.12.2014	
	Total gross value of receivables	Impairment loss
Not overdue	258,236	2,585
Up to 1 month	21,339	284
1 to 3 months	2,060	23
3 to 6 months	1,298	310
6 months to 1 year	4,164	3,507
Over 1 year	30,222	29,269
TOTAL	**317,320**	**35,978**

Liquidity risk

The CIECH Group is exposed to risk connected with maintaining liquidity due to the considerable share of external financing (due to bonds issued, 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 the CIECH Group's companies,
- monitoring and optimisation of the level of working capital,
- adjusting the level and schedule of capital expenditure,
- intragroup borrowings and sureties for the liabilities of the Group's companies,
- current monitoring of the fulfilment of the liabilities under the loan agreements conditions.

The Group's debt financing is ensured by term loans and 5-year maturity bonds (Polish bonds). In addition, a revolving loan in the amount of PLN 250 million has been made available to the Group, constituting an additional source of current liquidity and working capital financing.

Liquidity risk

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

31.12.2015 *PLN '000*	Carrying amount	Contractual cash flows	Less than 6 months	Up to 12 months	1–2 years	3–5 years	Over 5 years
Other financial liabilities:	**1,806,913**	**2,010,281**	**339,285**	**24,787**	**447,982**	**1,198,228**	**-**
Trade liabilities	273,332	273,332	273,332	-	-	-	-
Loans and borrowings	1,354,857	1,535,645	40,719	19,420	277,278	1,198,228	-
Bonds	159,727	182,306	6,236	5,367	170,704	-	-
Factoring	18,998	18,998	18,998	-	-	-	-
Finance lease liabilities	**26,913**	**26,913**	**2,533**	**2,495**	**9,818**	**4,964**	**7,102**
Derivatives recognised in financial liabilities designated as hedging instruments	**45,012**	**45,012**	**1,954**	**1,230**	**1,997**	**-**	**39,831**
Total financial liabilities	**1,878,838**	**2,082,206**	**343,772**	**28,511**	**459,797**	**1,203,192**	**46,933**

31.12.2014 *PLN '000*	Carrying amount	Contractual cash flows	Less than 6 months	Up to 12 months	1–2 years	3–5 years	Over 5 years
Other financial liabilities:	**1,527,012**	**2,082,044**	**399,380**	**55,178**	**380,680**	**1,246,806**	**-**
Trade liabilities	322,179	322,179	322,179	-	-	-	-

31.12.2014 *PLN '000*	Carrying amount	Contractual cash flows	Less than 6 months	Up to 12 months	1–2 years	3–5 years	Over 5 years
Loans and borrowings	21,384	21,384	21,384	-	-	-	-
Bonds	1,182,779	1,737,812	55,148	55,178	380,680	1,246,806	-
Factoring	669	669	669	-	-	-	-
Finance lease liabilities	**20,015**	**20,015**	2,254	1,909	6,666	3,667	5,519
Derivatives recognised in financial liabilities designated as hedging instruments	**7,067**	**7,197**	**3,576**	**1,010**	**2,611**	**-**	**-**
Total financial liabilities	**1,554,094**	**2,109,256**	**405,210**	**58,097**	**389,957**	**1,250,473**	**5,519**

Detailed information concerning revenues and costs pertaining to financial instruments, recognised in the income statement has been presented in section II.16 and II.40.

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

CIECH S.A.'s policy assumes natural hedging of imports and exports and hedging of up to 70% of net exposure to currencies exchange rate change by using derivatives and 100% exposure to interest rate risk.

In 2015, the Group concluded futures contracts to hedge currency risk and interest rate risk (forward, IRS and CIRS transactions).

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

7. Capital management

Capital structure management

The Group's capital structure consist of its debts, including bank loans and bonds presented in sections II.33, cash and cash equivalents and equity attributable to shareholders of the parent entity including shares issued, reserve capital and retained earnings.
The Group manages its capital in order to ensure that subsidiaries are able to continue their activity and at the same time maximise returns for stakeholders by optimising the debt to equity ratio. In 2014–2015 there were no changes in aims, principles and processes of capital management.

8. Reporting segments

The CIECH Group's operating segments are designated on the basis of internal reports related to the components of the Group and are regularly reviewed by the Management Board, which is responsible for operating decisions aimed at allocating resources to segments and assessing the subsidiaries performance.
Information for a given operating segment may include sales of products and goods also included in the core product range of other divisions. Such items, however, are not significant for those divisions' management accounting.

The CIECH Group has been divided into the following operating segments:

Soda Segment – the most important manufactured goods in the scope of the segment products are: soda ash light and dense (the CIECH Group is the sole manufacturer of soda ash in Poland), vacuum salt baking soda 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. and in the German company CIECH Soda Deutschland GmbH&Co. KG.

Organic Segment – the CIECH Group is a producer of a variety of organic compounds manufactured by the companies: CIECH Sarzyna S.A. and Ciech Pianki Sp. z o.o. In 2015, it was producing, among others, polyurethane foams, epoxy resins and polyester resins. These products are used in the following industries: furniture, automotive, paints and electronics. The Group also produces plant protection products used in agriculture.

Silicates and Glass Segment includes mainly the products of CIECH Vitrosilicon S.A. and CIECH Soda Romania S.A. Products manufactured by Ciech Soda Romania S.A. are sold by CIECH S.A. The Silicates and Glass Segment covers the production of glass and soda glaze, as well as glass packaging (lanterns and jars). The goods made of glass are used in construction and food industries, and for production of headstone lamps.

Transport Segment, that includes two companies dedicated to road and rail transport in the CIECH Group and providing transport services to third parties – CIECH Cargo Sp. z o.o. and CIECH Transclean Sp. z o.o.

Other Activities Segment covers mainly services rendered outside the Group and goods sold mainly by CIECH S.A. and CIECH Trading S.A., as well as foreign companies outside the scope of the above segments.

The **Eliminations (consolidation adjustments)** item covers eliminations of internal transactions within the group, conducted between various segments (areas) of activity.

The accounting principles applied in segment reporting are in line with the Group's accounting policy based on the IFRS. The amount of transfers between segments is established on the basis of actual data.
The Group financing (including finance expenses and incomes with the exception of interest on trade receivables and liabilities) and income tax are monitored on the Group level and are not allocated to particular segments.

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

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

Operational segments results are assessed by the CIECH S.A's Management Board on the basis of sales revenue, EBIT and EBIDTA. EBITDA is the net profit/loss for a financial year plus income tax plus a share in net profit of subordinated entities evaluated with the equity method plus costs/financial income plus profit/loss on sale of a discontinued operation plus amortisation. EBITDA is not a liquidity ratio or business performance ratio calculated in accordance with IFRS. 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 serve debt. EBITDA and similar ratios are used by different companies for different purposes and are often calculated in a manner adapted to the conditions in which these companies exist. Care needs to be exercised when comparing EBITDA with EBITDA of other companies.

PLN '000	**01.01-31.12.2015**	**01.01-31.12.2014**
Net result of continuing operations	346 005	133 782
Income tax	(68 623)	45 291
Share in net profit of associated entities measured under the equity method	(163)	(251)
Financial expenses	219 003	151 364
Financial income	(6 406)	(8 371)
Amortisation and depreciation	217 722	204 487
EBITDA	**707 538**	**526 302**

OPERATING SEGMENTS OF THE CIECH GROUP

CIECH Group **OPERATING SEGMENTS** **01.01.-31.12.2015** *PLN '000*	**Soda Segment**	**Organic Segment**	**Silicates and Glass Segment**	**Transport Segment**	**Other operations Segment**	**Corporate functions - reconciliation item**	**Eliminations (consolidation adjustments)**	**TOTAL**
Revenues from third parties	2,214,256	766,740	174,998	13,205	103,815	-	-	3,273,014
Revenue from inter-segment transactions	26,972	3,137	14	109,423	42,895	-	(182,441)	-
Total revenues	**2,241,228**	**769,877**	**175,012**	**122,628**	**146,710**	**-**	**(182,441)**	**3,273,014**
Cost of sales	(1,528,663)	(636,128)	(130,072)	(109,462)	(122,628)	-	128,043	(2,398,910)
Gross profit/(loss) on sales	**712,565**	**133,749**	**44,940**	**13,166**	**24,082**	**-**	**(54,398)**	**874,104**
Selling costs	(173,855)	(52,790)	(20,886)	-	(8,096)	(8,677)	71,449	(192,855)
General and administrative expenses	(48,198)	(21,274)	(6,890)	(5,808)	(5,026)	(50,716)	(17,872)	(155,784)
Result on management of receivables	(815)	2,306	92	14	88	-	-	1,685
Result on other operating activities	(17,174)	(11,242)	1,332	2,701	(11,104)	-	(1,847)	(37,334)
Operating profit/(loss)	**472,523**	**50,749**	**18,588**	**10,073**	**(56)**	**(59,393)**	**(2,668)**	**489,816**
Exchange differences and interest on trade settlements	(8,092)	(10,129)	93	(358)	(276)	-	-	(18,762)
Group borrowing costs	-	-	-	-	-	(193,529)	-	(193,529)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	(306)	-	(306)
Share of profit / (loss) of equity-accounted investees	163	-	-	-	-	-	-	163
Profit/(loss) before tax	**464,594**	**40,620**	**18,681**	**9,715**	**(332)**	**(253,228)**	**(2,668)**	**277,382**
Income tax	-	-	-	-	-	-	-	68,623
Net profit/(loss) on continuing operations								**346,005**
Net profit/(loss) on discontinued operations	-	-	-	-	-	-	-	-
Net profit/(loss) for the period								**346,005**
Amortization/depreciation	157,401	34,992	15,002	6,091	328	3,908	-	217,722
EBITDA	629,924	85,741	33,590	16,164	272	(55,485)	(2,668)	707,538
*Normalized EBITDA**	655,793	85,391	33,437	13,349	11,754	(50,344)	(958)	*748,422*

**Normalised EBITDA for the period ended 31 December 2015 is calculated as EBITDA adjusted for untypical one-off events: recognition of provisions for expected losses: PLN -11.3 million, change in provisions for liabilities: PLN -12.6 million, result on liquidation of a subsidiary: PLN -2.8 million, valuation of investment properties to fair value: PLN -6.3 million, refinancing costs recognised in general and administrative expenses: PLN -5.1 million, change in impairment charges on assets: PLN -1.3 million, other: PLN 1,5 million.*

CIECH Group **OPERATING SEGMENTS** **01.01.-31.12.2014**** *PLN '000*	**Soda Segment**	**Organic Segment**	**Silicates and Glass Segment**	**Transport Segment**	**Other operations Segment**	**Corporate functions - reconciliation item**	**Eliminations (consolidation adjustments)**	**TOTAL**
Revenues from third parties	2,023,243	784,101	350,557	12,457	73,542	-	-	3,243,900
Revenue from inter-segment transactions	29,549	40	5	85,756	34,873	-	(150,223)	-
Total revenues	**2,052,792**	**784,141**	**350,562**	**98,213**	**108,415**	**-**	**(150,223)**	**3,243,900**
Cost of sales	(1,562,474)	(664,075)	(270,297)	(86,438)	(84,030)	-	104,264	(2,563,050)
Gross profit/(loss) on sales	**490,318**	**120,066**	**80,265**	**11,775**	**24,385**	**-**	**(45,959)**	**680,850**
Selling costs	(153,970)	(46,147)	(50,809)	-	(8,128)	(9,866)	54,653	(214,267)
General and administrative expenses	(59,219)	(22,876)	(5,520)	(3,735)	(4,529)	(46,079)	(8,419)	(150,377)
Result on management of receivables	980	(8,681)	(144)	24	(10,434)	-	-	(18,255)
Result on other operating activities	34,009	(5,569)	325	(2,446)	(1,957)	1	(499)	23,864
Operating profit/(loss)	**312,118**	**36,793**	**24,117**	**5,618**	**(663)**	**(55,944)**	**(224)**	**321,815**
Exchange differences and interest on trade settlements	(4,272)	(3,995)	(11,342)	(33)	531	-	-	(19,111)
Group borrowing costs	-	-	-	-	-	(128,220)	-	(128,220)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	4,338	-	4,338
Share of profit / (loss) of equity-accounted investees	251	-	-	-	-	-	-	251
Profit/(loss) before tax	**308,097**	**32,798**	**12,775**	**5,585**	**(132)**	**(179,826)**	**(224)**	**179,073**
Income tax								(45,291)
Net profit/(loss) on continuing operations								**133,782**
Net profit/(loss) on discontinued operations								32,571
Net profit/(loss) for the period								**166,353**
Amortization/depreciation	152,193	30,889	11,864	5,639	112	3,790	-	204,487
EBITDA	464,311	67,682	35,981	11,257	(551)	(52,154)	(224)	526,302
*Normalized EBITDA**	436,095	68,272	36,068	13,590	9,479	(52,154)	(224)	*511,126*

*** Restated data, the change described in section II.3.3.*

** Normalised EBITDA for the period ended 31 December 2014 is calculated as EBITDA adjusted for untypical one-off events: change in impairment charges on assets: PLN 20.5 million, valuation of investment properties to fair value: PLN -6.5 million, change in provisions: PLN 4.0 million, restructuring costs: PLN -2.7 million, other: PLN 0.2 million.*

ASSETS AND LIABILITIES BY OPERATING SEGMENTS

31.12.2015 *PLN '000*	**Soda Segment**	**Organic Segment**	**Silicates and Glass Segment**	**Transport Segment**	**Other operations Segment**	**Corporate functions - reconciliation item**	**Eliminations (consolidation adjustments)**	**TOTAL**
Property, plant and equipment	1,838,761	324,180	82,082	48,011	610	11,361	-	2,305,005
Intangible assets, including:	102,985	31,435	994	-	643	4,818	-	140,875
- goodwill	47,269	15,070	39	-	-	-	-	62,378
Investments in associates and jointly-controlled entities measured under the equity method	4,918	-	-	-	-	-	-	4,918
Inventory	141,826	119,576	31,166	91	2,709	-	(1,737)	293,631
Trade receivables	206,805	62,380	14,453	17,329	18,151	-	(34,411)	284,707
Assets classified as held for sale	-	-	368	-	3,015	-	-	3,383
Other assets	-	-	-	-	-	877,754	-	877,754
Total assets	**2,295,295**	**537,571**	**129,063**	**65,431**	**25,128**	**893,933**	**(36,148)**	**3,910,273**

31.12.2015 *PLN '000*	**Soda Segment**	**Organic Segment**	**Silicates and Glass Segment**	**Transport Segment**	**Other operations Segment**	**Corporate functions - reconciliation item**	**Eliminations (consolidation adjustments)**	**TOTAL**
Trade liabilities	180,843	77,103	14,873	11,620	20,685	-	(31,792)	273,332
Other liabilities	-	-	-	-	-	2,295,437	-	2,295,437
Total liabilities	**180,843**	**77,103**	**14,873**	**11,620**	**20,685**	**2,295,437**	**(31,792)**	**2,568,769**

31.12.2014* *PLN '000*	**Soda Segment**	**Organic Segment**	**Silicates and Glass Segment**	**Transport Segment**	**Other operations Segment**	**Corporate functions - reconciliation item**	**Eliminations (consolidation adjustments)**	**TOTAL**
Property, plant and equipment	1,569,417	343,415	77,907	42,703	200	3,096	-	2,036,738
Intangible assets, including:	79,440	29,454	1,544	-	634	5,444	-	116,516
- goodwill	47,278	15,070	39	-	-	-	-	62,387
Investments in associates and jointly-controlled entities measured under the equity method	4,944	-	-	-	-	-	-	4,944
Inventory	109,052	118,840	28,136	96	2,319	-	(673)	257,770
Trade receivables	175,330	77,175	16,172	11,468	16,495	-	(28,620)	268,020
Assets classified as held for sale	-	-	368	-	3,254	-	-	3,622
Other assets	-	-	-	-	-	518,087	-	518,087
Total assets	**1,938,183**	**568,884**	**124,127**	**54,267**	**22,902**	**526,627**	**(29,293)**	**3,205,697**

31.12.2014* *PLN '000*	**Soda Segment**	**Organic Segment**	**Silicates and Glass Segment**	**Transport Segment**	**Other operations Segment**	**Corporate functions - reconciliation item**	**Eliminations (consolidation adjustments)**	**TOTAL**
Trade liabilities	209,406	96,870	17,039	12,888	14,784	-	(28,808)	322,179
Other liabilities	-	-	-	-	-	1,898,044	-	1,898,044
Total liabilities	**209,406**	**96,870**	**17,039**	**12,888**	**14,784**	**1,898,044**	**(28,808)**	**2,220,223**

** Restated data, the change described in section II.3.3.*

Other information related to operating segments

01.01.-31.12.2015 *PLN '000*	**Soda Segment**	**Organic Segment**	**Silicates and Glass Segment**	**Transport Segment**	**Other operations Segment**	**Corporate functions - reconciliation item**	**Eliminations (consolidation adjustments)**	**TOTAL**
Recognized impairment losses	(3,558)	(3,405)	(1,044)	(2)	(187)	-	-	(8,196)
Reversed impairment losses	2,225	4,947	2,109	16	409	-	-	9,706
Recognized impairment losses (non-attributable to segments)	-	-	-	-	-	(4,611)	-	(4,611)
Reversed impairment losses (non-attributable to segments)	-	-	-	-	-	1,379	-	1,379
Interest income attributable to segments	1,314	142	78	-	35	-	(1,099)	470
Interest income recognized under Corporate Functions	-	-	-	-	-	2,633	-	2,633
Interest expense attributable to segments	(269)	(1,077)	-	-	(33)	-	1,099	(280)
Interest expense recognized under Corporate Functions	-	-	-	-	-	(90,846)	-	(90,846)

01.01.-31.12.2014* *PLN '000*	**Soda Segment**	**Organic Segment**	**Silicates and Glass Segment**	**Transport Segment**	**Other operations Segment**	**Corporate functions - reconciliation item**	**Eliminations (consolidation adjustments)**	**TOTAL**
Recognized impairment losses	(17,166)	(11,436)	(870)	(37)	(5,993)	-	-	(35,502)
Reversed impairment losses	38,507	1,852	2,239	61	211	-	-	42,870
Recognized impairment losses (non-attributable to segments)	-	-	-	-	-	(8,106)	-	(8,106)
Reversed impairment losses (non-attributable to segments)	-	-	-	-	-	1,107	-	1,107
Interest income attributable to segments	297	1,961	52	-	594	-	(123)	2,781
Interest income recognized under Corporate Functions	-	-	-	-	-	3,231	-	3,231
Interest expense attributable to segments	(1,539)	(16)	(3)	-	(72)	-	123	(1,507)
Interest expense recognized under Corporate Functions	-	-	-	-	-	(123,738)	-	(123,738)

** Restated data, the change described in section II.3.3.*

Sales – segments

PLN '000	**2015**	**2014***	**Change**	**Change %**
Soda segment, including:	**2,241,228**	**2,052,792**	**188,436**	**9.2%**
Dense soda ash	1,267,148	1,103,225	163,923	14.9%
Light soda ash	436,637	378,206	58,431	15.4%
Salt	170,203	166,953	3,250	1.9%
Baking soda	153,580	150,367	3,213	2.1%
Energy	64,237	84,645	(20,408)	(24.1%)
Gas**	37,885	44,478	(6,593)	(14.8%)
Calcium chloride	18,282	23,868	(5,586)	(23.4%)
Other products	66,284	71,501	(5,217)	(7.3%)
Revenues from inter-segment transactions	26,972	29,549	(2,577)	(8.7%)
Organic segment, including:	**769,877**	**784,141**	**(14,264)**	**(1.8%)**
Resins	343,080	336,899	6,181	1.8%
Polyurethane foams	218,881	231,025	(12,144)	(5.3%)
Plant protection chemicals	192,678	204,825	(12,147)	(5.9%)
Other	12,101	11,352	749	6.6%
Revenues from inter-segment transactions	3,137	40	3,097	7,742.5%
Silicates and Glass segment, including:	**175,012**	**350,562**	**(175,550)**	**(50.1%)**
Sulphur	-	165,721	(165,721)	(100.0%)
Glass blocks and packaging – lanterns and jars	85,156	82,307	2,849	3.5%
Sodium silicate in lumps	51,230	61,565	(10,335)	(16.8%)
Sodium water glass	29,863	21,904	7,959	36.3%
Other	8,749	19,060	(10,311)	(54.1%)
Revenues from inter-segment transactions	14	5	9	180%
Transport segment, including:	**122,628**	**98,213**	**24,415**	**24.9%**
Transport services	13,205	12,457	748	6.0%
Revenues from inter-segment transactions	109,423	85,756	23,667	27.6%
Transport segment, including:	**146,710**	**108,415**	**38,295**	**35.3%**
Revenues from third parties	103,815	73,542	30,273	41.2%
Revenues from inter-segment transactions	42,895	34,873	8,022	23.0%
Consolidation adjustments	**(182,441)**	**(150,223)**	**(32,218)**	**21.4%**
TOTAL	**3,273,014**	**3,243,900**	**29,114**	**0.9%**

** Restated data, the change described in section II.3.3.*

INFORMATION ON GEOGRAPHICAL AREAS

NET SALES *PLN '000*	**Poland**	**European Union (excluding Poland)**	**Other European countries**	**Africa**	**Asia**	**Other regions**	**TOTAL**
01.01.-31.12.2015	1,264,858	1,596,556	232,557	55,176	112,441	11,426	**3,273,014**
01.01.-31.12.2014	1,263,147	1,559,344	180,200	173,872	48,472	18,865	**3,243,900**

31.12.2015 *PLN '000*	**Poland**	**European Union (excluding Poland)**	**Other European countries**	**Africa**	**Asia**	**Other regions**	**TOTAL**
Non-current assets other than financial instruments	1,694,076	923,444	-	-	-	-	2,617,520
Deferred income tax assets	211,404	2,345	-	-	-	-	213,749
Other assets	735,997	266,202	44,621	8,628	22,596	960	1,079,004
Total assets	**2,641,477**	**1,191,991**	**44,621**	**8,628**	**22,596**	**960**	**3,910,273**

31.12. 2014 *PLN '000*	**Poland**	**European Union (excluding Poland)**	**Other European countries**	**Africa**	**Asia**	**Other regions**	**TOTAL**
Non-current assets other than financial instruments	1,380,060	940,364	-	-	-	-	2,320,424
Deferred income tax assets	124,315	3,967	-	-	-	-	128,282
Other assets	440,146	252,700	39,688	3,357	19,671	1,429	756,991
Total assets	**1,944,521**	**1,197,031**	**39,688**	**3,357**	**19,671**	**1,429**	**3,205,697**

9. Discontinued operations, non-current assets and liabilities connected with non-current assets classified as held for sale

Discontinued operations

The accounting policies applied in the preparation of a discontinued operation's income statement are the same as the accounting policies of the Group. The results of discontinued operations include:

For the period between 1 January and 31 December 2015: there were no discontinued operations.

For the period from 1 January to 31 December 2014:

- The result on the loss of control over the Infrastruktura Kapuściska Group in connection with the declaration of its bankruptcy made by the Court on 14 March 2014 amounted to PLN 7,828 thousand. Due to the lack of the company's data as at the date of declaration of its bankruptcy, its deconsolidation from consolidated statements of the CIECH Group was based on figures recognised in the 2014 year's opening balance.
- Impairment of receivables and loans granted to Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej in the amount of PLN 33,962 thousand.
- Deferred tax asset in the amount of PLN 58,668 thousand, in respect of temporary differences between the carrying amount and the tax value of shares in Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej.
- Result on the sale of Sagrera Sp. z o.o. in the amount of PLN 37 thousand.

All the above transactions were presented in the Other Activities Segment.

01.01.-31.12.2014 *PLN '000*	Result on discontinued operations	Result on disposal of discontinued operations	**Total discontinued operations**
Other operating income	-	7,828	7,828
Other operating expenses	(9,360)	-	(9,360)
Financial income	37	-	37
Financial expenses	(24,602)	-	(24,602)
Profit/(loss) before tax	**(33,925)**	**7,828**	**(26,097)**
Income tax	58,668	-	58,668
Net profit /(loss) for the financial year	**24,743**	**7,828**	**32,571**
Earnings per share (in PLN)	0.47	0.15	0.62

The table below presents the result on disposal of discontinued operations:

01.01.-31.12.2014 *PLN '000*	**Infrastruktura Kapuściska Group**
Sales revenues	-
Consolidated cost	(7,828)
Gross profit	7,828
Income tax	-
Consolidated net result on disposal	**7,828**

Analysis of assets and liabilities over which control was lost:

31.12.2014 *PLN '000*	**Infrastruktura Kapuściska Group**
Total assets	**136,282**
Non-current assets	**109,231**
Property, plant and equipment	42,164
Investment properties	53,010
Intangible assets	49
Right of perpetual usufruct of land	14,008
Current assets	**27,051**
Inventories	1,179
Trade and other receivables	12,145
Cash and cash equivalents	11,387
Non-current assets held for sale	2,340

31.12.2014 *PLN '000*	Infrastruktura Kapuściska Group
Total liabilities	**144,189**
Current liabilities	**144,189**
Loans and borrowings	57,400
Provisions for employee benefits	604
Other provisions	39,414
Trade and other liabilities	46,771
Disposed net assets	**(7,907)**
% share in net assets	99.00%
Consolidated cost of net assets disposed off	**(7,828)**

Assets and liabilities classified as held for sale

As at 31 December 2015, the CIECH Group presented the following assets under the item "Non-current assets classified as held for sale":

- CIECH Vitrosilicon S.A. presented property, plant and equipment in the amount of PLN 368 thousand (land located in the town of Iłowa) redundant from the point of view of the enterprise; a potential buyer of the land is now being sought. These assets are presented in the "Silicates and Glass" segment.
- CIECH Trading S.A. presented an installation acquired from Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej (total carrying value of PLN 3,015 thousand). These assets are presented in the "Other activities" segment.

As at 31 December 2014, the CIECH Group presented the following assets under the item "Non-current assets classified as held for sale":

- CIECH Vitrosilicon S.A. presented property, plant and equipment in the amount of PLN 368 thousand (land located in the town of Iłowa) redundant from the point of view of the enterprise; a potential buyer of the land is now being sought. These assets are presented in the "Silicates and Glass" segment.
- CIECH Trading S.A. presented an installation acquired from Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej (total carrying value of PLN 3,015 thousand). These assets are presented in the "Other activities" segment.
- CIECH Nieruchomości S.A. presented investment properties in the amount of PLN 239 thousand. These assets are presented in the "Other activities" segment.

The following list presents the main items of assets and liabilities held for sale:

PLN '000

NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE	31.12.2015	31.12.2014
Property, plant and equipment	3,383	3,383
Investment properties	-	239
Short-term investments	-	-
TOTAL	**3,383**	**3,622**

10. The Group's composition

When selecting entities for consolidation, the Management Board was guided by the criteria of significance of their financial data (according to the concept assumptions of IFRS), for executing the obligation of an actual and reliable image of the material and financial situation, and the financial result of the Group. The specification below contains a list of subsidiaries not covered by consolidation in the period between 1 January and 31 December 2015:

Company name	line of business	% of owned shares
Komunalna Biologiczna Oczyszczalnia Ścieków Sp. z o.o.	water purification	56,6%
Polcommerce GmbH	trading activity	100,0%
Nordiska Unipol AB	trading activity	97,8%
Chemia.com S.A. w likwidacji	entity in liquidation	100,0%

List of consolidated companies and companies measured under the equity method in 2015 and in the comparable period:

Company/Group name	Consolidation method as at 31.12.2015 and CIECH S.A.'s control	Consolidation method as at 31.12.2014 and CIECH S.A.'s control	Share in equity as at 31.12.2015	Share in equity as at 31.12.2014	Business
1) CIECH S.A.	Parent company	Parent company	-	-	– The actual core business of the parent entity includes sales of chemical products manufactured within the CIECH Group. – in addition to the actual core activity, CIECH S.A. sells chemical products purchased from producers from outside the Group. – additionally, CIECH S.A. as a parent company, conducts holding activity, manages a portfolio of subsidiaries, provides support services (in the area of sales, manufacturing, purchases, finance, IT, HR and in the legal area) for selected companies in the Group, as well as conducts financial activities in the form of direct lending to the companies in the Group.
2) CIECH FINANCE Spółka z ograniczoną odpowiedzialnością	Fully consolidated subsidiary of CIECH S.A.	Fully consolidated subsidiary of CIECH S.A.	100%	100%	– implementing divestment projects concerning obsolete fixed assets (property) and financial assets (shares in companies), carrying out purchases of selected raw materials.
3) CIECH R&D Sp. z o.o. (Ciech Trademarks Sp. z o.o. until 31 March 2015)	Subsidiary of CIECH S.A. – fully consolidated on the level of the CIECH Group.	Indirect subsidiary of CIECH S.A. – fully consolidated on the level of the CIECH Group.	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
4) Ciech Nieruchomości S.A. (until 18 June 2014 under the name of Inowrocławskie Zakłady Chemiczne SODA MĄTWY S.A.)	Subsidiary of CIECH S.A. – fully consolidated.	Subsidiary of CIECH S.A. – fully consolidated.	100%	100%	– real property agency, real property management
5) CIECH Soda Romania S.A. (until 28 April 2015 under the name of S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A.)	Subsidiary of CIECH S.A. – fully consolidated on the level of the CIECH Group.	Indirect subsidiary of CIECH S.A. – fully consolidated on the level of the CIECH Group.	98.74%	93.76%	– production of other basic inorganic chemicals, – wholesale of chemical products

Company/Group name	Consolidation method as at 31.12.2015 and CIECH S.A.'s control	Consolidation method as at 31.12.2014 and CIECH S.A.'s control	Share in equity as at 31.12.2015	Share in equity as at 31.12.2014	Business
CIECH Trading Group					
6) CIECH Trading S.A. (until 26 October 2015 under the name of Ciech Trading S.A.)	Subsidiary of CIECH S.A. – fully consolidated on the level of the CIECH Group.	Subsidiary of CIECH S.A. – fully consolidated on the level of the CIECH Group.	100%	100%	– wholesale and distribution of solid inorganic and organic chemicals, – wholesale and distribution of raw materials for household chemicals, – wholesale and distribution of raw materials for cosmetic and pharmaceutical products, – wholesale and distribution of fillers, pigments, raw materials for paints and varnishes, – wholesale and distribution of food and feed additives, – wholesale and distribution of acids, bases and other liquid chemicals.
6.1) Janikowskie Zakłady Sodowe JANIKOSODA S.A.	Indirect subsidiary of CIECH S.A. – fully consolidated on the level of the CIECH Group	Indirect subsidiary of CIECH S.A. – fully consolidated on the level of the CIECH Group	100%	100%	– service activity related to office support, other "out-of-school" forms of education, not elsewhere classified
CIECH Soda Polska Group					
7) CIECH Soda Polska S.A. (until 20 April 2015 under the name of Soda Polska Ciech S.A.)	Subsidiary of CIECH S.A. – fully consolidated on the level of the CIECH Group.	Subsidiary of CIECH S.A. – fully consolidated on the level of the CIECH Group.	100%	100%	- production of other basic inorganic chemicals, - wholesale of chemical products, - power generation and distribution,
7.1) CIECH Cargo Sp. z o.o. (until 20 April 2015 under the name of TRANSODA Sp. z o.o.)	Indirect subsidiary of CIECH S.A. – fully consolidated on the level of the CIECH Group.	Indirect subsidiary of CIECH S.A. – fully consolidated on the level of the CIECH Group.	100%	100%	- freight transport services

Company/Group name	Consolidation method as at 31.12.2015 and CIECH S.A.'s control	Consolidation method as at 31.12.2014 and CIECH S.A.'s control	Share in equity as at 31.12.2015	Share in equity as at 31.12.2014	Business
7.2) Sagrera Sp. z o.o.	-	Indirect subsidiary of CIECH S.A. – fully consolidated on the level of the CIECH Group. Sold on 18 September 2014.	-	-	
7.3) Cerium Sp. z o.o.	Indirect subsidiary of CIECH S.A. – fully consolidated on the level of the CIECH Group.	Indirect subsidiary of CIECH S.A. – fully consolidated on the level of the CIECH Group.	100%	100%	– the Company is the sole general partner of Cerium Sp. z o.o. SKA and Cerium Sp. z o.o. SK, its core operations comprise managing the business of those companies
7.4) Cerium Sp. z o.o. SKA	Indirect subsidiary of CIECH S.A. – fully consolidated on the level of the CIECH Group.	Indirect subsidiary of CIECH S.A. – fully consolidated on the level of the CIECH Group.	100%	100%	- conducting financial activities, in particular comprising direct granting of loans and leasing of non-current assets to the CIECH Group companies
7.4.1) CIECH Cerium Sp. z o.o. SK	Indirect subsidiary of CIECH S.A. – fully consolidated on the level of the CIECH Group.	-	100%	-	- financing activities
8) CIECH-POLSIN PRIVATE LIMITED	The Company was deleted from the ACRA Register of Businesses on 11 March 2015	Fully consolidated subsidiary of CIECH S.A. The company is in liquidation.	-	98.00%	- wholesale and retail sale of a variety of goods in the Far East markets.
9) CIECH Vitrosilicon S.A. (until 20 April 2015 under the name of VITROSILICON S.A.)	Fully consolidated subsidiary of CIECH S.A.	Fully consolidated subsidiary of CIECH S.A.	100%	100%	- production of other basic inorganic chemicals, - manufacture of household and technical glassware, - manufacture of plastic packaging goods, - manufacture of other plastic products
10) CIECH Transclean Sp. z o.o. (until 10 April 2015 under the name of Przedsiębiorstwo Transportowo-Usługowe TRANSCLEAN Sp. z o.o.)	Fully consolidated subsidiary of CIECH S.A.	Fully consolidated subsidiary of CIECH S.A.	100%	100%	- international transport of liquid chemicals,

Company/Group name	Consolidation method as at 31.12.2015 and CIECH S.A.'s control	Consolidation method as at 31.12.2014 and CIECH S.A.'s control	Share in equity as at 31.12.2015	Share in equity as at 31.12.2014	Business
CIECH Sarzyna Group	Fully consolidated lower-tier Group	Fully consolidated lower-tier Group			
11) CIECH Sarzyna S.A. (until 18 March 2015 under the name of Zakłady Chemiczne "Organika-Sarzyna" S.A.)	Lower-tier parent	Lower-tier parent	100%	99.64%	- manufacture of plastics, - manufacture of pesticides and other chemical products,
11.1) Verbis KAPPA Sp. z o.o.	Indirect subsidiary of CIECH S.A. – full consolidation at lower tier for consolidation packet purposes	Indirect subsidiary of CIECH S.A. – full consolidation at lower tier.	100%	99.64%	- the company is the sole general partner of Verbis KAPPA Sp. z o.o. SKA, - other financial intermediation
11.2) Verbis KAPPA Sp. z o.o. SKA	Indirect subsidiary of CIECH S.A. – full consolidation at lower tier for consolidation packet purposes	Indirect subsidiary of CIECH S.A. – full consolidation at lower tier.	100%	99.64%	- other financial intermediation
11.3) Algete Sp. z o.o.	Indirect subsidiary of CIECH S.A. – full consolidation at lower tier for consolidation packet purposes.	Indirect subsidiary of CIECH S.A. – full consolidation at lower tier.	100%	99.64%	- granting CIECH Sarzyna Group companies the license for using the trademark of "Chwastox" for the purpose of business
12) Ciech Pianki Sp. z o.o.	Subsidiary of CIECH S.A. – fully consolidated.	Subsidiary of CIECH S.A. – fully consolidated.	100%	100%	– manufacture of organic and other inorganic chemicals.
13) Ciech Group Financing AB	Subsidiary of CIECH S.A. – fully consolidated.	Subsidiary of CIECH S.A. – fully consolidated.	100%	100%	– conducting financial activities, particularly lending of funds by issuing bonds and other financial instruments with institutional and private investors as well as direct lending of such funds to the companies of the Group and carrying out any other activities in support of such activities and the provision of related services.
14) Verbis ETA Sp. z o.o.	Subsidiary of CIECH S.A. – fully consolidated.	Subsidiary of CIECH S.A. – fully consolidated.	100%	100%	– the company is the sole general partner of Verbis ETA Sp. z o.o. SKA, – its main objective is to manage the activities of Verbis ETA Sp. z o.o. SKA
15) Verbis ETA Sp. z o.o. SKA	Subsidiary of CIECH S.A. – fully consolidated.	Subsidiary of CIECH S.A. – fully consolidated.	100%	100%	– conducting financial activities, particularly direct lending to the CIECH Group companies.

Company/Group name	Consolidation method as at 31.12.2015 and CIECH S.A.'s control	Consolidation method as at 31.12.2014 and CIECH S.A.'s control	Share in equity as at 31.12.2015	Share in equity as at 31.12.2014	Business
SDC Group	Fully consolidated lower-tier Group	Fully consolidated lower-tier Group			- manufacture of other basic inorganic chemicals, wholesale of chemical products, - power generation and distribution.
16) SDC GmbH (until 4 May 2015 under the name of Soda Deutschland Ciech GmbH)	Lower-tier parent	Lower-tier parent	100%	100%	
16.1) Sodawerk Holding Stassfurt GmbH	Indirect subsidiary of CIECH S.A. – full consolidation at lower tier for consolidation packet purposes	Indirect subsidiary of CIECH S.A. – full consolidation at lower tier for consolidation packet purposes	100%	100%	
16.1.1) Sodawerk Stassfurt Verwaltungs GmbH	Indirect subsidiary of CIECH S.A. – full consolidation at lower tier for consolidation packet purposes	Indirect subsidiary of CIECH S.A. – full consolidation at lower tier for consolidation packet purposes	100%	100%	
16.1.2) CIECH Soda Deutschland GmbH&Co. KG (until 11 May 2015 under the name of Sodawerk Stassfurt GmbH&Co.KG)	Indirect subsidiary of CIECH S.A. – full consolidation at lower tier for consolidation packet purposes	Indirect subsidiary of CIECH S.A. – full consolidation at lower tier for consolidation packet purposes	100%	100%	
16.1.2.1) KWG GmbH	Indirect subsidiary of CIECH S.A. – full consolidation at lower tier for consolidation packet purposes	Indirect subsidiary of CIECH S.A. – full consolidation at lower tier for consolidation packet purposes	100%	100%	
16.1.2.2) Kaverngesellschaft Stassfurt GbmH	Indirect associate of CIECH S.A. – measurement under the equity method at lower tier for consolidation packet purposes	Indirect associate of CIECH S.A. – measurement under the equity method at lower tier for consolidation packet purposes	50%	50%	

11. Business combinations and acquisition of non-controlling interest

CIECH Sarzyna S.A.
On 12 May 2015, the Extraordinary General Meeting of Shareholders adopted a resolution regarding the squeeze-out of minority shareholders. The squeeze-out concerned 30,849 shares, constituting 0.363% of the share capital. The ownership of shares was transferred to CIECH S.A. on 16 July 2015. Since 16 July 2015, CIECH S.A. has been the owner of 100% of shares of CIECH Sarzyna S.A.

CIECH Soda Romania S.A.

2015
On 15 January 2015, the Extraordinary General Shareholders' Meeting of CIECH Soda Romania S.A. made a decision on withdrawal of the Company's shares from the capital market, on the possibility of the shareholders' withdrawal from the Company on the terms specified by the law, and on the increase of the share capital by RON 45,000 thousand, by the issue of 180,000,000 shares of the value of RON 0.25 each. The funds obtained from the issue of shares will be allocated to the execution of the Company's strategic development plans. Under the decision of Autoritate de Supraveghere Financiara (equivalent to the Polish Financial Supervision Authority), on 26 June 2015, the shares of CIECH Soda Romania S.A. were withdrawn from the capital market and deleted from the register of Autoritate de Supraveghere Financiara. The share capital increase was registered by the Romanian registry court on 11 August 2015.

On 4 September 2015, the Extraordinary General Meeting of CIECH Soda Romania S.A. adopted a resolution on the increase of the share capital through subscription of 1,760,000,000 new shares, of the total value of RON 440,000 thousand. Following the subscription, the share capital of CIECH Soda Romania S.A. was increased from 445,201,363 shares of the total value of RON 111,300 to 2,100,338,803 shares of the total value of RON 525,085 thousand. CIECH Cerium sp. z o.o. sp. k., a partnership participating in the subscription, took up 1,655,137,440 new shares with the nominal value of RON 0.25 each, of the total value of RON 413,784 thousand. Therefore, following the subscription of new shares, Cerium sp. z o.o. sp. k. holds the total of 2,073,813,450 shares of the total nominal value of RON 518,453 thousand, which is 98.7370% of the share capital of CIECH Soda Romania S.A. The increase of the share capital was registered by the Romanian registry court on 26 October 2015.

2014
On 24 June 2014, the Extraordinary General Meeting of CIECH Soda Romania S.A. adopted a resolution on the increase of the share capital through subscription of 120,000,000 new shares with the value of RON 0.25 per share. The offering was addressed to shareholders of CIECH Soda Romania S.A. A total of 21,682 shares was cancelled because they were not covered by minority shareholders. As a result of the disproportionate increase in the share capital of CIECH Soda Romania S.A., the minority interest in the company decreased from 7.09% to 6.24% after the share capital increase. At the same time, as a result of this transaction the equity attributable to shareholders of the parent company decreased by PLN 31,567 thousand.

12. Significant subsidiaries with non-controlling interest

The following table presents financial information on subsidiaries with non-controlling interest:

The percentage share of interest held by non-controlling shareholders:	**31.12.2015**	**31.12.2014**
CIECH Soda Romania S.A.	1.26%	6.24%
CIECH Sarzyna Group	-	0.36%

Non-controlling interest at the end of the period	**31.12.2015**	**31.12.2014**
CIECH Soda Romania S.A.	(4,072)	(10,962)
CIECH Sarzyna Group	-	1,271
Other non-controlling interest	-	391
Total	**(4,072)**	**(9,300)**

Net profit/(loss) attributable to non-controlling shareholders	**01.01.-31.12.2015**	**01.01.-31.12.2014**
CIECH Soda Romania S.A.	2,937	(903)
CIECH Sarzyna Group	81	72
Other	-	68
Total	**3,018**	**(763)**

Condensed financial information related to the significant subsidiaries with non-controlling interest is presented below. The information represents amounts before intercompany eliminations.

Condensed statement of profit or loss for 01.01.–31.12.2015	CIECH Soda Romania S.A.	CIECH Sarzyna Group
Net revenue from sales	352,101	547,446
Cost of sales	(288,673)	(451,778)
Other operating income	13,860	10,006
Selling costs	(4,825)	(37,852)
General and administrative expenses	(9,192)	(18,756)
Other operating expenses	(12,590)	(18,487)
Operating profit/loss	**50,681**	**30,579**
Net financial income/(expenses)	111,692	1,352
Profit/(loss) before tax	**162,373**	**31,931**
Income tax	5,283	29,999
Net profit/(loss)	**167,656**	**61,930**

Condensed statement of financial position as at 31.12.2015	CIECH Soda Romania S.A.	CIECH Sarzyna Group
Property, plant and equipment	164,644	274,013
Intangible assets	249	16,360
Investment properties	-	6,145
Deferred tax assets	2,164	22,020
Right of perpetual usufruct	-	27,459
Other long-term investments	-	8,687
Total non-current assets	**167,057**	**354,684**
Inventories	17,512	101,467
Trade and other receivables	59,590	99,140
Cash and cash equivalents	806	4,466
Other current assets	-	3,959
Total current assets	**77,908**	**209,032**
Total assets	**244,965**	**563,716**
Total equity	**137,250**	**342,150**
Loans, borrowings and other debt instruments	5,335	-
Deferred tax liability	-	-
Other non-current liabilities	13,981	6,453
Total non-current liabilities	**19,316**	**6,453**
Loans, borrowings and other debt instruments	2,716	69,881
Lease liabilities	-	1,524
Trade and other liabilities	58,485	141,862
Provisions (short-term provisions for employee benefits and other provisions)	27,198	1,846
Total current liabilities	**88,399**	**215,113**
Total liabilities	**107,715**	**221,566**
Total equity and liabilities	**244,965**	**563,716**

Condensed statement of cash flows for 01.01.–31.12.2015	CIECH Soda Romania S.A.	CIECH Sarzyna Group
Operating activities	(55,499)	47,297
Investing activities	(23,049)	(14,590)
Financing activities	71,182	(34,320)
Change in cash and cash equivalents	**(7,366)**	**(1,613)**

Condensed statement of profit or loss for 01.01.–31.12.2014	CIECH Soda Romania S.A.	CIECH Sarzyna Group
Net revenue from sales	268,417	549,021
Cost of sales	(253,174)	(457,439)
Other operating income	51,732	14,185
Selling costs	(5,516)	(30,639)
General and administrative expenses	(9,953)	(19,423)
Other operating expenses	(8,905)	(28,115)

Condensed statement of profit or loss for 01.01.–31.12.2014	CIECH Soda Romania S.A.	CIECH Sarzyna Group
Operating profit/(loss)	**42,601**	**27,590**
Net financial income/(expenses)	(48,357)	(3,382)
Profit/(loss) before tax	**(5,756)**	**24,208**
Income tax	4,741	4,286
Net profit/(loss)	**(10,497)**	**19,922**

Condensed statement of financial position as at 31.12.2014	CIECH Soda Romania S.A.	CIECH Sarzyna Group
Property, plant and equipment	157,229	291,314
Right of perpetual usufruct	-	27,831
Intangible assets	234	13,935
Investment properties	-	6,145
Other long-term investments	-	8,447
Total non-current assets	**157,463**	**347,672**
Inventories	14,435	91,672
Trade and other receivables	38,577	84,776
Cash and cash equivalents	8,173	6,079
Other current assets	-	2,538
Total current assets	**61,185**	**185,065**
Total assets	**218,648**	**532,737**
Total equity	**(466,980)**	**349,867**
Loans, borrowings and other debt instruments	388,868	-
Other non-current liabilities	33,113	16,658
Total non-current liabilities	**421,981**	**16,658**
Loans, borrowings and other debt instruments	100,852	16,607
Lease liabilities	-	43,163
Trade and other liabilities	130,718	104,519
Provisions (short-term provisions for employee benefits and other provisions)	32,077	1,923
Total current liabilities	**263,647**	**166,212**
Total liabilities	**685,628**	**182,870**
Total equity and liabilities	**218,648**	**532,737**

Condensed statement of cash flows for 01.01.–31.12.2014	CIECH Soda Romania S.A.	CIECH Sarzyna Group
Operating activities	9,885	20,776
Investing activities	(21,991)	(9,813)
Financing activities	18,954	(9,353)
Change in cash and cash equivalents	**6,848**	**1,610**

13. Shares in joint ventures / investments in associates

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

The following table presents the carrying amounts of investments in associates and jointly-controlled entities measured under the equity method:

PLN '000

INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES	31.12.2015	31.12.2014
Investments in associates and jointly-controlled entities	4,918	4,944
Share in net profit of associated entities measured under the equity method	163	251

The table below presents condensed information related to the investment in Kaverngesellschaft Stassfurt mbH:

	Kaverngesellschaft Stassfurt mbH	
PLN '000	**31.12.2015**	**31.12.2014**
Share in the equity	**50%**	**50%**
Non-current assets	367	669
Current assets	4,679	4,687
Equity	2,878	3,060
Current liabilities	2,168	2,296
Sales revenues	10,529	11,807
Profit before tax	464	504
Income tax	(139)	-
Net result	325	504

14. Sales revenues

PLN '000

SALES REVENUES	01.01-31.12.2015	01.01-31.12.2014
Revenue from sales of products and services	**3,080,085**	**2,817,567**
products	3,053,057	2,790,530
services	27,028	27,037
Revenue from sales of goods and materials	**192,929**	**426,333**
goods	190,065	423,704
materials	2,864	2,629
Net sales of products, goods and materials	**3,273,014**	**3,243,900**

15. Cost of sales

PLN '000

COST OF SALES	01.01-31.12.2015	01.01-31.12.2014
Cost of manufacture of products and services sold	2,239,940	2,171,250
Cost of goods and materials sold	160,082	387,543
Write downs to net realisable value	(5,939)	(5,746)
Reversals of write downs to net realisable value	4,827	10,003
Cost of sales	**2,398,910**	**2,563,050**

16. Other income and expenses

16.1. Other operating income

PLN '000

OTHER OPERATING INCOME	01.01-31.12.2015	01.01-31.12.2014
Grants	8,382	7,954
Rents/lease income	2,106	1,663
Gain on disposal of non-financial non-current assets	3,982	216
Reversal of impairment allowances on receivables	3,625	1,773
Reversal of impairment losses on property, plant and equipment and intangible assets	142	35,217
Reversal of provisions on employee benefits	985	8,394
Reversal of provisions for restructurization – changing the base	-	38
Reversal of provisions for compensation – changing the base	708	240
Reversal of provisions for environmental protection – changing the base	3 352	2 605
Reversal of provisions for liabilities – changing the base	5 511	6 886

OTHER OPERATING INCOME	01.01-31.12.2015	01.01-31.12.2014
Reversal of other provisions – changing the base	33	1 303
Penalty fees and compensations received	2,514	2,971
Income from liquidation of current and non-current assets	231	774
Valuation of investment property in fair value	-	2,288
Revenues from caverns	7,641	3,414
Other services	3,962	4,915
Reimbursement of other taxes	1,104	11
Settlement of inventory taking	702	1,141
Other	7,947	13,358
TOTAL	**52,927**	**95,161**

As at 31 December 2015, the CIECH Group made an assessment of premises, originating both from external and internal sources of information, of indicators of impairment. These analyses did not indicate the need to estimate the recoverable value.
In the comparative period, as a result of indication of premises, CIECH Soda Romania S.A. made estimates concerning the recoverable value. Based on the estimated value in use, the Company reversed impairment charges in the amount of PLN 35,052 thousand.

Grants
Grants included in liabilities as at 31 December 2015 amounted to PLN 90,847 thousand (compared to PLN 94,682 thousand as at 31 December 2014).

Grants recognised in the income statement in the reporting period amounted to PLN 8,382 thousand (PLN 7,954 thousand in the comparable period) settled over time in proportion to the amortisation of capitalised development costs to which they relate.

The CIECH Group companies receive grants for research and development activities, purchase of property, plant and equipment and for adapting investment projects to environmental requirements. The grants are mainly received by the CIECH Group companies from the European Regional Development Fund.

The most significant grants are as follows:

- grant for the project "Construction of an installation of gas desulphurisation at CHP Janikowo" at CIECH Soda Polska S.A., received in 2013 in the amount of PLN 15,904 thousand pursuant to a co-financing agreement executed with the National Fund for Environmental Protection and Water Management in 2009;
- grant received in 2010 by CIECH Soda Polska S.A. in the amount of PLN 13,443 thousand in connection with the implemented investment project "Development of CKTI boilers at CHP Janikowo in order to adjust it to environmental requirements – CKTI boiler No. 2" under a co-financing agreement with the National Fund for Environmental Protection and Water Management signed in 2009;
- grant received by CIECH Soda Polska S.A. to co-finance the project "Development of CKTI boiler No. 3 in order to adjust CHP Janikowo to environmental requirements" in the amount of PLN 9,591 thousand (PLN 1,419 thousand in 2012 and PLN 8,172 thousand in 2013) under a co-financing agreement with the National Fund for Environmental Protection and Water Management signed in 2012;
- grant received in 2014 by CIECH Soda Polska S.A. in the amount of PLN 2,971 thousand to co-finance the project "Reduction of dust emission in CHP Janikowo through boiler electrofilters modernisation of OP-140 No. 4 and 5" under a co-financing agreement with the National Fund for Environmental Protection and Water Management signed in 2013;
- grant for the project "The performance of an energy audit in CIECH Soda Polska Spółka Akcyjna" in CIECH Soda Polska S.A., received in 2014 in the amount of PLN 270 thousand under a co-financing agreement with the National Fund for Environmental Protection and Water Management signed in 2013;
- grant for the project "Reduction of dust emission in CHP Inowrocław through boiler electrofilters modernisation of OP-110 No. 1 and 3" in CIECH Soda Polska S.A., received in the amount of PLN 2,859 thousand (PLN 992 thousand in 2014 and PLN 1,867 thousand in 2015) under a co-financing agreement with the National Fund for Environmental Protection and Water Management signed in 2014. The total amount of the co-financing resulting from the co-financing agreement signed is PLN 3,120 thousand.
- grant for the project "Reduction of dust emission in CHP Inowrocław through boiler electrofilters modernisation of OP-110 No 2 and 4" in CIECH Soda Polska S.A., received in the amount of PLN 2,126 thousand in 2015 under a co-financing agreement with the National Fund for Environmental Protection and Water Management signed in 2014. The total amount of the co-financing resulting from the co-financing agreement signed is PLN 3,120 thousand.
- grant for the project "Expansion of decantation and filtration node of a distillation sludge in Plant Inowrocław" in CIECH Soda Polska S.A., under a co-financing agreement with the National Fund for Environmental Protection and Water Management signed in 2014. The total amount of the co-financing resulting from the co-financing agreement signed is PLN 10,929 thousand.
- grant for the project "Construction of innovative installation of production material MCPA and MCPP-P" in CIECH Sarzyna S.A., received in the amount of PLN 39,997 thousand (PLN 9,294 thousand in 2011, PLN 28,662 thousand in 2012, PLN 2,041 thousand in 2013) under a co-financing agreement with the Polish Agency for Enterprise Development signed in 2010;

- grant for the project "Packaging glass BarvaGlass – Vitrosilicon transforms visions into reality" in CIECH Vitrosilicon S.A., received in the amount of PLN 7,537 thousand (PLN 6,973 thousand in 2011, PLN 564 thousand in 2012) under a co-financing agreement with Polish Agency for Enterprise Development signed in 2012;
- grant for the project of creating a research and development centre by CIECH R&D Sp. z o.o., received in 2015 in the amount of PLN 296 thousand under a co-financing agreement signed with the Ministry of the Economy in 2015. The total amount of the co-financing resulting from the agreement signed is PLN 2,106 thousand.

Other forms of State aid

In 2015, the CIECH Group companies received co-financing in the total amount of PLN 4.3 million. Additionally, in October 2015, the area of CIECH Soda Polska S.A.'s Plant in Janikowo was covered by the status of the Pomeranian Special Economic Zone. Due to the inclusion of the Plant into the SEZ and obtaining, in December, a permit to conduct tax exempt business activities, the company acquired the right to corporate income tax relief until 2026 up to PLN 14.35 million.

In 2014, two companies of the CIECH Group were granted a permit to run business in the Special Economic Zone. In May 2014, the area of CIECH Soda Polska S.A.'s Plant in Inowrocław was covered by the status of the Pomeranian Special Economic Zone. Due to the inclusion of the Plant into the SEZ and obtaining two permits to conduct tax exempt business activities, the company acquired the right to corporate income tax relief until 2026 up to PLN 180 million.

In June 2014, the area of CIECH Sarzyna S.A.'s Plant was covered by the status of the Krakow Special Economic Zone – Krakow Technology Park. Due to the inclusion of the company's area into the SEZ and obtaining a permit to conduct tax exempt business activities, the company acquired the right to corporate income tax relief until 2026 up to PLN 63 million. The Group companies will be entitled to corporate income tax reliefs if the conditions set in the permits to run a business in the SEZ are met.

As at 31 December 2015, deferred income tax asset was not recognised due to a failure to meet all conditions for obtaining a permit and uncertainty about realising tax relief in the future.

Construction contracts

The SDC Group, in accordance with IAS 11 "Construction Contracts", attributes revenues and costs connected with contracts concerning cavern desalination to particular periods in which the works were conducted.

- **Project 1** – the project has been completed, other receivables relating to the implementation in the amount of PLN 1,916 thousand (EUR 462 thousand) are disclosed under trade and other receivables.
- **Project 2** – the Contract includes the sale of mining rights, land and preparation of four gas caverns (S113 to S116). The stage of completion is determined as a proportion between the costs incurred for work performed to date and the estimated total contract costs or completion of a physical proportion of the contract work.

Revenue recognised in income statement for 2015 represent the amount of the expected sales revenues multiplied by the percentage of completion of the contract in the accounting period.

The results on construction contract (Project 2) recognised in other operating income for 2015 amounted to PLN 7,641 thousand (EUR 1,826 thousand). In the comparable period, it amounted to PLN 2,792 thousand (EUR 657 thousand). The receivables relating to the construction contract (Project 2) recognised in assets as long-term receivables amounted to PLN 89,453 thousand (EUR 20,991 thousand) as at the end of 2015. As at 31 December 2014, they amounted to PLN 78,264 thousand (EUR 18,362 thousand). In 2015, the SDC Group did not receive any prepayments due to the ongoing contracts (in the comparable period, the amount of prepayments received was PLN 46 thousand).

The total amount of costs incurred and profits recognised (less recognised losses) due to ongoing contracts for the period of duration of these contracts amounted to PLN 138,247 thousand (in the comparable period: PLN 130,597 thousand).

16.2. Other operating expenses

PLN '000

OTHER OPERATING EXPENSES	01.01-31.12.2015	01.01-31.12.2014
Costs related to investment property	1,017	1,064
Recognition of impairment losses on receivables	1,940	10,995
Recognition of impairment losses on property, plant and equipment and intangible assets	1,428	14,698
Recognition of provisions on employee benefits	2,466	2,536
Reversal of provisions for compensation – changing the base	3,125	225
Reversal of provisions for environmental protection – changing the base	506	503
Reversal of provisions for liabilities – changing the base	15,129	6,263
Creating provisions for anticipated loss – changing the base	11,325	15
Reversal of other provisions – changing the base	4,139	1,714
Liquidation costs of property, plant and equipment	807	793

OTHER OPERATING EXPENSES	01.01-31.12.2015	01.01-31.12.2014
Liquidation costs of materials	587	293
Amortisation/depreciation	2,886	692
Costs of idle assets and production capacity	13,580	12,793
Costs of remediating the effects of fortuitous events	2,777	1,904
Fortuitous events	110	47
Penalties and compensations paid	2,913	2,790
Restructuring costs	833	2,728
Valuation of investment property at fair value	6,347	8,742
Costs related to past activities	34	35
Costs of abandoned investment	802	21
Receivables written-off	5,960	7,343
Result from losing control over a subsidiary	2,834	-
Costs in relations to caverns	-	662
Other dismissals	-	1,348
Other	7,031	11,348
TOTAL	**88,576**	**89,552**

16.3. Cost by kind

PLN '000

COST BY KIND	01.01-31.12.2015	01.01-31.12.2014
Amortisation and depreciation	214,836	203,795
Consumption of materials and energy	1,631,600	1,543,737
Employee benefits	283,056	300,572
External services	327,713	382,456

PLN '000

EMPLOYEE BENEFITS	01.01-31.12.2015	01.01-31.12.2014
Payroll	227,530	242,671
Social security and other benefits	53,891	54,624
Expenditure on retirement benefit and jubilee awards (including provisions)	258	759
Expenditure on defined retirement benefits	435	1,755
Other	942	763
TOTAL	**283,056**	**300,572**

16.4. Financial income

PLN '000

FINANCIAL INCOME	01.01-31.12.2015	01.01-31.12.2014
Interest	2,955	3,772
Dividends and shares in profit	437	1,095
Net foreign exchange gains	-	805
Reversal of impairment losses	444	898
Decrease in provisions due to change in discount rate	298	122
Income from liquidated companies	1,102	-
Other	1,170	1,679
Total financial income	**6,406**	**8,371**

16.5. Financial expenses

PLN '000

FINANCIAL EXPENSES	01.01-31.12.2015	01.01-31.12.2014
Total interest	91,125	125,245
Net foreign exchange losses	4,355	-

FINANCIAL EXPENSES	01.01-31.12.2015	01.01-31.12.2014
Recognition of impairment losses on non-current investments and investments in equity accounted associates	1,011	-
Recognition of other impairment losses	160	-
Factoring commissions	4,458	2,978
Bank fees and commissions	105,204	7,712
Recognised provisions	2,258	2,180
Increase in provisions due to change in discount rates	4,660	3,506
Costs of discounting of liabilities	2,301	4,166
Balance sheet valuation of derivative financial instruments	1,862	560
Other	1,609	5,017
Total financial expenses	**219,003**	**151,364**

** including a bonus for redemption of bonds before their maturity and write-off of the arrangement fee relating to the redemption of bonds*

16.6. Research and development costs

The total amount of expenditure on research and development expensed in the period, as not meeting the capitalisation criteria, amounted to PLN 1,427 thousand (PLN 1,997 thousand in the comparable period).

16.7. Components of other comprehensive income

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

	01.01-31.12.2015			01.01-31.12.2014		
PLN '000	**Before tax**	**Tax**	**After tax**	**Before tax**	**Tax**	**After tax**
Currency translation differences (foreign companies)	(3,368)	(50)	(3,418)	29,973	875	30,848
Cash flow hedge	15,124	(2,874)	12,250	(26,986)	5,127	(21,859)
Valuation of actuarial provisions	676	(128)	548	(256)	69	(187)
Other components of other comprehensive income	53	-	53	100	-	100
Other comprehensive income net of tax	**12,485**	**(3,052)**	**9,433**	**2,831**	**6,071**	**8,902**

Income tax and reclassification adjustments in other comprehensive income

Other comprehensive income before tax *PLN '000*	change in the period	**01.01.-31.12.2015**	change in the period	**01.01.-31.12.2014**
Currency translation differences (foreign companies)	**-**	**(3,368)**	**-**	**29,973**
- remeasurement for the current period	(3,368)	-	29,973	-
Cash flow hedge	**-**	**15,124**	**-**	**(26,986)**
- fair value remeasurement in the period	6,158	-	(42,091)	-
- reclassification to profit or loss	8,966	-	15,105	-
Valuation of actuarial provisions	**-**	**676**	**-**	**(256)**
- remeasurement for the current period	676	-	(256)	-
Other components of other comprehensive income	**-**	**53**	**-**	**100**
- remeasurement for the current period	53	-	100	-
Income tax attributable to other components of other comprehensive income	-	**(3,052)**	-	**6,071**
- accrued for the current period	(1,348)	-	8,941	-
- reclassification to profit or loss	(1,704)	-	(2,870)	-
Other comprehensive income net of tax	-	**9,433**	-	**8,902**

17. Income tax, deferred tax assets and liability

The main components of tax expense include:

PLN '000

MAIN COMPONENTS OF TAX EXPENSE (TAX INCOME)	01.01.-31.12.2015	01.01.-31.12.2014
Current income tax	**33,539**	**18,494**
Income tax for the reporting period	30,526	10,419
Adjustment to tax for previous years	3,013	8,075
Deferred tax	**(102,162)**	**26,798**
Origination/reversal of temporary differences	(104,793)	21,141
Unrecognised deferred tax assets	2,631	5,657
INCOME TAX RECOGNISED IN PROFIT AND LOSS STATEMENT	**(68,623)**	**45,291**

PLN '000

INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME	01.01.-31.12.2015	01.01.-31.12.2014
Cash flow hedge	(2,874)	5,127
Net currency at translation differences	(50)	875
Valuation of actuarial provisions	(128)	69
TOTAL	**(3,052)**	**6,071**

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

EFFECTIVE TAX RATE	01.01-31.12.2015	01.01-31.12.2014
Profit/(loss) before tax	**277,382**	**179,073**
Income tax based on currently enacted tax rate	**52,703**	**34,024**
Difference due to the application of tax rates of other tax jurisdictions	(304)	(701)
Withholding tax unrealised	503	418
Tax effect of revenues adjusting profit (loss) before taxes (permanent difference)	(21,272)	(30,081)
Tax effect of costs adjusting profit (loss) before taxes (permanent difference)	(88,417)	27,262
Current income tax adjustment of previous years	3,164	8,075
Deferred tax asset from tax losses from previous years	(18,221)	12,417
Tax losses from statement periods from which deferred tax asset was not included	1,833	1,778
Tax effect of restructuring	-	(8,515)
Other	1,388	614
Income tax recognised in income statement	(68,623)	45,291
EFFECTIVE TAX RATE	**(24.7%)**	**25.29%**

Deferred income tax

Deferred income tax is attributable to the following items:

PLN '000

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITY	31.12.2015			31.12.2014		
	Total asset	Total liability	Net value	Total asset	Total liability	Net value
Property, plant and equipment	1,772	121,325	(119,553)	2,827	111,183	(108,356)
Intangible assets	36,611	4,975	31,636	41,670	3,717	37,953
Right of perpetual usufruct of land	-	5,218	(5,218)	-	5,289	(5,289)
Investment properties	2,365	1,602	763	1,162	1,532	(370)
Financial assets	32,655	3,514	29,141	33,335	2,827	30,508
Inventories	1,558	538	1,020	2,799	-	2,799
Trade and other receivables	1,406	30,634	(29,228)	2,563	30,080	(27,517)
Provisions for employee benefits	2,169	11	2,158	1,705	1,083	622
Other provisions	18,581	1	18,580	16,276	-	16,276
Tax losses carried forward	179,307	-	179,307	60,640	-	60,640
Foreign exchange differences	2,522	728	1,794	5,928	(5,796)	11,724
Liabilities	34,023	877	33,146	22,190	13	22,177
Other	131	4,594	(4,463)	1,168	4,716	(3,548)
Deferred tax assets/liability	**313,100**	**174,017**	**139,083**	**192,263**	**154,644**	**37,619**
Set-off of deferred tax assets/ liability	(89,383)	(89,383)	9,968	(56,163)	(56,163)	-
Unrecognised deferred tax assets	9,968	-	9,968	7,818	-	7,818
Deferred tax assets/liability recognised in the statement of financial position	**213,749**	**84,634**	**139,083**	**128,282**	**98,481**	**29,801**

PLN '000

CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	As at 01.01.2015	Change in temporary differences recognised in the income statement	Change in temporary differences recognised in equity	Foreign exchange differences	As at 31.12.2015
Property, plant and equipment	(498,253)	(60,735)	-	213	(558,775)
Intangible assets	174,476	(31,865)	-	(53)	142,558
Right of perpetual usufruct of land	(27,831)	371	-	-	(27,460)
Investment properties	7,596	5,962	-	-	13,558
Financial assets	162,585	(81,150)	(3,284)	0	78,151
Inventories	14,812	(9,373)	-	-	5,439
Trade and other receivables	(100,124)	(4,153)	-	(156)	(104,434)
Provisions for employee benefits	5,149	6,175	(676)	92	10,740
Other provisions	63,244	1,816	-	163	65,223
Tax losses carried forward	319,173	629,576	-	-	948,748
Exchange differences	66,180	(39,181)	(11,200)	-	15,799
Liabilities	105,032	18,814	(902)	602	123,546
Other	(18,677)	(5,302)	-	-	(23,979)
Total	**273,361**	**430,955**	**(16,062)**	**861**	**689,115**

PLN '000

CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	As at 01.01.2014	Change in temporary differences recognised in the income statement	Change in temporary differences recognised in equity	Exchange differences	As at 31.12.2014
Property, plant and equipment	(255,610)	(238,286)	-	(4,356)	(498,253)
Intangible assets	195,865	(21,932)	-	543	174,476
Right of perpetual usufruct of land	(18,844)	(8,987)	-	-	(27,831)
Investment properties	(52,941)	60,537	-	-	7,596
Financial assets	156,099	(674)	7,163	(4)	162,585
Inventories	15,138	(326)	-	-	14,812
Trade and other receivables	(87,754)	(9,840)	-	(2,530)	(100,124)
Provisions for employee benefits	17,286	(12,442)	362	(58)	5,149
Other provisions	68,411	(6,049)	-	882	63,244
Tax losses carried forward	321,945	(3,755)	-	983	319,173
Exchange differences	42,527	(772)	24,425	-	66,180
Liabilities	46,262	58,452	-	318	105,032
Other	(58)	(18,619)	-	-	(18,677)
Total	**448,326**	**(202,693)**	**31,950**	**(4,222)**	**273,361**

The main factor, which had an impact on tax loss for 2015 was loss recognised in CIECH Cerium Sp. z o.o. SK, while several companies from CIECH Group were partners of CIECH Cerium Sp. z o.o. SK. Pursuant to the CIECH Cerium Sp. z o.o. SK Agreement, partners participate in profits and losses in the proportion corresponding to the percentage of contributions paid. The second factor was loss on sale of rights and obligations in CIECH Cerium by CIECH S.A..

Dividend payment to the shareholders of the CIECH Group has no effect on deferred tax.

The CIECH Group companies who recognised deferred tax assets in respect of tax loss carried forward, on the basis of their tax budgets, predict that sufficient taxable profits will be realised within 5 years against which the Group can fully utilise the benefits therefrom.

18. Earnings per share

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

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

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

PLN '000	**01.01-31.12.2015**	**01.01-31.12.2014**
Net profit (loss) from continuing operations attributable to the shareholders of the parent	342,987	134,545
Net profit (loss) from discontinued operations attributable to the shareholders of the parent	-	32,571

Pcs.	**31.12.2015**	**31.12.2014**
Weighted average number of issued ordinary shares used in calculation of basic earnings per share	52,699,909	52,699,909
Weighted average number of issued ordinary shares used in calculation of diluted earnings per share	52,699,909	52,699,909

in PLN	**01.01-31.12.2015**	**01.01-31.12.2014**
Basic earnings per share (continuing operations)	6.51	2.55
Basic earnings per share (discontinued operations)	-	0.62
Diluted earning s per share (continuing operations)	6.51	2.55
Diluted earning s per share (discontinued operations)	-	0.62

19. Property, plant and equipment

MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT 01.01.-31.12.2015 *PLN '000*	Land	Buildings, premises and civil and water engineering structures	Machinery and equipment	Means of transport	Other tangible fixed assets	Tangible fixed assets under construction	**TOTAL fixed assets**
Gross value of property, plant and equipment at the beginning of the period	**81,724**	**820,081**	**2,151,628**	**95,334**	**38,918**	**247,458**	**3,435,143**
Purchase	-	5,878	5,490	2,074	1,127	14,569	29,138
Investment outlays	-	-	-	-	-	435,474	435,474
Modernisation	-	4,017	36,040	1,655	56	-	41,768
Reclassification from investments	-	78,753	182,775	174	4,372	-	266,074
Released components	-	2,314	3,079	-	-	-	5,393
Accepted under a finance lease agreement	-	-	-	11,369	-	11,369	22,738
Capitalised borrowing costs	-	-	-	-	-	24,294	24,294
Commissioning	-	-	-	-	-	(339,173)	(339,173)
Exchange differences	(157)	(503)	(1,212)	(82)	(3)	(256)	(2,213)
Sales	-	(578)	(4,945)	(8,151)	(1,127)	(260)	(15,061)
Liquidation	-	(1,158)	(12,421)	(159)	(179)	(1,249)	(15,166)
Change in the Group's structure	-	-	(92)	(206)	(416)	-	(714)
Other increases/decreases	-	(64)	(5,584)	(1)	-	(142)	(5,791)
Gross value of property, plant and equipment at the end of the period	**81,567**	**908,740**	**2,354,758**	**102,007**	**42,748**	**392,084**	**3,881,904**
Accumulated depreciation at the beginning of the period	**7,309**	**333,119**	**965,863**	**55,547**	**30,305**	**-**	**1,392,143**
Depreciation for the period (due to)	**1,580**	**63,407**	**108,423**	**2,304**	**3,021**	**-**	**178,735**
Annual depreciation charge	1,553	64,452	130,135	6,886	4,370	-	207,396
Reclassifications	-	(58)	(5,245)	-	-	-	(5,303)
Transferred from/to assets classified as held for sale	-	-	9	-	-	-	9
Exchange differences	27	367	(397)	(48)	7	-	(44)
Sales	-	(130)	(3,698)	(4,171)	(789)	-	(8,788)
Liquidation	-	(1,224)	(12,289)	(157)	(151)	-	(13,821)
Change in the Group's structure	-	-	(92)	(206)	(416)	-	(714)
Accumulated depreciation at the end of the period	**8,889**	**396,526**	**1,074,286**	**57,851**	**33,326**	**-**	**1,570,878**
Impairment losses at the beginning of the period	**-**	**-**	**165**	**-**	**-**	**6,097**	**6,262**
Recognition	-	945	343	13	11	116	**1,428**
Reversal	-	-	-	-	-	(142)	(142)
Liquidation	-	-	-	-	-	(1,527)	(1,527)
Impairment losses at the end of the period	**-**	**945**	**508**	**13**	**11**	**4,544**	**6,021**
Carrying amount of property, plant and equipment at the beginning of period	**74,415**	**486,962**	**1,185,600**	**39,787**	**8,613**	**241,361**	**2,036,738**
Carrying amount of property, plant and equipment at the end of the period	**72,678**	**511,269**	**1,279,964**	**44,143**	**9,411**	**387,540**	**2,305,005**

MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT 01.01.-31.12.2014 PLN '000	Land	Buildings, premises and civil and water engineering structures	Machinery and equipment	Means of transport	Other tangible fixed assets	Tangible fixed assets under construction	**TOTAL fixed assets**
Gross value of property, plant and equipment at the beginning of the period	**82,717**	**945,609**	**2,135,232**	**94,903**	**44,904**	**171,075**	**3,474,440**
Purchase	-	9,778	25,211	20,244	472	359,171	414,876
Reclassifications	(2,890)	35,312	101,945	2,071	2,788	(205,834)	(66,608)
Capitalised borrowing costs	-	-	-	-	-	8,101	8,101
Exchange differences	2,159	5,788	21,918	360	328	928	31,481
Sales	(262)	(3,468)	(4,266)	(795)	(2,042)	(101)	(10,934)
Liquidation	-	(1,281)	(11,142)	(12)	(237)	-	(12,672)
Change in the Group's structure	-	(144,129)	(94,864)	(3,531)	(4,540)	(85,881)	(332,945)
Transferred from/to assets classified as held for sale	-	-	(6,596)	-	-	-	(6,596)
Other increases/decreases	-	(27,528)	(15,810)	(17,906)	(2,755)	(1)	(64,000)
Gross value of property, plant and equipment at the end of the period	**81,724**	**820,081**	**2,151,628**	**95,334**	**38,918**	**247,458**	**3,435,143**
Accumulated depreciation at the beginning of the period	**7,112**	**356,461**	**908,039**	**68,236**	**34,740**	**-**	**1,374,588**
Depreciation for the period (due to)	**197**	**(23,342)**	**57,824**	**(12,689)**	**(4,435)**	**-**	**17,555**
Annual depreciation charge	-	57,873	120,140	6,307	3,048	-	187,368
Exchange differences	197	1,542	8,258	243	267	-	10,507
Sales	-	(982)	(1,508)	(718)	(1,104)	-	(4,312)
Liquidation	-	(685)	(10,362)	(12)	(317)	-	(11,376)
Change in the Group's structure	-	(53,513)	(37,447)	(1,496)	(3,047)	-	(95,503)
Other increases/decreases	-	(27,577)	(21,257)	(17,013)	(3,282)	-	(69,129)
Accumulated depreciation at the end of the period	**7,309**	**333,119**	**965,863**	**55,547**	**30,305**	**-**	**1,392,143**
Impairment losses at the beginning of the period	**5,981**	**96,134**	**52,814**	**1,163**	**110**	**80,638**	**236,840**
Recognition	-	-	-	-	-	115	115
Reversal	(6,096)	(27,202)	(1,388)	(345)	(16)	(165)	(35,212)
Exchange differences	115	513	26	7	-	-	661
Sales	-	-	-	(5)	-	-	(5)
Liquidation	-	(538)	(321)	-	-	-	(859)
Change in the Group's structure	-	(68,907)	(50,966)	(820)	(94)	(74,491)	(195,278)
Impairment losses at the end of the period	**-**	**-**	**165**	**-**	**-**	**6,097**	**6,262**
Carrying amount of property, plant and equipment at the beginning of period	**69,624**	**493,014**	**1,174,379**	**25,504**	**10,054**	**90,437**	**1,863,012**
Carrying amount of property, plant and equipment at the end of the period	**74,415**	**486,962**	**1,185,600**	**39,787**	**8,613**	**241,361**	**2,036,738**

In 2015, the capitalisation rate applied to determine the amount of borrowing costs to be capitalised was approx. 14%, whereas in 2014 it amounted to approx. 19%.

In 2015, there were no significant impairment allowances of property, plant and equipment. Description of significant impairment allowances of property, plant and equipment in 2014 is provided in section II.16.1.

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

PLN '000

PROPERTY, PLANT AND EQUIPMENT DEPRECIATION CHARGES	01.01-31.12.2015	01.01-31.12.2014
Cost of sales	198,318	180,554
General and administrative expenses	6,564	6,494
Other operating expenses	2,514	320
TOTAL	**207,396**	**187,368**

PLN '000

RECOGNISED NON-CURRENT ASSETS (OWNERSHIP STRUCTURE)	31.12.2015	31.12.2014
Own	2,271,868	2,004,849
Finance lease	33,137	31,889
TOTAL	**2,305,005**	**2,036,738**

The carrying amounts of individual groups of property, plant and equipment used under finance lease agreements are presented in the table below:

PLN '000

PROPERTY, PLANT AND EQUIPMENT USED UNDER FINANCE LEASE AGREEMENTS (including finance sale-lease-back agreements)	31.12.2015	31.12.2014
Machinery and equipment	2,945	11,295
Means of transport	30,192	20,594
TOTAL	**33,137**	**31,889**

In the reporting period the CIECH Group received compensation from third parties for impaired tangible fixed assets in the amount of PLN 458 thousand (PLN 2,825 thousand in the comparable period).

As at 31 December 2015, all tangible assets in Polish companies (CIECH S.A., JANIKOSODA S.A., CIECH Nieruchomości S.A., CIECH Soda Polska S.A., CIECH Transclean S.A., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Trading S.A., CIECH Pianki Sp. z o.o., CIECH Cerium Sp. z o.o. SK, Cerium Sp. z o.o. SKA) and German companies (SDC GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltungs-GmbH, CIECH Soda Deutschland GmbH & Co. KG, KWG- Kraftwerksgesellschaft Stassfurt mbH), who are guarantors of domestic bonds and the term loan, constitute a collateral for financial liabilities.

Future commitments arising from agreements concerning acquisition of property, plant and equipment amounted to PLN 139,877 thousand in 2015 (in the comparable period: PLN 70,276 thousand).

PLN '000

OFF-BALANCE SHEET PROPERTY, PLANT AND EQUIPMENT	31.12.2015	31.12.2014
Used under lease, tenancy and other agreements, including:	**116,804**	**94,237**
Land in perpetual usufruct	51,858	52,606
Operating lease agreement	5,182	4,773
Tenancy agreement	59,764	36,858

20. Right of perpetual usufruct of land

The carrying amount of the right of perpetual usufruct purchased by the CIECH Group is presented in the table below.

PLN '000

RIGHT OF PERPETUAL USUFRUCT OF LAND	01.01-31.12.2015	01.01-31.12.2014
Gross value at the beginning of the period	**38,819**	**64,395**
Purchase	202	49
Sales	-	(378)
Change in the Group's structure	-	(25,586)
Other	-	339
Gross value at the end of the period	**39,021**	**38,819**
Amortisation at the beginning of the period	**6,462**	7,952
Amortisation for the period	1,150	421
Sales	-	(33)
Change in the Group's structure	-	(2,218)
Other	-	340
Amortisation at the end of the period	**7,612**	**6,462**
Impairment losses at the beginning of the period	-	-
Impairment losses at the end of the period	-	-
Net value as at the beginning of the period	**32,357**	**56,443**
Net value as at the end of the period	**31,409**	**32,357**

The right of perpetual usufruct of land received through administrative allocation satisfies the criteria for operating lease pursuant to IAS 17 "Leases" and as such is not recognised in the books but is disclosed in off-balance sheet records.

21. Intangible assets

CHANGES IN INTANGIBLE ASSETS (GROUPED BY TYPE) 01.01.-31.12.2015 *PLN '000*	Development costs	Goodwill	Licences, patents, permits etc. obtained, including:	*Computer software*	Intangible assets under development	Other intangible assets	**TOTAL**
Gross value of intangible assets at the beginning of the period	**15,111**	**379,142**	**99,797**	***50,104***	**8,591**	**108,554**	**611,195**
Purchase	-	-	681	676	48,225	39,892	88,798
Reclassifications	135	-	195	93	(41,067)	170	(40,567)
Exchange differences	-	(15,978)	(13)	(6)	-	(18)	(16,009)
Sales	-	-	-	-	-	(355)	(355)
Liquidation	-	-	(414)	(414)	(71)	(1)	(486)
Cancellation of CO_2 emission rights	-	-	-	-	-	(14,360)	(14,360)
Other increases/decreases	-	-	1	101	9	2	12
Gross value of intangible assets at the end of the period	**15,246**	**363,164**	**100,247**	***50,554***	**15,687**	**133,884**	**628,228**
Accumulated amortisation at the beginning of the period	11,596	-	84,790	*45,366*	-	38,082	**134,468**
Amortisation for the period (due to)	**1,166**	**-**	**4,873**	***1,545***	**-**	**2,612**	**8,651**
Annual amortisation charge	1,166	-	5,343	1,859	-	2,667	9,176
Exchange differences	-	-	(5)	(1)	-	32	27
Sales	-	-	-	-	-	(89)	(89)
Liquidation	-	-	(410)	(410)	-	-	(410)
Other increases/decreases	-	-	(55)	97	-	2	(53)
Accumulated amortisation at the end of the period	**12,762**	**-**	**89,663**	***46,911***	**-**	**40,694**	**143,119**
Impairment losses at the beginning of the period	**-**	**316,755**	**2,454**	***112***	**-**	**41,002**	**360,211**
Exchange differences	-	(15,969)	-	-	-	(8)	(15,977)
Impairment losses at the end of the period	**-**	**300,786**	**2,454**	**112**	**-**	**40,994**	**344,234**
Net value of intangible assets at the beginning of the period	**3,515**	**62,387**	**12,553**	***4,626***	**8,591**	**29,470**	**116,516**
Net value of intangible assets at the end of the period	**2,484**	**62,378**	**8,130**	***3,531***	**15,687**	**52,196**	**140,875**

CHANGES IN INTANGIBLE ASSETS (GROUPED BY TYPE) **01.01.-31.12.2014** *PLN '000*	Development costs	Goodwill	Licences, patents, permits etc. obtained, including:	*Computer software*	Intangible assets under development	Other intangible assets	**TOTAL**
Gross value of intangible assets at the beginning of the period	**17,533**	**386,589**	**97,664**	***47,564***	**7,540**	**109,619**	**618,945**
Purchase	-	-	4,117	1,722	21,557	12,118	37,792
Reclassifications	405	-	979	956	(16,754)	356	(15,014)
Exchange differences	-	(7,441)	74	57	-	2,404	(4,963)
Liquidation	-	-	(2,941)	(99)	-	-	(2,941)
Cancellation of CO_2 emission rights	-	-	-	-	-	(14,285)	(14,285)
Change in the Group's structure	(2,827)	152	(163)	(163)	-	(1,656)	(4,494)
Other increases/decreases	-	(158)	67	67	(3,752)	(2)	(3,845)
Gross value of intangible assets at the end of the period	**15,111**	**379,142**	**99,797**	***50,104***	**8,591**	**108,554**	**611,195**
Accumulated amortisation at the beginning of the period	**12,049**	**-**	**78,218**	***41,332***	**-**	**32,662**	**122,929**
Amortisation for the period (due to)	**(453)**	**-**	**6,572**	***4,034***	**-**	**5,420**	**11,539**
Annual amortisation charge	1,228	-	9,374	*4,096*	-	4,912	15,514
Exchange differences	-	-	47	*38*	-	908	955
Liquidation	-	-	(2,848)	*(99)*	-	-	(2,848)
Sales	-	-	-	-	-	-	(116)
Change in the Group's structure	(1,681)	-	(67)	(67)	-	(400)	-
Other increases/decreases	-	-	66	66	-	-	66
Accumulated amortisation at the end of the period	**11,596**	**-**	**84,790**	***45,366***	**-**	**38,082**	**134,468**
Impairment losses at the beginning of the period	**1,146**	**325,479**	**161**	***161***	**3,628**	**31,412**	**361,826**
Recognition	-	-	2,347	-	-	9,836	12,183
Reversal	-	-	(5)	-	-	-	(5)
Exchange differences	-	(8,718)	-	-	-	1,008	(7,710)
Other increases/decreases	(1,146)	(6)	(49)	(49)	(3,628)	(1,254)	(6,083)
Impairment losses at the end of the period	**-**	**316,755**	**2,454**	**112**	**-**	**41,002**	**360,211**
Net value of intangible assets at the beginning of the period	**4,338**	**61,110**	**19,285**	***6,071***	**3,912**	**45,545**	**134,190**
Net value of intangible assets at the end of the period	**3,515**	**62,387**	**12,553**	***4,626***	**8,591**	**29,470**	**116,516**

An important component of "Other" intangible assets of the SDC Group is the client database in the amount of PLN 10,880 thousand (recognised upon acquisition of the company). The valuation was executed in relation to the most significant clients of the production of CIECH Soda Deutschland S.A., a member of the SDC Group – identified on the basis of an analysis of data for 2005–2007. The basis for the valuation represents 25 customers who have a stable and long-term relationship with the company and will remain clients of CIECH Soda Deutschland S.A. also in the future. These are the relationships with the clients who are, to a large extent, dependent on CIECH Soda Deutschland S.A. as their main or secondary supplier of raw materials. The most significant clients of CIECH Soda Deutschland S.A. would not be able to satisfy their demand for soda in the open market because of insufficient supply.

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

Amortisation of intangible assets was included in the following line items of the consolidated income statement:

PLN '000

AMORTISATION CHARGES ON INTANGIBLE ASSETS	01.01-31.12.2015	01.01-31.12.2014
Cost of sales	5,639	6,171
Selling costs	2,134	2,185
General and administrative expenses	1,403	7,158
TOTAL	**9,176**	**15,514**

As at 31 December 2015, all intangible assets in Polish companies (CIECH S.A., JANIKOSODA S.A., CIECH Nieruchomości S.A., CIECH Soda Polska S.A., CIECH Transclean S.A., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Trading S.A., CIECH Pianki Sp. z o.o., CIECH Cerium Sp. z o.o. SK, Cerium Sp. z o.o. SKA) and German companies (SDC GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltungs-GmbH, CIECH Soda Deutschland GmbH & Co. KG, KWG- Kraftwerksgesellschaft Stassfurt mbH), who are guarantors of domestic bonds and the term loan, constitute a collateral for financial liabilities.

PLN '000

INTANGIBLE ASSETS (OWNERSHIP STRUCTURE)	31.12.2015	31.12.2014
Own	**140,875**	**116,494**
Used under lease, tenancy and other agreements, including:	**-**	**22**
Finance lease	-	22
TOTAL	**140,875**	**116,516**

As at 31 December 2015, no future commitments arising from concluded agreements concerning the acquisition of intangible assets were recognised (there were no such commitments in the comparable period).

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.

Apart from goodwill, the CIECH Group does not have other intangible assets with an indefinite useful life. Additional information about the goodwill is presented in section II.22.

Development

Development works carried out by the CIECH Group are aimed at increasing economic potential; and are related mainly to the modernisation of technological processes, reduction of manufacturing costs and optimisation of technical and technological parameters.

Internally generated intangible assets

The tables below present information about internally generated intangible assets.

Internally generated intangible assets	01.01-31.12.2015	01.01-31.12.2014
Gross value as at the beginning of the period	17,514	16,171
Expenditure incurred	6,268	1,343
Gross value at the end of the period	**23,782**	**17,514**
Accumulated amortisation – as at the beginning of the period	10,252	9,282

Internally generated intangible assets	01.01-31.12.2015	01.01-31.12.2014
Amortisation for the period	907	970
Accumulated amortisation at the end of the period	**11,159**	**10,252**
Net value at the end of the period	**12,623**	**7,262**

22. Goodwill impairment testing

In preparing the consolidated financial statements of the CIECH Group, the goodwill recognised in the consolidated financial statements in relation to a subsidiary CIECH Sarzyna S.A. and German SDC Group was tested for impairment. The recoverable amount was calculated based on the value in use. The value in use was calculated on the basis of the Group's five-year plans. In 2015, no impairment of goodwill of the SDC Group or CIECH Sarzyna S.A. was identified. The average weighted cost of capital applied in goodwill impairment testing was: 9.0% (test for 2015) for CIECH Sarzyna S.A., and 6.8% (tests for 2015) for the SDC Group. The assumed growth rate for the residual period was 2.0% for both the SDC Group and CIECH Sarzyna S.A. According to Management Board's estimates, change of average weighted capital costs by +/- 1 p.p. wouldn't affect results of the test for both companies.

Goodwill is the most valuable component of intangible fixed assets and is presented at the level of the CIECH Group and on the lower tier group level – the SDC Group. Goodwill presented in consolidated financial statements was recognised as a result of PPA evaluation in the process of companies acquisition in 2006 and 2007. Goodwill presented in the consolidated financial statements for 2015 amounted to PLN 62,378 thousand (soda segment PLN 47,269 thousand, silicates and glass segment – PLN 39 thousand and organic segment – PLN 15,070 thousand) and changed by PLN 9 thousand as compared to 2014. It is a result of an increase in goodwill recognised in the statements of the lower tier group, the SDC Group, which resulted from a change in the EUR exchange rate in 2015.

23. Investment properties

PLN '000

INVESTMENT PROPERTIES	01.01-31.12.2015	01.01-31.12.2014
Carrying amount at the beginning of period	**42,567**	**91,497**
Purchase	706	7,676
Sales	(2,618)	(721)
Change in the Group's structure	-	(53,010)
Goodwill valuation	(6,347)	(6,454)
Reclassifications	-	3,818
Transferred from/to assets classified as held for sale	-	(239)
Gross value at the end of the period	**34,308**	**42,567**

The item "Investment property" presented by the CIECH Group includes land, buildings and structures that have been acquired only in order to achieve economic benefits from rents or for the increase of their value. The fair value of an investment property is determined with comparative and income method by an independent appraiser.

As at 31 December 2015, the CIECH Group had the following investment property:

- **CIECH Nieruchomości S.A.** – As at 31 December 2015, the investment property line item for CIECH Nieruchomości S.A. included land and investment expenditure related to the construction of a residential and office complex located in Warsaw in Krasińskiego Street, on the corner of Powązkowska Street. The company is also the owner of real property located in Bydgoszcz. The real property was acquired from Infrastruktura Kapuściska S.A w upadłości likwidacyjnej.
- **CIECH Soda Polska S.A.** – Buildings acquired by CIECH Soda Polska S.A. as a result of a merger with Soda Med. These are buildings leased for medical outpatient, clinics, nursing and treatment rooms as well as private doctor's and dentist's consulting rooms.
- **CIECH Sarzyna S.A.** – buildings and structures located on the premises of CIECH Sarzyna S.A. In the past, they were used by the company for its own needs, currently they are leased to generate rental income.
- **CIECH Trading Sp. z o.o.** – the company recognises land located in Bydgoszcz as investment property (acquired from Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej).

PLN '000	01.01.-31.12.2015	01.01.-31.12.2014
Income from investment property rental	1,871	1,978
Operating costs related to investment property generating rental income in the given period	814	2,131
Operating costs related to investment property not generating rental income in the given period	-	831

As at 31 December 2015, some of the investment property of CIECH Nieruchomości S.A. and all investment property of CIECH Soda Polska S.A. and CIECH Sarzyna S.A., who are guarantors of domestic bonds and term loan, constitute a collateral for financial liabilities.

24. Non-current receivables

PLN '000

NON-CURRENT RECEIVABLES	31.12.2015	31.12.2014
Receivables in relation to caverns	89,453	78,264
Other	159	-
Net non-current receivables	**89,612**	**78,264**
Impairment write-downs against receivables	-	-
Gross non-current receivables	**89,612**	**78,264**

25. Other long-term investments

PLN '000

LONG-TERM FINANCIAL ASSETS	31.12.2015	31.12.2014
Stocks and shares	11,271	12,282
Loans granted*	-	34,000
Bank deposits	34	34
Hedging instruments valuation	29,078	-
Other	88	88
TOTAL	**40,471**	**46,404**

**loan granted to Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej, in 2015 position was reclassified as short-term investment*

PLN '000

IMPAIRMENT LOSSES ON NON-CURRENT INVESTMENTS AND INVESTMENTS IN EQUITY ACCOUNTED ASSOCIATES	01.01-31.12.2015	01.01-31.12.2014
Opening balance	**23,131**	**3,620**
Used	-	-
Recognised*	1,011	19,500
Reclassification from/to current assets	(19,500)	-
Other	(3,299)	11
Closing balance	**1,343**	**23,131**

**impairment loss on loan granted to Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej, in 2015 position was reclassified as short-term investment*

26. Inventories

PLN '000

INVENTORIES	31.12.2015	31.12.2014
Materials	144,097	126,894
Semi-finished products and work in progress	26,465	27,137
Finished products	95,314	76,783
Goods	27,755	26,956
TOTAL	**293,631**	**257,770**

PLN '000

CHANGE IN INVENTORY IMPAIRMENT ALLOWANCES	01.01-31.12.2015	01.01-31.12.2014
Opening balance	**44,393**	**41,823**
Recognised	4,840	10,003
Reversed / released	(5,939)	(5,779)
Used	(5,003)	(3,623)
Exchange differences	(76)	153
Change in the Group's structure	-	(1,137)
Other increases/decreases	-	2,953
Closing balance	**38,215**	**44,393**

The CIECH Group 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.

As at 31 December 2015, all inventory in Polish companies (CIECH S.A., JANIKOSODA S.A., CIECH Nieruchomości S.A., CIECH Soda Polska S.A., CIECH Transclean S.A., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Trading S.A., CIECH Pianki Sp. z o.o., CIECH Cerium Sp. z o.o. SK, Cerium Sp. z o.o. SKA) and German companies (SDC GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltungs-GmbH, CIECH Soda Deutschland GmbH & Co. KG, KWG- Kraftwerksgesellschaft Stassfurt mbH), who are guarantors of domestic bonds and the term loan, constitute a collateral for financial liabilities.

27. Short-term receivables

PLN '000

TRADE AND OTHER RECEIVABLES	31.12.2015	31.12.2014
Trade receivables and inventory advances	284,707	268,020
- up to 12 months	284,351	264,709
- over 12 months	-	3,193
- prepayments for inventory	356	118
Prepayments for non-current assets	40,946	7,494
Escrow receivables	384	384
Receivables in relation to caverns	1,969	1,969
Public and legal receivables (excluding income tax)	88,074	64,574
Receivables from sales of energy	7,581	13,243
Receivables from sales of property, plant and equipment	-	1,845
Insurance receivables	444	3,051
Costs of purchase	3,488	68
External services	2,705	1,933
Factoring receivables	26,967	13,440
Other receivables	12,387	7,941
Total net trade and other receivables	**469,652**	**383,962**
Impairment allowances with respect to trade receivables, including:	27,382	35,977
- impairment allowance recognised in the current reporting period	*1,147*	*14,794*
Impairment allowances with respect to other current receivables, including:	17,444	15,642
- impairment allowance recognised in the current reporting period	*1,056*	*7,472*
Total gross trade and other receivables	**514,478**	**435,581**

Fair value of trade receivables and other receivables does not differ significantly from their carrying value.

PLN '000

CHANGE IN IMPAIRMENT ALLOWANCES ON SHORT-TERM RECEIVABLES	01.01-31.12.2015	01.01-31.12.2014
Opening balance	**51,619**	42,917
Recognised	2,203	22,266
Reversed	(4,073)	(2,670)
Used	(6,666)	(1,920)

CHANGE IN IMPAIRMENT ALLOWANCES ON SHORT-TERM RECEIVABLES	01.01-31.12.2015	01.01-31.12.2014
Exchange differences	1,688	502
Change in the Group's structure	-	(9,412)
Other increases/decreases	55	(64)
Closing balance	**44,826**	**51,619**

Impairment allowance with respect to current receivables were recognised for those that are subject to compromise arrangements or in dispute, penalty interest, receivables, past due and doubtful receivables and for receivables from companies in bankruptcy. Reversal occurred as a result of settlement of the receivable while usage occurs when receivables are written-off due to ineffective enforcement and bankruptcy of companies on whose receivables an impairment was recognised.

PLN '000

AGEING OF PAST DUE TRADE RECEIVABLES	31.12.2015	31.12.2014
Up to 1 month	32,557	21,339
Between 1 and 3 months	8,460	2,059
3 to 6 months	5,264	1,298
6 months to 1 year	2,720	4,164
Above 1 year	21,036	30,223
Total (gross) past due trade receivables	**70,037**	**59,083**
Impairment allowances on past due trade receivables	23,296	32,929
Total (net) past due trade receivables	**46,741**	**26,154**

Terms of transactions with related entities have been presented in section II.43.

Commercial contracts concluded by the CIECH Group include various terms of payment of trade receivables depending on the type of transaction, market characteristics and trade conditions. The most common payment terms are: 14, 30, 60 and 90 days.

As at 31 December 2015, all (long- and short-term) receivables in Polish companies (CIECH S.A., JANIKOSODA S.A., CIECH Nieruchomości S.A., CIECH Soda Polska S.A., CIECH Transclean S.A., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Trading S.A., CIECH Pianki Sp. z o.o., CIECH Cerium Sp. z o.o. SK, Cerium Sp. z o.o. SKA) and German companies (SDC GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltungs-GmbH, CIECH Soda Deutschland GmbH & Co. KG, KWG- Kraftwerksgesellschaft Stassfurt mbH), who are guarantors of domestic bonds and the term loan, constitute a collateral for financial liabilities.

28. Short-term investments

PLN '000

SHORT-TERM INVESTMENTS	31.12.2015	31.12.2014
Hedging instruments valuation	16,781	-
Loans granted*	34,000	-
Total net short-term financial assets	**50,781**	**-**
Impairment of short-term financial assets	24,601	6,807
Total gross short-term financial assets	**75,382**	**6,807**

**loan granted to Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej, in 2015 position was reclassified as long-term investment. Book value of the loan responds to the value of mortgage collateral held by enity.*

PLN '000

CHANGE IN IMPAIRMENT ALLOWANCES ON SHORT-TERM INVESTMENTS	01.01-31.12.2015	01.01-31.12.2014
Opening balance	**6,807**	**1,705**
Used	(1,705)	-
Reclassification from (to) short-term investments*	19,500	-
Closing balance	**24,601**	**6,807**

** impairment loss on loan granted to Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej, in 2015 position was reclassified as long-term investment.*

In 2014, impairment allowance on short-term investments of PLN 5,102 thousand was recognised on the loan granted to Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej.

29. Cash and cash equivalents

PLN '000

CASH AND CASH EQUIVALENTS	31.12.2015	31.12.2014
Bank accounts	94,927	40,573
Short-term deposits	107,417	8,319
Cash in hand	336	102
Other cash	255	168
Cash and cash equivalents recognised in the balance sheet	**202,935**	**49,162**
Cash and cash equivalents recognised in the cash flow statement	**202,935**	**49,162**

The value of restricted cash

As at 31 December 2015, all cash and cash equivalents in Polish companies (CIECH S.A., JANIKOSODA S.A., CIECH Nieruchomości S.A., CIECH Soda Polska S.A., CIECH Transclean S.A., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Trading S.A., CIECH Pianki Sp. z o.o., CIECH Cerium Sp. z o.o. SK, Cerium Sp. z o.o. SKA) and German companies (SDC GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltungs-GmbH, CIECH Soda Deutschland GmbH & Co. KG, KWG- Kraftwerksgesellschaft Stassfurt mbH), Romanian company CIECH Soda Romania S.A. and Swedish company Ciech Group Financing AB, who are guarantors of domestic bonds and the term loan, constitute a collateral for financial liabilities.

As at 31 December 2015 and as at 31 December 2014, there was no restricted cash and cash equivalents in the CIECH Group.

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.

30. Equity

As at 31 December 2015, the carrying amount of the share capital of the parent company CIECH S.A. amounted to PLN 287,614 thousand and comprised the share capital from the share issues and from the hyperinflation adjustment. 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 profits.

The total number of votes carried by all issued shares of CIECH S.A., after registration of the share capital increase, is 52,699,909 and the share capital is divided into 52,699,909 ordinary bearer shares with a nominal value of PLN 5 each. All shares were fully paid up.

As at 31 December 2015 and 31 December 2014, the share capital included the following series of shares:

SHARE CAPITAL	31.12.2015	31.12.2014
	in pcs.	*in pcs.*
Ordinary bearer A series shares with a nominal value of PLN 5 each	20,816	20,816
Ordinary bearer B series shares with a nominal value of PLN 5 each	19,775,200	19,775,200
Ordinary bearer C series shares with a nominal value of PLN 5 each	8,203,984	8,203,984
Ordinary bearer D series shares with a nominal value of PLN 5 each	23,000,000	23,000,000
Ordinary bearer E series shares with a nominal value of PLN 5 each	1,699,909	1,699,909
TOTAL	**52,699,909**	**52,699,909**

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.

ORDINARY SHARES – ISSUED AND FULLY PAID-UP	pcs.	PLN '000.
As at 31 December 2015	52,699,909	287,614
As at 31 December 2014	52,699,909	287,614

To the best knowledge of CIECH S.A., as at the day of approving this report, entities holding significant blocks of shares (at least 5%) included two entities listed below: KI Chemistry s. à r. l. with its registered office in Luxembourg and ING Otwarty Fundusz Emerytalny.

Shareholder	Type of shares	Number of votes at the General Meeting of Shareholders	Share in the total number of votes at General Meeting of Shareholders	Stare in share capital (%)	Number of votes at the General Meeting of Shareholders
KI Chemistry s. à r. l. with its registered office in Luxembourg*	**Ordinary bearer**	**26,952,052**	**26,952,052**	**51.14%**	**51.14%**
ING Otwarty Fundusz Emerytalny**	Ordinary bearer	5,000,000	5,000,000	9.49%	9.49%
Other	Ordinary bearer	20,747,857	20,747,857	39.37%	39.37%

* on the basis of the list of entities holding at least 5% of votes at the Extraordinary Meeting of Shareholders of CIECH S.A. on 7 March 2016, CR 8/2016 prepared and published pursuant to Article 70(3) of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies.

** on the basis of the list of entities holding at least 5% of votes at the Extraordinary Meeting of Shareholders of CIECH S.A. on 7 October 2015, CR 35/2015 prepared and published pursuant to Article 70(3) of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies.

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 capitals

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

PLN '000

OTHER RESERVE CAPITAL BY PURPOSE	31.12.2015	31.12.2014
Commercial risk fund	3,330	3,330
Fund for purchasing soda companies	15,200	15,200
Development fund	57,669	57,669
Other	2,322	2,322
TOTAL	**78,521**	**78,521**

Cash flow hedge

The cash flow hedge reserve reflects the valuation and settlement of hedging instruments to which the hedge accounting applies.

Currency translation differences (foreign companies)

The balance of this equity item is adjusted by exchange differences on the translation of the financial statements of foreign subsidiaries, i.e. CIECH Soda Romania S.A., SDC Group and Ciech Group Financing AB.

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

Non-controlling interest

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

31. Dividends paid or declared

The Management Board of CIECH S.A. is not expecting the dividend payment from profits earned during the period of 2015. The Management Board proposes to transfer the profits generated in 2015 to supplementary capital.

By virtue of a resolution of 30 June 2015, the Ordinary General Meeting of Shareholders of CIECH S.A. decided to allocate the entire net profit for 2014, in the amount of PLN 92,129 thousand, to supplementary capital.

32. Non-current liabilities

PLN '000

NON-CURRENT LIABILITIES	31.12.2015	31.12.2014
Loans, borrowings and other debt instruments	**1,494,775**	**1,176,455**
Loans and borrowings	1,335,349	-
Debt securities issued	159,426	1,176,455
Lease liabilities	**21,884**	**15,825**
Other non-current liabilities	**113,485**	**92,819**
Subsidies	50,945	53,471
PUT options	8,523	8,525
Hedging instruments	41,828	2,512
Other financial liabilities	662	547
Other	11,527	27,764
TOTAL	**1,630,144**	**1,285,099**

PLN '000

REMAINING REPAYMENT TERM FROM REPORTING DATE OF NON-CURRENT LIABILITIES	31.12.2015	31.12.2014
Between 1 and 3 years	389,940	216,850
Between 3 and 5 years	1,195,481	1,028,729
Over 5 years	44,723	39,520
TOTAL	**1,630,144**	**1,285,099**

33. Information about significant financial liabilities

Debt financing of the Group

As at 31 December 2015 Debt financing of the Group in the form of bonds and loans is composed of:

- Domestic bonds issued by CIECH S.A. – as at 31 December 2015 the nominal debt amounted to PLN 160 million,
- Loans are granted to CIECH S.A. pursuant to the loans agreement of 29 October 2015:
  - term loan in the amount of PLN 1,045,031 thousand and EUR 69,673 thousand (the total amount of the loan as at 31 December 2015 was PLN 1,341,942 thousand)
  - revolving credit facility granted to CIECH S.A. in the amount of up to PLN 250,000,000 (the amount of used credit as at 31 December 2015 amounted to PLN 0).
- bank overdrafts granted to CIECH Soda Deutschland GmbH & Co. KG in the amount of EUR 5,000 thousand – as at 31 December 2015 the debt amounted to EUR 4,913 thousand (i.e. PLN 20,937 thousand).

On 30 October 2015, Ciech Group Financing AB informed of its intention to proceed with the early purchase and redemption of secured bonds with a nominal value of EUR 245,000,000 issued on 28 November 2012 with an original maturity date in 2019. The early redemption is to take place on 30 November 2015. In accordance with the provisions of the Indenture agreement (the details are presented in current report no. 61/2012), the total amount required for the purposes of bond redemption on 30 November 2015 is EUR 263,426 thousand. The notification further says that the early purchase and redemption of the bonds will be executed on the condition that the lenders pay out loans under the above-mentioned loan agreement in an amount not lower than the equivalent of the redemption amount (details are provided in the current report no. 40/2015 of 30 October 2015).

A transfer of funds necessary for full buyback and redemption of the HY bonds in the amount of EUR 263,426 thousand, obtained through disbursement under the loans agreement of 29 October 2015, to the HY bonds Payment Agent took place on 27 November 2015. In connection with the transfer of the above-mentioned funds, the liabilities of CIECH S.A., Ciech Group Financing AB and subsidiaries of CIECH

S.A. providing guarantees for the HY bonds, related with the HY bonds, resulting from the agreement stipulating the terms and conditions of issue of the HY bonds and providing guarantees (the Indenture agreement), the conclusion of which was notified by CIECH S.A. in current report No 61/2012 of 29 November 2012, are deemed fully fulfilled. Formal redemption of the HY bonds by the HY bond trustee pursuant to the Indenture Agreement took place on 30 November 2015 (without the need to take any additional actions).

On 30 June 2014, a subsidiary, KWG GmbH, received a termination notice from STW (Stadtwerke Stassfurt GmbH) and EMS (Erdgas Mittelsachsen GmbH) concerning the silent partners' agreement dated 2 December 2011, effective as of 31 December 2014. Due to termination of the agreement, KWG repaid capital contributions amounting to EUR 12 million, together with remuneration due on the basis of the silent partners' agreement on the agreed date, i.e. on 22 January 2015.

Information about the financial ratios 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 Revolving Loan Agreement, CIECH S.A. and its selected subsidiaries were obliged to, among others, maintain a certain level of net leverage ratio as specified in agreements (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 4.0, measured for the period ending on 31 December 2015). The leverage ratio was maintained and amounted to 1.8.

34. Employee benefits

PLN '000

PROVISIONS FOR EMPLOYEE BENEFITS	NON-CURRENT		CURRENT			
	31.12.2015	31.12.2014	31.12.2015		31.12.2014	
	Provision for retirement benefits and service anniversary awards and disability	Provision for retirement benefits and service anniversary awards and disability	Provision for retirement benefits and service anniversary awards and disability	Other non-current provisions for employee benefits	Provision for retirement benefits and service anniversary awards and disability	Other non-current provisions for employee benefits
Opening balance	**12,720**	**18,743**	**886**	**76**	**876**	**740**
Recognition	1,357	1,851	764	685	683	6
Reclassification from / to non-current / current provision	(83)	(497)	83	-	497	-
Change of discount rate	6	715	9	-	-	-
Exchange differences	(6)	131	-	-	-	1
Change in the Group's structure	-	-	-	-	-	(604)
Use (payment of benefits)	(272)	(61)	(782)	(25)	(1,007)	-
Reversal	(892)	(8,164)	(93)	-	(163)	(67)
Other changes	(1)	2	-	-	-	-
Closing balance	**12,829**	**12,720**	**867**	**736**	**886**	**76**

In 2015, a change in provision in the amount of PLN 676 thousand was recognised in equity (PLN -256 thousand in the comparable period).

Provisions for employee benefits include mainly provisions for service anniversary awards and retirement benefits. Employee benefits are measured on the basis of actuarial valuations. A discount rate of 2.5% 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 1.5% per annum was taken into account. The estimated nominal remuneration growth rate of is different for selected companies and years (1.5% on average). The remuneration growth rate of 1.5% was applied for the residual period. Staff turnover ratio is established based on historic data, adjusted for employment restructuring plans. According to the Group estimations, a change in actuarial assumptions will not have a significant impact on financial results.

35. Provisions

PLN '000

CHANGE IN OTHER LONG-TERM PROVISIONS 01.01.-31.12.2015	Provisions for liabilities	Provision for environmental protection	TOTAL
Opening balance	**6,789**	**68,455**	**75,244**
Recognition	-	383	383
Reclassification from / to long term / short-term provision	-	(2,118)	(2,118)
Change of discount rate	-	4,019	4,019
Exchange differences	-	21	21
Reversal	(242)	(2,603)	(2,845)
Closing balance	**6,547**	**68,157**	**74,704**

PLN '000

CHANGE IN OTHER LONG-TERM PROVISIONS 01.01.-31.12.2014	Provision for liabilities	Provision for environmental protection	TOTAL
Opening balance	**-**	**44,785**	**44,785**
Recognition	1,289	28,266	29,555
Reclassification from / to long-term / short-term provision	-	(1,407)	(1,407)
Change of discount rate	-	2,869	2,869
Exchange differences	-	1,168	1,168
Reversal	-	(1,726)	(1,726)
Other	5,500	(5,500)	-
Closing balance	**6,789**	**68,455**	**75,244**

35 Provisions (continued)

PLN '000

CHANGE IN OTHER SHORT-TERM PROVISIONS 01.01.-31.12.2015	Provision for compensation	Provision for liabilities	Provision for environmental protection	Provision for expected losses	Other provisions	**TOTAL**
Opening balance	**5,749**	**33,612**	**2,205**	**19,363**	**439**	**61,368**
Recognition	3,125	17,387	123	11,325	4,139	36,099
Reclassification from / to long-term / short-term provision	-	-	2,118	-	-	2,118
Change of discount rate	202	-	-	-	11	213
Received by contribution						
Transfer to/from assets available for sale						
Exchange differences	-	(199)	-	199	(4)	(4)
Change in the Group's structure						
Use (payment of benefits)	-	(10,945)	(1,461)	-	(6)	(12,412)
Liabilities reclassification						
Reversal	(708)	(2,835)	(749)	-	(2,982)	(7,274)
Other	-	-	-	-	(14)	(14)
Closing balance	**8,368**	**37,020**	**2,236**	**30,887**	**1,583**	**80,094**

PLN '000

CHANGE IN OTHER SHORT-TERM PROVISIONS 01.01.-31.12.2014	Provision for compensation	Provision for liabilities	Provision for environmental protection	Provision for expected losses	Other provisions	**TOTAL**
Opening balance	20,496	33,116	23,936	19,349	36	**96,933**
Recognition	225	7,154	-	14	1,714	9,107
Reclassification from / to long-term / short-term provision	-	-	1,407	-	-	1,407
Change of discount rate	-	-	-	-	56	56
Exchange differences	-	868	-	-	3	871
Change in the Group's structure	(12,793)	-	(20,231)	-	-	(33,024)
Use (payment of benefits)	(1,939)	-	(2,028)	-	(67)	(4,034)
Reversal	(240)	(7,526)	(879)	-	(1,303)	(9,948)
Closing balance	**5,749**	**33,612**	**2,205**	**19,363**	**439**	**61,368**

The most significant provisions of the CIECH Group are:

Provisions for compensations:

CIECH Soda Polska S.A. – short-term provision in the amount of PLN 4,262 thousand, related to the claim of the one of recipients due to a faulty delivery of a batch of products and losses incurred on this account. The remaining amount of provisions for compensations in this company comprises short-term provisions for complaints, compensations and interest on employee claims in the total amount of PLN 3,297 thousand.

Provisions for liabilities:

CIECH Soda Polska S.A. – long-term provision in the amount of PLN 6,547 thousand for potential environmental fees resulting from exceeded emission limits.

CIECH Soda Romania S.A. – provision for a potential liability on account of VAT in the amount of PLN 26,183 thousand (RON 27,791 thousand). Moreover, the company has a provision for employee claims in the amount of PLN 638 thousand (RON 678 thousand). The remaining part of the claims was recognised in contingent liabilities. Both provisions are shown as short-term positions.

SDC Group – short-term provision of PLN 5,357 thousand (EUR 1,257 thousand) for potential liabilities on account of waste water disposal fees.

Provisions for expected losses:

CIECH S.A. – short-term provision for expected losses in the amount of PLN 19,363 thousand, related to a potential claim (principal liability plus interest liabilities and litigation costs).

SDC Group – short-term provision of PLN 11,050 thousand (EUR 2,593 thousand) related to negative valuation of a contract between the SDC Group and EVZA, concerning supply of technological steam and electricity.

Provisions for environmental protection:

CIECH Soda Polska S.A. – provision for land reclamation costs, calculated in accordance with expenditure planned until 2042, in line with the expected inflation rate: 1.5% adjusted by a discount factor, calculated as the average of the discount factor at the beginning and end of every annual period. The expenditure arising therefrom will amount to between PLN 700 thousand and PLN 1,100 thousand until 2042. The amount of the respective provision recognised in the statements amounts to PLN 8,697 thousand, whereof the short-term provision amounts to PLN 826 thousand and the long-term provision amounts to PLN 7,871 thousand;

CIECH Sarzyna S.A. – provision for water and land reclamation costs in the amount of PLN 6,416 thousand, comprising a long-term provision of PLN 1,410 thousand and short-term provision of PLN 5,006 thousand. The provision was estimated based on a technical and financial project including a schedule of works for the years 2008–2020 of expenses to be incurred and the Marshal of Podkarpackie Province decision, discounted for a 1.5% inflation rate.

SDC Group – long-term provision for environmental protection in the amount of PLN 55,280 thousand (EUR 12,972 thousand) comprising, among others, reclamation of rainwater ponds in Unseburg, mine reclamation activities in the limestone, reclamation of remains of the old limestone outcrops and closing of caverns.

36. Current liabilities

PLN '000

CURRENT LIABILITIES DUE TO LOANS, BORROWINGS AND OTHER DEBT INSTRUMENTS	31.12.2015	31.12.2014
Loans and borrowings	19,508	21,384
Debt securities issued	301	6,323
TOTAL	**19,809**	**27,707**

PLN '000

CURRENT TRADE AND OTHER LIABILITIES	31.12.2015	31.12.2014
Trade liabilities and advances taken	273,332	322,179
in up to 12 months	270,938	320,052
Prepayments received for supplies	2,394	2,127
Public and legal liabilities (excluding income tax)	22,835	14,546
Liabilities for purchase of property, plant and equipment	102,156	65,922
Hedging instruments	3,184	4,555
Liabilities to employees	10,544	10,599

CURRENT TRADE AND OTHER LIABILITIES	31.12.2015	31.12.2014
Payroll liabilities	25,835	17,659
Holiday leave accrual	6,621	5,743
Taxes and charges	25,535	21,173
Materials and energy consumption	24,973	18,559
Subsidy liabilities	39,902	41,211
External services	8,752	2,880
Environmental charges	26,310	27,395
Social security and other employee benefits	2,615	1,580
Warehouse maintenance expenses	3,081	1,184
Factoring	-	669
Liabilities towards "silent partners"	-	51,148
Other liabilities	10,260	12,637
TOTAL	**585,935**	**619,639**

Terms of transactions with related entities have been presented in section II.43.

Trade liabilities do not bear interest. Commercial contracts concluded by the CIECH Group include various terms of payment of trade liabilities depending on the type of transaction, market characteristics and trade conditions. The most common payment terms are: 14, 30, 60 and 90 days.

37. Notes to consolidated cash flow statement

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

PLN '000	31.12.2015	31.12.2014
Inventory change presented in consolidated statement of financial position	**35,861**	**40,432**
Other	139	130
Inventory change in consolidated statement of cash flows	**(36,000)**	**(40,562)**

PLN '000	31.12.2015	31.12.2014
Provision change presented in consolidated statement of financial position	**18,936**	**(11,821)**
Other (including transfer to actuarial gains)	357	3,501*
Provisions change in consolidated statement of cash flows	**(19,293)**	**(8,320)**

PLN '000	31.12.2015	31.12.2014
Receivables change presented in consolidated statement of financial position	**101,473**	**(166,545)**
Change of investment receivables	(42,895)	(8,370)
Change of income tax receivables	(4,436)	(7,518)
Other	4,737	(5,380)
Receivables change presented in consolidated statement of cash flows	**(58,880)**	**177,054**

PLN '000	31.12.2015	31.12.2014
Change of liabilities presented in consolidated statement of financial position	**343,457**	**(95,294)**
Change in investment liabilities	(30,218)	(45,999)
Change of financial liabilities	(300,374)	89,382
Change of income tax liabilities	(20,207)	(10,207)
Other	(14,125)	29,959*
Liabilities change presented in consolidated statement of cash flows	**(21,467)**	**(32,159)**

**includes changes in the Company's structure, from loss of control over company Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej*

38. Finance lease

The CIECH Group uses property, plant and equipment (mainly means of transport and various types of machinery and equipment) pursuant to finance lease agreements. The agreements include the return option, extension of the agreement or the option to buy all or a part of the equipment after the lease period. In 2015, the carrying amount of leased property, plant and equipment (including financial sale-and-leaseback described below) amounted to PLN 33,137 thousand (as at 31 December 2014, it amounted to PLN 31,889 thousand). There were no contingent lease charges.

The nominal value and the present value of minimum lease payments are as follows:

PLN '000

FINANCE LEASE LIABILITIES 31.12.2015	Nominal value of minimum lease payments	Future financial costs due to finance lease	Present value of minimum lease payments
up to 1 year	5,543	544	4,999
Between 1 and 5 years	16,673	1,891	14,782
Over 5 years	7,373	271	7,102
TOTAL	**29,589**	**2,706**	**26,883**

PLN '000

FINANCE LEASE LIABILITIES 31.12.2014	Nominal value of minimum lease payments	Future financial costs due to finance lease	Present value of minimum lease payments
up to 1 year	4,683	493	4,190
Between 1 and 5 years	11,483	1,177	10,306
Over 5 years	6,004	485	5,519
TOTAL	**22,170**	**2,155**	**20,015**

In 2014, CIECH Cargo Sp. z o.o. signed finance lease agreements, under which the Company uses wagons to carry coal fines. The agreement includes an option to buy the equipment after the lease period. As at 31 December 2014, the carrying amount of leased property, plant and equipment amounted to PLN 16,440 thousand.

In 2015, CIECH Cargo Sp. z o.o. signed subsequent finance lease agreements, under which the Company uses additional wagons to carry coal fines as well as the vehicle. In the agreements, purchase options are provided for after the end of lease. As at 31 December 2015, the carrying value of property, plant and equipment amounted to PLN 26,609 thousand.

On the basis of the finance lease agreement, CIECH Transclean Sp. z o.o. uses property, plant and equipment – means of transport. At the beginning of 2014, company entered into finance lease agreements, under which the Company uses 5 sets to transport bulk materials. The carrying amount of the leased assets as at 31 December 2014 increased by PLN 3,482 thousand, while as at 31 December 2015 it was amounted to PLN 2,876 thousand.

39. Operating leases

The largest item subject to operating lease in the CIECH Group, in accordance with the adopted accounting principles, is the right of perpetual usufruct of land obtained by administrative decision. Furthermore, the SDC Group recognises a long-term sewage system agreement effective until 2095 as an operating lease. Group companies also recognise lease agreements of property and low-value property, plant and equipment, e.g. cars. Operating lease is a renewable lease, making it possible to acquire an asset at its estimated market value at the end of its use. The companies are not obliged to purchase the leased assets. No conditions for extending lease agreements or purchasing the subject of lease have been included in administrative decisions concerning the right of perpetual usufruct of land. Price indexation may occur in relation to land revaluation.

Total amounts of future minimum lease payments are presented in the table below:

PLN '000

TOTAL FUTURE MINIMUM OPERATING LEASE PAYMENTS	31.12.2015	31.12.2014
up to 1 year	10,777	2,383
Between 1 and 5 years	4,659	3,686
Over 5 years	57,956	59,497
TOTAL	**73,392**	**65,566**

In 2015 costs of operating lease payments were amounted to PLN 6,464 thousand (in comparable period PLN 6,120 thousand)

40. Financial instruments

The main financial instruments disclosed in the statement of financial position of the CIECH Group as at 31 December 2015 include:

Financial assets:

- short-term deposits,
- cash,
- stock and shares in other entities,
- loans granted,
- financial instruments with positive valuation,
- trade receivables.

- **Financial liabilities:**
  - liabilities from debt securities – domestic bonds,
  - term loan liabilities, revolving loan liabilities and overdraft liabilities,
  - trade payables,
  - finance lease agreements,
  - financial instruments with negative valuation,
  - factoring liabilities (reverse factoring).

Carrying amount

		Categories of financial instruments						
31.12.2015 *PLN '000*	*Note*	**Cash and Cash equivalents**	**Available-for-sale financial assets**	**Loans and receivables**	**Financial liabilities at amortised cost**	**Financial liabilities excluded from IAS 39**	**Hedging instruments**	**Total**
Classes of financial instruments								
Cash and cash equivalents	*29*	202,935	-	34	-	-	-	**202,969**
Stocks and shares		-	-	-	-	-	-	**-**
Trade receivables	*27*	-	-	284,351	-	-	-	**284,351**
Factoring receivables	*27*	-	-	26,963	-	-	-	**36,963**
Hedging derivatives with positive value		-	-	-	-	-	16,782	**16,782**
Loans granted	*25*	-	-	34,000	-	-	-	**34,000**
Trade liabilities	*36*	-	-	-	273,332	-	-	**273,332**
Loans and borrowings	*32, 36*	-	-	-	1,354,857	-	-	**1,354,857**
Debt securities – bonds issued	*32, 36*	-	-	-	159,727	-	-	**159,727**
Factoring liabilities	*36*	-	-	-	18,998	-	-	**18,998**
Finance lease liabilities	*32, 38*	-	-	-	-	26,913	-	**26,913**
Hedging derivatives with negative value	*36*	-	-	-	-	-	45,012	**45,012**

		Categories of financial instruments						
31.12.2014 *PLN '000*	*Note*	**Cash and Cash equivalent**	**Available-for-sale financial assets**	**Loans and receivables**	**Financial liabilities at amortised cost**	**Financial liabilities excluded from IAS 39**	**Hedging instruments**	**Total**
Classes of financial instruments								
Cash and cash equivalents	*29*	49,162	-	34	-	-	-	**49,196**
Stocks and shares		-	413	-	-	-	-	**413**
Trade receivables	*27*	-	-	267,902	-	-	-	**267,902**
Factoring receivables	*27*	-	-	13,440	-	-	-	**13,440**
Loans granted	*25*	-	-	34,000	-	-	-	**34,000**
Trade liabilities	*36*	-	-	-	322,179	-	-	**322,179**
Loans and borrowings	*32, 36*	-	-	-	21,384	-	-	**21,384**
Debt securities – bonds issued	*32, 36*	-	-	-	1,182,778	-	-	**1,182,778**
Factoring liabilities	*36*	-	-	-	669	-	-	**669**
Finance lease liabilities	*32, 38*	-	-	-	-	20,015	-	**20,015**
Hedging derivatives with negative value	*36*	-	-	-	-	-	7,067	**7,067**

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

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

01.01.-31.12.2015 *PLN '000*	*Note*	**Cash and Cash equivalents**	**Available-for-sale financial assets**	**Loans and receivables**	**Financial liabilities at amortised cost**	**Liabilities excluded from IAS 39**	**Hedging instruments**	**Total financial instruments**
Interest income /(costs) including income / costs calculated using the effective interest rate method	*16*	170	-	215	(199,797)	(784)	-	(200,196)
Exchange profit / (loss)	*16*	-	-	-	(2,950)	(1,405)	-	(4,355)
Impairment losses recognised	*16*	-	-	(1,941)	-	-	-	(1,941)
Reversal of impairment losses	*16*	-	-	4,069	-	-	-	4,069
Income / costs on account of evaluation and use of derivatives	*16*	-	-	-	-	-	(1,862)	(1,862)
TOTAL		**170**	**-**	**2,344**	**(202,747)**	**(2,189)**	**(1,862)**	**(204,284)**

01.01.-31.12.2014 *PLN '000*	*Note*	**Cash and Cash equivalents**	**Available-for-sale financial assets**	**Loans and receivables**	**Financial liabilities at amortised cost**	**Liabilities excluded from IAS 39**	**Hedging instruments**	**Total financial instruments**
Interest income /(costs) including income / costs calculated using the effective interest rate method	*16*	731	-	1,829	(139,525)	(477)	-	(137,443)
Exchange profit / (loss)	*16*	-	-	-	805	-	-	805
Impairment losses recognised	*16*	-	-	(20,028)	-	-	-	(20,028)
Reversal of impairment losses	*16*	-	-	2,671	-	-	-	2,671
Profit / (loss) on the disposal of financial instruments	*16*	-	36	-	-	-	-	36
TOTAL		**731**	**36**	**(665)**	**(15,423)**	**(135,182)**	**-**	**(153,959)**

41. Financial instruments designated for hedge accounting

The table below presents a summary of specific groups of relationships existing in 2015, designated for hedge accounting:

Hedged risk	Type of hedge	Hedged item	Hedging instrument
Currency risk EUR/PLN	Cash flow hedge	Future cash flows due to realisation of revenues from sales denominated or indexed to the EUR exchange rate	• Bonds issued in EUR • Currency forwards EUR/PLN • Series of EUR/PLN forward transactions isolated through the decomposition of CIRS transactions
Currency risk EUR/PLN	Net investment hedge	The hedged position is the net investment in the subordinated entity	• Bonds issued in EUR • Term loan in EUR
Interest rate risk (change of WIBOR 6M)	Cash flow hedge	Interest payments related to the term loan taken out by CIECH S.A. with the nominal value of PLN 1,045 million	• Swap of WIBOR 6M to fixed interest rate (transaction isolated through the decomposition of CIRS transactions)
Interest rate risk (change of WIBOR 6M)	Cash flow hedge	Interest payments related to bonds issued by CIECH S.A. (Series 02) with the nominal value of PLN 80,000 thousand	• Swap of WIBOR 6M to fixed interest rate
Interest rate risk (change of EURIBOR 6M)	Cash flow hedge	Interest payments related to the term loan taken out by CIECH S.A. with the nominal value of EUR 69,673 thousand	• Swap of EURIBOR 6M to fixed interest rate
Currency risk USD/PLN	Cash flow hedge	Future cash flows due to realisation of revenues from sales denominated or indexed to the USD exchange rate	• Currency forwards USD/PLN

Detailed information concerning instruments assigned for hedge accounting is provided in the table below:

FINANCIAL INSTRUMENTS	TRANSACTION DETAILS		CASH FLOW HEDGE					
Loan taken out/ bonds issued/ Other financial liabilities	**Transactions designated to hedge accounting**	**Fair value as at the reporting date**	**Nature of hedged risk**	**Cash flow occurrence**		**Amount recognised in equity (after income tax) as at 31.12.2015**	**Amount derecognised from equity and recognised in the income statement (after income tax) in the period of 01.01-31.12.2015**	**Inefficiency recognised in the income statement**
				Forecast period of cash flow occurrence	**Expected date of impact on the financial result**			
currency in thousands		*PLN '000*				*PLN '000*		
-	CIECH S.A. – Interest Rate Swap (IRS) EUR 80 million	(2,810)	Interest rate risk	from 05.06.2016 to 5.12.2017	from 05.06.2016 to 5.12.2017	(2 277)	(988)	-
-	CIECH S.A. – currency forwards	(972)	Currency risk (PLN/EUR) (PLN/USD)	from 01.01.2016 to 30.09.2016	from 01.01.2016 to 30.09.2016	(788)	(6,133)*	-
EUR 205,000 thousand	CIECH S.A. – Bond liabilities	-	Currency risk (PLN/EUR)	from 01.01.2020 to 31.12.2022	from 01.01.2020 to 31.12.2022	(18,197)	-	-
-	CIECH S.A. Series of EUR/PLN forward transactions isolated through the decomposition of CIRS transactions	(4,997)	Currency risk (PLN/EUR)	from 30.06.2016 to 25.11.2020	from 30.06.2016 to 25.11.2020	(2,539)	1,379*	(1,862)
-	CIECH S.A. – Interest rate swap (transaction isolated through the decomposition of CIRS transactions)	8,724	Interest rate risk	from 30.06.2016 to 25.11.2020	from 30.06.2016 to 25.11.2020	7,067	43	-
	CIECH S.A. – Interest Rate Swap (IRS) EUR 70 million	901	Interest rate risk	from 30.06.2016 to 25.11.2020	from 30.06.2016 to 25.11.2020	730	(55)	-
					TOTAL	**(16,004)**	**(5,755)**	**(1,862)**

Hedge accounting recognised in equity item: "Currency translation differences (foreign companies)"								
EUR 40,000 thousand	CIECH S.A. – Bond liabilities	-	Currency risk (PLN/EUR)	in the moment of sale	in the moment of sale	(5,864)	-	-
EUR 69,673 thousand	CIECH S.A. – Term loan liabilities	(288,388)	Currency risk (PLN/EUR)	in the moment of sale	in the moment of sale	435	-	-
					TOTAL	**(21,432)**	**(5,755)**	**(1,862)**

** gross value transferred to sales revenue.*

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

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

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.

Other relationships (not listed in the table above) were cancelled and settled in the previous reporting period in connection with the occurrence of the hedged position.

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

42. Information on changes in contingent assets and liabilities and other matters

Significant disputed liabilities of the CIECH Group

As at 31 December 2015, the total value of significant disputed liabilities of CIECH S.A. and subsidiaries of CIECH S.A., pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies represents less than 10% of CIECH S.A.'s equity.

Significant disputed receivables of the CIECH Group

As at 31 December 2015, the total value of significant disputed receivables of CIECH S.A. and subsidiaries of CIECH S.A., pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies represents less than 10% of CIECH S.A.'s equity.

Contingent assets and contingent liabilities including guarantees and sureties

PLN '000

OTHER CONTINGENT ITEMS	31.12.2015	31.12.2014
1. Contingent assets	**18,864**	**18,864**
- other contingent receivables*	18,864	18,864
2. Contingent liabilities	**630,105**	**824,918**
- guarantees and sureties granted**	528,601	704,968
- other***	101,504	119,950
TOTAL	**648,969**	**843,782**

**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.*

*** described below in the "sureties and guarantees" section*

**** including mainly:*

- *contingent liability in CIECH Soda Romania S.A. resulting from a claim filed by employees of CIECH Soda Romania S.A. – the amount of PLN 20,374 thousand (RON 21,626 thousand),*
- *contingent liability in the SDC Group relating to environmental protection in the amount of PLN 15,520 thousand (EUR 3,642 thousand),*
- *contingent liability in CIECH Soda Polska S.A. regarding environmental penalty fees in the amount of PLN 30,974 thousand,*
- *contingent liabilities in CIECH Soda Polska S.A. resulting from blank promissory notes for the National Fund for Environmental Protection and Water Management relating to grants received in the event of a potential financial adjustment in the amount of PLN 33,483 thousand.*

As at 31 December 2015, contingent liabilities amounted to PLN 630,105 thousand, which is an increase by PLN 194,813 thousand as compared to 31 December 2014. The change in contingent liabilities compared to the balance as at 31 December 2014 results mainly from:

- expiry of guarantees to the value of 155% of the liabilities relating to the issuance of foreign bonds in the amount of EUR 245,000 thousand, in connection to their early repayment (the amount of the expired guarantee is PLN 574,345 thousand).
- selected companies granting guarantees to the value of 125% of the liability due to term loans and revolving credit facility – total amount of the granted guarantees: PLN 397,986 thousand.
- reclassification of a contingent liability in respect of VAT payable in the amount of PLN 10,037 thousand (RON 10,554 thousand) to provisions for liabilities in CIECH Soda Romania S.A.,
- decrease in grants in CIECH Soda Polska S.A. by the amount of PLN 13,443 thousand,
- the subsidy received by CIECH Soda Polska S.A. under the programme "Reduction of dust emission in CHP Inowrocław through the modernisation of electrofilters" amounting to PLN 3,755 thousand.

Sureties and guarantees granted as at 31 December 2015:

Beneficiary's name	Total amount of liabilities covered by guarantee/surety in whole or in specific part		Guarantee period	Financial terms, including guarantee fee due to the company	Principal	Nature of relations between CIECH S.A. and the principal
	currency '000	PLN '000				
CIECH S.A.						
Anwil S.A.	PLN 15,000 thousand	15,000	2017-06-30	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability.	CIECH Trading S.A.	Subsidiary
Bank Pekao S.A.	EUR 5,000 thousand	21,308	2016-12-23	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability	CIECH Soda Deutschland GmbH&Co.KG	Subsidiary
BASF Polska Sp. z o.o., BASF SE	EUR 10,000 thousand	42,615	Until 12.03.2017 at the latest	Guarantee for certain liabilities and warranties made by Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej under the Agreement for Sale and Transfer of TDI assets to BASF.	Infrastruktura Kapuściska S.A. w likwidacji	Unrelated company
Bioagra-Oil S.A.mbH	PLN 250 thousand	250	2016-09-30	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability	CIECH Trading S.A.	Subsidiary
BZ WBK Faktor Sp. z o.o.	PLN 18,000 thousand	18,000	No time limit	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability	CIECH Trading S.A.	Subsidiary
BZ WBK Faktor sp. z o.o.	PLN 49,500 thousand	49,500	No time limit	Commission of 1.5% p.a. of the guaranteed liability	CIECH Finance Sp. z o.o.	Subsidiary
Spolana a.s.	EUR 1,500 thousand	6,393	Liabilities incurred and outstanding by 31.12.2016	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability.	CIECH Trading S.A.	Subsidiary
Zakłady Chemiczne ALWERNIA S.A.	PLN 1,000 thousand	1,000	Liabilities incurred and outstanding by 31.12.2016	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability.	CIECH Trading S.A.	Subsidiary
GEA Process Engineering A/S	EUR 1,038 thousand	4,423	2016-05-04	Commission of 1.5% p.a. of the guaranteed liability	CIECH Soda Polska S.A.	Subsidiary
Azoty Group Zakłady Azotowe Kędzierzyn S.A.	EUR 200 thousand	852	2016-09-30	Commission of 1.5% p.a. of the guaranteed liability	CIECH Trading S.A.	Subsidiary

Beneficiary's name	Total amount of liabilities covered by guarantee/surety in whole or in specific part		Guarantee period	Financial terms, including guarantee fee due to the company	Principal	Nature of relations between CIECH S.A. and the principal
	currency '000	PLN '000				
PGE Polska Grupa Energetyczna S.A.	PLN 10,000 thousand	10,000	2016-12-31	Commission of 1.5% p.a. of the guaranteed liability	CIECH Soda Romania S.A.	Subsidiary
Siemens Industrial Turbo-machinery s.r.o	EUR 1,753 thousand	7,470	Lease instalments outstanding by 30.04.2019	Commission of 0.4% p.a. of the guaranteed liability	KWG	Subsidiary
VITROBUDOWA Sp. z o.o.	PLN 67,035 thousand	67,035	90 calendar days from signing the final acceptance report	Commission of 1.5% p.a. of the guaranteed liability	CIECH Vitrosilicon S.A.	Subsidiary
Selected subsidiaries in Poland, Germany and Romania						
holders of Series 02 domestic bonds	PLN 248,000 thousand *(guarantee granted up to the amount of 155% of liabilities related to the issue of domestic bonds in the amount of PLN 160,000 thousand)*	PLN 248,000 thousand	2017-12-05	Commission of 0.55% p.a of the difference between the limit of the guarantee collateralised by assets and a surplus of the guarantee limit;	CIECH S.A.	Parent
banks: Bank Handlowy w Warszawie S.A., Bank Millennium S.A., BZWBK S.A., Bank PKO BP S.A., Credit Agricole Bank Polska S.a., HSBC Bank Polska S.A., ICBC (Europe) S.A. Branch in Poland	PLN 1,618,789 thousand (*guarantee granted up to the amount of 125% of liability related to term loan in the amount of PLN 1,045,031 thousand and revolving loan in the amount of PLN 250,000 thousand)* EUR 87,091 thousand (*guarantee granted up to the amount of 125% of liability related to term loan in the amount of EUR 69,673 thousand*)	PLN 1,989,928 thousand	2023-12-31	Provision 0.55% from the difference between limit of guarantee secured by assets and surplus of guarantee limit	CIECH S.A.	Parent company
Total amount of guarantees and sureties granted		**2,481,774**				

In 2015, the CIECH Group companies did not receive any guarantees from third parties.

Letters of support

As at 31 December 2015, CIECH S.A. was the obliged party in the following letter of support:

Letter of support (Patronatserklärung) regarding Sodawerk Staßfurt GmbH&Co. KG seated in Staßfurt ("SWS") granted to RWE Gasspeicher GmbH ("RWE") relating to liabilities of SWS resulting from the agreement dated 5 May 2009 on salt caverns construction for the purpose of natural gas storage on the mining field Stassfurt according to which SWS received payments of EUR 34.8 million from RWE by 31 December 2015. In the letter of support, CIECH S.A. has committed, among other things, to ensure that SWS will have sufficient funds to fulfil its financial commitments against RWE resulting from the above-mentioned agreement.

43. Information on transactions with related parties

43.1. Transactions with related parties in total

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

Detailed information about transactions between the CIECH Group and other related entities (not consolidated companies in CIECH Group and related companies to CIECH Group throughout its parent company and personal relations) is presented below:

PLN '000	**2015**	**2014**
Revenues from sales of products and services	2,601	3,437
Revenues from sales of goods and materials	62,426	55,187
Other operating income	9	9
Financial income	528	1,095
Purchase of products, goods and materials	18,537	304
Purchase of services	37,985	41,516
Other operating expenses	5	0
Financial expenses	17	18
Receivables	7,561	6,230
Liabilities	8,965	1,724

Terms of transactions with related entities

Sales to and purchases from related entities are realised at market prices. Overdue liabilities and receivables are not secured and are settled in cash or by set-off. Receivables from related entities have not been secured by any guarantees granted or received besides those described in point II.27.

43.2. Significant transactions entered into by Companies or subsidiaries with related entities on other than market conditions

In 2015, there were no significant transactions with related entities in the CIECH Group on other than market conditions.

43.3. Transactions with State Treasury companies

As a result of change in control of CIECH S.A. which took place on 9 June 2014, the State Treasury held no shares in CIECH S.A. as at 31 December 2015.

In the period from 1 January 2014 to 9 June 2014, the State Treasury held a significant share and was able to control CIECH S.A. Owing to the State Treasury control of CIECH S.A., State Treasury Companies (as listed by the Ministry of Treasury) fulfilled the definition of related entities. The CIECH S.A.'s Management Board has assumed that costs of obtaining information of such transactions for the above-mentioned period exceed the potential benefits to be gained by the users of these consolidated financial statements and the amounts involved in transactions with State Treasury Companies do not have a significant impact on these statements.

43.4. Description of non-routine transactions with related parties

In 2015, there were no non-routine transactions between related entities in the CIECH Group.

On 23 December 2014, Soda Poland Ciech S.A. made an in-kind contribution to its subsidiary, CERIUM Sp. z o.o. SKA, in the form of selected movable assets. Subsequently, on 29 December 2014 Cerium Sp. z o.o SKA (Lessor) concluded finance lease agreements with three companies of the CIECH Group, i.e. Soda Polska Ciech S.A. Zakłady Chemiczne "Organika-Sarzyna" S.A. Ciech Pianki Sp. z o.o. (Lessees) under which the Lessor provided the Lessees with movables specified in the agreements, which are leased assets owned by the Lessor provided to Lessees to use and obtain rewards. Zakłady Chemiczne "Organika-Sarzyna" S.A. and Ciech Pianki Sp. z o.o. leased the leased fixed assets to Soda Polska Ciech S.A. for a period of 15 years, i.e. until 31 December 2029. The lease agreements were concluded for a definite period until 31 December 2015, with the possibility of extension for further definite period. At the end of the lease, the Lessor undertook to transfer to the Lessees, on the basis of a separate agreement, the ownership of the leased assets for a consideration corresponding to the last lease payment, unless the parties to the lease agreement decide otherwise. The Lessees are entitled to designate another purchaser entitled to purchase the leased assets. The net value of the lease agreement amounted to approximately PLN 113,000 thousand and is the sum of the lease payments paid as remuneration of the Lessor over the term of the lease agreement. The lease agreements do not stipulate a condition or term and do not include provisions on contractual penalties or conditions different from those commonly used in such agreements.

The effect of the above transaction was eliminated in the consolidated financial statements.

43.5. Transactions concluded with key managerial personnel

Key managerial personnel comprises persons who are authorised to and are responsible for direct or indirect planning, managing and controlling the activities of the company 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 2015 and in the comparable period. In the years 2015–2014, 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.

Name and surname	Remuneration received from CIECH S.A. in 2015 (PLN '000)	Remuneration received from CIECH S.A. in 2014 (PLN '000)
Maciej Tybura	**1,987**	**318**
Artur Osuchowski	**2,750**	**1,203**
Artur Król	**245**	**-**
Dariusz Krawczyk	3,875	1,604
Andrzej Kopeć	246	884
TOTAL	**9,103**	**4,009**

Members of the Management Board are employed based on employment contracts. In accordance with a Resolution of the Supervisory Board of CIECH S.A., Members of the Management Board are entitled to:

- monthly remuneration determined in individual employment contracts;
- discretionary bonus in the amount determined by the Supervisory Board of CIECH S.A.;
- annual bonus determined in individual employment contracts.

Remuneration of the Supervisory Board of CIECH S.A.

Name and surname	Remuneration received from CIECH S.A. in 2015 (PLN '000)	Remuneration received from CIECH S.A. in 2014 (PLN '000)
Sebastian Kulczyk	**46**	**-**
Piotr Augustyniak	**98**	**46**
Tomasz Mikołajczak	**123**	**57**
Mariusz Nowak	**98**	**46**
Artur Olech	**98**	**46**
Wojciech Stramski	**98**	**46**
Ewa Sibrecht-Ośka	-	74
Przemysław Cieszyński	-	47

Name and surname	Remuneration received from CIECH S.A. in 2015 (PLN '000)	Remuneration received from CIECH S.A. in 2014 (PLN '000)
Arkadiusz Grabalski	-	49
Zygmunt Kwiatkowski	-	52
Maciej Lipiec	-	49
Waldemar Maj	-	49
Mariusz Obszyński	-	49
Sławomir Stelmasiak	-	49
Jan Kulczyk, PhD	-	-
Maciej Tybura	-	25
TOTAL	**561**	**684**

In accordance with a Resolution of the Extraordinary General Shareholders' Meeting, Members of the Supervisory Board receive monthly remuneration amounting to:

- Chairman of the Supervisory Board – 300%,
- Deputy Chairman of the Supervisory Board – 250%,
- Other Members of the Supervisory Board – 200% of the average monthly remuneration in the enterprise sector, including profit distribution in the month preceding the calculation.

44. Information about agreements concluded with the entity authorised to audit the CIECH Group's consolidated financial statements

The entity authorised to audit financial statements for the period from 1 January 2015 to 31 December 2015 was PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw. The entity authorised to audit financial statements for the period from 1 January 2014 to 31 December 2014 was KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw.

On 11 June 2013, CIECH S.A. signed an agreement with KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. on the review of semi-annual and audit of annual financial statements for the years 2013, 2014, 2015. On 17 June 2015 that agreement was terminated. On 25 June 2015, CIECH S.A. signed an agreement with PricewaterhouseCoopers Sp. z o.o. on the review of semi-annual and audit of annual financial statements for the years 2015, 2016 and 2017.

In 2015, PricewaterhouseCoopers Sp. z o.o. and foreign companies from the network of member firms of PricewaterhouseCoopers are also the auditors of the most significant consolidated subsidiaries/subsidiary groups of CIECH S.A. (in 2014, this referred to KPMG Audyt Sp. z o.o. and its foreign companies), including:

- CIECH Soda Polska S.A.,
- SDC Group,
- CIECH Soda Romania S.A.,
- CIECH Sarzyna Group;
- CIECH Vitrosilicon S.A.,
- Ciech Pianki Sp. z o.o.,
- Ciech Group Financing AB.

Value of agreements concluded with PricewaterhouseCoopers Sp. z o.o. and members of the PricewaterhouseCoopers network

PLN '000	Parent company CIECH S.A.		Consolidated subsidiaries of the CIECH Group	
	2015*	**2014***	**2015***	**2014***
Audit of the annual financial statements	106	-	931	-
Review of the semi-annual report	335	-	76	-
Other attestation services	537	-	253	-
Tax advisory services	720	-	-	-
Other services	6	-	245	53

Value of agreements concluded with KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. and members of the KPMG network:

PLN '000	Parent Company CIECH S.A.	Consolidated subsidiaries of the CIECH Group
	2014*	**2014***
Audit of the annual financial statements	185	853
Review of the semi-annual report	121	283
Other attestation services**	-	128
Other services	61	-

** The remuneration includes additional costs.*

*** Includes tax advisory services*

45. Events after the reporting date

On 6 March 2016 Mr Wojciech Stramski resigned from the serving of the function of a member of the Supervisory Board of company CIECH S.A. On 7 March 2016 Extraordinary Shareholders' Meeting of CIECH S.A. appointed Mr Dominik Libicki as a member of the Supervisory Board. At the date of approval to publish of this financial statement, composition of the Supervisory Board was:

- Sebastian Kulczyk – Chairman of the Board
- Tomasz Mikołajczyk – Deputy Chairman of the Board
- Dominik Libicki
- Piotr Augystyniak
- Mariusz Nowak
- Artur Olech

46. Information on significant events concerning previous years disclosed in the financial statements for the financial year

No other events concerning prior years and recognised in the financial statements for the financial year occurred.

47. Other information that may have a significant impact on the assessment of the CIECH Group's financial and asset situation or its financial result.

No other events that may have a significant impact on the CIECH Group's financial and assets situation or its financial result occurred in the reporting period.

Statement of the Management Board

These consolidated financial statements of the CIECH Group were approved by the Management Board of the Company at its registered office on 21 March 2016.

Warsaw, 21 March 2016

Signed on the Polish original

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Maciej Tybura – President of the Management Board of CIECH Spółka Akcyjna

Signed on the Polish original

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Artur Król – Member of the Management Board of CIECH Spółka Akcyjna

Signed on the Polish original

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Artur Osuchowski – 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