GENERAL INFORMATION

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Dear Sirs and Madams

Last year was very important for the Ciech Group. We were consequently carrying out a recovery plan aiming at creating an efficient and effective capital group providing its Shareholders with stable and fair profits. We executed processes which were essential for the future of the company: establishing a new financing structure, raising the capital and operating efficiency.

A measurable result of our activities is PLN 590 million of revenue and savings generated by the Ciech Group at the end of 2011. This amount constitutes over 90 percent of the amount provided for in the Restructuring Plan for the years 2011-2015. By the end of this year, that is two years before the deadline, we are planning to generate the target amount of PLN 652 million of revenue and savings.

We have entered the last year preparing a new financing structure. Its foundation was the long-term loan agreement signed on February 10th with a bank consortium. Soon the agreement was also joined by the European Bank for Reconstruction and Development which promised to grant the Group additional investment loan in euro amounting to an equivalent of PLN 300 million. The involvement of EBRD has confirmed the confidence of financial institutions in the strategy adopted by the Management Board. Another important element of the new financing structure was the issue of 23 million shares. The success of the public offering was sealed on March 30th with the first listing of the new shares. As a result, we have accumulated PLN 441.6 million for investments and development. Thanks to the funds acquired in these processes, in this year new facilities for the generation of active substances used in the production of plant protection chemicals in Nowa Sarzyna and modern steam boilers in the power plant in Janikowo will be commissioned.

Along with the undertakings aiming at providing the financing, we have also been continuing the optimisation of the Ciech Group's assets, focusing on two key segments – soda and organic. At the end of April we also finalised the sale of our biggest asset in the agro-chemical segment GZNF "FOSFORY" Sp. z o.o. The proceeds from the transaction amounted to PLN 227 million, including PLN 107 million as a payment for shares and PLN 120 million in the form the repayment of loans. Another major project was an in-kind issue completed in September, as a result of which Ciech acquired minority stakes in the companies of the Group, held by the State Treasury: 5.15% of ZACHEM S.A., 5.06% of Z.Ch. "Organika-Sarzyna" S.A. and 25.01% of the shares of Alwernia S.A. In return, the State Treasury acquired 699,909 of the new shares. This operation allowed Ciech to simplify the ownership structure of subsidiaries and acquire, without using cash, the remaining shares in ZACHEM S.A. and Z. Ch. "Organika-Sarzyna" S.A. amounting to about PLN 26 million provided for in the agreements for the purchase of the companies concluded with the Ministry of the State Treasury in 2006.

As the conditions on main markets of ZACHEM S.A. worsened, the restructuring of this part of the Group became a vital issue. With this in mind we have undertaken special corrective actions. They resulted in, among others, purchase by Ciech of a company producing PUR foams and 50% of shares in TRANSCLEAN Sp. z o.o. held by ZACHEM S.A. and the disposal of Centrum Tworzyw Sztucznych and the sale of 75% of shares in a company involved in the repair and maintenance. Currently the company is preparing the establishment of more companies on the basis of organised parts of enterprises, including: Zachem Energetyka, Zachem Park and Zachem Epichlorohydryna. They are to commence their operations this year. At the same time a number of actions have been undertaken, including restructuring of employments and sale of redundant real properties intended to improve the condition of ZACHEM S.A.

The Ciech Group has been reorganised on many levels. We have continued the strategy of centralisation of purchase of services, raw materials and energy through, i.a. signing a new consolidated agreement for the delivery of energy for the Polish companies, which enabled us to pay more competitive prices. At the end of the year a contract was signed by the companies of the Soda Deutschland Ciech Group for the lease of a thermal-electric power station in Stassfurt, which will significantly reduce the production costs.

While executing the restructuring of the Group we have observed the financial discipline, which enabled us to reduce loan liabilities, pursuant to the provisions of the agreements concerning the financing of the Group, by PLN 443 million. We have maintained a positive net result with PLN 119 million of operating profit. A decisive impact on the final performance of the Group had a difficult condition of the TDI business. The prices for this product were historically lowest in the last year while the production and material costs were historically highest. A quarter-to-quarter increase in sales in the soda segment was the most important positive contributor to the operating result. It contributed to over 5% increase in sales revenue which amounted to PLN 4.17 billion.

We have managed to meet the challenges of 2011 thanks to the efforts of our employees and loyalty of our business partners. On behalf of the Management Board I want to thank them all. Special thanks are due the Shareholders for the trust for the Management Board and the entire Ciech Chemical Group. There are numerous challenges ahead of us. I believe that joint efforts will provide us with good outlooks for further development.

Yours faithfully,

Ryszard Kunicki
President of the Management Board of CIECH S.A.

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I. REPORT ON THE CIECH GROUP'S ACTIVITIES IN 2011

1 General information about the Ciech Group

The Ciech Group is the leader of chemical industry in Poland, a holding which groups domestic and foreign production, trade and service companies which conduct their operations within the chemical sector. The Groups is a major domestic manufacturer in the chemical industry, it concentrates its operations mainly on EU markets.

As at December 31st, 2011, it comprised of 43 business entities, including:

- the parent company CIECH S.A.,
- 31 subsidiaries, including:
  - 19 domestic subsidiaries,
  - 12 foreign subsidiaries,
- 9 domestic associates,
- 1 foreign associates,
- 1 foreign jointly-controlled entity.

The Ciech Group is composed of direct subsidiaries and affiliates, for which CIECH S.A. is the parent entity, as well as indirect subsidiaries and affiliates, whose parent entities are direct subsidiaries of CIECH S.A.

The Ciech Group runs manufacturing activity connected with the sale of own products as well as commercial activity connected with the trade of goods. The Ciech Group sells chemicals on the domestic market and plays a significant role in foreign trade in the export and import of chemical products. The main products sold by the Group in 2011 on the Polish market were: soda ash, TDI, plastics, resins, chemical fertilizers, plant protection chemicals, glass blocks and glass packaging and other chemicals. Main products exported by the Group included: soda ash, TDI, sulphur, plastics, resins, phosphorus compounds. The biggest market for Ciech Group's products was the EU Member States.

The Ciech Group is one of the biggest companies in the chemical industry in Poland. According to estimates, the share of chemical production of Polish production companies owned by CIECH in total revenue of the Polish industry of chemical products exceeds 3%. Ciech Group has a significant share in the domestic market for such products as: soda ash (about 98%), vacuum salt (about 70%), baking soda (about 70%), epichlorohydrin (100%), TDI (about 30 %), epoxy resins (30%), unsaturated polyester resins (20%), glass blocks (approximately 60%), glass lanterns for candles (approx. 40%), sodium silicates (about 40% market share).

An essential part of the Ciech Group business is trade activity concerning chemical products on domestic and foreign markets. Ciech Group and its subsidiaries are the sole or major exporters in: soda ash manufactured in Poland (100%), baking soda manufactured in Poland (100%), calcium chloride manufactured in Poland (100%), epoxy resins (80%), sulphur (90%), epichlorohydrin (100%) and isocyanates TDI (90%). Moreover, the Group is the leading exporter in: sodium glass, salt, dyes, compound fertilizers, polyvinyl chloride and hydrochloric. The most important sales markets for the Group's products are the EU Member States and CEE countries. The main imported goods are: yellow phosphorus, phosphorites, phosphoric acid, TDA, toluene, and plastics. The goods are imported mainly from the EU Member States, North Africa and Asia. In this segment, the Ciech Group is the sole producer of soda ash and baking soda in Poland.

The Group's strategic and operating objectives are accomplished by the Corporate Centre and Divisions. The Corporate Centre concentrates on managing goodwill and finance, controlling, preparing strategies, managing corporate image, etc. Operating activity is managed by three Divisions: Soda, Organic, Agro-Silicon. The divisions are responsible for strategy operationalisation and financial results. The key processes implemented in the divisions include sale, purchase, supplies, product development. Production is located in manufacturing facilities/companies. The Group conducts is manufacturing activities in Poland, Germany and Romania.

1 General information about the Ciech Group (continued)

Structure and areas of activities of the Ciech Group

Ciech Chemical Group

	Soda Division	Organic Division	Agro & Silicates Division
Companies	Soda Polska Ciech Sodawerk Stassfurt Uzinele Sodice Govora	Zachem Organika-Sarzyna Ciech Pianki	Alwernia Vitrosilicon
Products	soda ash baking soda, vacuum salt	TDl, ECH, PVC polyurethane foam, epoxy and polyester resins plant protection chemicals	fertilizers, phosphorus compounds, glass blocks, lanterns and jars, sodium and potassium silicates
Customers	glass, detergents and food industry, households	agriculture, furniture and paints industry	agriculture, food industry construction industry, consumer markets
Markets	European, domestic	global, European, domestic	European, domestic

The following companies were subject to consolidation when preparing the consolidated financial statements for 2011:

Consolidation under the full method:

- **CIECH S.A. – parent company**
- Zakłady Chemiczne „Organika – Sarzyna" Spółka Akcyjna
- S.C. Uzinele Sodice Govora - Ciech Chemical Group S.A.
- Janikowskie Zakłady Sodowe JANIKOSODA Spółka Akcyjna
- "VITROSILICON" Spółka Akcyjna
- Zakłady Chemiczne "Alwernia" Spółka Akcyjna
- "POLFA" Spółka z ograniczoną odpowiedzialnością
- Przedsiębiorstwo Transportowo – Usługowe TRANSCLEAN Spółka z ograniczoną odpowiedzialnością
- Ciech – Polsin Private Limited
- CIECH FINANCE Spółka z ograniczoną odpowiedzialnością
- Przedsiębiorstwo Chemiczne CHEMAN Spółka Akcyjna
- Ciech Pianki Spółka z ograniczoną odpowiedzialnością.

The consolidated financial statements cover also three capital groups of lower level:

- **Soda Mątwy Group:**
  - **Inowrocławskie Zakłady Chemiczne SODA MĄTWY Spółka Akcyjna – parent entity**
  - Soda Polska Ciech Spółka z ograniczoną odpowiedzialnością
  - TRANSODA Spółka z ograniczoną odpowiedzialnością.

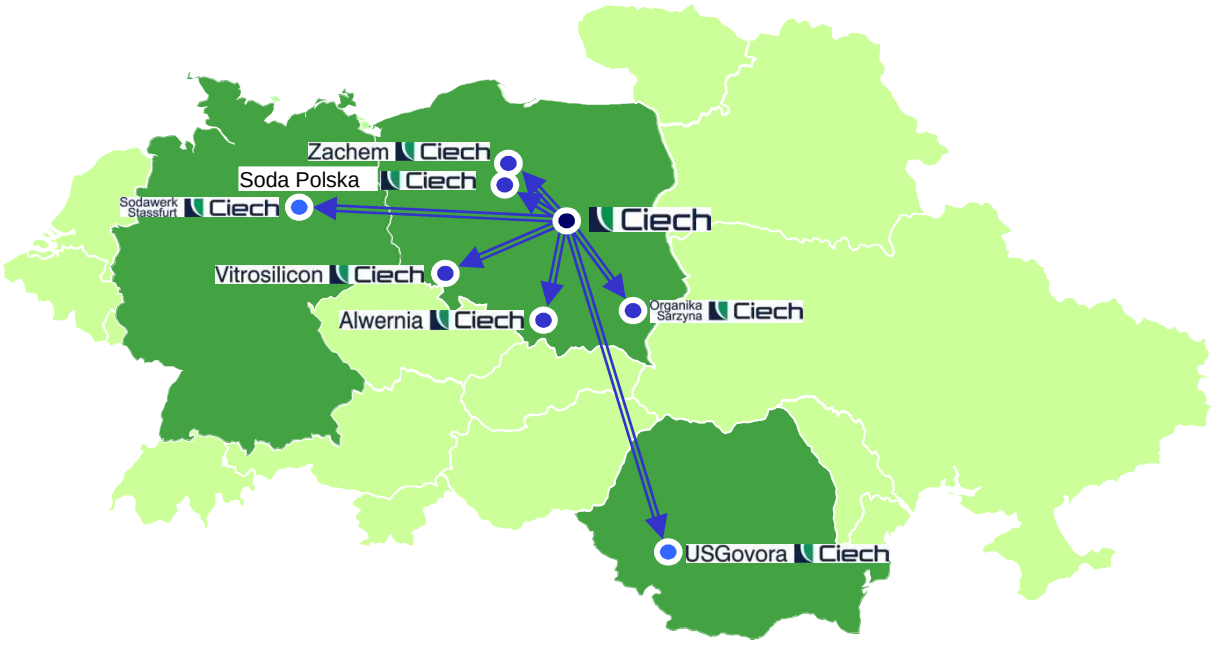
1 General information about the Ciech Group (continued)

- **ZACHEM Group:**
  - **Zakłady Chemiczne ZACHEM Spółka Akcyjna – parent entity**
  - BORUTA – Zachem KOLOR Spółka z ograniczoną odpowiedzialnością
  - ZACHEM UCR Spółka z ograniczoną odpowiedzialnością –company valued under the equity method.

- **Soda Deutschland Ciech Group**
  - **Soda Deutschland Ciech GmbH - parent entity**
  - Sodawerk Holding Stassfurt GmbH
  - Sodawerk Stassfurt Verwaltungs GmbH
  - Sodawerk Stassfurt GmbH&Co. KG
  - KWG - Kraftwerksgesellschaft Stassfurt GmbH,
  - Kavernengesellschaft Stassfurt GmbH (company valued under the equity method).

The parent, CIECH S.A., does not operate any branches.

Key companies of the Ciech Group in a geographical distribution



1 General information about the Ciech Group (continued)

Information about key companies of the Ciech Group

SODA DIVISION
Main products manufactured by the **Soda Division** include: light and dense soda ash, vacuum salt, baking soda and calcium chloride. The key position among other products of the soda segment belongs to soda ash (Ciech Group is the sole producer of soda in Poland). The products manufactured by this segment are sold mainly by CIECH S.A. The products of soda segment are manufactured in Soda Polska CIECH Sp. z o.o., a Romanian company US Govora S.A., and since December 19th, 2007 also in Sodawerk Stassfurt GmbH&Co. KG.

Characteristics of key production companies operating within the Division:

● **Soda Polska CIECH Sp. z o.o. (Soda Mątwy Group)** - the biggest domestic producer of soda ash with two manufacturing facilities located in Inowrocław and in Janikowo. The key products of the company, in addition to light and dense soda ash, include vacuum salt (the biggest producer in Poland), baking soda and calcium chloride. The level of production of soda ash amounts to about 1,200 thousand tons/year. The company holds the following certificates: ISO 9001: 2000, ISO 14001: 2004, GMP +B2. The plant also implemented the HACCP principles.

● **S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A.** – is a Romanian producer of soda ash, water glass, sodium silicate and soda-derived products.

● **Sodawerk Stassfurt GmbH&Co. KG (Soda Deutschland Ciech Group)** – German producer of soda ash and baking soda with its registered seat in Stassfurt. Sodawerk has been manufacturing ammonia soda for 127 years, using the sources of calcium and rock salt. The plant was acquired by CIECH S.A. in 2007 and a year later a new dense soda manufacturing system was commissioned. The company holds the following certificates: ISO 9001, ISO 14001, Kosher, GMP.

ORGANIC DIVISION
Organic Division - includes mainly products manufactured by Zachem Group: TDI, ECH, sodium hydroxide, hydrochloric acid and plastics - PVC, by Z.Ch. „Organika-Sarzyna" S.A.: epoxy and polyester resins and plant protection chemicals and by Ciech Pianki Sp. z o.o. - Polyurethane foams. Organic segment also includes commercial goods purchased and sold by the Organic Division, including in particular clean soda lye and PVC. The majority of organic segment products sold, including: TDI, hydrochloric acid, soda lye and epoxy resins, is conducted by CIECH S.A. on its own account while the sale of ECH outside the Ciech Group and purchase of strategic raw materials is performed under agency agreements. Ciech Group is a supplier of many organic chemicals for the domestic industry. The Group is the sole producer of TDI in Poland and the sole producer of epichlorohydrin (ECH) and epoxy resins.

Characteristics of key production companies operating within the Division:

● **ZACHEM S.A. (ZACHEM Group)** – the company offers a number of semi-finished and finished organic and non-organic chemical products for the chemical, automotive, construction, furniture, textile, leather, paper and cellulose industries as well as for the energy sector and for the manufacturers of cables. The key product is toluene diisocyanate (TDI). The company can produce 75,000 tons of this product per year. The production of ECH is also very important in terms of the business. ZACHEM S.A. is also the leading manufacturer on the Polish market of hydrochloric acid. The Company holds the certificate of the integrated quality, safety, hygiene and environment management system, compliant with the ISO 9001: 2001, PN -N-18001-2004, PN -EN ISO 14001-2005 standards. The company also has the integrated management support system SAP R/3 since 2000.

● **Ciech Pianki Sp. z o.o.** – company established on June 15th, 2011 following the decision of the Management Board of Zachem S.A. with its registered seat in Bydgoszcz to contribute the entity CENTRUM BIZNESOWE PIANKI as a contribution in kind to a subsidiary Ciech Pianki Spółka z o.o. with its registered seat in Bydgoszcz. The newly established entity manufactures polyurethane foams and its main client is the furniture market.

● **Z. Ch.** "Organika-Sarzyna" S.A. – produces plant protection chemicals (herbicides, fungicides, insecticides, growth regulators), epoxy resins and polyester resins. The full range of manufactured products includes over a thousand of items and their variations, in different chemical and application forms, packagings, depending on the target market and purpose. The most popular trademarks of the company include Epidian, Chwastox and Polimal. The main production activities are complemented by the activities associated with the services of formulation, packaging or distribution of products which can be carried out for business partners based on own production base, human potential and distribution network. The facilities hold quality management certificates ISO 9001, ISO 14001 and the safety and hygiene management system, compliant with the ISO PN-N-18001 standard

1 General information about the Ciech Group (continued)

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AGRO-SILICON DIVISION

The **Agro-Silicon Division** is composed of two segments, combined together in 2010 and previously classified by the Ciech Group as separate.

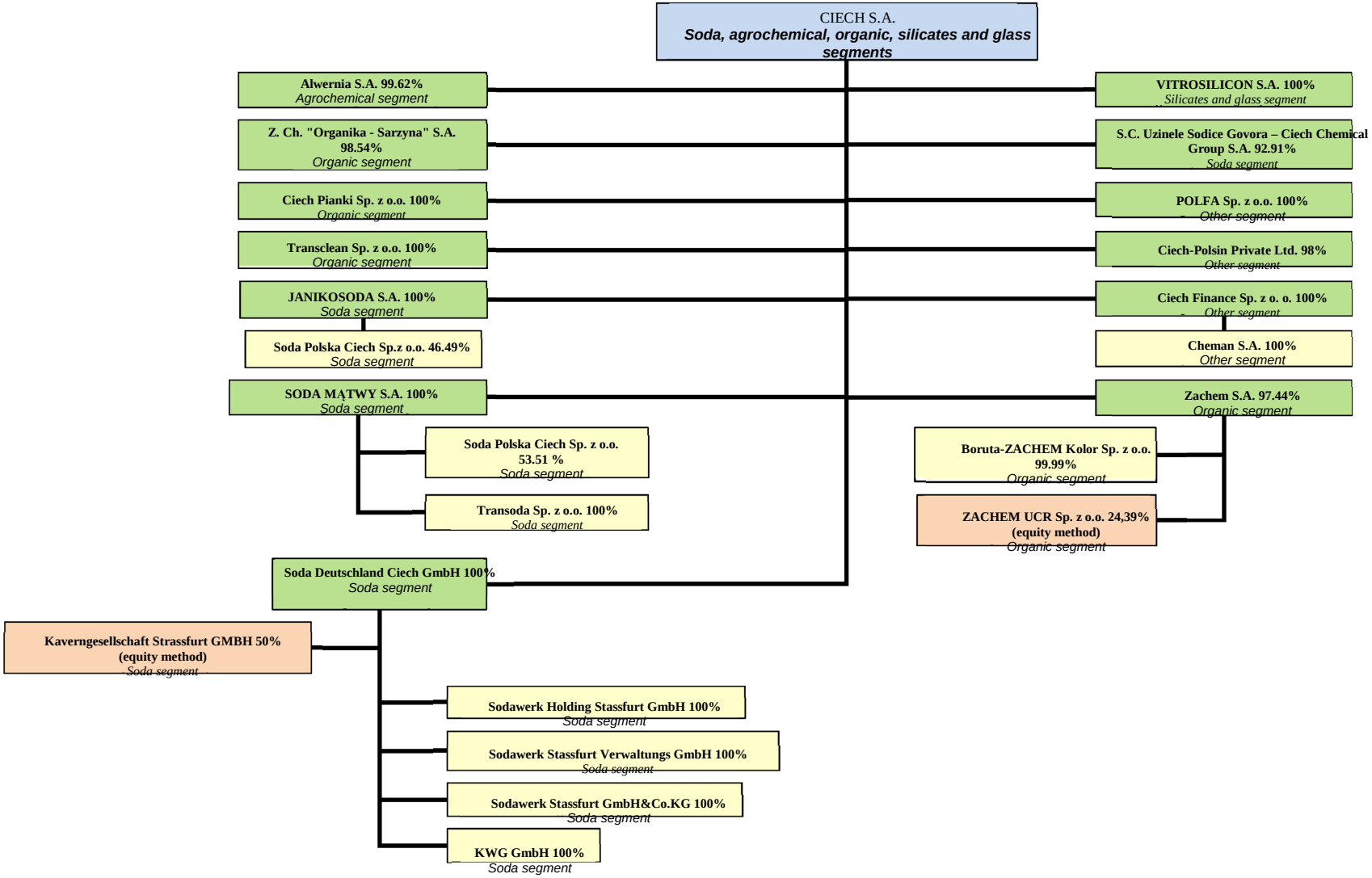
Agrochemical Segment provides a full product offer for agriculture chemicals. This segment covers fertilizers manufactured by Alwernia S.A. Materials for fertilizer production supplied to Alwernia S.A. are also present in this segment. From January 1st, 2008 to August 31st, 2010, the revenues from the sale of plant protection chemicals manufactured by Z.Ch. "Organika-Sarzyna" S.A. were also attributed to the Agrochemical Segment. Currently they are classified under the organic segment. The Group sells its products mainly to agricultural producers. This segment also includes trading of fertilizers and materials for fertilizers for the benefit of other entities, not belonging to the Ciech Group.

Silicates and Glass Segment includes mainly the products of VITROSILICON S.A. and other producers such as glass and sodium silicate, exported by CIECH S.A. Due to organisational reasons this segment also covers the trading of other goods, including in particular sulphur. This segment covers the production of glass products, including glass packaging (lanterns and jars) and construction glass (glass blocks). The glass ware is used mainly in construction, food industry and for the production of lanterns,

Characteristics of key production companies operating within the Division:

Alwernia S.A. – a producer of chromium compounds, phosphorus compounds, and sulphates. The company is the sole Polish producer of phosphorus and chromium compounds. It manufactures also agricultural and garden fertilizers. Alwernia S.A.'s products are used mainly in the production of washing and cleaning agents, in tanning, food and meat industries, in production of paints and varnishes and in gardening and agriculture.

VITROSILICON S.A. – manufacturer of products originating in the melting of glass and chemical products. The company produces glass containers: jars, lanterns for candles, ClaroGlass glass blocks, sodium and potassium silicates in lumps, sodium and potassium water glass. The company is the sole manufacturer of glass blocks in Poland (with about 60% market share). VITROSILICON S.A. has three manufacturing facilities: in Iłowa, where the seat of the Management Board of the company is located and glass blocks, water glass and glass containers are manufactured; in Żary, where sodium and potassium silicates in lumps are produced, and in Pobiedziska near Poznań, where glass containers are produced. The company implemented the Integrated Management System compliant with the following standards: ISO 9001: 2000, ISO 14001 and PN -N18001.



Organisational structure of the Ciech Group

2 Significant achievements of the Ciech Group in 2011.

Soda Division:

- On January 17th, 2011, Soda Polska CIECH Sp. z o.o. entered into an agreement with Kompania Węglowa S.A., the three-year contract regulates the supply and prices of steam coal. The contract covers the period from January 1st, 2011 to December 31st, 2013. The value of the agreement is estimated at approximately PLN 600.6 million. The contracts provides for contractual penalty of 10% of the net value of the unsupplied or unclaimed coal. The information was announced in Current Report no. 3 of January 18th, 2011.
- On August 29th, 2011, a plan was adopted and signed for the merger of CIECH S.A. with the following subsidiaries: SODA MĄTWY S.A. and JANIKOSODA S.A. In 2007, the Company took steps towards establishment of Soda Polska CIECH Sp. z o.o., to which enterprises of subsidiaries of CIECH S.A., i.e. SODA MĄTWY S.A. and JANIKOSODA S.A., were contributed, except for the shares of Polskie Towarzystwo Ubezpieczeń S.A. Soda Polska CIECH Sp. z o.o. later took over the power business pursued by EC KUJAWY Sp. z o.o. The existence of SODA MĄTWY S.A. and JANIKOSODA S.A. in the CIECH Group was envisaged to continue until the sale of shares of PTU S.A. As on December 29th, 2010 the contract for sale of shares of PTU S.A. was finalised, the respective Management Boards of SODA MĄTWY S.A. and JANIKOSODA S.A. took steps aimed at conclusion of the operations of the said companies by merger with CIECH S.A. The production and power business will be still pursued by Soda Polska Ciech Sp z o.o. The merger of the companies will take place by transfer of assets of Soda Mątwy SA and Janikosoda SA being taken over onto the target Company (merger through takeover) in accordance with the principles described in Art. 492 § 1 item 1 of the Code of Commercial Companies (CCC) and Art. 516 § 6 CCC.
  The merger process includes the following companies:
  a) the target company – CIECH S.A.
  b) the companies being taken over - Inowrocławskie Zakłady Chemiczne SODA MĄTWY S.A. and Janikowskie Zakłady Sodowe JANIKOSODA S.A.
  The merger of both soda companies with CIECH S.A. is the last stage of the process of simplification of the management of the soda segment of the domestic Group's companies, which began in 2007, in order to gain the synergy effect through a better coordination of business processes. The information was announced in Current Report no. 61 of August 30th, 2011.
- On November 7th, 2011, the Extraordinary General Meeting of Shareholders of CIECH S.A. gave its consent to the Merger Plan dated August 29th, 2011 regarding the merger of CIECH S.A., SODA MĄTWY S.A. and JANIKOSODA S.A. by takeover of SODA MĄTWY S.A. and JANIKOSODA S.A. by CIECH S.A. The information was announced in Current Report no. 69 of November 7th, 2011.
- Based on the initial results of the analyses, on February 21st, 2012, the Management Board of CIECH S.A. decided to undertake further actions aiming at finding the optimal method of the merger of companies: JANIKOSODA S.A. with its registered seat in Janikowo and SODA MĄTWY S.A. with its registered office in Inowrocław with CIECH S.A. By the time the analytical operations are completed, the process of merger of the companies, executed in accordance with the previously adopted Plan, is temporarily suspended.
- On December 16th, 2011, an agreement was signed between indirect subsidiaries of CIECH S.A.: Sodawerk Stassfurt GmbH&Co. KG with registered seat in Staßfurt ("SWS") and KWG-Kraftwerksgesellschaft Staßfurt GmbH with registered seat in Staßfurt ("KWG") and Vasa Kraftwerke-Pool GmbH&Co. KG with its registered seat in Staßfurt ("VASA").
  The subject of the agreement includes:
  a) Agreement concerning the lease of a power heating plant between KWG and VASA for an unlimited term, with option to terminate it no sooner than on January 1st, 2015 by exercising the CALL option by KWG, the price for the purchase of the power heating plant remains unchanged in relation to the price in the current option at the end of 2014. The option expires on January 1st, 2021 and the next dates in which the CALL option can be exercised by KWG are: 01.01.2017, 01.01.2019, 01.01.2021.
  If the CALL option is not executed, the lease agreement may be terminated by VASA with effect no sooner than on January 1st, 2016 by exercising the PUT option. The option expires on January 1st, 2020 and the next dates in which the PUT option can be exercised by VASA are: 01.01.2018, 01.01.2020. The advantage of this solution for KWG is the deferment of hard commitment to repurchase the plant on December 31st, 2014 for one year, while retaining the right to early redemption of the existing plant at the current price.
  Financial conditions:
  The rent is EUR 13 million net per year, payable in 12 equal monthly instalments at the end of each month. The total estimated value of lease obligations, if the early redemption of the plant is not executed, over 5 years is EUR 65 million (PLN 293 million according to the average NBP exchange rate on the date of the agreement);
  b) agreement on the suspension of agreements already in force between the parties, in particular the contract for energy supply of May 9th, 1994, binding between VASA and SWS;
  c) the final documentation of a discount issued by the VASA to SWS for energy costs for 2011 of EUR 7 million net - discount has already been recognized on September 30th, 2011 under the minutes from negotiations signed by the boards of SWS, KWG, and VASA on July 25th, 2011 and the resolution of the General Meeting of VASA of September 22nd, 2011;

2 Significant achievements of the Ciech Group in 2011 (continued)

d) agreement for the payment of disputed claims by SWS to VASA in the amount of EUR 3 million net by March 31st, 2012;
e) agreement to end litigation between the parties VASA, SWS, KWG before a district court in Naumburg.

The total estimated value of liabilities of Soda Deutschland Ciech Group companies under the Contract within 5 years, if the power heating plant buyback option is not exercise sooner, is EUR 68 million (approx. PLN 307 million according to the average NBP exchange rate on the date of the agreement);
Contractual penalties
Late payment of EUR 3 million of disputed claims by March 31st, 2012 is charged with a penalty of EUR 3 million. Payment of the penalty, does not exclude the right to claim damages in excess of the penalty.
The agreement was entered into with the following conditions precedent:

- Obtaining the consent of the Federal Cartel Office for the conclusion of agreements covered by notarial deed,
- Obtaining corporate consent of the VASA partners,
- Issuance of letters of awareness by CIECH S.A. concerning the lease rental payments since January 2012 and the VASA claims arising from the current electricity supply contract for the November and December of 2011, as well as the agreed payment of EUR 3 million at March 31st, 2012.
- Release of collaterals by Unicredit Bank AG held on contracts acquired from VASA by KWG and SWS.

Until February 1st, 2012, all conditions precedent have been met.
Other terms and conditions do not deviate from the standard conditions used in this type of agreements.
On the basis of the signed agreement, since January 1st, 2012 KWG starts to manage the power heating plant on its own account which concerns, in particular, purchases of gas, electricity sales and repair policy. The expected effect of signing of the agreement will be an improvement in the profitability of the Soda Deutschland Ciech Group. The information was announced in Current Report no. 74 of January 23rd, 2011 and Current Report no. 6 of February 2nd, 2012.

- On December 30th, 2011, Soda Deutschland Ciech (SDC) Group companies and Commerzbank and Kreditinstitut für Wiederaufbau entered into an agreement amending the Loan Agreement referred to in current report No 6/2008 dated January 23rd, 2008. The subject matter of the agreement and significant terms of the agreement:
  - Adjustment of the terms of the current agreement to the new situation occurred in consequence of execution by KWG GmbH and Vasa Kraftwerke Pool of a lease agreement dated December 16th, 2011;
  - Inclusion in the definition of "senior debt" of annual payments of lease instalments accounting for EUR 13 million net to VASA;
  - Adjustment of loan covenants to the valid medium-term plan of the SDC Group for the period 2012-2014 – the effect is an increased safety of operation of SDC Group regarding the forecasted observance of the loan covenants;
  - Effective increase in the loan cost is approximately 1 percentage point p.a. and results from adjustment of the loan covenants to a safer level for SDC Group;

  The term of the loan agreement remains the same; the new loan covenants apply starting from Q4 2011. The information was announced in Current Report no. 75 of December 30th, 2011.

Organic Division:

- On February 2nd, 2011, ZACHEM S.A. signed an annex to the agreement of July 29th, 2010 with PROCHEM S.A. ZACHEM S.A. created a liability which corresponds to the amount of the approved budget on "The construction of facility and implementation of an innovative technology of producing epichlorohydrin from glycerine" amounting to PLN 57,230 thousand. Preparation and presentation of the Task budget by PROCHEM S.A. was one of the elements of stage I of the Agreement. The liability accounting for PLN 57,230 thousand was conditioned on the approval by ZACHEM S.A. of the budget for performance of the aforementioned Task.
  The budget became an integral part of the Agreement on the day of signing the annex. Once the Task budget was approved, the second stage of the Agreement could be initiated.
  The signing of the annex to the Agreement has obliged PROCHEM S.A. to begin activities aimed at constructing a complete epichlorohydrin production facility and deliver it to ZACHEM S.A. for exploitation, which constitutes stage II of the Agreement. The investment completion is scheduled in 2012. The project received financing from UE funds, Action 4.4 within the Operational Programme Innovative Economy (subsidy amounting to approx. PLN 28,000 thousand). The value of the agreement was only possible after the signing of the annex to the Agreement which approved the Task budget. The information was announced in Current Report no. 8 of February 4th, 2011.

2 Significant achievements of the Ciech Group in 2011 (continued)

- On April 5th, 2011, the Management Board of CIECH S.A. decided to complete works connected with the divestment process in Transclean Sp. z o.o. owing to lack of offers complaint with assumed requirements.

Agro-Silicon Division:

- On April 27th, 2011 the conditions precedent set out in the conditional sales contract dated December 16th, 2010 regarding the sale of 51,855 shares in GZNF "FOSFORY" Sp. z o.o. entered into between CIECH S.A. and Zakłady Azotowe "Puławy" were satisfied.
  In consequence of the satisfaction of the conditions precedent set out in the Contract, on April 27th, 2011 51,855 shares in the Company with the nominal value of PLN 500 each, representing 89.46% of the Company's share capital and carrying 89.46% of votes at the Meeting of Shareholders of the Company were sold.
  The book value of the Shares presented in the CIECH S.A.'s books of account as at December 31st, 2010 is PLN 20,888 thousand.
  The purchase price of the Shares of the Company accounted for PLN 107,240 thousand and was calculated on the basis of the fixed Value of the Company's Enterprise and the Forecasted Value of the Company's Net Financial Debt agreed in the Contract. The purchase price for the Shares was corrected by the difference between the Value of the Net Financial Debt established as at April 27th, 2011 and the Forecasted Value of the Net Financial Debt. The final price was PLN 106,740 thousand. Furthermore, the Purchaser has also paid to the Seller the value of loans (along with interest due until April 27th, 2011) given by the Seller to the Company and its subsidiaries, accounting for PLN 121,362 thousand, which were taken over by the Purchaser pursuant to the Contract. This information was announced in Current Report no. 29 of April 27th, 2011.
- On October 10th, 2011 an agreement for supplies of sulphur in 2012 between Maroc-Phosphore SA and CIECH S.A. was signed. The total value of contracts signed during the recent 12 months between CIECH S.A. and Maroc-Phosphore amounts to app. USD 75.1 million. The previous agreement between Ciech SA and Maroc-Phosphore regarding supplies of sulphur in 2011 was signed on January 27th, The domestic supplier of sulphur being the subject matter of the agreement is KiZChS Siarkopol SA seated in Grzybów. The value of the agreement was approximately USD 40 million. The information was announced in Current Report no. 66 of October 12th, 2011.

Corporate Centre:

- On May 16th, 2011, the Supervisory Board of CIECH S.A. adopted a resolution on the appointment of KPMG Audyt Sp. z o.o. with its registered seat in Warsaw as a certified auditor to audit the financial statements of CIECH S.A. and the consolidated financial statements of the Ciech Group for 2011. The information was announced in Current Report no. 33 of May 17th, 2011.
- On May 19th, 2011 an agreement was signed by CIECH S.A. regarding the sale of 615,000 shares of Daltrade Ltd. with its registered seat in the United Kingdom with the nominal value of GBP 0.01 each for the total value of GBP 20 thousand. The shares were purchased by DAL Towarzystwo Handlu Międzynarodowego SA. Before the transaction the share of CIECH S.A. in Daltrade Ltd. share capital amounted to 61.20%. After the transaction, CIECH S.A. holds no shares in Daltrade Ltd.
- In connection with the expiry of the term of office of the Supervisory Board, the Ordinary General Meeting of CIECH S.A., on June 30th, 2011 appointed the following members of the Supervisory Board for a next joint term of office:
  - Przemysław Cieszyński
  - Arkadiusz Grabalski
  - Jacek Goszczyński
  - Waldemar Maj
  - Krzysztof Salwach
  - Ewa Sibrecht-Ośka
  - Sławomir Stelmasiak.

  The information was announced in Current Report no. 46 of June 30th, 2011.
- On July 15th, 2011 CIECH S.A. and Invest Pharma sp. z o. o. entered into a contract for sale of 3,820 shares representing 100% of the share capital of Polfa sp. z o.o. The share sale contract is conditional and depends on consent of the Office of Competition and Consumer Protection (UOKiK), consent of banks, members of the consortium financing the Ciech Group, and repayment of loans to CIECH S.A. accounting for approximately PLN 5.5 million (EUR 1 million and USD 0.5 million).
  The share sale price accounts for PLN 8.1 million. In view of the fact that the operations of the Company are not connected to the profile of operations of the Ciech Group, the Group's strategy for 2011 provided for sale of POLFA sp. z o.o. The information was announced in Current Report no. 51 of July 15th, 2011.
- On November 30th, 2011 the negotiation stage was completed and the contracts were signed for consolidated purchase of electricity in the TPA system in 2012 by the Ciech Group Companies. After an offering tender process, the company ENEA S.A. was selected as the electricity supplier on the liberated

energy market. The following Ciech Group companies entered into agreements for year 2012: Soda Polska Ciech Sp. z o.o., ZACHEM S.A., Z.Ch. "Organika-Sarzyna" S.A., Alwernia S.A. and VITROSILICON S.A.

2 Significant achievements of the Ciech Group in 2011 (continued)

The total electricity volume will be approx. 454 thousand MWh in 454 and the total net value of agreements between the Companies and ENEA S.A. amounts to approx. PLN 105.6 million net (excluding distribution charges amounting to PLN 28 million and excluding VAT). The supplies will be supplemented by an in-house electricity generation by heat and power plants owned by a Group company – Soda Polska Ciech – which will contribute around 450 thousand MWh. Terms and conditions of the agreements do not deviate from the standard conditions used in this type of agreements. The maximum contractual penalty (for possible overdue payments) is PLN 18 million and does not exclude the right to claim damages in excess of the penalty. The negotiated conditions of energy purchase in the TPA system for 2012, like in the years 2010-2011, will allow to maintain the prices for electricity at the lowest market level. The optimisation of the electricity purchase costs will contribute to improved financial ratios of the Ciech Group Companies. The information was announced in Current Report no. 72 of December 1st, 2011.

Debt financing

- On January 20th, 2011, CIECH S.A. signed a mandate agreement with Commercial Banks (the "Commitment Letter"). The Commitment Letter confirms the will of Commercial Banks to provide New Funding pursuant to conditions stated therein. The Commitment Letter stipulated that the New Funding will be granted by the Commercial Banks and EBRD jointly. On January 20th, 2011, EBRD informed CIECH S.A. of their intention to participate in the New Funding, however, the participation of EBRD is still to be approved by the Board of Directors of EBRD which was voted on February 15th, 2011. Key terms and conditions of the New Funding described in the Commitment Letter were discussed in Current Report no. 4 of January 21st, 2011.
  In connection with Current Report no. 29/2010 of June 21st, 2010 on the creation of hedges in relation to the refinancing agreement and entering into the agreement between creditors discussed in Current Report no. 21/2010 of May 18th, 2010, on February 9th, 2011, Soda Polska CIECH Sp. z o.o. received the last notification of the establishment of joint ceiling mortgage on assets owned or perpetually used by Soda Polska CIECH Sp. z o.o. The value of property on which the abovementioned mortgage was written, as at December 31st, 2010, in compliance with IAS, was PLN 150,323 thousand while the value of the perpetual usufruct in compliance with PAP - PLN 52,648 thousand. The information was announced in Current Report no. 10 of February 10th, 2011.
  On February 10th, 2011, annexes to loan agreements granted to S.C. Uzinele Govora – Ciech Chemical Group S.A. by CIECH S.A. were signed, they prolong the repayment of loans granted to US Govora S.A. up to December 26th, 2011. The annexes cover loans by and between the Company and US Govora S.A. from years 2006-2009 of a total amount at the debt prolongation day approx. EUR 56.9 million. The information was announced in Current Report no. 11 of February 11th, 2011.
  On February 10th, 2011, CIECH S.A., being the borrower, entered into a loan agreement with its subsidiaries, being guarantors (Janikosoda S.A., Soda Mątwy S.A., Soda Polska Ciech sp. z o.o., Alwernia S.A., Cheman S.A., Z.Ch. Organika Sarzyna S.A., POLFA sp. z o.o., VITROSILICON S.A., Transclean sp. z o.o. and ZACHEM S.A..) and Bank DnB Nord Polska S.A., Bank Handlowy w Warszawie S.A. ("Loan Agent"), Bank Millennium S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., ING Bank Śląski S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. (jointly referred to as "Commercial Banks") regarding refinancing of the current financial debt of the Ciech Group resulting from the Loan Agreement of April 26th, 2010. The agreement provided that S.C. US Govora – Ciech Chemical Group S.A. was to accede as a guarantor and borrower and that the European Bank for Reconstruction and Development shall accede as lender. The conditions for EBRD to accede the agreement included gaining a positive decision of the Board of Directors of EBRD and approval of the Loan Agreement content. The information was announced in Current Report no. 12 of February 11th, 2011.
- On February 15th, 2011, pursuant to a decision of the Board of Directors, the European Bank for Reconstruction and Development acceded the Loan Agreement and approved its provisions. The conditions of the release of funds by EBRD include: agreement on hedges documentation and fulfilment of conditions for releasing the Investment Loan stipulated in the Loan Agreement. EBRD's accession to the Loan Agreement was one of the conditions precedent to release of loans discussed in the Loan Agreement. The information was announced in Current Report no. 13 of February 15th, 2011.
- On March 18th, 2011, CIECH S.A. and US Govora S.A. entered into an agreement regarding a novation of the claim of CIECH S.A. against US Govora S.A. amounting to EUR 1,467 thousand. The claim occurred on March 18th, 2011 in connection with Ciech S.A.'s partial repayment of a loan granted to US Govora S.A. by Bank Handlowy w Warszawie S.A. (under the loan agreement of April 26th, 2010) amounting to EUR 1,467 thousand. Pursuant to a novation agreement, the debt under this Claim was converted to an in-group loan with repayment date on March 31st, 2016.

2 Significant achievements of Ciech Group in 2011 (continued)

- On April 14th, 2011 CIECH S.A. (the Lender) entered into a borrowing agreement with Z.Ch. "Organika-Sarzyna" S.A. (the Borrower), regarding funding for the construction of a MCPA active substance production facility together with infrastructure. The agreement stipulates that the borrowing will be paid in tranches in the period from April 2011 to September 2012, the forecasted amount of borrowing totals PLN 63 million. The borrowing repayment schedule assumes the complete repayment by December 31st, 2018.
- On April 27th, 2011 CIECH S.A. (the Lender) entered into a borrowing agreement with ZACHEM S.A. (the Borrower), to an amount not exceeding the equivalent of PLN 120,000 thousand. The loan will be used to finance the Borrower's investment expenditures and working capital. The agreement stipulates that the borrowing will be paid in tranches in PLN or USD, at the request of the borrower approved by the lender. The maturity date of the loan was set to 31 December 2012. This information was announced in Current Report no. 30 of April 28th, 2011.
- On May 20th, 2011 CIECH S.A. and its following subsidiaries: Janikosoda S.A., Soda Mątwy S.A., Soda Polska Ciech sp. z o.o., Alwernia S.A., Cheman S.A., Z.Ch. Organika Sarzyna S.A., POLFA sp. z o.o., VITROSILICON S.A., Transclean sp. z o.o. and ZACHEM S.A. and a few other subsidiaries signed the hedging documents which constitute one of conditions precedent stipulated in the Loan Agreement dated February 10th, 2011. A detailed information on the above collaterals was provided in Current Reports no. 34, 38, 39, 40, 41, 43, 47, 49, 50, 52, 53, 58 of 2011.
- On September 14th, 2011, were fulfilled all conditions precedent to releasing loans by the Commercial Banks to the benefit of CIECH S.A. and S.C. US Govora – Ciech Chemical Group S.A. provided for in the loan agreement entered into on February 10th, 2011, discussed in Current Report no. 12/2011. Releasing loans on the basis of the loan agreement discussed in Report no. 12/2011 was possible on condition that Bank Handlowy w Warszawie S.A. (the Loan Agent) informed CIECH S.A. of receiving all documents or proofs listed in the annex to the loan agreement (or of a discharge of the obligation to receive them); representations of CIECH S.A. and its subsidiaries provided for in the loan agreement had to be true at that time and there could be no infringement on the provisions of the loan agreement. The information was announced in Current Report no. 63 of September 15th, 2011.
- On September 29th, 2011 the loan agreement (referred to in Current Report no. 12/2011 of February 11th, 2011) was paid out.

Equity financing:

- On January 20th, 2011, banks - parties to the Existing Loan Agreement, approved for the funds from Issuance with Subscription Right and funds from the sale of GZNF Fosfory Sp. z o.o. - in the scope in which they will not be used for repayment of PLN 400 million, decreased by approx. PLN 155 million (i.e. amount of funds preliminary intended by CIECH S.A. for repayment or early repayment of loans under the Existing Loan Agreement), due on March 31st, 2011 - were not spent by CIECH S.A. on an obligatory early repayment of loans under the Existing Loan Agreement. At the same time, CIECH S.A. obliged that funds from the Issuance with Subscription Right and funds from the sale of GZNF Fosfory Sp. z o.o. be paid into a restricted bank account in PLN managed on behalf of CIECH S.A. by a hedge agent. The Surplus held on the Restricted Account may be used by CIECH S.A. on capital expenditure in defined companies of the Ciech Group in accordance with a defined schedule, provided that CIECH S.A. has fulfilled requirements stipulated in the Existing Loan Agreement and the loan agreement under which the New Funding will be provided. After the funds on account of the New Loan Agreement have been paid and CIECH S.A. has met required financial ratios with reference to a reporting period ending on September 30th, 2011, the funds held on the Restricted Account will be entirely released. The information was announced in Current Report no. 4 of January 21st, 2011. As a result of the fulfilment of the abovementioned requirements the funds were released from the Restricted Account and the account was closed.
- In 2011 CIECH S.A. conducted the issuance of Series D ordinary bearer shares with subscription right. Detailed information on the issue was presented in section 7.2 of this report.
- On March 25th, 2011, the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. adopted:
  - resolution no. 380/2011 regarding the indication of the last day of listing of 23,000,000 of rights to Company's ordinary bearer shares Series D with face value PLN 5 each ("Rights to Series D shares") in which the Management Board of GPW indicated March 29th, 2011 as the day of the last listing of the Rights to Series D shares registered in Krajowy Depozyt Papierów Wartościowych S.A. under code no. PLCIECH00067,
  - resolution no. 381/2011 regarding introduction to stock exchange trading on base market ordinary bearer shares Series D of the Company, in which the Management Board of GPW decided to introduce on the stock exchange base market 23,000,000 ordinary bearer shares Series D of the Company with face value PLN 5 each provided that KDPW registers the shares on March 30th, 2011 and registers them under the code no. PLCIECH00018. This condition was fulfilled.

2 Significant achievements of Ciech Group in 2011 (continued)

- The information was announced in Current Report no. 27 of March 28th, 2011.

- On May 26th, 2011 CIECH S.A. executed with the State Treasury of the Republic of Poland an agreement pursuant to which the Parties were going to take any and all activities aimed at issue by CIECH S.A. and acquisition by the State Treasury of E series ordinary bearer shares in the increased share capital of CIECH S.A., with a nominal value of PLN 5 each. The pre-emption rights of the New Issue Shares were excluded. The information on the above agreement was announced in Current Report no. 35 of May 26th, 2011.
- On June 3rd, 2011 CIECH S.A. was notified of the consent given by the Council of Ministers on May 27th, 2011, pursuant to Art. 33 section 3 of the act on commercialisation and privatisation, to a transfer onto CIECH S.A. of 571,826 ordinary bearer shares with a nominal value of PLN 2.30 each, representing 25.01% of the share capital of Alwernia S.A. having its registered office in Alwernia, as a contribution in kind covering the shares in the increased capital of CIECH S.A. to be acquired by the State Treasury. The information was announced in Current Report no. 37 of June 3rd, 2011.
- On July 27th, 2011 CIECH S.A. and the State Treasury entered into the Agreement for the Acquisition of Shares and Transfer of a Contribution in Kind. The details on the agreement are provided in section 10.2 of this report.
- On August 10th, 2011, the District Court for the Capital City of Warsaw in Warsaw, 13th Economic Division of the National Court Register registered the amendment to the Company's Statute adopted with the Resolution no. 32 of the Ordinary General Meeting of CIECH S.A. of June 30th, 2011 regarding the raise of Company's share capital and registered the raise of Company's share capital from PLN 255,001,420 to PLN 263,500,965 by way of issuance of 1,699,909 ordinary bearer shares Series E with face value of PLN 5 each. The increased share capital is PLN 263,500,965 and it is divided into 52,699,909 shares of face value PLN 5 each, including:
  - 20,816 ordinary bearer shares Series "A",
  - 19,775,200 ordinary bearer shares Series "B",
  - 8,203,984 ordinary bearer shares Series "C",
  - 23,000,000 ordinary bearer shares Series "D",
  - 1,699,909 ordinary bearer shares Series "E".

  Additionally, appropriate changes were introduced in the CIECH S.A.'s Statute regarding the amount of the share capital of CIECH S.A.
- The Board of Directors of Krajowy Depozyt Papierów Wartościowych S.A. (National Depository for Securities)("KDPW"), pursuant to resolution No 790/11 dated August 24th, 2011, decided to register in the depository for securities 1,699,909 series E ordinary bearer shares with a nominal value of PLN 5 each and to mark them PLCIECH00018, provided that a decision is made to introduce E Series Shares into trading on the regulated market to which other Company's shares marked PLCIECH00018 have been introduced by the company operating the Regulated Market. The registration of Series E shares in the securities' deposit took place within three days after the delivery to KDPW of a document confirming the decision to introduce the E Series shares to regulated market trading by the entity in charge of the regulated market, not sooner than on the day indicated in the decision as the day of introduction of the Series E shares to trading on this market. The information was announced in Current Report no. 60 of August 25th, 2011.
- On August 31st, 2011 the Board of Directors of Giełda Papierów Wartościowych w Warszawie S.A. adopted resolution No 1130/2011 on admission and introduction into trading on the basic market of GPW of series E ordinary bearer shares of the Company, pursuant to which the Board of Directors of GPW decided to introduce, on September 2nd, 2011, into trading on the basic market of GPW of 1.699.909 series E ordinary bearer shares of the Company with a nominal value of PLN 5 each, provided that Krajowy Depozyt Papierów Wartościowych S.A. registers such shares on September 2nd, 2011 and marks them PLCIECH00018. The information was announced in Current Report no. 62 of August 31st, 2011.

3 Description of factors and events having significant influence on the Group's activities

Positive factors

- A dynamic growth of sales in the domestic chemical industry in the period from January to December 2011, compared to the previous year (on the basis of fixed prices; by 11.4% in case of chemicals and chemical products and by 12.8% for rubber products and plastics).
- Substantial acceleration of an uptrend regarding domestic sales of construction and assembly products: over 12 months of 2011 by 16.3% compared to the previous year (chemical industry generates many raw materials and intermediate products used for this production).
- Higher demand and prices, compared to the level of 2010, for soda ash in the European markets (by a few and over a dozen percent accordingly).

3 Description of factors and events having significant influence on the Group's activities (continued)

- Very high level of market prices of sulphur on a global scale (twice higher compared to 2010).
- A large drop in the value of Polish currency, as compared to the previous year, against EUR and USD, promoting export profitability of the Ciech Group.

Negative factors

- A significant increase in the cost of production of soda ash in Europe (energy, coke, anthracite) compared with the previous year.
- A significant decrease in market prices of major products of Organic Division (TDI - compared to the previous year, epoxy resins and epichlorohydrin - in the fourth quarter of 2011).
- Continued high level of oil prices (as compared with 2010), which resulted in an increase or a suppliers' pressure to increase prices of raw materials for the organic industry.

There have been no atypical events influencing the activities of Ciech Group.

Significant risk and hazard factors and the Group's exposure

Risks related to the industry in which the Ciech Group operates and with macroeconomic conditions

Risk of positive trends reversal with respect to the economic growth and market change trends
The activity of the Group is connected with many segments of widely understood chemical industry, whose development is directly correlated to the economic situation country- and worldwide. After joining the European Union, Poland's economic growth was relatively high, at the level of several percent GDP annually. The forecasts for the following years anticipate a certain decrease in the previous high growth rate resulting from the slow recovery after the global economic crisis (internal demand slowdown, export slowdown and investment slowdown).
Market trends essential for the Group are linked with economic conjuncture and the pace of society's enrichment. This results from the fact that the scope of Group's target markets is very wide: construction, motorisation, furniture, paints and varnishes, household chemistry and agriculture and food processing. The risk of changing market trends for the Ciech Group is practically defined through the risk of fluctuations in the economic growth dynamics in Europe and worldwide.
Deterioration in overall conjuncture may have a negative impact on the activity and financial results of the Group.

Risk of a long-term economic stagnation/recession in Europe and around the world
Group's business relies heavily on the export of chemical products, whose level and profitability depends on the global economic situation in Europe and around the world. The long-term economic downturn may lead to considerably lower foreign turnover in export and at the same time lower revenues from particular segments of the Ciech Group's activity and have negative impact on the financial results of the Group.

Currency risk
Currency risk is an intrinsic component of running commercial activity denominated in foreign currencies. Due to the nature of conducted import and export operations, the Group is subject to currency exposure connected with considerable surplus of exports over imports. Sources of currency risk which threatens companies within the Group include: product sale, purchase of raw materials, loans and borrowings raised and cash in foreign currencies. Unfavourable changes in currency exchange rates may worsen Group's financial results.

Risk of a drop in the value of domestic construction and assembly production
The chemical industry manufactures many raw materials and intermediate products intended for this type of production. Possible aggravation of economic conditions in the area of construction and assembly production may have negative influence on the demand for Group's products and, consequently, on its financial results.

Conjuncture risk in the furniture industry
The furniture industry is the main recipient of PUR foams and (indirectly) the intermediate product used in its production - toluene diisocyanate - TDI - manufactured by the Group. Aggravated situation on the furniture market may result in falling demand for these products and lead to worsening of the Group's financial results.

3 Description of factors and events having significant influence on the Group's activities (continued)

Risk of oversupply of soda ash in Europe
At the turn of the first and second decades of this century, new soda ash production capacities were created in Europe and the neighbouring countries (more investments are still to be realized – mainly in Turkey). In the event of scheduled realisation of all investments (and major growth of supplies to the market within a relatively short period of time), significant periodic product oversupply and price decrease could occur in the region which may have negative impact on the Group's financial results.

Risk of drop in the demand for soda ash in Europe
In 2009, Europe experienced a drop in the demand for soda ash by a dozen per cent compared to 2008. The drop resulted from a decreased demand from the glass industry (in particular with respect to flat glass), which is the recipient of approximately half of soda supplier in Europe. The record level consumption of soda in Europe (achieved in 2008) may be expected to be recorded again not sooner than in a couple of years.
In a longer perspective, especially in the CEE region, there is a risk of decreasing consumption of soda in the packaging glass industry resulting from implementing environmentally-friendly regulations, which promote multiple use of glass packaging and using cullet in glass production process. Possible drop in the demand for soda ash may lead to decreasing prices of the product and have negative impact on Group's financial results.

Risk of a significant drop in demand in the toluene diisocyanate (TDI) segment
The Ciech Group owns the sole domestic producer of TDI – an intermediate product for the production of polyurethane flexible foam applied mainly in the furniture and automotive industry. The TDI market is a global market but in the European practice the turnover is realised mostly within the continent. Taking into account the target recipients, the situation in the sector of TDI producers is strongly dependent on the overall economic situation. Possible drop in the demand from TDI recipients may have negative impact on Group's financial results.

Risk of significant oversupply of TDI on the global markets
In the coming years, it is planned to considerably increase TDI production capacities in the whole world (by more than 50%). In the event of scheduled realization of the planned investments and taking into account the forecasted pace of market growth at the level of several percent per annum, global TDI oversupply may be expected in the first half of the second decade of this century. This could lead to a significant decrease in TDI prices and, as a result, may worsen the Group's financial results.

Main markets' competition risk
There are many domestic and foreign entities dealing with the supply of chemicals to the Polish market. There is a risk that trade conditions offered by the Ciech Group will not be competitive enough, which will lead to a decrease in chemicals' supply to the domestic market and, consequently, may result in a drop in this area of Group's revenue and have a negative impact on Group's financial results.
There are the following threats from the competition on particular product markets:

- ***Soda products market***
  The Ciech Group is the only manufacturer in the area of soda products market (soda ash, baking soda) in Poland and in the case of soda ash practically the only supplier on the market, excluding a negligible import. A certain risk of growing import from eastern manufacturers may be expected. On the European market there is a risk of increased supply of cheaper soda ash from natural deposits (so-called trona) delivered by suppliers from the United States of America and Turkey. The size of this threat is dependent on the exchange rates between USD and EUR. In case of weaker USD, the competitiveness of American soda grows. A particular threat for the Ciech Group's position may be additional supplies of Turkish soda ash to the European market originating from a planned increase in exploitation of soda from natural deposits.
- ***TDI market***
  Increase of competitors' production capacity on target markets of the Ciech Group (e.g. Bayer facility in China) may worsen the Group's position as an exporter. Another threat results from the fact that one of the major world manufacturers (Bayer) introduces modern gas technology of producing TDI.
- ***Epichlorohydrin market – ECH***
  In the past two years, Russian manufacturers have activated their business activities on the Asian market and partially withdrawn from the European market, with a significant share of their export (including Bisphenol A, ECH) directed to China. This may entail an improved efficiency of Ciech Group's European operations, on the one hand, but also difficulties in accessing certain raw materials.
- ***PUR foam market***
  Low technical and capital barriers in entering the market may favour the emergence of new competitors in the future. In addition, recipients tend to launch their own production of PUR foam, which may not only lead to lower demand on the market but may also result in increased product supply (selling surplus production).

3 Description of factors and events having significant influence on the Group's activities (continued)

- ***Market for unsaturated polyester resins***
  Due to lower demand on the domestic market, Italian resins manufacturers turn to foreign expansion. Possibly they will need to gain part of Polish market, which will entail fiercer domestic competition and aggravate the operating conditions for the Group. Increased competition on this market may result in worsening of Ciech Group's market position.

Raw material and product price risk

A significant portion of the Group's activity is the import and export of chemical raw materials. The raw materials markets are characterised by a cyclical nature connected with fluctuations of the global economy. The growing prices of raw materials cause a decrease in margins of trade intermediaries as well as a decrease of demand generated by recipients. On the other hand, falling prices are usually a symptom of 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 Group. Considerable fluctuations of demand and prices caused either by fast economic growth or economic stagnation may have negative influence on the activity related to trading in chemical raw materials by the Group.

Basic raw materials used by the Group include: energetic resources - coal, blast-furnace coke and anthracite, used in soda ash production; organic chemicals originating from oil processing (TDA, toluene, propylene, Bisphenol A - BPA, styrene). Prices of energetic resources are characterised by large sensitivity to current economic conjuncture trends and grow during dynamic economic growth. There is a risk of an increase in prices of these raw materials, which will result in a significant drop in profitability of soda ash and organic chemicals produced by the Ciech Group (TDI, epichlorohydrin, resins). Fluctuations of raw materials prices, and most importantly increase in prices, may lead to a deterioration of Group's financial results.

The Group may also suffer due to fluctuations of oil prices. If the uptrend which started in the beginning of 2009 continues in the future, there may be an increase in prices of raw materials for the organic industry, which may have a negative impact on the Group's financial results.

In general, there are no significant fluctuations regarding the prices for inorganic goods and products. Nevertheless, the organic segment is exposed to price risk. This correlated with the condition of global economy, current demand and supply situation of final customers, the level of prices of basic raw materials and energy.

Risk of changes in Polish and European law regarding environmental requirements

The development of the Ciech Group will be affected, over the next few years, by new legal requirements related to environmental protection, resulting mainly from the directive on industrial emissions (IED) and the directive establishing the EU emission trading system (EU ETS). These regulations will force the reduction of the emission of pollutants into the air and will affect the modernisation of installations or replacing the currently used carbon-based fuel into a different one, of lower emission.

On January 6th, 2011 an EU directive no. 2010/75/UE, the Industrial Emission Directive, (IED) entered into force, replacing, among others, the current IPPC directive. The IED directive contains new obligations related to obtaining an integrated permit, which must be introduced into the Polish legislation by January 7th, 2013. By January 7th, 2014, all existing installations, except for so-called Large Combustion Plants (LCP) must comply with the IED directive. On the other hand, the LCP installations must comply with the new requirements, including the new emission standards, by January 1st, 2016.

The most important amendments in the IED directive in relation to current regulations include:

- New rules of issuing integrated permits, connected, among others, with:
  - ✓ Change of the role of BAT reference documents (so-called BREF), the requirements of which (adopted by way of a decision of the EC - as so-called BAT conclusions) will be now legally binding, which will increase the requirements related with the environmental protection;
  - ✓ The obligation to prepare a basic report on the contamination of soil and underground water and the requirement to conduct monitoring in this period;
- New requirements for LCP installations due to the change of the definition of a source and definitely stricter levels of emissions of SO_2, NO_x and dust, especially for facilities which are powered with coal.

In turn, pursuant to the directive 2009/29/EC amending the directive 2003/87/EC in order to improve the effectiveness and extend the EU greenhouse gas emission trading system, significant changes in the EU trading system (EU ETS) will enter into force in 2013. Their results will include, among others, the following:

- the system will be implemented, in addition to the companies that currently participate in it, that is Soda Polska Ciech Sp. z o.o., Sodawerk Stassfurt GmbH, Alwernia S.A. and VITROSILICON S.A., by two more companies – US Govora and probably ZACHEM S.A.,
- the range of CO_2 emission will be noticeably extended by processing emissions connected with, inter alia, production of soda,
- producers of electric energy used by all Ciech Group companies will be partially or completely covered by the obligation to purchase allowances, which will result in the increase of electricity prices,

3 Description of factors and events having significant influence on the Group's activities (continued)

- the scale of using allowances for the emission under the Clean Development Mechanism (CDM) and Joint Implementation (JI) projects will change, that is CER instead of ERU or EUA.

The most significant consequence of these changes for the companies participating directly in the system will be a significant deficit of CO_2 emission allowances, which will have a material adverse effect on the financial situation of the Group.

Risk relating to environmental protection
An identification and assessment of environmental risk relating to legal regulations and operating activity of Subsidiaries was conducted in accordance with the business risk management system employed in the Ciech Group. US Govora identified the most significant risk. Those risks result for very strict requirements of the Romanian environmental protection regulations concerning: (i) permissible parameters in liquid waste discharged to surface water, and (ii) production waste management - pursuant to the regulation of the Government no. 349/2005, the Company is obliged to withdraw from exploitation of soda sludge settling tanks until December 31st, 2012. U.S. Govora has taken intensive measures to mitigate national regulation, supporting its own business with the compliance of own manufacturing activity with the requirements of BAT.
The risks of major importance identified in the Group include: the risk of exceeding the admissible level of dust and SO_2 emission from two power heat plants operated by Soda Polska Ciech Sp. z o.o. (ii) the risk of suspension by Provincial Environmental Protection Inspectorate (WIOŚ) of the exploitation of brine electrolysis facility in ZACHEM S.A. in the case of a prohibition of using the asbestos for the production of asbestos-based diaphragms in electrolysers or untimely completion of construction of modern brine electrolysis facility (iii) the risk of imposing an obligation on ZACHEM S.A. to re-cultivate the land and clean the underground water in the area of the facility (iv) the risk of not meeting parameters regarding post-distillation waste in Sodawerk Stassfurt GmbH in terms of ammonia nitrogen concentration in compliance with BAT requirements for soda ash production technology using Solvay method.
The aforementioned risk, if it materialises, may have a significant negative influence on the Group's activity, financial situation or on the results of its activity.

4 Primary economic and financial information

In 2011 the Ciech Group generated net profit amounting to PLN 1,501 thousand, the balance sheet total amounted to PLN 4,066,505 thousand and net cash decreased by PLN 63,697 thousand.

The table below presents selected financial data and basic financial ratios for 2011 and 2010.

Selected figures

PLN '000.	**01.01.-31.12.2011**	*including discontinued operations*	**01.01.-31.12.2010**	*including discontinued operations*	**Change 2011/2010**
Net sales of products, goods and materials	**4,174,486**	***182,105***	**3,960,316**	***261,160***	**5.4%**
Cost of sales	3,613,807	*(126,530)*	3,395,603	*(171,076)*	6.4%
Gross profit on sales	560,679	*55,575*	564,713	*90,084*	(0.7%)
Selling costs	276,019	*(20,926)*	277,629	*(46,974)*	(0.5%)
General and administrative costs	213,319	*(21,611)*	231,049	*(38,077)*	(7.7%)
Other operating revenue / costs	47,374	*(1,034)*	90,818	*5,197*	(47.8%)
Operating profit	**118,715**	***12,004***	**146,853**	***10,230***	(19.2%)
Financial revenue/costs	(110,131)	*(10,147)*	(85,764)	*(10,906)*	28.4%
Share of net results of subsidiaries evaluated using the equity method	46	-	(6,610)	-	-
Income tax	4,586	*13,118*	(32,145)	*(1,815)*	-
Result on sales attributable to discontinued operations	(11,715)	*(11,715)*	-	-	-
Net result	**1,501**	***3,260***	**22,334**	***(2,491)***	**(93.3)**
Net result attributed to non-controlling interest	(5)	*437*	(2,010)	*202*	(99.8%)
Net result attributable to shareholders of the parent	**1,506**	***2,823***	**24,344**	***(2,693)***	**(93.8%)**
EBITDA	340,824	*12,954*	384,702	*25,012*	(48.2%)

4 Primary economic and financial information (continued)

PLN '000.	**31.12.2011**	**31.12.2010**	**Change 2011/2010**
Assets	**4,066,505**	**3,929,016**	**3.5%**
Non-current assets	2,677,201	2,456,399	9.0%
Current assets, including:	1,389,304	1,472,617	(5.7%)
- inventory	*335,591*	297,233	12.9%
- current receivables	*849,386*	739,954	14.8%
- cash and cash equivalents	*145,805*	177,077	(17.7%)
- short-term investments	*1,505*	533	182.4%
- assets held for sale	*57,017*	257,820	(77.9%)
Total equity	**1,308,090**	**850,470**	**53.8%**
Equity attributable to shareholders of the parent	1,310,111	817,851	60.2%
Non-controlling interest	(2,021)	32,619	-
Non-current liabilities	683,563	961,333	(28.9%)
Current liabilities	2,074,852	2,117,213	(2.0%)

PLN '000.	**01.01.-31.12.2011**	**01.01.-31.12.2010**	**Change 2011/2010**
Net cash flows from operating activities	(19,338)	318,351	-
Net cash flows from investing activities	(63,660)	9,978	-
Net cash flows from financial activities	19,301	(174,755)	-
Total net cash flows	**(63,697)**	**153,574**	-
including free cash flows	***(82,998)***	***328,329***	**-**

	31.12.2011	**31.12.2010**	**Change 2011/2010**
Net earnings per share	**0.03**	**0.87**	**(96.6%)**
Net return	0.04%	0.6%	(93.6%)
EBIT %	2.8%	3.7%	(0.9 p.p.)
EBITDA %	8.2%	9.7%	(1.5 p.p.)
Current ratio	0.67	0.70	(4.3%)
Quick ratio:	0.51	0.56	(8.9%)
Debt ratio	67.8%	78.4%	(10.6 p.p.)
Equity to assets ratio	32.2%	21.6%	10.6 p.p.

Source: CIECH S.A.

Calculation principles:

net earnings per share – net earnings of parent entity's shareholders / weighted average number of ordinary shares in the given period (in accordance with the IAS 33 definition of "Earnings per share")
net return – net profit for a given period / net revenues from sales of products, services, goods and materials in a given period,
EBIT % – operating profit for a given period / net revenues from sales of products, services, goods and materials in a given period,
EBITDA % – (operating profit + depreciation for a given period) / net revenues from sales of products, services, goods and materials in a given period,
current ratio – current assets at the end of a given period / current liabilities at the end of a given period,
quick ratio – current assets less inventory at the end of a given period / current liabilities at the end of a given period,
total debt ratio – current and non-current liabilities at the end of a given period / total assets at the end of a given period,
equity to assets ratio – total equity at the end of a given period / total assets at the end of a given period.

Sales revenues

Consolidated net sales of Ciech Group in 2011 amounted to PLN 4,174,486 thousand. In comparison with the same period in the previous year, net sales decreased by PLN 214,170 thousand, i.e. 5.4%. The increase was mainly due to:

- increased revenues from sale of soda ash in the soda segment - increased demand on European markets,
- increased revenues from sale of resins in organic segment - result of higher prices.

4 Primary economic and financial information (continued)

The agricultural chemicals segment from the Agro-Silicon division generated lower revenues compared to 2010, which is a result of sale of shares in FOSFORY Group completed in H1 2011 - a company involved in the production and sale of fertilizers.

The activity of the Ciech Group concentrates on four main segments: soda, organic, agrochemical, silicates and glass. These segments generated in total 94% of the Group's sales revenues. The structure of revenue has slightly changed in comparison with the same period of the previous year. The greatest share in the revenues for 2011 is attributed to the sales of soda segment products. This is the effect the achievement of both higher volumes and selling prices of soda ash.
In comparison to 2010 sales levels increased in every segment except agrochemical segment, but did not significantly change the share of individual segments in the consolidated revenues of the Ciech Group.

Sales revenues by business segment

PLN '000	2011	2010	change	change %	% share in total revenue 2011	% share in total revenue 2010
Soda Segment — Soda Division, including:	**1 681,430**	**1 458,187**	**223,244**	**15.3%**	**40.3%**	**36.8%**
Dense soda ash	968,764	840,244	128,520	15.3%	23.2%	21.2%
Light soda ash	313,147	259,189	53,958	20.8%	7.5%	6.5%
Salt	147,016	142,361	4,655	3.3%	3.5%	3.6%
Baking soda	108,245	96,259	11,986	12.5%	2.6%	2.4%
Calcium chloride	34,124	34,837	(713)	(2.0%)	0.8%	0.9%
Organic Segment - Organic Division, including:	**1 548,487**	**1 496,946**	**51,541**	**3.4%**	**37.1%**	**37.8%**
TDI	426,975	528,186	(101,211)	(19.2%)	10.2%	13.3%
Resins	469,262	372,475	96,787	26.0%	11.2%	9.4%
Polyurethane foams	208,159	192,401	15,758	8.2%	5.0%	4.9%
Plant protection chemicals	129,123	108,888	20,235	18.6%	3.1%	2.7%
Plastics	64,975	88,600	(23,625)	(26.7%)	1.6%	2.2%
ECH	89,722	68,081	21,641	31.8%	2.1%	1.7%
Agrochemical Segment Agro-Silicon Division, including:	**378,753**	**500,375**	**(121,622)**	**(24.3%)**	**9.1%**	**12.6%**
Fertilizers	158,939	265,420	(106,481)	(40.1%)	3.8%	6.7%
Phosphorus compounds	148,538	88,325	60,213	68.2%	3.6%	2.2%
Chromium compounds	16,402	19,101	(2,699)	(14.1%)	0.4%	0.5%
Silicates and Glass Segment — Agro-Silicon Division, including:	**315,452**	**290,610**	**24,842**	**8.5%**	**7.6%**	**7.3%**
Sulphur	150,561	116,277	34,284	29.5%	3.6%	2.9%
Glass blocks and packaging	87,900	94,296	(6,396)	(6.8%)	2.1%	2.4%
Sodium silicate in lumps	52,007	50,515	1,492	3.0%	1.2%	1.3%
Sodium water glass	17,157	18,509	(1,352)	(7.3%)	0.4%	0.5%
Other operations	**250,364**	**214,198**	**36,166**	**16.9%**	**5.9%**	**5.4%**
TOTAL, including:	**4,174,486**	**3,960,316**	**214,170**	**5.4%**	**100.0%**	**100.0%**
Discontinued operations	***182,105***	***261,160***	*(79,055)*	*(30.3%)*	*4.4%*	*6.6%*

Source: CIECH S.A.

Result on sales and operating result

Gross profit on sales for 2011 amounted to PLN 560,679 thousand and in the same period of the previous year – PLN 564,713 thousand. The operating profit amounted to PLN 118,715 thousand and PLN 146,853 thousand for the comparable period.

4 Primary economic and financial information (continued)

The positive contributors to the presented profit were as follows:

- a dynamic growth of sales in the domestic chemical industry in the period from January to December 2011, compared to the previous year (on the basis of fixed prices; 11.4% in case of chemicals and chemical products and 12.8% for rubber products and plastics),
- substantial acceleration of an uptrend regarding domestic sales of construction and assembly products: over 2011 by 16.3% compared to a comparable period in the previous year (chemical industry generates many raw materials and intermediate products used for this production),
- higher demand and prices, compared to the level of 2010, for soda ash in the European markets (by a few and over a dozen percent accordingly),
- maintenance in 2011 high European prices of epoxy resins and epichlorohydrin recorded since mid-2010,
- high level of market prices of sulphur on a global scale (about twice higher compared to 2010).

The negative contributors to the presented profit were as follows:

- a significant increase in the cost of production of soda ash in Europe (energy, coke, anthracite) compared with the previous year,
- a significant decrease in market prices of major products of Organic Division (TDI - compared to the previous year, epoxy resins and epichlorohydrin - in the fourth quarter of 2011),
- continued high level of oil prices (as compared with 2010) with an uptrend, which resulted in an increase or a suppliers' pressure to increase prices of raw materials for the organic industry.

The presented results also take into account one-off events, including:

- Soda Polska Ciech Sp. z o.o. selling surplus rights to greenhouse gases emission,
- Soda Polska Ciech Sp. z o.o. revenues from the transaction of exchanging EAU rights to CER certificates,
- revenues from the sale of voids in the Soda Deutschland Ciech Group,
- redemption by VASA part of the liabilities of Soda Deutschland Ciech Group,
- liquidation of fixed assets.

The EBIT margin at the end of 2011 was 2.8% (3.7% the year before), while the EBITDA margin was 8.2% (9.7% the year before).

Financing activities

Financial income for 2011 amounted to PLN 33,490 thousand and recorded more than 80-percent decrease compared to the same period of the previous year, when it amounted to PLN 170,326 thousand.

Positive contributors to the area of financing activities were:

- positive balance of FX differences of PLN 5,722 thousand (in 2010 the balance was negative and amounted to PLN 66,291 thousand),
- balance of interest on funds held in deposits and bank accounts.

Financial costs for 2011 amounted to PLN 143,624 thousand and recorded more than 40-percent decrease compared to the same period of the previous year, when it amounted to PLN 256,090 thousand.

Negative contributors to the area of financing activities were:

- substantial costs of servicing external debt, including interest for loans and bonds and financial leasing, which is associated with high external debt,
- costs of commission on loans and bank charges,
- sale of shares in GZNF "FOSFORY" Sp. z o.o. and Daltrade Ltd. (the result on the sale of financial assets is transferred to the "profit / loss on sale connected with discontinued operations").

Net result

Consolidated net result of 2011 amounted to PLN 1,501 thousand, whereby PLN 1,506 thousand was the parent shareholders' net result. Net profitability reached 0.04%. Operating profit was significantly offset by the result on financial operations. The net result for 2011 was negatively influenced by debt servicing costs, in particular by interest on loans.

4 Primary economic and financial information (continued)

Financial performance by type of business

PLN '000.	**01.01.-31.12.2011**	**01.01.-31.12.2010**	**Change 2011/2010**
1. Operating profit	118,715	146,853	(19.2%)
2. Net financial revenue/costs	(110,131)	(85,764)	28.4%
3. Share in net profit of subsidiaries valued under the equity method	46	(6,610)	-
4. Income tax	4,586	(32,145)	-
5. Profit on sales attributable to discontinued operations	(11,715)	-	-
6. Net profit (1+2+3-4+5)	**1,501**	**22,334**	**(93.3%)**
7. Result attributed to non-controlling interest	(5)	(2,010)	(99.8%)
8. Result attributable to shareholders of the parent (6-7)	**1,506**	**24,344**	**(93.8%)**

Source: CIECH S.A.

Assets

At the end of December 2011 the non-current assets of the Group amounted to PLN 2,677,201 thousand. As compared to the status as at December 31st, 2010, the value of non-current assets increased by PLN 220,802 thousand. The highest increase was observed in the case of tangible fixed assets, which grew by PLN 153,679 thousand, as compared to the end of 2010, which was a result of the investment program in the Ciech Group.

The Group's current assets amounted to PLN 1,389,304 thousand as at December 31st, 2011. The following items dominated among the current assets: trade and other receivables – 60.5% of current assets, and inventory – 24.2%. Compared to the situation at the end of December 2010, the value of current assets decreased by PLN 83,313 thousand. The greatest decrease was recorded for assets held for sale, which is a result sale of shares FOSFORY Group and Daltrade Plc Ltd. by the parent. On the other hand, there was an increase in the level of trade receivables, including in Organika - Sarzyna SA, which is due to seasonal sales of plant protection chemicals, and in VITROSILICON SA, which is related to seasonal sales of lanterns and candles.

Liabilities

The Ciech Group's liabilities (non-current and current) as at December 31st, 2011 amounted to PLN 2,758,415 thousand, which is a decrease in comparison with the balance as at the end of December 2010 by PLN 320,131 thousand (i.e. 10.4%).

Compared to the situation as at December 31st, 2010, the value of liabilities due to loans and borrowings decreased by PLN 399,459 thousand, which is related to Ciech Group companies repaying their debt connected with the consortium loan.

The total debt ratio (current and non-current liabilities / total assets) was 67.8% as at December 31st, 2011 (78.4% at the end of December 2010). The consolidated net debt of the Group calculated as the sum non-current and current liabilities due to loans, borrowings and other debt instruments (bonds + financial leasing + liabilities due to derivatives) decreased by cash and cash equivalents amounted to PLN 1,105,067 thousand as at December 31st, 2011 and decreased in comparison with the balance as at the end of December 2010 by PLN 370,837 thousand.

Cash flows

Net cash flows in 2011 was a negative amount equal PLN 63,697 thousand. As compared to the same period of the previous year the Group generated cash flows lower by PLN 217,271 thousand. Cash flows from operating activities amounted to PLN -19,338 thousand and were lower than those generated in the period between January and December 2010 by PLN 337,689 thousand.

The surplus of investment expenditure over inflows amounted to PLN 63,660 thousand and was higher in relation to the same period in 2010 when the balance of cash flows from investment activities was positive and amounted to PLN 9,978 thousand. The balance of cash flows from investment activities was influenced mainly by transactions of purchase and disposal of intangible assets and tangible fixed assets in SODA MĄTWY Group and ZACHEM Group in relation with the implemented development projects. In addition the investment activities were affected by the sale of shares in FOSFORY Group, which was connected with the repayment of borrowing amounting to PLN 120,611 thousand.

Net cash from financial activities was positive and amounted to PLN 19,301 thousand. As compared with the same period in 2010, they were higher by PLN 194,056 thousand. The two main reasons for this increase are:

- effects of cash from the issuance of shares by CIECH S.A., which took place in the first quarter of 2011 (description of the transaction provided in section 7.2. this report),

- repayment of the debt of the Ciech Group of approximately PLN 443 million, resulting, among others from a consortium loan agreement signed in 2010.

4 Primary economic and financial information (continued)

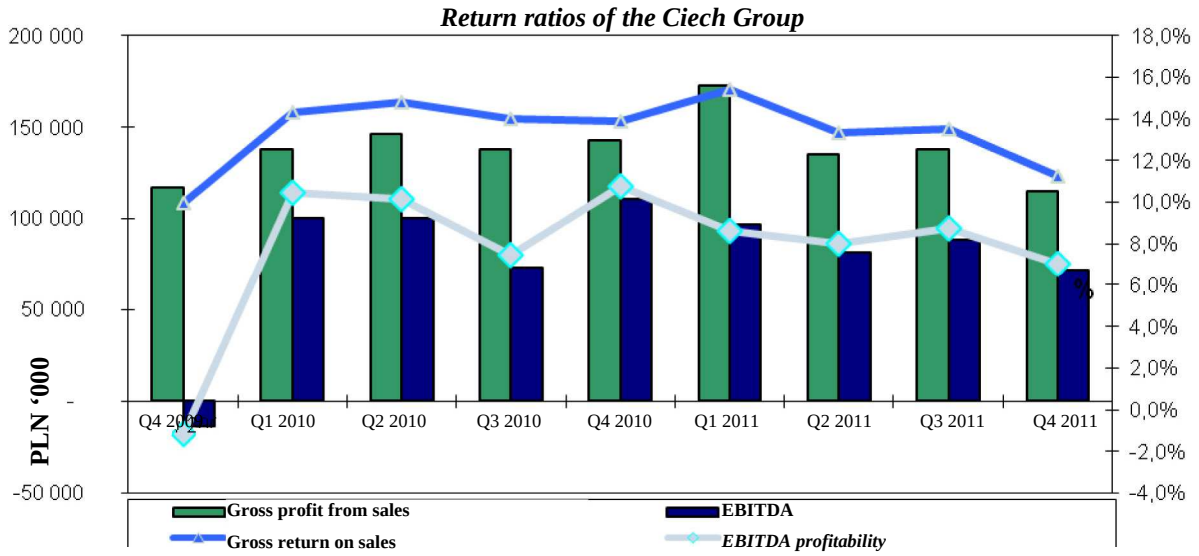
Profitability in 2011

Operating profitability indices for the Ciech Group for the four quarters of 2011 amounted to a lower level then the results achieved in 2010. In the soda segment the positive effects soda ash price increase was offset by increased costs of production (anthracite, and heat), and the organic segment suffered from low price level of its main product, which is TDI.

Return ratios of the Ciech Group

Item	01.01.-31.12.2011	01.01.-31.12.2010
Gross return on sales	13.4%	14.3%
Return on sales	1.7%	1.4%
Operating profit margin	2.8%	3.7%
EBITDA profitability	8.2%	9.7%
Net return on sales (ROS)	0.04%	0.6%
Return on assets (ROA)	0.04%	0.6%
Return on equity (ROE)	0.1%	2.6%

Calculation principles:
gross return on sales *– gross sales profit for a given period / net sales of products, services, goods and materials,*
return on sales *– sales profit for a given period / net sales of products, services, goods and materials,*
operating profit margin *– operating profit for a given period / net sales of products, services, goods and materials,*
return on sales (ROS) *– net profit for a given period / net sales of products, services, goods and materials,*
return on assets (ROA) *– net profit / total assets at the end of a given period,*
return on equity (ROE) *– net profit / total equity at the end of a given period.*



Source: CIECH S.A.

Liquidity of the Group and working capital

Liquidity ratios as at the end of 2011 deteriorated to the level as at the end of 2010 and are below 1. The current ratio, calculated as the ratio of total current assets to total current liabilities, amounted to 0.67 as at December 31st, 2011 (0.70 at the end of 2010), while the quick ratio amounted to 0.51 (0.56 at the end of 2010). This is caused by the financing structure (large share of short-term loans). Due to the violation as at December 31st, 2011 of the level of ratio under the consortium loan agreement, the long term liabilities resulting from this agreement have been presented as short-term ones. On March 25th, 2012 the Company received a decision of the lenders to waive the abovementioned violation.

4 Primary economic and financial information (continued)

Liquidity ratios of Ciech Group

Item	31.12.2011	31.12.2010
Current ratio	0.67	0.70
Quick ratio:	0.51	0.56

Calculation principles:
current ratio *– current assets / current liabilities at the end of a given period; measure of company's capability to cover its current liabilities with current assets.*
quick ratio *– current assets less inventory / current liabilities at the end of a given period; measure of a company's capability to collect in a short period of time cash for the coverage of materially due liabilities.*

Ability to generate cash flows

Item	31.12.2011	31.12.2010
Financial surplus (net profit + amortisation)	223,610	260,183
Other net profit adjustments	(69,907)	(105,252)
Adjusted financial surplus	**153,703**	**154,931**
Change in working capital	**(173,041)**	**163,420**
Cash flows from operating activities	(19,338)	318,351
Cash flows from investment activities	(63,660)	9,978
Free cash flows	**(82,998)**	**328,329**

In 2011, the Ciech Group generated negative free cash flows, i.e. it was unable to finance its investment expenditure with cash flows created within its operating and divestment activities. Between January and December 2011, an increase in the working capital led to the use of cash amounting to PLN 173,041 thousand. Furthermore, the adjusted financial surplus didn't gain the required level so as to allow for generating positive free cash flows.

The working capital, defined as the difference between current assets and current liabilities adjusted by appropriate balance sheet items (cash and short-term loans), as at the end of December 2011 amounted to PLN 210,628 thousand, which is a decrease by PLN 107,264 thousand compared to the end of 2010.

Working capital of the Ciech Group

Item	31.12.2011	31.12.2010
1. Current assets, including:	**1,389,304**	**1,472,617**
Inventories	*335,591*	*297,233*
Trade receivables	*543,839*	*509,153*
2. Cash and other short-term investments	147,310	177,610
3. Adjusted current assets (1-2)	**1,241,994**	**1,295,007**
4. Current liabilities, including:	2,074,852	2,117,213
Trade liabilities	*588,780*	*582,893*
5. Short-term loans and other current financial liabilities*	1,043,486	1,140,098
6. Adjusted current liabilities (4-5)	**1,031,366**	**977.115**
7. Working capital including short-term loans (1-4)	**(685,548)**	**(644,596)**
8. Working capital (3-6)	**210,628**	**317,892**

**Other current financial liabilities include current financial lease liabilities + current liabilities on derivatives*

Indebtedness

The acquisitions conducted in 2006 and 2007 that led to an increase in the assets of the Ciech Group were mainly financed through an investment loan and bond issue. Additionally, the investments made in 2008 were financed with a short-term loan. These actions contributed to an increase in the debt ratio in the following years up to 2010.
The Ciech Group's debt decreased in comparison with the end of 2010 as a result of the repayment of over PLN 440 million, pursuant to, i.a. the provisions of the Loan Agreement of April 26th, 2010. The debt rate decrease from 78.4% to 67.8%. Also the relative net debt level (net financial liabilities recognised under EBITDA) has improved substantially as compared to the level of December 2010.

4 Primary economic and financial information (continued)

Debt ratios of Ciech Group

Item	31.12.2011	31.12.2010
Debt ratio	67.8%	78.4%
Long-term debt ratio	16.8%	24.4%
Debt to equity ratio	210.9%	362.4%
Equity to assets ratio	32.2%	21.6%
Net debt / EBITDA	3.24	3.84

Calculation principles:
debt ratio *– current and non-current liabilities / total assets; measure of the share of external funds in financing a company's activity.*
long-term debt to equity ratio *– non-current liabilities / total assets; measure of the share of non-current liabilities in financing a company's activity.*
debt to equity ratio *– total liabilities / equity.*
equity to assets ratio *– equity / total assets; measure of the share of equity in financing a company's activity.*
Net debt - *liabilities on loans and borrowings raised (plus current account debit) and other debt instruments (financial lease (excluding sale and lease back) + liabilities on derivatives) less cash and cash equivalents.*

INFORMATION ABOUT RESULTS OF THE CIECH GROUP FOR Q4 2011

INCOME STATEMENT *PLN '000*	01.10.-31.12.2011	01.10.-31.12.2010	Change 2011/2010
Net sales of products, goods and materials	1,019,171	1,026,035	(0.7%)
Cost of sales	(904,440)	(883,478)	2.4%
Gross profit/loss on sales	**114,731**	**142,557**	(19.5%)
Other operating revenues	48,621	80,066	(39.3%)
Selling costs	(74,785)	(74,290)	0.7%
General and administrative expenses	(54,981)	(59,112)	(7.0%)
Other operating expenses	(17,148)	(37,534)	(54.3%)
Operating profit/loss	**16,438**	**51,687**	(68.2%)
Financial revenue	9,700	118,585	(91.8%)
Financial costs	(34,446)	(56,645)	(39.2%)
Net financial revenues/costs	**(24,746)**	**61,940**	-
Share in net profit of subsidiaries valued under the equity method	(43)	(6,973)	(99.4%)
Profit/loss before tax	**(8,351)**	**106,654**	-
Income tax	(1,357)	(18,882)	(92.8%)
Net profit/loss	**(9,708)**	**87,772**	-
Profit/loss on sales related to discontinued operations	-	-	-
Net profit/loss for the financial year	**(9,708)**	**87,772**	-
including:			
Net profit/loss attributable to shareholders of the parent	(8,787)	85,700	-
Net profit/loss attributed to non-controlling interest	(921)	2,072	-
Earnings (loss) per share (in PLN):			
Basic	(0.19)	3.06	-
Diluted	(0.19)	3.06	-

4 Primary economic and financial information (continued)

The Group's net consolidated revenue from sales for Q4 2011 was PLN 1,019,171 thousand. In comparison with the same period in the previous year, net sales remained at a similar level, with a slight decrease by 1%. The main reasons for achieving high sales revenue was, as well as during the entire 2011, high demand in the European market for soda ash. The Soda Segment generated higher revenues both due to higher volumes and higher prices for soda ash.

The operating results for the fourth quarter of 2011, as well as the results of the entire 2011 were affected by:

- activity of the soda segment where the positive effects of soda ash price increase were offset by increased costs of production (anthracite, and heat).
- the organic segment suffered from low price level of its main product, which is TDI.

Compared to the fourth quarter of 2010 a significant decrease is also related to the fact that in the fourth quarter of 2010 the soda segment's companies: SODA MĄTWY S.A. and JANIKOSODA S.A. recognised in their financial result the sale of an associated company, PTU S.A.

5 Trade and production activity of the Ciech Group

5.1 Explanations concerning the seasonal and cyclical nature of Ciech Group's activity

Seasonality resulting from periodic demand and supply fluctuations has a certain impact on the general sales trends in Ciech Group. Products clearly influenced by seasonality are agro-chemical products:

- plant protection chemicals,
- artificial fertilizers,
- raw materials for the production of fertilizers.

Fertilizers are sold mainly at the turn of Q1 and Q2 and in Q3 of a year. This is due to intensive field fertilisation in spring and autumn. Similarly, most plant protection chemicals are used in the first half of the year, i.e. the period of intensive plant growth, when approx. 90% of the total sale of these products is realised.
Furthermore, in the soda segment, a seasonal relationship between the volume of some products sold and the progress of winter can be observed. A mild winter is reflected in a decrease in the sale of calcium chloride and other products (anti-ice, salt and chloride mix, waste salt), while the influence on the sale of salt is indirect.

In the case of other products, the Group's revenues and results are not influenced by any significant seasonal fluctuations during the business year. On that account, seasonality plays a relatively small role in the Group's overall sales.

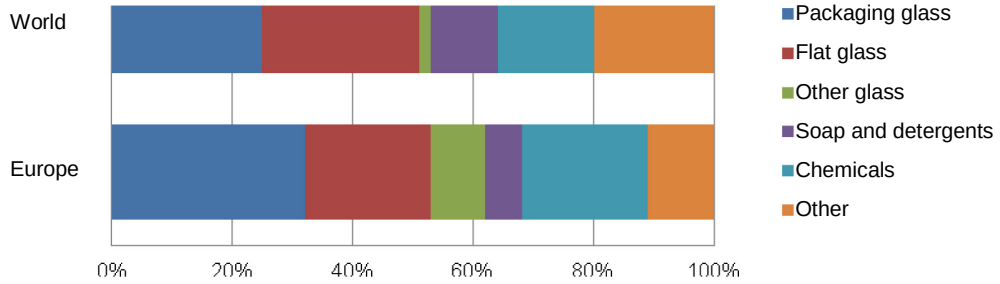
5.2 Information about basic products, goods and services

Characteristics of the main branches and markets of Ciech Group's activity

Soda ash
Soda ash is one of the basic raw materials in glass production. It is also used in the production of washing and cleaning agents as well as in the chemical industry, among others, in manufacturing of mineral fertilizers, dyes and pigments. In the global scale, half of the soda ash manufactured is used for the production of glass. The remaining recipients of soda ash are the companies in the chemical sector and the sector of soap and cleaning agents. 1/5 of soda is used by the remaining industry sectors.

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

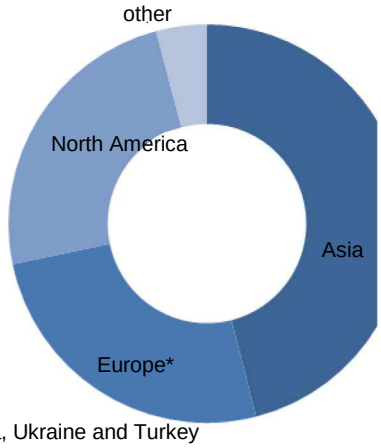
Structure of soda ash consumption



Source: own study based on Roskill

In Europe, compared to global usage, more soda ash is used for manufacturing glass and chemical agents but half of the volume is used for the production of soap and cleaning agents and in other industries.

Global soda ash production capacity by regions



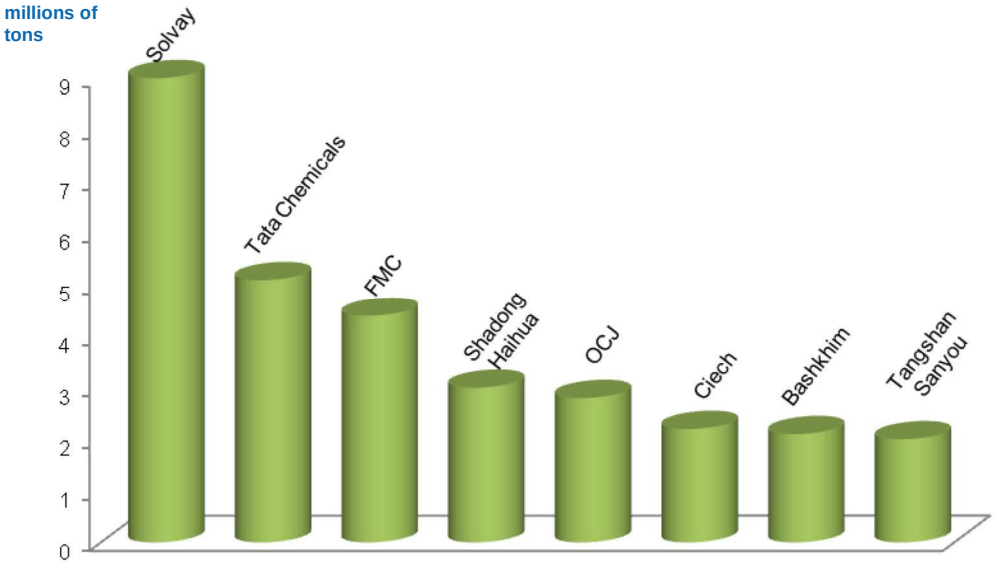
* Europe with Russia, Ukraine and Turkey

Source: own study based on Roskill

Global soda ash production capacities are estimated at approx. 60 million tons with Asia holding almost half of them. The remaining capacity is almost equally distributed between Europe and North America, which have similar level of production capacities. The largest global manufacturers of soda ash include the following three concerns: Solvay, Tata Chemicals and FMC. These companies hold almost 30% of global production capacities.

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

The largest global manufacturers of soda ash according to production capacities



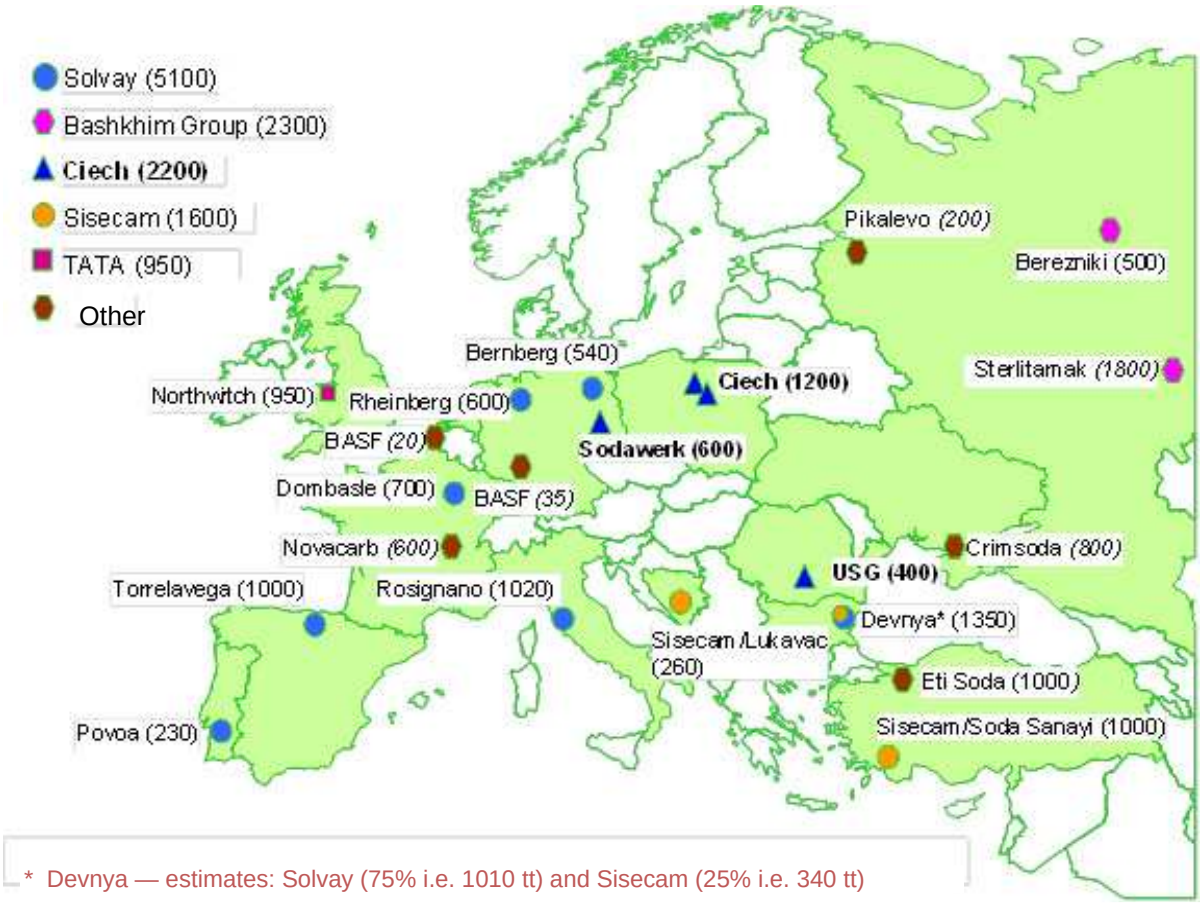
Source: own study based on Roskill

It is anticipated that in the coming years, the largest increase in production capacity will take place in China, by up to 9 million tons by 2014. The Chinese market is characterized by the fastest rate of expansion of soda industry, but is also the most fragmented in terms of number of producers of soda ash. A significant increase in production potential is also announced by Turkey. After the increase of production capacities from 1 to 2 millions of tons in 2010, in 2013 it is planned to increase the volume by 0.5 million tons and by further 2.5 over the next two years.

Ciech Group's operations in terms of soda ash are based on the domestic and European markets. The largest manufacturer is the Solvay concern which owns production plants in 7 locations. Its total European production capacity is equal approx. 5 million tons. The second on the European market is the Ciech Group with production capacities of over 2.2 tons. We are the only soda ash manufacturer in Poland and the joint production capacity of Inowrocław and Janikowo facilities amount to 1.2 million tons. The two remaining Group's facilities: in Germany and in Romania, have the manufacturing capacity of 0.6 and 0.4 millions of tons per annum. The Group's quantitative share in the European soda ash market equals 14%, in the world market - 4%. The company with a similar potential is Bashkhim Group (Russia) with factories Soda Sterlitamak and Berezniki Soda Plant.

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

European competitors of Ciech Group in terms of soda ash in 2011
(production capacity in thousands of tons p.a.)



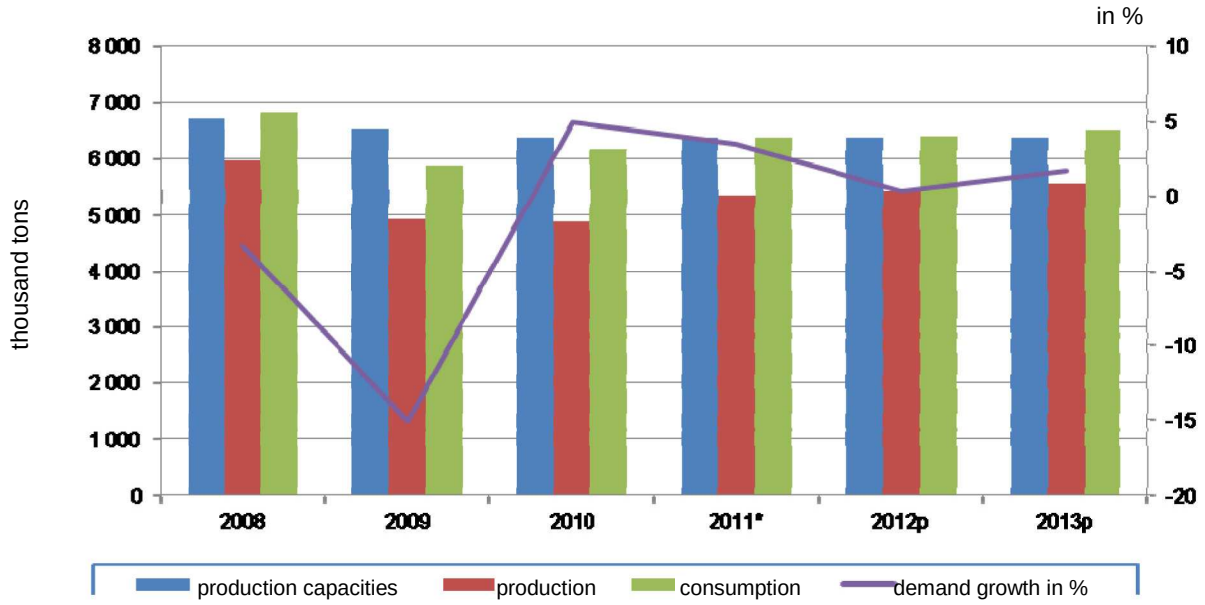
* Devnya — estimates: Solvay (75% i.e. 1010 tt) and Sisecam (25% i.e. 340 tt)

Source: Own study based on: Roskill, data from the companies.

The size of European soda ash market is estimated at the level of 15 millions of tons, of which 7 millions of tons for Western Europe and 3.3 millions of tons for Central Europe.
The European soda ash market and Polish soda ash market are mature markets, without sudden fluctuations and with annual growth rates not exceeding, in general, several percent. This was different in 2009, when the global economic crisis had a major impact on the demand in soda ash markets as it is sold to the sectors of industry which are sensitive to economic conjuncture. After 16% decrease in consumption in 2009, a significant improvement was noticed in 2010, due to an increase in demand by several percent. Data for 2011 confirms further recovery on the soda ash market in Europe. It is estimated that the European market for soda ash in 2011 increased by approximately 4%, while in Western Europe, consumption was higher by 3.5% and the Central European countries recorded a weaker growth – only by about 2%. The highest increase was recorded in the CIS region (more than 6%). Production in the entire region increased by over 8%, which was influenced not only by domestic demand but also by a greater demand from foreign markets.
The chart below shows the changes that have occurred in the Western European market for soda ash in the size of manufacturing capacity, production and consumption in recent years and forecasts for 2012-2013.

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

Soda ash balance in the Western Europe



Source: own study based on CMAI

The structure of application of soda ash has not changed significantly over many years. The demand for soda ash depends mainly on the demand for flat and packaging glass. Customers for flat glass include the construction and automotive industries. These industries' high sensitivity to changes in the economic situation is decisive for changes in demand for soda ash.

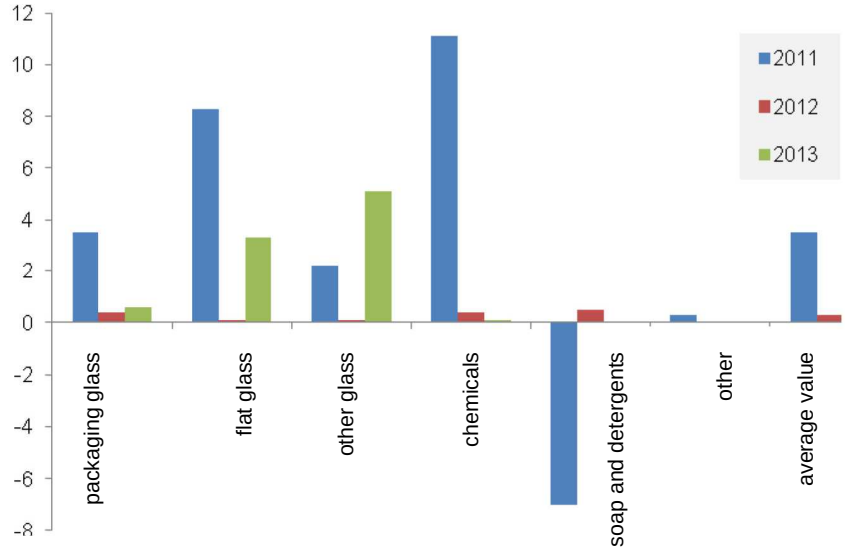
Industry reports on the flat glass industry in Europe show an increase in demand in this sector in 2011 and forecast further increases in subsequent years, with the reservation that, given the uncertain economic situation, including the debt of the euro zone, these forecasts may be revised downwards. The largest recipient of flat glass is the construction market which, due to the economic crisis, suffers from a huge stagnation. There are some signs of a slight recovery in this market, but demand is not likely to reach the pre-recession levels. While short-term outlooks of the construction market may seem to be threatened, in the long-term Poland and Central and Eastern Europe market is still a market with great potential in relation to Western Europe.

The second most important recipient of flat glass, produced using soda ash, is the automotive industry. In 2008, the number of new cars sold in Europe dropped by almost 6%. The automotive industry in Europe in 2011 saw a slight increase in demand of 1.4%. The leading country in new car sales is Germany with an increase in demand in 2011 by 8%. Automotive industry in Poland saw a slight decrease compared to 2010. Despite the general stagnation in the automotive industry, it is estimated that in Poland and in the Central - Eastern Europe region this market will develop. Poland is a country where there are only 350 cars per 1000 citizens, that is 38% less than in Germany. In the Czech Republic and Slovakia, they are respectively 30% and 56% less cars than in our western neighbour.

Approximately 30% of soda ash production is used in the production of glass packaging: bottles, jars and other glass containers used in food, pharmaceutical and cosmetics and fragrances. The increase in demand in the European soda ash market in 2011 was particularly evident in the container glass sector - an increase of about 4%. The highest recovery was noted in key markets such as: France, Germany and Italy. An increase in the consumption of glass packaging is also forecast in Poland, which will be driven by a growth in consumer markets. The consumption of packaging glass per capita (30 kg) in Poland is lower than that in Western European countries (45 to 60 kg per capita), which means that this market has great potential in Poland. But in the long run the weakening of growth in demand for soda ash among the manufacturers of glass containers may be affected by increasing use of glass cullet. It is estimated that currently in Poland about 44% of glass is recycled. In accordance with EU directives reuse of glass packaging in Poland by 2014 must achieve a level of 60%. In most countries, cullet is only used for the production of coloured glass. In Switzerland, its share is as high as 95%, and even white glass is produced there - due to the high quality of recycling processes. In general, the cleaning agents sector proved to be the most resistant sector to the effects of the global crisis; however, in Europe it recorded a 3% fall in demand in 2011. For Western Europe the decline was greater (-7%).

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

Forecast concerning changes in demand for soda ash in Western Europe by customers (in %)



Source: own study based on CMAI

Given the rise in demand in European and global soda ash market in 2011 it is forecasted that in 2012 the situation will not deteriorate. The demand will be slightly higher as compared to 2011. The growth, however, definitely will slow down in comparison to 2011 and will not exceed 0.5% in Central Europe and 0.3% in Western Europe. Only the CIS countries can expect a greater recovery on the soda market in comparison with the rest of Europe, the growth rate can be as high as 4%. The overall level of production in the region will also be affected by demand from export markets. However, in this case the outlook is also definitely less favourable. While over 2011 European exports rose by 10%, in 2012 it is expected to decline by nearly 2%. In the long term it is forecasted that the global consumption growth will amount to 3.5% per year, and in Europe, to an average level of 1.5%.

Average annual dynamics of change in demand for soda ash (by quantity)

	5 previous years	Long-term forecast
World	2%	3.5%
Europe	1.5%	1.5%
Poland	2.6%	1.5%

Source: Ciech Group estimates

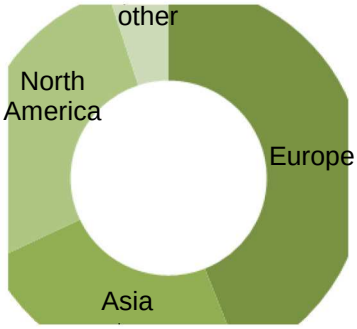
Baking soda

Baking soda is used primarily in the food industry (such as an ingredient in baking powder, odour absorber) and pharmaceutical industry. It is also used in the feed industry (as an acidity regulator), chemical industry (for the manufacture of dyes and explosives and as a basic component of fire extinguishers) and the detergent and cosmetic industries. Soda market is divided into sectors of high and low baking soda quality. The high-quality sector includes food and pharmaceutical industries. Granulation process used to produce high-quality baking soda can also produce large quantities of fine product (so-called low-quality baking soda), designed for feed sector. In Europe, the baking soda is used mainly for animal feed (40% of total consumption). About 1/5 of produced baking soda is used in the production of cosmetics and pharmaceuticals. 13% of baking soda goes to the production of food and the same is used in the purification of exhaust gases. 7% of baking soda is used by detergent industry and nearly 10% by other

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

industries. In the coming years, due to the increasing requirements for environmental protection it is expected that the use of baking soda in the gas desulphurisation sector will increase significantly. Global production capacities for baking soda are estimated at more than 3 million tons per year. The main potential is concentrated in Europe, where more than 40% of production is located. North America holds 27% of production capacity, and Asia - 24%.

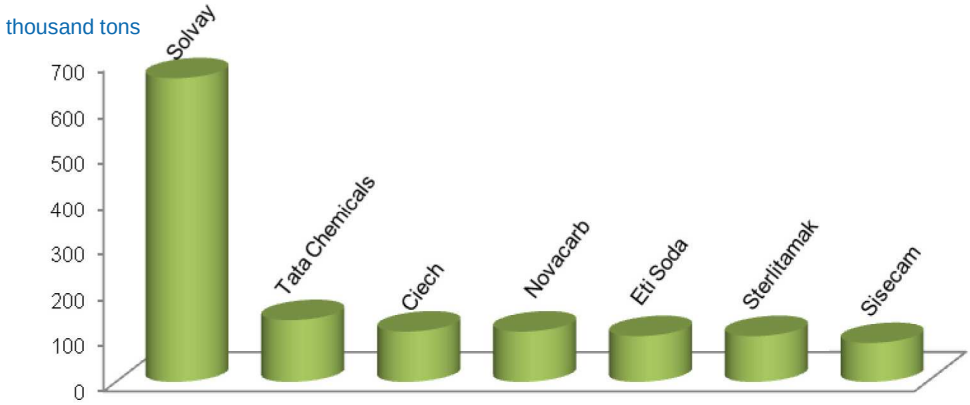
Global baking soda production capacity by regions



Source: own study based on Roskill

The Ciech Group's operations in terms of baking soda are based on the domestic and foreign markets, of which the main role play the Western European countries. Shares of the Ciech Group in baking soda market oscillate at around 14% in Europe and 6% globally. Baking soda is produced in two soda facilities of the Group: Inowrocław and Stassfurt, with capacities of, respectively, 70 and 40 thousands of tons. Soda Polska Ciech Sp. z o.o. is the only manufacturer of baking soda in Poland with a market share of 70%. The share in the German market is approx. 20%.

The largest manufacturers of baking soda in Europe according to production capacities

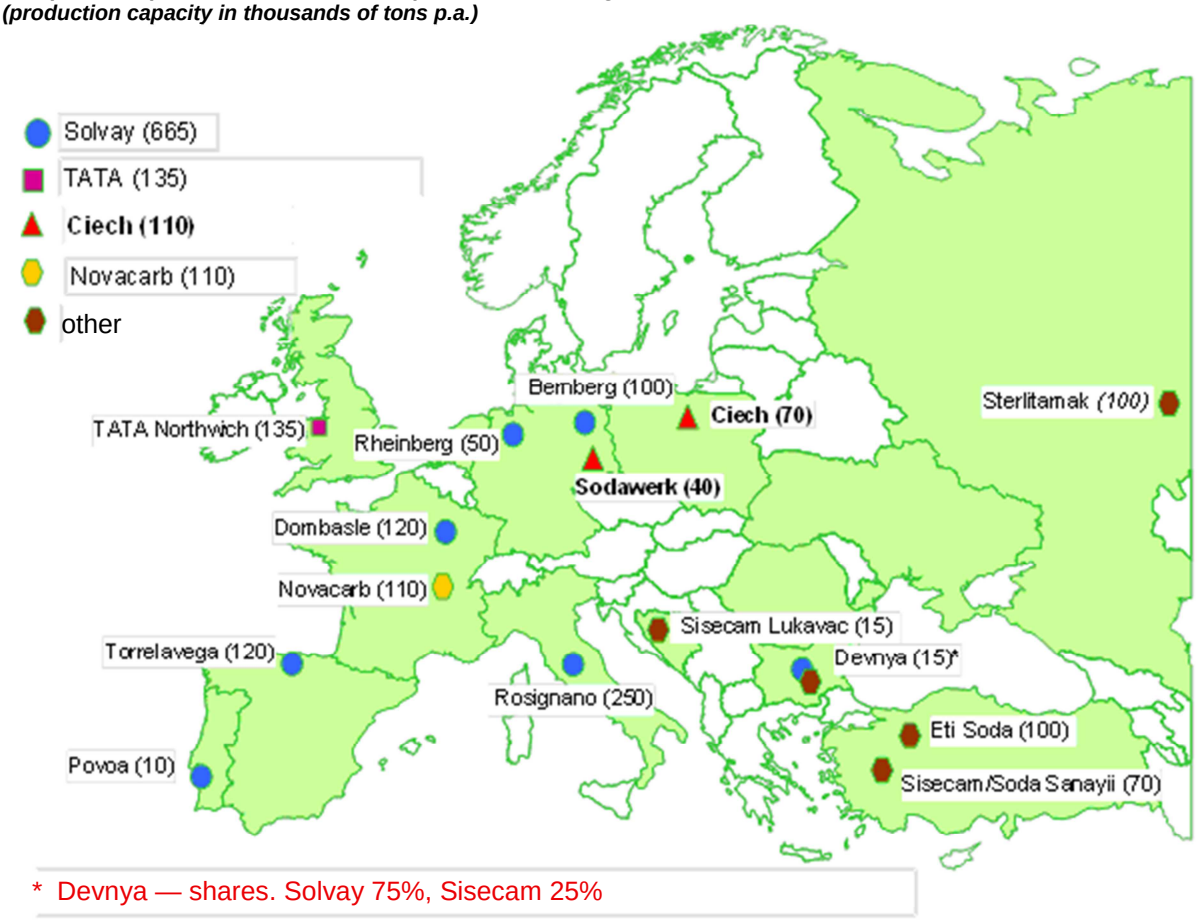


Source: own study based on Roskill

European production capacities for baking soda are estimated at 1.3 million tons per year. The largest manufacturer is the Solvay concern which owns production plants in several European countries. The total production capacity of the manufacturer amounts to nearly 0.7 million tons / year (globally 0.9 million tons / year). The second major competitor is the TATA Chemicals with capacity at the level of 135 thousands of tons. The Ciech Group ranks third in the baking soda market in Europe with the potential of 110 thousands of tons/year. The European leaders were joined by Novacarb after the extension of its production capacity in May 2011.

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

European competitors of the Ciech Group in terms of baking soda in 2011 (production capacity in thousands of tons p.a.)



Source: Source: own study based on Roskill, data from companies

The European baking soda market and Polish baking soda market, similar to soda ash markets, are mature markets, without sudden fluctuations and with annual growth rates not exceeding 3% in European terms and 6% in global terms. The most vulnerable of the sectors to which baking soda is sold is always the feed sector. In Poland, however, this sector is more resilient to economic fluctuations than in Europe. Declines in Poland are much weaker than in the rest of Europe. At the same time there has been a growth in sales in the segment of technical soda due to increased demand in detergents sector, as well as in the gas desulphurisation sector. These trends resulted in visible recovery on the baking soda market in 2011. European manufacturers of soda continued work towards intensification of production of baking soda which took place at the expense of soda ash. Forecasts for the European market of this product for 2012 assume continued growth in demand, but given the many uncertainties, including on economic growth and debt in the euro area it may be necessary to make appropriate adjustments.
In the coming years, it is assumed that the average increase in consumption of baking soda in Europe will amount to approx. 2% per year. It will, however, have a different course, depending on market segment and region of Europe. Segment of the feed, food and detergent will record growth at the level of GDP ratio, while the gas desulphurisation sector - 5% per year, while its rate will depend on the number and size of new plants put into use in Western and Central Europe.

Average annual dynamics of change in demand for baking soda (by quantity)

	5 previous years	Long-term forecast
World	5%	3%
Europe	3%	2%
Poland	6%	3-4%

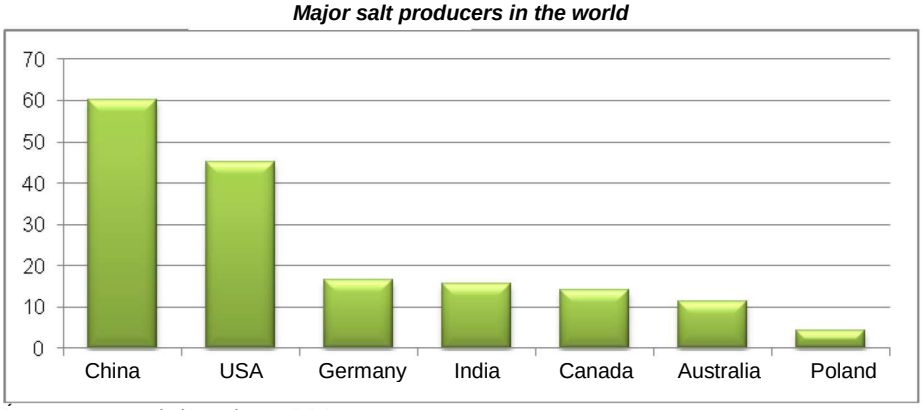
Source: Ciech Group estimates

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

Vacuum salt

Salt is usually sold in two forms: as rock salt and vacuum salt. Vacuum salt is one of the key products of the Ciech Group. It is produced in industrial and food grade. Global production of salt amounts to approx. 270 millions of tons. 60% of global production is concentrated in six biggest countries, including Germany with over 6% share and production at the level of 16.5 millions of tons. Polish participation in the global production of salt is relatively small and amounts to 1.6%.

Major salt producers in the world

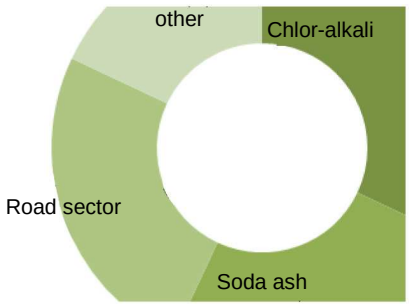


Source: own study based on USGS.

As the vacuum salt is much better in terms of quality parameters, the chemical industry in Western Europe virtually abandoned the use of rock salt. A similar process took place in the food industry and households. Rock salt is now used almost solely for the de-icing of roads in the winter. Vacuum salt is widely used in the chemical industry (in electrolysis, the production of detergents and dyes), and household chemicals (for water treatment and water softening). Is also used in the food industry (including bakery, fruit and vegetables and meat). Vacuum salt of a pharmacopoeial purity is also used in the pharmaceutical industry.

In Europe, most salt is used in the chlor-alkali industry. A little less salt is consumed in soda ash production and road sector. Globally, the share of salt in road sector is significant only in North America (over 50% of consumption). In other regions of the world the main recipient of salt is the chlor-alkali industry. In China, a major consumer of salt is also the soda industry (production of soda ash). In Asia (excluding China) and Latin America, Africa and the Middle East, significant amounts of salt are intended for direct human consumption and food production.

Salt consumption structure in Europe

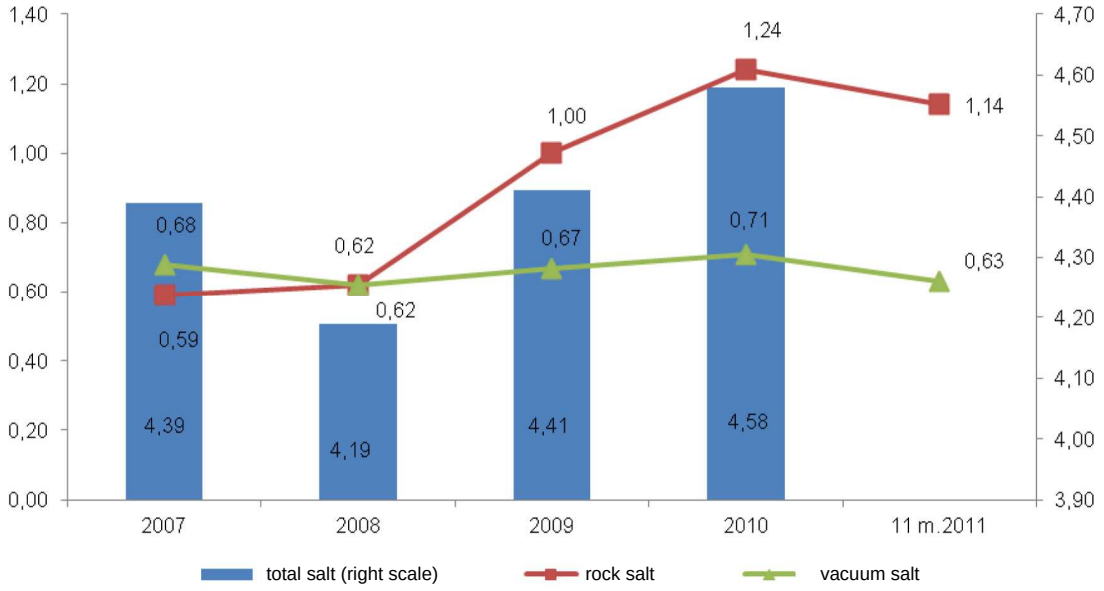


Source: Ciech Group estimates

The salt market structure in Poland differs slightly from the segmentation in the European scale. Definitely more salt is used in road and direct consumption, and less in the chemical industry.

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

Production of salt in Poland with a breakdown by type in 2007-2011 (millions of tons)

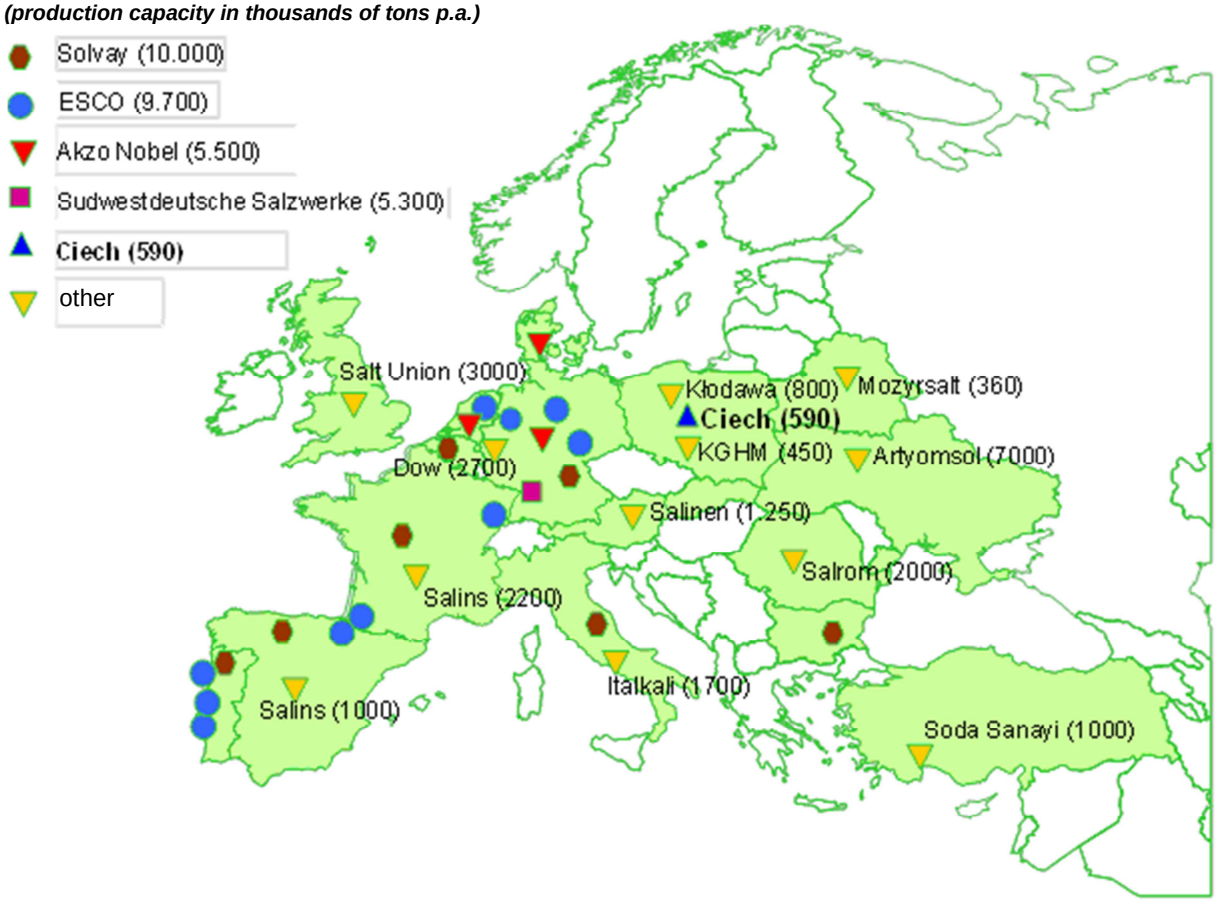


Source: own study based on GUS

Poland is one of the leading salt manufacturers in Europe. Annual total production of vacuum and rock salt fluctuated in recent years in the range of 1.2-1.9 millions of tons annually. Together with brine and other types of salt it exceeded 4.5 millions of tons. Preliminary data for 2011 year suggest that the level of salt production in Poland was similar to the previous year. The Polish salt market, like the European market is a mature market. The volume of vacuum salt consumption has remained stable, showing a resistance to economic downturn. The increase in sales volume is small and is mainly due to increased sales of highly processed salt products. On the other hand, the rock salt market is characterised by high volatility - the rock salt is used mainly for the winter maintenance of roads. The demand for rock salt in the event of extreme weather can change by tens of percent, which was visible in the winter season 2010/2011. The Ciech Group does not provide salt to the road sector, and therefore extreme weather does not affect the size of its sales. However the Ciech Group plays an important role in the segments of food salt (food industry and direct consumption, which make up almost half of the salt produced by Soda Polska Ciech Sp. z o.o.) chemical industry (15% share in the sale) and household chemicals (9%).
On the Polish market the Ciech Group is the leading Polish manufacturer of vacuum salt with production capacity of 590 thousands of tons per year, and with 70% share in the Polish market of vacuum salt.

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

Major salt manufacturers in Europe in 2011
(production capacity in thousands of tons p.a.)



Source: Source: own study based on Roskill, data from companies

European production capacity is estimated at more than 40 million tons per annum. The largest salt manufacturer in Europe is the Solvay concern which owns production plants in several countries and their total production capacity is about 10 million tons/year. Solvay produces salt for their own needs in the soda industry. Another leading European producers of salt are also Esco with K + S Group, with annual production capacity of 9.7 million tons and Südwestdeutsche Salzwerke (5.3 million tons).

The size of the global salt market is now estimated at 250 million tons/year. After a drop in consumption in 2009 by 8% due to global recession in the economy, since 2010 there has been a recovery in demand due to economic growth in Asia, which consumes over 40% of salt and cold winters in North America. In the coming years, directions and further dynamics of the global salt market will be determined by the abovementioned factors and also the degree of implementation of development plans for chemical plants in Asia, which use salt in their production. Some optimistic forecasts assume an increase in demand for salt by 2015 up to 3% annually.

Prospects for development of the salt market in Europe, including Poland, are evaluated as stable. No significant changes in the level of consumption are expected in the following 5 years. Some increases in quantity are possible, which will be subject to sales growth in the sector of highly processed products, such as salt tablets more widely used in water treatment systems. Given the dominant role of rock salt in the salt market in general, used mainly in road sector, the sale of salt will still be dependent on weather conditions and may be subject to significant fluctuations from time to time. These phenomena do not apply to the segment of food salt and salt for the chemical industry.

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

Average annual dynamics of change in demand for salt (by quantity)

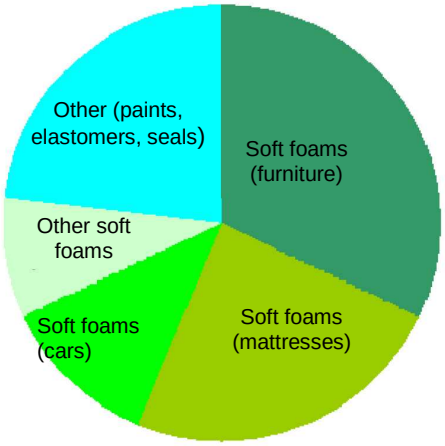
	5 previous years	Long-term forecast
World	0%	0%-3%
Europe	-10%	1%-2%
Poland	-5%	2%

Source: Ciech Group estimates

Toluene diisocyanate (TDI)

On a global scale approx. 80% of TDI is used for the production of soft polyurethane foam. It is applied in the production of furniture (about 30%), mattresses (about 25%), car equipment (more than ten percent), floor lining and packaging. Moreover, TDI is used for the production of coatings – paints, adhesives, binders and sealing compounds (about 20%).

TDI application segments



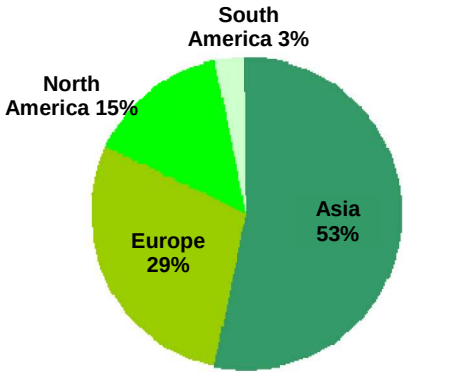
Source: own study by CIECH S.A. based on data from Nexant.

The size of global demand for TDI in 2011 is estimated at 1.7 million tons. According to forecasts by consulting firms and the largest producers this market will grow over the next few years at a rate of 4%-5% on average. Long-term dynamics is evaluated at 3%-4%. The global growth rate will be determined to a large extent by the Chinese market.

Total global TDI production capacities amount approx. 2.5 million tons p.a. Approx. 50% of this capacity is attributed to Asia, 30% to Europe, 15% to North America. Largest manufacturers are: Bayer, BASF, MITSUI, BorsodChem which have in total nearly 70% of global TDI production capacities (accordingly: 26%, 22%, 10%, 10%). By 2015 it is planned to significantly increase production capacities - in total by more than 50% (only in Asia and Europe). In the case of implementation of investment projects reported only by companies that already have TDI factories, global production capacity can reach up to 4 million tons/year. The consequence of this may be a large oversupply and strong decline in the use of production capacity.

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

Geographical structure of TDI production capacity



Source: own study by CIECH S.A. based on data from companies.

Ciech Group's (Zachem's) European competitors in the TDI market in 2011 (production capacity in thousands of tons p.a.)

Source: own study by CIECH S.A. based on data from companies.

TDI demand dynamics depends on the type of target market. In Europe, where the demand exceeds 400 thousand tons per annum, major TDI output industries are: upholstered furniture industry, automotive industry and mattress production, etc. In the western part of the continent, the sector of paints, adhesives, insulation and elastomers also plays a vital role. Various European segments of TDI recipients are expected to maintain positive growth dynamics in the coming years. This is mainly due to life quality improvement trends realised through increasing usage of soft foams in furniture.

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

In case of the automotive industry, the situation may be more varied depending on the region and the level of vehicle market saturation. In a few years' perspective, Western Europe is expected to see an average annual increase in demand nearing 3%, Central and Eastern Europe (where the market is relatively small) — by 5%.

The Ciech Group, operating through ZACHEM S.A., with production capacities of 75 thousand tons p.a. is one of the few TDI manufacturers in Europe. The Group's share in the global product market is equal approx. 4%. A substantial part of production is intended for the Polish market in which ZACHEM S.A. is the leading supplier with over 30% market share. The remaining quantities are imported mainly from Hungary, France and Germany. The Ciech Group competes with major suppliers and sells TDI in many foreign markets in Europe, Asia, Africa and America.

Average annual dynamics of change in demand for TDI (by quantity)

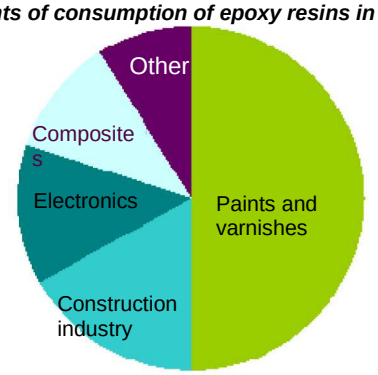
	5 previous years	Long-term forecast
World	4%-5%	3%-4%
Europe	4%-5%	3%
Poland	6%	3%- 4%

Source: Ciech Group estimates

Epoxy resins

In Europe epoxy resins are used mainly – about 50% – for the production of powder paints and varnishes (chemical resistant, insulation, electroinsulation).
In the area of Western Europe, this segment is also responsible for half of the consumption of the product. Another dozen percent of the resins are used in construction (ground floor, sealants, mastics, adhesives coatings, wall coverings). Over 10% of epoxy resins are consumed in the production of electrical insulators, about 10% - for the manufacture of composites.
In Central and Eastern Europe epoxy resins are mainly consumed in the production of coatings - paints, etc. (more than 50%) and construction - such as the manufacture of floors (above 20%).

Segments of consumption of epoxy resins in Europe



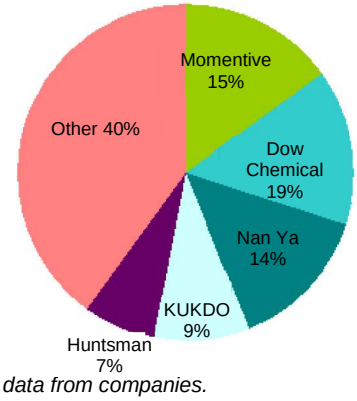
Source: own study by CIECH S.A. based on data from Nexant.

Global production capacity of basic epoxy resins - unmodified is estimated at 2.5 million tons/year, whereby 60% located in Asia, 28% in Europe and 10% in the North America. Investment projects concerning new capacities include mainly Asia. The major global producers of resins are as follows: Momentive (formerly Hexion), Dow Chemical, Nan Ya (Taiwan), KUKDO (South Korea) and Huntsman Advanced Materials. These companies are responsible together for about 60% of world production of these resins.

Ciech Group through Z.Ch. "Organika-Sarzyna" S.A. is the sole producer of epoxy resins in Poland. The production capacities of the Group are estimated at 30 thousand tons/year and its share in the Polish market is about 30%. The major competitors in Poland are suppliers from Germany, the Czech Republic and Italy.

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

Structure of the global capacities of epoxy resins by suppliers



Source: own study by CIECH S.A. based on data from companies.

European competitors of the Ciech Group (Organika Sarzyna) in terms of unmodified epoxy resins in 2011 (production capacity in thousands of tons p.a.)

Source: own study by CIECH S.A. based on data from companies

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

The Ciech group estimates the size of global market of epoxy resins in 2011 at 1.8 million tons/year, which is similar to the record result in the period before the crisis in 2008-2009. Demand in Europe has not yet returned to pre-crisis size and is assessed at about 310 thousand tons/year. In general, given the large drop in demand and increase in production capacity in previous years, this market is still characterized by a significant oversupply (using the production capacities in Europe at 60% -70%).
The Ciech Group expects that a similar situation will be maintained on the market also in the coming years. Long-term demand growth forecasts are, however, quite optimistic. The highest dynamic of growth will be recorded in Asian countries. Lower dynamics are to be expected in the Western Europe and North America.
Europe and North America will continue to be net exporters of epoxy resin (the main export markets in international trade will be China and India). In subsequent years, the basic factors of growth in consumption of epoxy resins are adhesives and composites for aerospace and wind power (in North America and Europe) and electronics and paint (in the region of the Far East and South-East Asia).

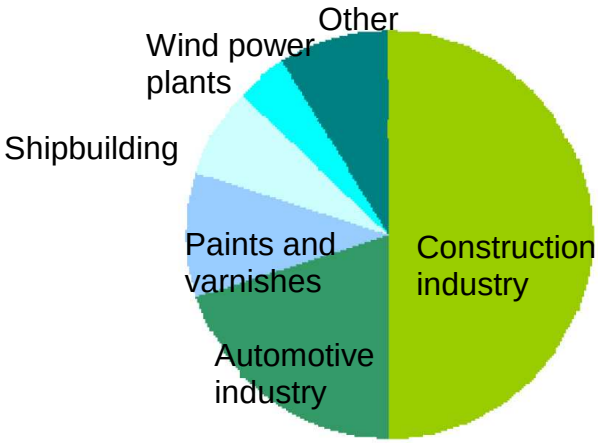
Average annual rate of change in demand for epoxy resins (by quantity)

	5 previous years	Long-term forecast
World	4%-5%	4%-5%
Europe	1%-2%	2%-3%
Poland	3%- 4%	3%- 4%

Source: Ciech Group estimates

Unsaturated polyester resins
In Europe, the vast majority of unsaturated polyester resins is used in the construction industry and transport. The demand in these two sectors constitutes approximately 70% of the market.

Segments of consumption of unsaturated polyester resins in Europe

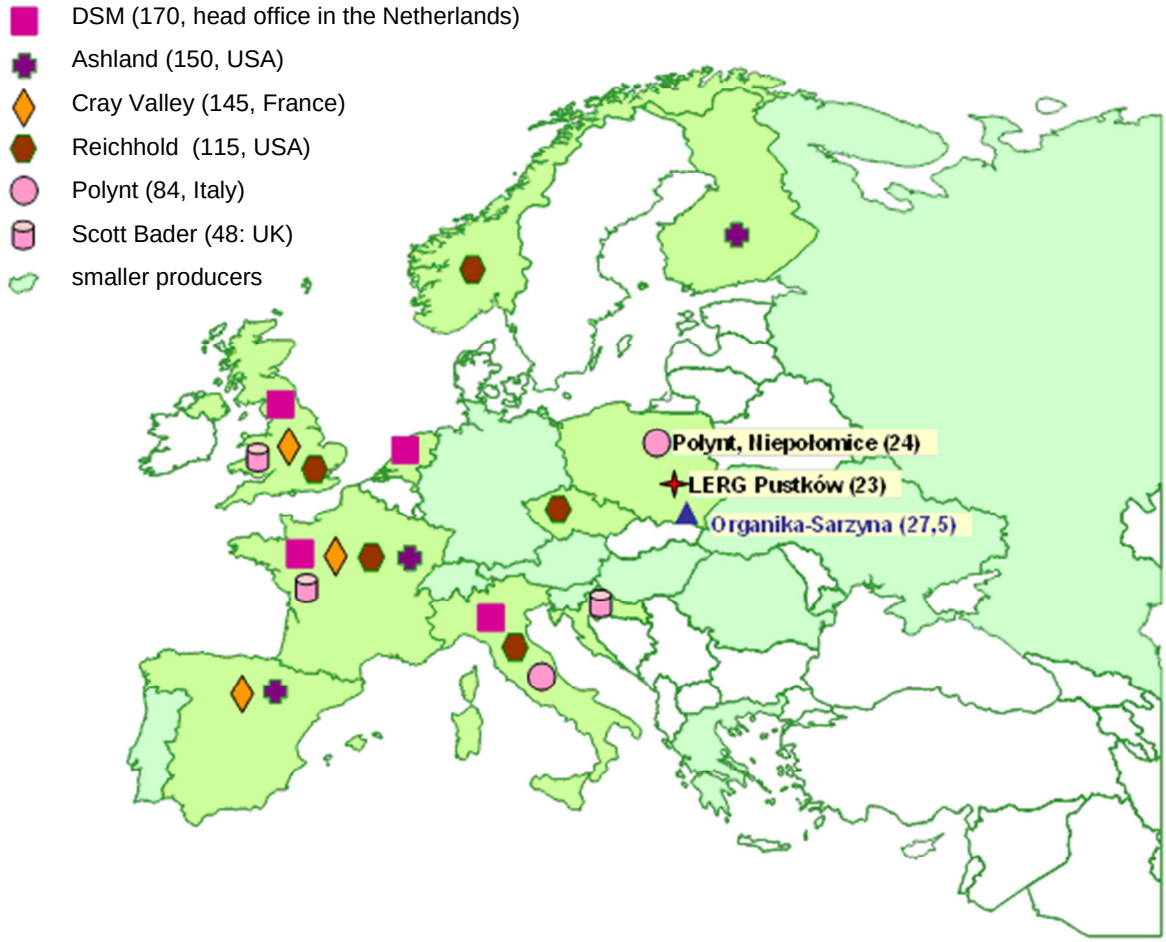


Source: own study by CIECH S.A. based on data from Nexant.

Total global unsaturated polyester resins production capacities amount approx. 3.9 million tons p.a. A quarter of this is attributable to Europe. In Europe, there are nearly 50 manufacturers of these resins. The six major companies are responsible for over 70% of European production capacities. It includes the following international concerns: DSM (industry leader in the region), Ashland, Cray Valley, Reichhold, Polynt, Scott Bader. Small producers due to the fierce competition generally focus on high value niches.
The major producer of unsaturated polyester resins in Poland is Z. Ch. "Organika-Sarzyna" S.A., from the Ciech Group (production capacities of 27.5 thousand tons/year). In terms of these resins substantial proportion of sales (about half) is directed to the domestic market, where the Ciech Group holds a strong position with more than 20% share. Resins produced by Z.Ch. "Organika Sarzyna" S.A. are also supplied to other European markets.
Important competitors on the Polish market are the following companies: Ashland (with market share similar to Ciech Group), Polynt, ZTS LERG, Reichhold, Cray Valley, DSM, Scott Bader.

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

Main European competitors of CIECH S.A. (Organika Sarzyna) in terms of unsaturated polyester resins in 2011.
(production capacity in thousands of tons p.a.)



Source: own study by CIECH S.A. based on data from companies

In addition to the facilities presented on the map there are also two small producers of resins with production capacities below 10 thousand tons per annum: TBD Dębica, PPG Polifarb Cieszyn.
The Ciech Group estimates the size of global market of unsaturated polyester resins at about 4 million tons/year. European demand is estimated at more than 700 thousand tons/year. Due to the large dependence of the consumption of resins on the economic situation in the construction and transport industry, a moderate market growth is expected in Europe (of about 1%-2%). In the region of Central and Eastern Europe the positive growth in demand should be higher by at least 1 percentage point. In the near future in the European market the dominant role (for sales of resins) will still be attributed to construction (pipelines, tanks, structural elements, artificial marble, etc.). The automotive segment will also be important (replacing the metal parts with elements made using resins). However, these two areas of consumption will be characterized by relatively slow dynamics. Extremely rapid growth in demand is expected in the wind farm segment, which is not yet significant for polyester resins. This will depend largely on the support for the development of renewable energy sources by the governments of European countries.

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

Average annual rate of change in demand for unsaturated polyester resins (by quantity)

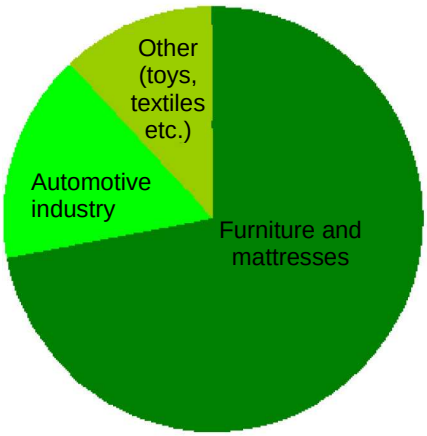
	5 previous years	Long-term forecast
World	4%-5%	3%-4%
Europe	4%-5%	1%-2%
Poland	3%- 4%	2%- 3%

Source: Ciech Group estimates

Soft polyurethane foams (PUR)

Soft polyurethane foams are mainly used in production of furniture and mattresses alone which are responsible for consumption of about 70% of this material. Another ten percent of the supply of foam is used in the automotive industry for the production of seats and interior design. Therefore, the demand for the foam is very sensitive to economic cycles.

Soft polyurethane foams application segments in the world



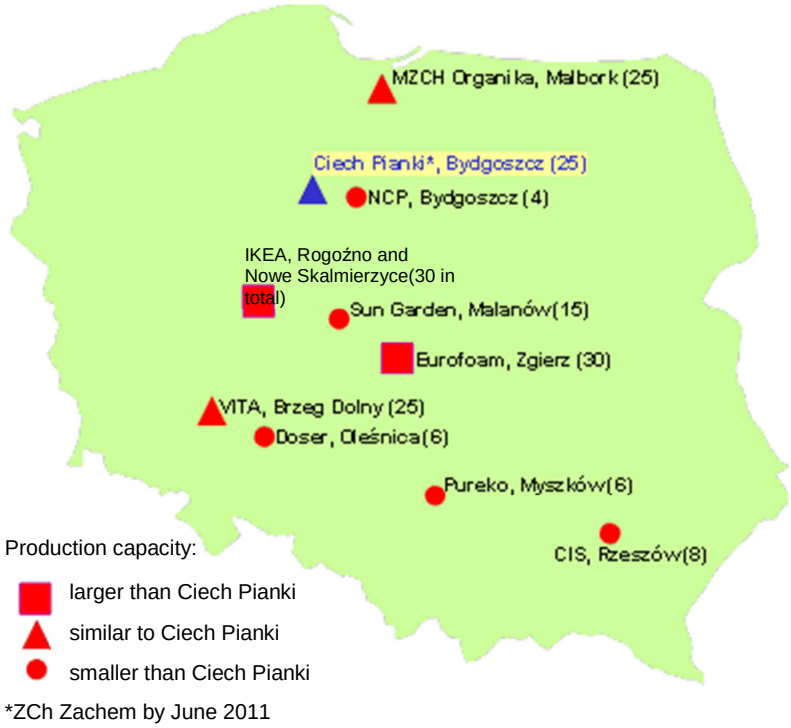
Source: own study by CIECH S.A. based on data from Nexant.

Due to the physical properties (low weight) polyurethane foams are sold only in local markets. The production base is therefore developing close to potential customers. The Ciech Group operates mainly on the Polish market (where the import is still of minor importance). However it is also developing its export sales. Clients of the Group include furniture manufacturers and processors of the foams.

Globally, the production of polyurethane foams is highly fragmented (more than a thousand manufacturers with total capacity of about 5 million tons/year). The production capacities of Polish producers are estimated at over 170 thousand tons per annum. The Ciech Group's largest competitors on the Polish market are: Eurofoam, MZCH Organika and Vita Polymers. Large production capacities of IKEA are intended primarily for internal needs.

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

Competitors of the Ciech Group (Ciech Pianki) in terms of polyurethane foams - PUR in 2011 (production capacity in thousands of tons p.a.)



Source: own study by CIECH S.A. based on data from companies.

The Ciech Group through its manufacturing subsidiary Ciech Pianki Sp. z o.o. has almost 20% share in the domestic market for the product. European demand for polyurethane foams is estimated at about 1 million tons/year. The Polish market is estimated at about 120 thousand tons/year. Demand for the foam depends on the situation in the industries that are the biggest consumers of the product, namely: the furniture and automotive industries. In the case of the domestic furniture industry an upturn has been recorded since 2010. Very good results of the industry for 2011 (mainly for export-oriented) point to some opportunities for manufacturers of foams, especially in a situation of persistent low exchange rate of Polish currency.
In the coming years a moderate growth in the European market for polyurethane foams by 2%-3% is projected. In Poland, due to the key role of the furniture industry, the growth should be even greater.

Average annual dynamics of change in demand for soft polyurethane foams (by quantity)

	5 previous years	Long-term forecast
Europe	2%-3%	2%-3%
Poland	2%-3%	3%- 4%

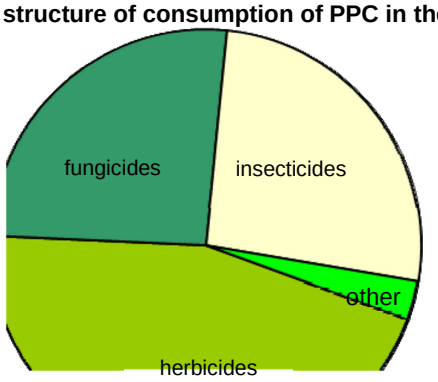
Source: Ciech Group estimates

Plant protection chemicals (PPC)

Every year in the world approximately USD 40 billion is spent for the purchase of plant protection chemicals. Nearly half of this amount is attributed to herbicides, and a quarter to both fungicides and insecticides.

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

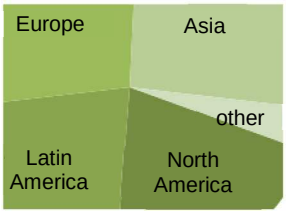
Generic structure of consumption of PPC in the world



Source: own study based on Agrow.

The world market is dominated by six major global producers, i.e.: Bayer CropScience, Syngenta, BASF, Dow AgroScience, Monsanto and DuPont. These companies are key players in global markets, because they have a significant impact on development trends in the industry, including: development of new technologies and marketing of innovative products and the development of legislation in the world. The share of the 6 largest producers in the world's total sales is estimated at about 80%.

PPC consumption structure by regions (%)

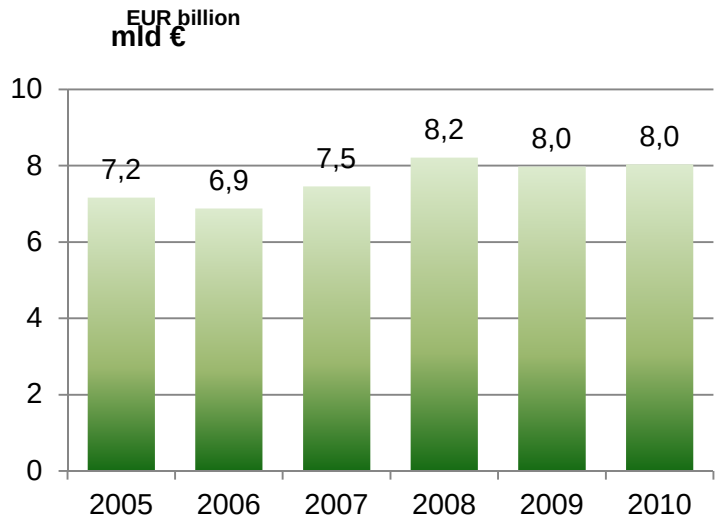


Source: own study based on Agrow.

The largest regional market of plant protection chemicals is the European market. Its value is nearly USD 11 billion (EUR 8 billion), which is more than one quarter of the world market. The share of North American, Latin American and Asian countries amounts to 20%-26% for each. Other regions of the world account for another 4% of the global consumption of pesticides. In recent years, the demand for PPC in Europe grew by about 2% per annum. Changes in the consumption of PPC in Europe in recent years are shown on following chart.

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

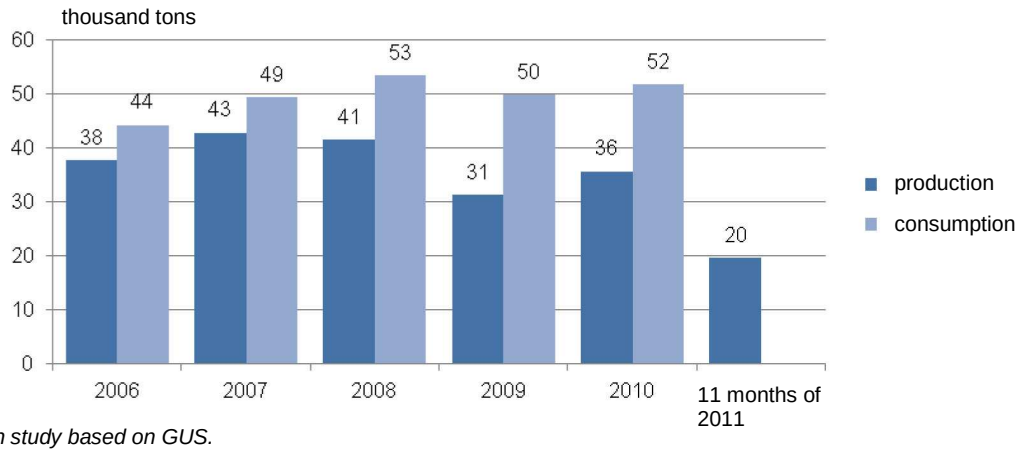
Consumption of PPC in Europe, 2005-2010 (EUR bn)



Source: own study based on European Crop Protection, Agrow.

In Europe the largest consumer markets of PPC are France (EUR 1.8 billion), Germany (EUR 1.3 billion), Italy (EUR 0.8 billion), Spain (EUR 0.6 billion) and Great Britain (EUR 0.6 billion).
In Poland, over 50 thousand tons of plant protection chemicals are sold annually. Recently, the volume of PPC used in the Polish agriculture has been growing steadily at a rate of 4% per annum, with a variable dynamics of the size of Polish production. In 2008-2009, a decline was recorded and in subsequent years - an increase which was a result of changing demand from farmers, the growing position of foreign producers and reduction in the number of plant protection chemicals authorized for production and marketing.

Production and consumption of plant protection chemicals in Poland in 2006-2010 by quantity (thousand tons)

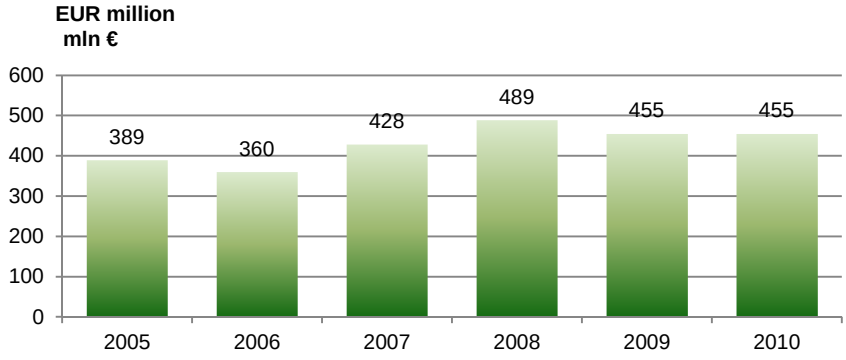


Source: own study based on GUS.

The value of the Polish market of plant protection chemicals is currently estimated at almost € 0.5 billion. Average growth rate of the market value amounts to more than 3% annually. The estimated size and structure of PPC sales in the domestic market in recent years is shown in the graphs below.

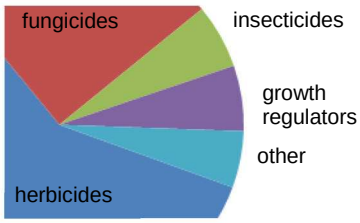
5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

Sales of PPC in Poland in 2005-2010 (value in € million)



Source: own study based on European Crop Protection.

Structure of PPC sales in Poland

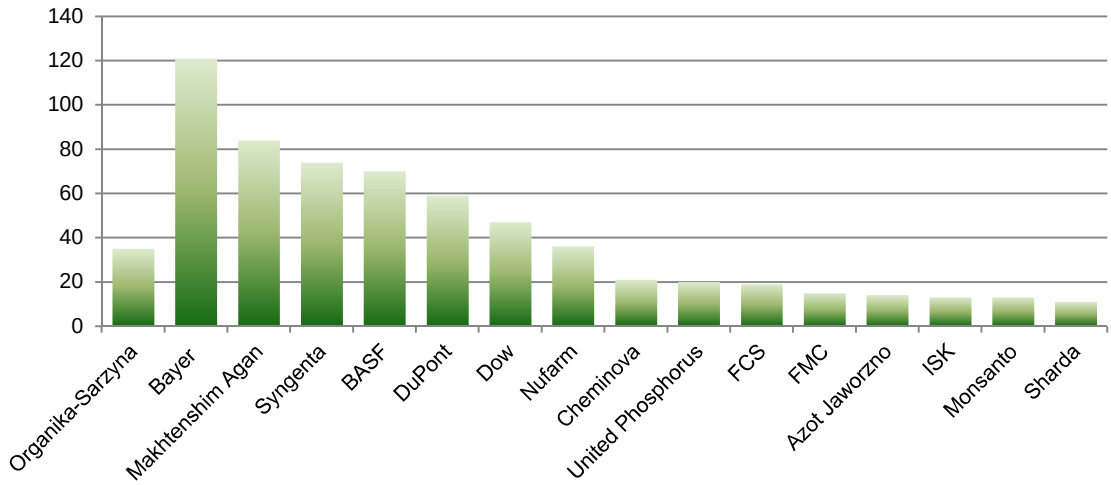


Source: own study based on GUS.

Compared to global usage, herbicides constitute the majority of plant protection chemicals used in Poland – due to a considerable share of crops in the area of agricultural land. The consumption of insecticides is much smaller, while fungicides participation remains at a level comparable with the global market.
Over the next few years, the Polish market of plant protection chemicals should steadily increase. In Poland, the unit consumption of formulas per 1 ha is still much lower than in Western Europe. Moreover, the economic situation of Polish farmers should improve thanks to the direct subsidies obtained from the European Union. Additionally, the controversy over genetically modified plants (GMOs) will effectively affect the level of demand for conventional plant protection chemicals.
A characteristic feature of the Polish market is very high import, which constitutes about 75% of the market offer. As a result, Polish products account for only 25% of the total market. The reason for such a large gap is the lack of a sufficient offer from Polish producers who do not have sufficient financial resources to conduct research on new formulations, their registration and marketing.
Major players in the industry operating on the Polish market are well known global companies and Polish producers. Z.Ch. „Organika- Sarzyna" S.A. from the Ciech Group is the largest Polish company operating in the industry. The activity of the company on the market of plant protection chemicals focuses on the Polish market, where the Group currently has a share of around 6%. In the segment of grain herbicides, the main product group, this proportion is much higher - 12%.
The following figure shows the competitive position of individual producers of plant protection chemicals according to the number of products registered on the Polish market.

5 Trade and production activity of Ciech Group (continued)
5.2 Information about basic products, goods and services (continued)

Number of PPC registered in Poland by the largest producers



Source: MRiRW (as at 31.12.2011)

PPC market in the long term is a growth market. Average annual growth rate of the global market in recent years amounted to over 4% (by value). The forecasts for the following years assume continued steady growth in demand. The growth in demand for PPC in the world will remain at the level of 3%-5% per annum (by value) and 3% (by number of active substances). The growth will be driven mainly by Latin America and Asia. According to experts, the projected increase in PPC usage in Europe is expected to be about 2% -4%, while in the region of Central and Eastern European the demand for plant protection chemicals will grow faster than in Western Europe.
Optimistic market forecasts for PPC are based on assumptions of decreasing size of arable land in the world, growing population and the consequent need to constantly increase the yield. On the other hand, the uncontrolled growth of pesticide use will be stimulated by different national and international regulatory authorities, whose task is to reduce pesticide use to reduce their negative impact on the environment and increasing consumer awareness of their consumption.

Average annual dynamics of change in demand for PPC (by quantity)

	5 previous years	Long-term forecast
World	4%	3%-5%
Europe	2%	2%-4%
Poland	3%	3%- 4%

Source: Ciech Group estimates

5.3 Information on trade areas, sources of raw materials, goods and services supply

The 2011 revenues of any of Ciech Group's customers did not exceed the level of 10% of consolidated revenue of the Ciech Group. CIECH S.A., being the parent and the entity which realizes the greatest sales within the Ciech Group did not record in 2011 a dependence on one or more recipients or suppliers, its sales to any recipient did not exceed 10% of revenue.

5 Trade and production activity of Ciech Group (continued)
5.3 Information on trade areas, sources of raw materials, goods and services supply (continued)

CIECH S.A. is a major supplier and recipient for the majority of Ciech Group companies. The largest amounts of sales are generated with the following subsidiaries:

- Soda Polska Ciech Sp. z o.o.,
- ZACHEM S.A.,
- Z.Ch. "Organika –Sarzyna" S.A.

Major external suppliers and recipients of other Ciech Group companies include:

- Air Products – supplying amine to ZACHEM S.A.;
- Kompania Węglowa S.A - supplying coal for Soda Polska Ciech Sp. z o.o.;
- VASA Pool – supplying energy for Soda Deutschland Ciech.

Geographical structure of trade areas

Approx. 37% of revenue from sales of products, goods and services earned by the CIECH S.A. in 2011 came from the domestic market, while the largest foreign recipients of products, goods and services offered by the Group's companies were EU countries and China.

PLN '000	**01.01 - 31.12.2011**	**01.01 - 31.12.2010**
Poland	**1,547,299**	**1,684,181**
European Union	**1,824,268**	**1,572,934**
- Germany	732,889	554,275
- Belgium	59,647	76,624
- The Czech Republic	110,456	148,099
- Netherlands	104,680	62,234
-Sweden	55,330	66,280
- Finland	81,291	51,636
- Italy	147,013	156,691
- United Kingdom	43,421	30,015
- Romania	198,011	146,810
- Other EU member states	291,531	280,270
Other European countries	**286,731**	**121,076**
- Switzerland	146,264	21,257
- Norway	37,085	30,658
- Russia	52,519	21,107
- Other European countries	50,863	48,055
Africa	**184,064**	**164,372**
Asia	**258,320**	**304,248**
- China	138,367	199,381
- Other Asian countries	119,954	104,867
Other regions	**73,804**	**113,505**
Total	**4,174,486**	**3,960,316**

6 Investment activity

6.1 Physical investments

6.1.1 Investments realized in 2011

In 2011, Ciech Group Companies spent approx. PLN 316.5 on the implementation of the Material Investment Plan.

Soda Division

- Modernisation of energetics in Elektrociepłownia Janikowo, including: complex modernisation of three CKTI-75 boilers, construction a fumes desulphurisation plant, modernisation of electrofilters for three CKTI-75 boilers, modernisation of a boiler ash removal installation. The investment is intended to improve cost and energetic efficiency of soda and vacuum salt production. It will increase energetic performance of the said boilers by 25%, improve energetic efficiency by 10% up to 91% (heat energy constitutes the largest part of soda production costs), allow to reduce coal consumption in the modernized power heating plant by 8% and allow for a decrease in gas emission as well as solve the issue of ash treatment and desulphurisation. Aside from these benefits, the investment is also crucial due to requirements regarding emission standards. The estimated budget for this project amounts to over PLN 230 million, approx. PLN 195 million of which was spent by the end of 2011 and total expenditure in 2011 was at the level of PLN 61.8 million. EC Janikowo modernisation is financed from own resources as well as from EU aid funds, priority 4 within the Operational Programme Infrastructure and Environment (granted subsidy amounted to PLN 31 million). The investment completion is scheduled in mid-2012.
- Modernisation and reconstruction investments allow for maintaining production capacity in Soda Division facilities (Soda Polska Ciech Sp. z o.o., Soda Deutschland Ciech Group, S.C. Uzinele Sodice Govora S.A.).

Organic Division

- Changes to the chloride liquefaction technology involving elimination of freon R-22 as a cooling factor used in cooling plant exploitation. This will lead to an elimination of the usage of harmful substances and reduction of energy consumption. The estimated budget for this task is PLN 14 million. The investment was implemented by ZACHEM S.A. and the chloride liquefaction technology system was commissioned in
  H1 2011. Capital expenditures amounted to PLN 12.15 million, in 2011 they amounted to PLN 6.74 million.

- Construction of a system and implementation of an innovative technology of producing epichlorohydrin (ECH) out of glycerine. The investment which involves preparing and implementing an innovative technology of producing ECH out of glycerine. This technology is largely based on Zachem's team own research work supported by the Institute of Heavy Organic Synthesis "Blachownia". The investment will change the raw materials base from petrochemical to waste substances from biodiesel production which will reduce the need to purchase chloride and propylene and will improve the process indicators by approx. 30% (including reduction of energy consumption by 10 GWh p.a.), decrease pollution emissions. The estimated budget for this investment amounts to PLN 68 million, including over PLN 39.87 million spent by the end of 2011. The project is finances from own resources and from EU funds, Action 4.4 within the Operational Programme Innovative Economy (subsidy amounting to PLN 28 million). The investment is carried out by ZACHEM S.A., it is planned to be completed in mid-2012.
- Construction of an innovative MCPA and MCPP-P manufacturing system This investment will implement cutting edge technological solutions and increase by 50% the production capacity of high-profit margin plant protection chemicals from 4 to 6 tons p.a.. This investment will result in the reduction of consumption of raw materials by 5%, increased production process efficiency, improvement of energetic performance by approx. 5% improve the technological and cost-related ratios and reduce wastes emission by approx. 5%. The estimated budget for this investment amounts to PLN 103 million, including over PLN 42.89 million spent by the end of 2011. The project is finances from own resources and from

6 Investment activity (continued)
6.1 Physical investments (continued)
6.1.1 Investments realized in 2011 (continued)

EU funds, Action 4.4 within the Operational Programme Innovative Economy (subsidy amounting to PLN 40 million). The investment is carried out by Z.Ch. "Organika-Sarzyna" S.A., it is planned to be completed in 2012.

Aside from the aforementioned investments, the Group conducted a series of smaller modernisation and reconstruction projects aimed at maintaining production capacity and facilities' technological condition at an unchanged level.

6.1.2 Investments planned in the next 12 months

Investment expenditure planned for 2012 will amount to approx. PLN 244 million.

Apart from the aforementioned investment projects which will be continued in 2012, the Group intends to carry out the following investment projects:

- Intensification of baking soda production intended to increase the production capacity in the current baking soda facility up to 30 tons p.a. The investment will have the following results: create conditions for more active operations in the most demanding markets sectors and for gaining new customers, allow for processing of additional amount of soda ash to manufacture a product with a more stable market position and closer to the final customer, finally, it will increase the usage of the production capacity of the soda ash facility. The estimated budget for this project amounts to over PLN 20 million, the investment is planned to be implemented in years 2011-2013. The investment will be managed by Soda Polska Ciech Sp. z o.o. and Sodawerk Strassfurt (Soda Deutschland Ciech Group).
- A production optimising project which will allow to maintain the set level of daily soda production in S.C. Uzinele Sodice Govora of 1,150 - 1,200 tons per day, and to improve the production effectiveness ratios which will guarantee the profitability of production. The set budget for modernisation and reconstruction investments is PLN 69.5 million. The investment will be carried out in years 2012-2016.

- The project of modernization of production of glass packaging in VITROSILICON, which will guarantee greater efficiency of furnace in the Iłowa Plant by about 30%, reduce the amount of waste production by 50% and improve the quality of manufactured glass. Capital expenditures at the level of PLN 20.4 million to be incurred in 2012-2013.

6.2 Description of the main capital investments and methods of their financing

6.2.1 Capital investments and divestments made in the current reporting period and description of the methods of their financing

Investments

Obligations assumed in previous years were fulfilled within completed capital investments, they will be spread over time and include: in the Organic Division - fulfilling privatisation agreements regarding companies being part of the Division, buying employee shares of ZACHEM S.A. and Z. Ch. "Organika-Sarzyna" S.A.

In addition, there was a forced buyout by CIECH S.A. of shares held by by minority shareholders of JANIKOSODA SA and SODA MĄTWY S.A. conducted in connection with the process of merger of CIECH S.A. with these companies and forced acquisition of shares in Alwernia SA SA held by MAGNUS S.A. pursuant to Art. 4181 of the CCC.

Also the share capital in Cheman SA was increased by PLN 90 thousand in exchange for an in kind contribution in the form of claims payable to CIECH S.A. by Cheman S.A.

Divestments

Great importance for the development and improvement of future performance of the Group and for obtaining funds to repay the debt to a bank consortium is attributed to the implementation of a restructuring plan for the divestments.

6 Investment activity (continued)
6.2 Description of the main capital investments and methods of their financing (continued)
6.2.1 Capital investments and divestments made in the current reporting period and description of the methods of their financing (continued)

Basic information about main companies covered by divestments carried out in 2011.

Company	Selling entity	Project status
GZNF "FOSFORY" Sp. z o.o.	CIECH S.A.	Transaction carried out on April 27th, 2011 - a transfer of share ownership to ZA Puławy S.A. for PLN 106.7 million. The cash transfer was realised in 2011.
Daltrade Ltd	CIECH S.A.	Transaction carried out on May 19th, 2011 through a transfer of share ownership to DAL Towarzystwo Handlu Międzynarodowego S.A. for GBP 20 thousand. The cash transfer was realised in 2011.

6.2.2 Capital investments and divestments planned in the next 12 months

Capital investments
Capital investments will include a continuation of obligations which were undertaken in previous years and spread over time. In the Organic Division - fulfilling privatisation agreements regarding a company being part of the Division: buying employee shares of Z. Ch. "Organika-Sarzyna" S.A.

Divestments
The implementation of the Restructuring Plan will be of key importance for the shaping of Group's future results. The Plan assumes an implementation in years 2010-2014 of restructuring initiatives aimed at improving the financial situation of the Group and increasing its capacity to repay the debt and to develop its activities. The total amount of net revenue and savings which could be obtained on account of carrying out restructuring initiatives presented in the Restructuring Plan is estimated at approx. PLN 650 million.
The main prerequisites behind implementing divestment projects described in the Plan were: (i) to concentrate on soda and organic products, (ii) high sensitivity to economic fluctuations on agrochemical markets, (iii) relatively small importance of the silicates and glass market activities and lack of significant synergies within the Group, (iv) withdrawal from companies whose operations are not directly linked to Group's activities (e.g. agro-chemistry, silicates, glass, pharmacy or transport).
The initiatives were divided into the quantified and others whose effect could not currently be estimated (and whose implementation may constitute an additional source of revenue and savings). The entire divestment plan includes around 80 projects, and the most important projects include the sale of shares in the companies Azoty Tarnów S.A., PTU S.A., GZNF „FOSFORY" Sp. z o.o., Ciech Service Sp. z o.o., Daltrade Ltd. (companies sold by the end of 2011), Transoda Sp. z o.o., POLFA Sp. z o.o., Alwernia S.A., VITROSILICON S.A.

Within quantified initiatives, the Restructuring Plan assumes, among others:
- Sales of all owned stocks/ shares blocks in companies which were previously basic for the Group, i.e. GZNF FOSFORY (company sold in 2011), Alwernia S.A., VITROSILICON S.A., in order to solicit cash and withdraw from markets which are not strategic from the Group's point of view.
- Sales of stocks/ shares in non-basic companies, i.e. Transoda Sp. z o.o., POLFA Sp. z o.o. (and POLFA Hungaria) in order to solicit cash, decrease resources involvement in ownership supervision and increase the Group's transparency for investors.
- Sale of selected organised parts of ZACHEM S.A., having analysed the future production profitability and the economic effects of the decision, in order to solicit cash and withdraw from markets which are not strategic from the Group's point of view.

Other initiatives described in the Restructuring Plan will include:
- Preparation and realisation of sale of shares of small, not basic companies within ZACHEM S.A. (8 companies), Z.Ch. "Organika-Sarzyna" S.A. (9 companies) and Ciech Finance Sp. z o.o. (and its subsidiary - Cheman S.A.), in order to solicit cash, decrease resources involvement in ownership supervision, decrease the risk of involving financial resources and increase the Group's transparency for investors.
- Liquidating the involvement in 48 companies (partially completed), i.e. beginning six and continuing 48 liquidation processes and monitoring bankruptcy processes

6 Investment activity (continued)
6.2 Description of the main capital investments and methods of their financing (continued)

6.2.2 Capital investments and divestments planned in the next 12 months (continued)

and disposal of marginal share blocks in 30 companies in order to decrease the risk of involving financial resources, decrease resources involvement in ownership supervision.

Basic information about main companies covered by divestments carried out by CIECH S.A.

Company	Project status	Project completed by
VITROSILICON S.A.	Project suspended	2012
Alwernia S.A.	Talks with potential investors in progress.	2012
Ciech Finance Sp. z o.o. and Cheman S.A.	Restructuring process in progress. Conditional agreement signed. Upon the fulfilment of conditions of negotiation with the investor.	2012
POLFA Sp. z o.o.	Agreement signed. Waiting for the fulfilment of conditions.	2012
Transoda Sp. z o.o.	Waiting for the declarations of investors.	2012
Chemia.com S.A.	Analysis pending.	2012
Ciech America Latina	Liquidation	2012
Polcommerce, Vienna	Divestment	2012

6.3 Evaluation of the probability of realizing contemplated projects in terms of possessed funds, taking into account possible changes in the structure of financing this activity

Ciech Group's investment policy has been adapted to current capital raising capabilities so as to fully secure planned physical and capital investments.

Sources of financing for investment activities conducted by CIECH S.A. and Ciech Group:

- funds gained on the issuance of D series shares performed in the first quarter of 2011,
- resources gained on divestments,
- external financing in the form of EU funds,
- external financing in the form of bank loans, borrowings and funds from planned, long-term financing provided by EBRD,
- funds earned on operating activity.

7 Funds management in Ciech Group

7.1 Loans, borrowings, sureties and guarantees

Loans and borrowings

On February 10th, 2011, CIECH S.A., being the borrower, entered into a loan agreement with its subsidiaries, being guarantors, (JANIKOSODA S.A., SODA MĄTWY S.A., Soda Polska Ciech sp. z o.o., Alwernia S.A., Cheman S.A., Z. Ch. "Organika Sarzyna" S.A., POLFA sp. z o.o., VITROSILICON S.A., Transclean sp. z o.o. and ZACHEM S.A.) and Bank DnB Nord Polska S.A., Bank Handlowy w Warszawie S.A. ("Loan Agent"), Bank Millennium S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., ING Bank Śląski S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. On February 15th, 2011, the European Bank for Reconstruction and Development acceded the Loan Agreement. S.C. Govora – Ciech Chemical Group S.A. also joined the agreement as a guarantor and borrower.

7 Funds management in Ciech Group (continued)
7.1 Loans, borrowings, sureties and guarantees (continued)

Loans granted

The following loans were released pursuant to the Loan Agreement:

1. a dual currency refinance fixed-term loan in PLN and EUR on a total amount of PLN 696 million, granted by the Commercial Banks ("Fixed-term Loan") in order to refinance debt following from the loan agreement of April 26th, 2010, whereby 25% of the amount of the Fixed-term Loan was used in EUR; the loan was disbursed on September 29th, 2011.
2. a multi currency revolving (renewable) loan (also available in the form of guarantees and letters of credit) of a total amount of PLN 100 million granted by Commercial Banks ("Renewable Loan"); the loan was disbursed on September 29th, 2011.
3. an additional guarantee line amounting to EUR 9.6 million granted to the benefit of S.C. CET Govora S.A. by Bank Polska Kasa Opieki S.A.;
4. a fixed-term investment loan in EUR on an equivalent of PLN 300 million granted by the EBRD in order to finance and refinance capital expenditure of the Ciech Group within an investment programme, subject to a required own contribution of at least 40% of financed or refinanced capital expenditure borne since the day of signing the Loan Agreement. The Investment Loan will be available for release between September 1st, 2012 and November 30th, 2012.

The interest rate applicable for the loans is variable, based on WIBOR / EURIBOR plus margin; the margin is different for loans in PLN and EUR, it is variable over time and depends on the ratio of net debt to operating result plus depreciation (EBITDA).

Other details regarding loans and borrowings granted in 2011 by Ciech Group's Companies have been discussed in section 2 of this Report on Ciech Group's Activities.

Loan agreements concluded and annexed by the Ciech Group's companies in 2011

Bank	Type of loan	Loan amount: '000	Loan currency	Interest rate	Maturity	Date of agreement/annex
Bank Consortium*	Fixed-term	520,966**	PLN	WIBOR + bank's margin	31.03.2016	10.02.2011
Bank Consortium*	Fixed-term	126,933**	EUR 28,739	EURIBOR + bank's margin	31.03.2016	10.02.2011
Bank Consortium*	Working capital loan	20,000**	PLN	WIBOR + bank's margin	31.03.2016	10.02.2011
European Bank for Reconstruction and Development	Investment	Equivalent to PLN 300,000	EUR	EURIBOR + bank's margin	31.03.2016	15.02.2011

* Bank Consortium - Bank DnB Nord Polska S.A., Bank Handlowy w Warszawie S.A., Bank Millennium S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., ING Bank Śląski S.A. and Powszechna Kasa Oszczędności Bank Polski S.A.
** Debt as at 31.12.2011
*** Maximum loan amount pursuant to the agreement. The amount of outstanding debt under the Investment Loan is PLN 0 as at 31.12.2011. The Investment Loan will be available for release after the fulfilment of conditions precedent between September 1st, 2012 and November 30th, 2012.

The following table presents a breakdown of borrowings granted by CIECH S.A. to subsidiaries in 2011:

Borrower	Repayment date	Granted borrowing in PLN '000 according to the balance as at 31.12.2011	Terms of granting	Value of borrowings in the currency	Type of relation to the parent
POLFA Sp. z o.o.	31.03.2016	4,417	Interest amounting to EURIBOR 1M + margin payable at the end of each day of the month	EUR 1,000	Subsidiary
POLFA Sp. z o.o.	31.03.2016	1,709	Interest amounting to LIBOR 1M + margin payable at the end of each day of the month	USD 500	Subsidiary

Borrower	Repayment date	Granted borrowing in PLN '000 according to the balance as at 31.12.2011	Terms of granting	Value of borrowings in the currency	Type of relation to the parent
Alwernia S.A.	31.03.2016	20,959	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month		Subsidiary
Z.Ch. "Organika-Sarzyna" S.A.	31.03.2016	72,885	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month		Subsidiary
Z.Ch. "Organika-Sarzyna" S.A.	from 31.12.2013 to 31.12.2018	53,000	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month		Subsidiary
TRANSCLEAN Sp. z o.o.	31.03.2016	1,027	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month		Subsidiary
VITROSILICON S.A.	31.03.2016	30,626	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month		Subsidiary
VITROSILICON S.A.	31.03.2016	1,045	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month		Subsidiary
VITROSILICON S.A.	31.03.2016	17,892	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month		Subsidiary
VITROSILICON S.A.	31.03.2016	10,000	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month		Subsidiary
VITROSILICON S.A.	31.03.2016	3,500	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month		Subsidiary
VITROSILICON S.A.	31.03.2016	4,500	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month		Subsidiary
ZACHEM S.A.	31.03.2016	43,000	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month		Subsidiary
ZACHEM S.A.	31.03.2016	26,418	Interest amounting to EURIBOR 1M + margin payable at the end of each day of the month	USD 9,000	Subsidiary
ZACHEM S.A.	31.03.2016	50,000	erest amounting to WIBOR 1M + margin payable at the end of each day of the month		Subsidiary
ZACHEM S.A.	31.03.2016	84,800	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month		Subsidiary
ZACHEM S.A.	31.03.2016	96,992	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month		Subsidiary
ZACHEM S.A.	31.03.2016	33,799	Interest amounting to EURIBOR 1M + margin payable at the end of each day of the month	USD 12,545	Subsidiary

Borrower	Repayment date	Granted borrowing in PLN '000 according to the balance as at 31.12.2011	Terms of granting	Value of borrowings in the currency	Type of relation to the parent
SODA MĄTWY S.A.	31.03.2016	123,583	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month		Subsidiary

The following table presents a breakdown of borrowings granted by CIECH S.A.'s subsidiaries in 2011:

Lender	Repayment date	Amount of loan including capitalized interest in PLN '000	Terms of granting	Borrower's relationship with CIECH S.A.
Polcommerce Austra	15.06.2012	442	Interest amounting to EURIBOR 1M + margin payable at the end of each month	Subsidiary

Sureties and guarantees granted

Beneficiary's name	Amount of loans covered by surety in whole or in specific part		Surety period	Financial terms, including surety fee due to the company	Principal	Nature of relations between CIECH S.A. and the borrower
	currency in '000	PLN '000.				
CIECH S.A.						
Commerzbank	25,000 EUR	110,420	30.09.2014	To the loan agreement of January 23rd, 2008 for EUR 75 million	Soda Deutschland GmbH	Subsidiary
Bank Consortium	10,850 EUR	47,922	31.03.2016	Fixed % of the surplus of granted surety over the surety required to hedge the actual amount of financing	S.C.Uzinele Sodice Govora – Ciech Chemical Group S.A.	Subsidiary
Total CIECH S.A.		**158,342**				
ZACHEM S.A.						
Bank PEKAO S.A.		18,160	until August 31st, 2014	None	Spółka Wodna Kapuściska	None
Nordea Bank		18,160	until August 31st, 2014	None	Spółka Wodna Kapuściska	None
Total ZACHEM S.A.		**36,320**				
Total amount of loans covered by surety		**194,662**				

7 Funds management in Ciech Group (continued)
7.1 Loans, borrowings, sureties and guarantees (continued)

Beneficiary's name	Total amount of guarantees granted, backed 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 beneficiary
	currency in '000	PLN '000.				
CIECH S.A.						
SG Equipment Leasing Polska Sp. z o.o. - Warsaw	EUR 358	1,582	01.09.2012	To the lease agreement concluded between S.C Uzinele Sodice Govora and ECS International Polska Sp. z o.o. of July 10th, 2007	S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. - Romania	Subsidiary
Air Products, LLC and Air Products Chemicals Europe B.V.	USD 11,824	52,225	Until the complete repayment of liabilities resulting from the deliveries executed by 31.12.2011	-	ZACHEM S.A.	Subsidiary
Air Products, LLC and Air Products Chemicals Europe B.V.	USD 41,262	182,248	Until the complete repayment of liabilities resulting from the deliveries executed between 01.01.2012 and 30.06.2012.	-	ZACHEM S.A.	Subsidiary
GATX Rail Poland Sp. z o.o.	EUR 68	301	30.11.2012	Guarantee of payment of lease fee for tanks	ZACHEM S.A.	Subsidiary
ING Lease Romania IFN S.A.	1,386 EUR	6,122	31.10.2013	Payment collateral to lease agreements	S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. - Romania	Subsidiary
Total amount of guarantees granted		**242,478**				

In 2011, Ciech Group Companies received neither guarantees nor sureties from foreign entities.

7.2 Information about the issue of securities in CIECH S.A.

In 2011 CIECH S.A. conducted the issuance of Series D ordinary bearer shares with subscription right. Below is the basic information on the Offering.

1. Issue Price

On January 25th, 2011 the Management Board acting pursuant to § 2 of the Resolution on the Share Capital Increase, in agreement with the Co-Offering Agents (by executing the Pricing Supplement to the Placement Agreement) and upon consent of the Supervisory Board decided that the Issue Price would amount to PLN 19.20 per each Offer Share with a par value of PLN 5.

2. The final number of the Shares to be offered in the Offering

The Management Board did not exercise its authorisation to determine the final number of the Shares to be offered in the Offering under the Resolution on the Share Capital Increase. As a consequence, pursuant to the Resolution on the Share Capital Increase and in compliance with

7 Funds management in Ciech Group (continued)
7.2 Information about the issue of securities in CIECH S.A. (continued)

the Prospectus (see in particular Section "Terms of the Offering" – "Final Number of the Shares to be offered in the Offering") the final number of the Shares to be offered in the Offering amounted to 23,000,000 ordinary bearer Series D shares with a par value of PLN 5 each.

3. The final number of the Shares to be allotted in exercise of one Individual Pre-Emptive Right
As a result of the above, one Individual Pre-Emptive Right entitled to 23/28 of the Offer Share, which represents approximately 0.82142857143 of the Offer Share. Therefore, an investor needed to exercise two Individual Pre-Emptive Rights to be allotted one Offer Share.

***4.* Allocation of the shares**
On March 2nd, 2011, the Management Board of CIECH S.A. announced that 23.000.000 series D ordinary bearer shares of the Company with a nominal value of PLN 5 each was allotted and that the issuance of the Series D Shares with pre-emptive rights through a public offering on the basis of resolution No. 3 of the Extraordinary General Meeting of Shareholders of the Company dated October 28th, 2010 regarding the Company's share capital increase and the amendment of the Company's statute has been successfully completed.
The date of commencement of acceptance of subscriptions for the purposes of exercising pre-emptive rights and making additional subscriptions was February 3rd, 2011 and the final date of accepting subscriptions for the purposes of exercising pre-emptive rights and additional subscriptions was February 16th, 2011. Date of the allocation of the shares was February 25th, 2011.
Number of shares subject to the subscription: 23.000.000 Series D Shares. Reduction rate for the purposes of additional subscriptions: 94.2%. Number of shares covered by subscription orders within the scope of:

- ✓ exercise of the pre-emptive rights: 21,825,287 Series D Shares,
- ✓ additional subscriptions: 20,322,318 Series D Shares.

The number of shares allocated within the scope of the completed subscription: 23,000,000 Series D Shares.
Issue price at which the shares were subscribed for: PLN 19.20
Number of persons who subscribed for the shares within the scope of the subscription and the number of persons who were allocated shares within the scope of the subscription:

- ✓ resulting from the exercise of pre-emptive rights, a total of 3,451 subscriptions for Series D Shares,
- ✓ resulting from additional subscriptions, a total of 533 subscriptions for Series D Shares.

Series D Shares were not subscribed by sub-issuers – the Company did not concluded sub-issue agreements.

5. The value of the subscription
The value of the subscription (constituting the product of the shares subject to subscription and the issue price per one share): PLN 441,600 thousand

6. Total costs of issue
Total costs of issue of the Series D Shares have been stated in the prospectus in the "Use of Proceeds" section and amounted to: PLN 5,893 thousand, of which:

- ✓ preparation and completion of the offering: PLN 3,327 thousand.
- ✓ drafting the prospectus: PLN 2,300 thousand.
- ✓ promotion of the offering: PLN 266 thousand.

The method of settlement in the books and the method of presentation in the financial statements: the cost of issue of the Series D Shares adjusted for the income tax on tax deductible issue costs will decrease the Capital received from the issue of the shares above the nominal value of such shares created from the surplus of the issue price over the nominal value thereof. The average cost of the issuance of the Series D Shares per one subscribed share: PLN 0.26.

Moreover, on July 27th, 2011 CIECH S.A. and the State Treasury of the Republic of Poland entered into the Agreement for the Acquisition of Shares and Transfer of a Contribution in Kind. The details on the agreement are provided in section 10.2 of this report.

7.3 Financial instruments

The financial results of Ciech Group may be subject to fluctuations due to changing market conditions, in particular, product performance, exchange rates and interest rates. Sources of currency risk which threatened companies within the Group in 2011 included: purchase of raw materials, product sale, loans and borrowings raised and cash in foreign currencies.

The Ciech Group applies hedge accounting in order to limit the variability of revenues generated by the Group's companies, resulting from exchange rate fluctuations on the market. The analysis of applying hedge accounting is presented in note 38 of Notes to the consolidated financial statements.

7 Funds management in Ciech Group (continued)
7.3 Financial instruments (continued)

Information about financial instruments has been presented in details in Notes to the consolidated financial statements in sections 35-38.

7.4 Objectives and principles of financial risk management in Ciech Group

The aim of financial risk management policy is to indicate areas requiring risk analysis, to present means to identify and measure it, to establish 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 risk, including:
  - ✓ currency risk,
  - ✓ interest rate risk,
  - ✓ raw material and product price risk

While fulfilling its main goals, the Group aims to avoid excessive market risk. This aim 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 portfolio effect resulting from the variety of conducted business activity. Risk effects are materialised in the cash flow statement, balance sheet and the statement of Ciech Group's results.

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

The aforesaid categories of risk have been presented in details in the Notes to the consolidated financial statements in section 35.

Methods of securing material types of planned transactions in relation to which hedge accounting is applied

Transactions secured by hedge accounting are defined as highly reliable transactions. Their occurrence is anticipated in the Group's Financial Plan. Moreover, these are transactions with the Group's regular customers, which makes their potential occurrence probable.

8 Explanation of differences between the financial results and previously published forecasts

In 2011, the Ciech Group has not published any forecasts for 2011.

9 Employment in Ciech Group

As at the end of 2011, Ciech Group (the parent entity CIECH S.A. and subsidiaries consolidated under the full method) employed 5,808 people. At the end of a similar period, i.e. 2010, Ciech Group employed 6,705 people. The main reason for the reduction of employment in the Ciech Group was the sale of a subsidiary GZNF "FOSFORY" Sp. z o.o. and the employment restructuring process executed in ZACHEM Group companies.

	2011	2010
Employment in persons	**5,808**	**6,705**
White-collar workers	2,133	2,307
Manual workers	3,675	4,398
Average employment in persons	**6,210**	**6,841**
White-collar workers	2,148	2,350
Manual workers	4,062	4,491

10 Changes in the organization, management and financial assets of Ciech Group

10.1 Changes in the basic principles of managing Ciech Group

Management principles of the Company and of the Group hasn't changed and is centred around divisions, which operated as production and sales centres based on a specific portfolio of products, and around the Corporate Centre focused on managing value, finances, corporate image, financial controlling as well as developing and implementing strategies. The management of the Company and the Group in 2011 was cantered around three divisions:
Soda Division, Organic Division and Agro-Silicon Division formed in 2010 by merging Agro Division with Silicates and Glass Division and the Corporate Centre which operates as before.
The current three divisions are responsible for the strategy operationalisation and financial results in their product and market areas. The portfolios of products defined for each division have been classified according to parameters ensuring the achievement of strategic goals with regard to increase in value and the development of a competitive and strong player in the chemical market.
Key processes carried out in divisions include: sales, purchase, logistics and product development, while production and physical investments are realised by production companies attributed to particular divisions.

10.2 Changes in the organisational affiliations in the Ciech Group

The investment and divestment activities carried out in 2011 are the continuation of activities started in 2010, resulting from the Strategic Plan of the Ciech Group and from the Restructuring Plan for the Ciech Group. Actions carried out in 2011 affected the organisational relationships between the Ciech Group companies and referred to the following entities:

In the structure of Ciech Group the following changes regarding the companies in which CIECH S.A. holds direct shares occurred in 2011:

- ***Gdańskie Zakłady Nawozów Fosforowych FOSFORY Sp. z o.o.***

As a result of fulfilment of conditions precedent defined in the Sales Agreement dated December 16th, 2010, the ownership of 51,855 shares in GZNF "FOSFORY" Sp. z o.o. was transferred on April 27th, 2011 to Zakłady Azotowe Puławy S.A. and CIECH S.A. was no longer a shareholder of GZNF "FOSFORY Sp. z o.o. and, indirectly, of its subsidiaries (Agrochem Sp. z o.o. with its registered seat in Człuchów and Agrochem Sp. z o.o. with its registered seat in Dobre Miasto). From this date on, these companies are no longer recognised in Group structure.

- ***ZACHEM S.A. and Z.Ch. "Organika-Sarzyna" S.A.***

CIECH S.A. implementing the provisions of the "Social Package" forming a part of the Agreement for the sale of shares of ZACHEM S.A. dated March 29th, 2006 by Nafta Polska S.A. to CIECH S.A. has been successively purchasing the shares in ZACHEM S.A. held by the employees of the Company who acquired the shares in ZACHEM S.A. free of charge pursuant to the Act on Commercialisation and Privatisation of Public Enterprises. CIECH S.A. on April 25th, 2011, after the completion of another stage of the acquisition process of (employee) shares became an owner of 239,316 shares in ZACHEM S.A., acquired for the total amount of PLN 1,213,332.12. After the completion of this transaction, CIECH S.A. was the owner of 13,659,026 registered shares in ZACHEM S.A., constituting 92.29% of the share capital
In the case of ZACHEM S.A.'s shares the purchase of employee shares in 2011 was the last mandatory purchase. Pursuant to the agreement, CIECH S.A. is no longer obliged to purchase the remaining employee shares in this company.

CIECH S.A. implementing the provisions of the "Social Package" forming a part of the Agreement for the sale of shares of Z.Ch. "Organika-Sarzyna" S.A. by Nafta Polska S.A. to CIECH S.A. dated March 29th, 2006, has been successively purchasing the shares in Z.Ch. "Organika-Sarzyna" S.A. held by the employees of the Company who acquired the shares in Z.Ch. "Organika-Sarzyna" S.A. free of charge pursuant to the Act on Commercialisation and Privatisation of Public Enterprises. After the completion of successive stages of purchase of employee shares executed in 2011 became the owner of the following numbers of shares:

- 35,880 shares, which constitutes 0.42% of the share capital on June 15th, 2011,
- 555 shares, which constitutes 0.0065% of the share capital on June 22nd, 2011,

After the completion of this transaction, CIECH S.A. was the owner of 7,936,582 registered shares in Z.Ch. "Organika-Sarzyna" S.A., constituting 93.48% of the share capital.

ZACHEM S.A., Z.Ch. "Organika-Sarzyna" S.A., ALWERNIA S.A.

On July 27th, 2011, CIECH S.A. entered into a Share Acquisition and Contribution in Kind Transfer Agreement with the State Treasury of the Republic of Poland, pursuant to which:

1. The State Treasury has acquired 1,699,909 series E ordinary bearer shares in the increased share capital of CIECH S.A., with a nominal value of PLN 5 each, with a total nominal value of PLN 8,499,545.

10 Changes in the organization, management and financial assets of Ciech Group (continued)
10.2 Changes in the organisational affiliations in the Ciech Group (continued)

2. The State Treasury has transferred onto CIECH S.A., as a contribution in kind covering series E shares from the increase of the share capital of CIECH S.A., the shares in the following companies:

- **Alwernia S.A.** 571,826 series A ordinary bearer shares with a nominal value of PLN 2.30 each, with the total nominal value of PLN 1,315,199.80, representing 25.01% of the share capital of the Company. This increased CIECH S.A. share in the share capital of the Company from 73.75% to 98.76%.
- **ZACHEM S.A. -** 762,224 series A ordinary bearer shares with a nominal value of PLN 10.00 each, with the total nominal value of PLN 7,622,240.00, representing 5.15% of the share capital of the Company. This increased CIECH S.A. share in the share capital of the Company from 92.29% to 97.44%.
- **Z. Ch. "Organika-Sarzyna" S.A.** - 429,388 series A ordinary bearer shares with a nominal value of PLN 10.00 each, with the total nominal value of PLN 4,293,880.00, representing 5.06 % of the share capital of the Company. This increased CIECH S.A. share in the share capital of the Company from 93.48% to 98.54%.

The total value of the transferred shares accounts for PLN 44,299,635.84.

- ***SODA MĄTWY S.A. and JANIKOSODA S.A.***

Actions undertaken in 2007 in order to simplify the management of the soda segment of the domestic Group's companies and to gain the synergy effect through a better coordination of business processes resulted in the establishment of Soda Polska CIECH Sp. z o.o. into which the companies: SODA MĄTWY S.A. and JANIKOSODA S.A. transferred their assets, except for shares in PTU S.A. as an in kind contribution in return for shares. The further operation of the companies: SODA MĄTWY S.A. and JANIKOSODA S.A. will be continued until the disposal by the abovementioned companies of the shares in Polskie Towarzystwo Ubezpieczeń S.A. In connection with the implementation on December 29th, 2010, of the Agreement on the sales of PTU S.A. shares actions were taken aiming at the execution of restructuring of both companies, with the purpose to consolidate the business entities within one capital group. Therefore, in the first place in order to improve the operation of SODA MĄTWY S.A. and JANIKOSODA S.A. and to accelerate the decision-making procedure in the Companies and to reduce the costs, the Extraordinary Meeting of Shareholders of SODA MĄTWY S.A. and JANIKOSODA S.A. adopted, on February 28th, 2011, resolutions on the compulsory acquisition of shares belonging to minority shareholders of SODA MĄTWY S.A. and JANIKOSODA S.A. by the controlling shareholder, CIECH S.A. As a result of the compulsory acquisition of 10,820 shares from minority shareholders of SODA MĄTWY S.A. and 17,000 shares from minority shareholders of JANIKOSODA S.A. executed through TRIGON Dom Maklerski S.A., CIECH S.A. on May 23rd, 2011 became a holder of 100% of shares in SODA MĄTWY S.A. and JANIKOSODA S.A.

- ***CIECH S.A., SODA MĄTWY S.A. and JANIKOSODA S.A.***

During the meeting held on June 1st, 2011, the Management Board of CIECH S.A. decided to start the proceeding aiming at the merger of the companies: CIECH S.A., SODA MĄTWY S.A. and JANIKOSODA S.A. pursuant to the provisions of Article 492, § 1 and Article 516 § 6 of the Commercial Companies Code, i.e. merger by acquisition, where CIECH S.A. will be the acquiring company and the merger will be executed by means of transfer of the assets of the acquired companies to CIECH S.A.
On August 29th, 2011 the Management Boards of the companies: CIECH S.A., SODA MĄTWY S.A. and JANIKOSODA S.A. adopted the Plan of the merger of the companies: CIECH S.A., SODA MĄTWY S.A. and JANIKOSODA S.A. which was announced in Monitor Sądowy i Gospodarczy (Official Gazette) no. 175 of September 9th, 2011, item 11615 and in Monitor Sądowy i Gospodarczy no. 186 of September 26th, 2011, item 12200. On November 7th, 2011, the Extraordinary Meetings of Shareholders of the abovementioned companies adopted resolutions regarding the consent for the merger of the abovementioned companies. Pursuant to the Plan of merger of the companies the merger is to be executed without increasing the share capital of CIECH S.A. (the acquiring company), due to the fact that the value of all assets of both soda companies (the acquired companies) is already recognised in CIECH S.A.'s assets as long term investments and the new shares will not be created, pursuant to the provisions of Article 514 § 1 of the Commercial Companies Code.
Based on the initial results of the analysis, on February 21st, 2012, the Management Board of CIECH S.A. decided to undertake further actions aiming at finding the optimal method of the merger of companies: JANIKOSODA S.A. with its registered seat in Janikowo and SODA MĄTWY S.A. with its registered office in Inowrocław with CIECH S.A. By the time the analytical operations are completed, the process of merger of the companies, executed in accordance with the previously adopted Plan, is temporarily suspended.

- ***ALWERNIA S.A.***

On June 21st, 2011, the Annual General Meeting of ALWERNIA S.A. adopted resolution no. 9 on the compulsory acquisition of shares in ALWERNIA S.A. held by MAGNUS S.A. pursuant to art. 418^1 of the Commercial Companies Code, according to which CIECH S.A. was obliged to acquire 19,558 bearer shares in ALWERNIA S.A. held by MAGNUS S.A., constituting 0.86% of the share capital, for the price of PLN 33.75 per share. The implementation of the resolution of the AGM was completed in August 2011 and CIECH S.A. increased its share in the share capital of ALWERNIA S.A. to 74.61%

On May 26th, 2011 CIECH S.A. executed with the State Treasury an Agreement on the issue by CIECH S.A. of new E series shares and their acquisition by the State Treasury in return for a contribution in kind comprising,

10 Changes in the organization, management and financial assets of Ciech Group (continued)
10.2 Changes in the organisational affiliations in the Ciech Group (continued)

among others, shares in ALWERNIA S.A. On July 27th, 2011, the State Treasury acquired new series E shares in exchange for, among others, 571,826 ordinary bearer shares in "Alwernia S.A." with a nominal value of PLN 2.30 each, with the total nominal value of PLN 1,315,199.80, representing 25.01% of the share capital of the Company. This increased CIECH S.A. share in the share capital of the Company to 99.62%.

- ***TRANSCLEAN Sp. z o.o.***

CIECH S.A. pursuant to the agreement on the sale of shares in a limited liability company dated June 10th, 2011 acquired from ZACHEM S.A. 4,322 shares in TRANSCLEAN Sp. z o.o., constituting 50% of the share capital, for a total sales price of PLN 7,450 thousand. The transfer of share ownership CIECH S.A. was executed on June 22nd, 2011, after the fulfilment of conditions precedent defined in the abovementioned sales agreement. As at June 30th, 2011 CIECH S.A. holds directly 100% of shares in TRANSCLEAN Sp. z o.o.

- ***Ciech Pianki Sp. z o.o.***

CIECH S.A. pursuant to the agreement on the sale of shares in a limited liability company dated June 27th, 2011 acquired from ZACHEM S.A. 55,005 shares in Ciech Pianki Sp. z o.o., constituting 100% of the share capital, for a total sales price of PLN 57,451 thousand. The transfer of share ownership CIECH S.A. was executed on the date of signing the Sales Agreement, this is on June 27th, 2011. As at December 31st, 2011 CIECH S.A. holds directly 100% of shares in Ciech Pianki Sp. z o.o.

- ***Daltrade Ltd. (UK)***

On May 19th, 2011 an agreement was signed by CIECH S.A. regarding the sale of 615,000 shares of Daltrade Ltd. with its registered seat in the United Kingdom with the nominal value of GBP 0.01 each for the total value of GBP 20 thousand. The shares were purchased by DAL Towarzystwo Handlu Międzynarodowego SA. Before the transaction the share of CIECH S.A. in Daltrade Ltd. share capital amounted to 61.20%. After the transaction, CIECH S.A. holds no shares in Daltrade Ltd.

- ***POLFA Sp. z o.o.***

On July 15th, 2011 CIECH S.A. signed a conditional contract for sale of 3,820 shares in POLFA sp. z o.o. to Invest Pharma sp. z o. o. The share sale price accounts for PLN 8.1 million. The conditions precedent include: the consent of the Office of Competition and Consumer Protection (UOKiK), consent of banks, members of the consortium financing the Ciech Group, and repayment of loans to CIECH S.A. accounting for approximately PLN 5.5 million. Until the fulfilment of conditions precedent CIECH S.A. remains the owner of shares in the Company. The ownership of shares will be transferred to the Buyer upon the payment of the share sale price and repayment of the borrowings granted. As at December 31st, 2011 CIECH S.A. still holds 100% shares in POLFA Sp. z o.o.

- ***Ciech America Latina Ltda. (Brazil)*** - ***does not conduct operations since mid-2009***

On June 20th, 2011 an agreement was signed by CIECH S.A. regarding the sale of 599,999 shares of Ciech America Latina Ltda. with its registered seat in Brazil, with the nominal value of BRL 1.00 each, for the total value of PLN 10. The acquiring party was Ciech Finance Sp. z o.o. Before the transaction the share of CIECH S.A. in TRANSCLEAN Sp. z o.o. share capital amounted to 99.9998%. Upon the fulfilment of conditions precedent, as a result of the transaction CIECH S.A. will hold no shares in Ciech America Latina Ltda.

- ***ZACH-CIECH Sp. z o.o. in liquidation***

On June 20th, 2011 an agreement on sale of 17,052 shares in ZACH-CIECH Sp. z o.o. in liquidation was signed by the following parties: CIECH S.A. (the Seller) and CIECH FINANCE Sp. z o.o. (the Buyer). The ownership of shares will be transferred to CIECH FINANCE Sp. z o.o. upon the fulfilment of a condition precedent included in the Sale Agreement. The share sale price accounts for PLN 10. As at December 31st, 2011 CIECH S.A. is still a shareholder of ZACH-CIECH Sp. z o.o. (35.65%)

- ***CIECH FINANCE Sp. z o.o.***

On December 19th, 2011, CIECH S.A. signed a Conditional Agreement on Sale of shares in CIECH FINANCE Sp. z o.o. and a Conditional Preliminary Agreement on sale of shares in CHEMAN S.A. CIECH S.A. holds 100% of shares in CIECH FINANCE Sp. z o.o. The ownership of 4,000 shares in CIECH FINANCE Sp. z o.o. will be transferred to the Buyer upon the fulfilment of the conditions precedent included in the abovementioned agreement and payment of the share sale price into the account of CIECH S.A. in the amount of PLN 510 thousand. The sale of shares in CIECH FINANCE Sp. z o.o. was linked with the sale of 10,000 new issue J series shares in CHEMAN S.A. constituting 0.53% of the share capital of CHEMAN S.A., held by CIECH S.A. since

December 19th, 2011. As at December 31st, 2011 CIECH S.A. still holds 100% shares in CIECH FINANCE Sp. z o.o.

10 Changes in the organization, management and financial assets of Ciech Group (continued)
10.2 Changes in the organisational affiliations in the Ciech Group (continued)

- ***CHEMAN S.A.***

The Extraordinary General Meeting of CHEMAN S.A. by the virtue of the resolution no. 1 of December 12th, 2011 increased the share capital by PLN 90 thousand by issuing 10,000 registered J series shared with the nominal value PLN 9 each. All the new issue shares were offered to a designated recipient pursuant to art. 431 § 2 item 1) of the Commercial Companies Code, that is to be acquired by CIECH S.A. (private subscription). CIECH S.A. acquired the new issue shares in exchange for a contribution in kind in the form of claims payable to CIECH S.A. by CHEMAN S.A. with total nominal value of PLN 12,673,168.68 and estimated by a certified auditor as at December 12th, 2011, in the amount of PLN 90 thousand. The increase of the share capital from PLN 16,927,776 to PLN 17,017,776 was registered by the Court on December 23rd, 2011. The share of CIECH S.A. in CHEMAN S.A. share capital amounts to 0.53%. As a result of the increase of the share capital of CHEMAN S.A., the share of CIECH FINANCE Sp. z o.o. in the share capital decreased to 99.47%.

On December 19th, 2011 a Conditional Agreement was signed on the Sale of shares in CIECH FINANCE Sp. z o.o. and a Conditional Preliminary Agreement on the Sale of 10,000 J series shares in CHEMAN S.A. The ownership of shares in CHEMAN S.A. will be transferred to the Buyer upon the fulfilment of conditions precedent contained in the abovementioned Agreement, payment of the share sale price of PLN 90 thousand into the account of CIECH S.A.

The following changes regarding the companies in which CIECH S.A. holds indirect shares occurred in 2011:

- **ZACHEM S.A.:**

Bydgoski Park Przemysłowo - Technologiczny Sp. z o.o. - On January 25th, 2011, the District Court passed a decision to register resolutions of the Extraordinary Meeting of Shareholders of November 25th, 2010, regarding the increase of the share capital to the amount of PLN 37,673,000 by way of creation of 538 shares that were entirely acquired by the City of Bydgoszcz in exchange for a contribution in kind in the form of real estates. ZACHEM S.A.'s share in the share capital of the Company decreased from 9.46% to 9.32%. Moreover, the Extraordinary Meeting of Shareholders changed the name of the company from Bydgoski Park Przemysłowy Sp. z o.o. to Bydgoski Park Przemysłowo - Technologiczny Sp. z o.o.

BORUTA-KOLOR Sp. z o.o. - BORUTA-KOLOR Sp. z o.o. was removed from the Register of Entrepreneurs on June 9th, 2011 as a result of the adoption in November 20th, 2009 by the Extraordinary General Meeting of BORUTA-KOLOR Sp. z o.o. and by the Extraordinary General Meeting of ZACHEM Barwniki Sp. z o.o. of a resolution on the merger of both companies, where ZACHEM Barwniki Sp z o.o. was the acquiring company and BORUTA-KOLOR Sp. z o.o. was the acquired company. The merger of the abovementioned companies (as a result of an increase in the share capital of ZACHEM-Barwniki Sp. z o.o.) was registered in the National Court Register on December 1st, 2009.

ZACHEM UCR Sp. z o.o. – on September 27th, 2011, an agreement was signed on the sale of 6,495 shares in ZACHEM UCR Sp. z o.o. in favour of a Consortium composed of the following companies: PETRO MECHANIKA S.A., PETRO Re Mont Sp. z o.o., PETROELTECH S.A. The abovementioned agreement is implemented in two stages, that is:

1st stage – sale of 4,869 shares, which which constitute 74.97 % of the share capital. The payment for the shares will be made within 7 days (November 28th, 2011) from the submission to the Buyer by ZACHEM S.A. of the documents confirming:

a/ consent of the Lenders and Creditors for the release of shares from all collaterals, burdens and limitations established by the Seller in relation with the existing Loan Agreement and the Agreement Between Creditors or change of applicable financial and registered pledges on Shares concluded by the Seller in relation with the existing Loan Agreement of the new Loan Agreement, pursuant to which the Seller will no longer be a pledgor due to these pledges.

b/ removal of registered pledges set by the seller on the shares in respect of the existing Loan Agreement and the new Loan Agreement from the register of pledges or removal of the Seller from the register of pledges as a pledgor for registered pledges on the Shares established by the Seller in connection with the existing Loan Agreement and the new Loan Agreement,

- the ownership of shares were transferred to the Buyer on November 28th, 2011, i.e. upon the payment of the entire sale price.

2nd stage - sale of 1,626 (25.03%) shares, no later than by September 30th, 2013, the payment for the shares will be made on the same conditions as in the 1st stage.

As at December 31st, 2011 ZACHEM S.A. holds directly 25,03% of shares in ZACHEM UCR Sp. z o.o.

MEDICAL-TURIST Sp. z o.o. – ZACHEM S.A. sold to MEDICAL-TURIST Sp. z o.o. 2 shares (the Company buys its own shares for redemption), pursuant to a sale agreement of September 7th, 2011, for the total sale price of PLN 310 thousand. Selling price will be paid in 30 instalments, payable quarterly. Ownership of the shares was transferred to the Buyer upon signing of the sale agreement. ZACHEM S.A. is no longer a shareholder of the Company.

- **ORGANIKA-SARZYNA S.A.**

Zakład Chemiczny Silikony Polskie Sp. z o. o. - on February 24th, 2011, the District Court registered the redemption of shares pursuant to the resolution of the Extraordinary Shareholders' Meeting of December 29th, 2010, the share capital, after the redemption, amounts to PLN 17,363,000 and is divided into 16,148 shares. Z.Ch. "Organika-Sarzyna" S.A. pursuant to the agreement

10 Changes in the organization, management and financial assets of Ciech Group (continued)
10.2 Changes in the organisational affiliations in the Ciech Group (continued)

of December 30th, 2010, sold 1,215 shares in Zakłady Chemiczne Silikony Polskie Sp. z o.o. in order to redeem them. Z.Ch. "Organika-Sarzyna" S.A., after the redemption holds 3,994 shares, constituting 24.73% of the share capital.

Przedsiębiorstwo Handlowo-Usługowe NS Automatyka Sp. z o. o. - on February 10th, 2011, Z. Ch. "Organika-Sarzyna" S.A. signed an agreement regarding the sale of all of the shares held in Przedsiębiorstwo Handlowo-Usługowe NS Automatyka Sp. z o.o., i.e. 1,147 shares, which which constitute 22.44 % of the share capital. The company is no longer recognised in Group structure.

Zakład Doświadczalny Organika Sp. z o.o. - "Organika-Sarzyna" S.A., on August 1st, 2011 signed an agreement regarding the sale of 510 shares in Z.D. Organika Sp. z o.o., which constituted 51% of the share capital of the Company and on the date of payment of the sale price, i.e. September 7th, 2011, Z. Ch. "Organika-Sarzyna" S.A. transferred the ownership of the shares to the Buyer. The total share sale price amounted to PLN 970 thousand. The company was removed from the structure of the Group.

Organika International Transport Sp. z o.o. (in liquidation) - on November 24th, 2010, the District Court Decision on completing bankruptcy proceedings including liquidation of assets was validated. On February 9th, 2011, the company was removed from the Register of Entrepreneurs. The company is no longer recognised in Group structure.

Zakład Usługowo-Produkcyjny Gumkor-Organika Sp. z o.o. – on December 28th, 2011, Z.Ch. "Organika-Sarzyna" S.A. entered into an agreement on the sale of 32 shares in Zakład Usługowo-Produkcyjny Gumkor-Organika Sp. z o.o., which constitutes 24.81% of the Company's share capital. The company was removed from the structure of the Group.

Zakład Projektowo-Usługowy Organika-Projekt Sp. z o.o. - on December 28th, 2011 "Organika-Sarzyna" S.A. entered into an agreement on the sale of 36 shares in Zakład Projektowo-Usługowy Organika-Projekt Sp. z o.o., which constitutes 24.49% of the Company's share capital. The company was removed from the structure of the Group.

- **ALWERNIA S.A.**

SOC-AL Sp. z o.o. - SOC-Al Sp. z o.o. acquired 1,000 shares in AL-BAU Sp. z o.o., constituting 100% of the share capital of the Company, which amounts to PLN 50 thousand and is divided into 1,000 shares.

- **CIECH FINANCE Sp. z o.o.**

Zakłady Tworzyw Sztucznych Pronit S.A. (in liquidation) - pursuant to the Agreement of February 3rd, 2011, CIECH S.A. sold to CIECH FINANCE Sp. z o.o. a block of 13,141 shares of PRONIT S.A. The ownership was transferred to CIECH FINANCE Sp. z o.o. on February 7th, 2011 and CIECH S.A. is no longer a shareholder of the Company.

Stocznia Gdynia S.A. - CIECH FINANCE Sp. z o.o. by virtue of a sale agreement dated April 1st, 2011 purchased from ZACHEM S.A. 447 shares in Stocznia Gdynia S.A., constituting 0.0005% of the share capital and increased its share in the share capital of Stocznia Gdynia S.A. to 0,005%.

Uniontex S.A. in liquidation - the bankruptcy proceedings were completed and Uniontex S.A. was removed from the Register of Entrepreneurs on February 17th, 2011.

Fabryka Obuwia Butbędzin S.A. (in liquidation) - the bankruptcy proceedings were completed and Fabryka Obuwia Butbędzin S.A. was removed from the Register of Entrepreneurs on August 29th, 2011.

Chemomontaż S.A. (in liquidation) - the bankruptcy proceedings were completed and Chemomontaż S.A. was removed from the Register of Entrepreneurs on February 15th, 2011.

POLFA Nigeria Ltd (Nigeria) - by virtue of an agreement dated June 20th, 2011, CIECH S.A. sold to CIECH FINANCE Sp. z o.o. 800,000 shares in POLFA Nigeria Ltd for the total sale price of PLN 10. The ownership of shares in POLFA Nigeria was successfully transferred to CIECH FINANCE Sp. z o.o. in July 2011, i.e. on the date of payment of the sale price.

Comapol S.A.R.L. (Morocco) - by virtue of an agreement dated June 20th, 2011, CIECH S.A. sold to CIECH FINANCE Sp. z o.o. 1,882 shares in Comapol S.A.R.L. for the total sale price of PLN 10. The ownership of shares in Comapol was successfully transferred to CIECH FINANCE Sp. z o.o. in July 2011, i.e. on the date of payment of the sale price.

11 Information about the acquisition of equity shares of the parent company

In 2011, the parent entity CIECH S.A. did not acquire its own shares.

12 Description of the use of issue proceeds by the Issuer

CIECH S.A.'s shares had their debut on the Warsaw Stock Exchange on February 10th, 2005. The issuing prospectus of CIECH S.A. was made available on January 6th, 2005 and is available at http://www.ciech.com/PL/Inwestorzy/Strony/Prospekt_emisyjny_2004.aspx. The Issuer defined in the prospectus an investment plan covering a range of projects of the total value of expenditures in the amount of PLN 500-600 million, realised in 2005-2006. To finance the investment plan, CIECH S.A. used all its issue proceeds as well as its own and borrowed funds in the form of long-term investment loans. In 2011, proceeds from the issue in 2005 were not used.

In February 2011 the company completed the process of issuing shares with subscription rights, as a result of which it issued 23,000,000 ordinary bearer shares. The issuing prospectus is available on the company's website at www.ciech.com. The allocation of the new issue shares took place on February 25th, 2011. As a result of the issue, the company accumulated PLN 436 million of net proceeds. In line with the issue targets set out in the prospectus,
PLN 245 million was used to reduce the debt towards the Banks financing the Group. The remaining net proceeds, that is PLN 191 million will be used, together with other proceeds generated mainly from the restructuring activities, to finance the investment plan of the Ciech Group of a total value of PLN 749 million in the years 2011-2015.

The capital expenditures paid between Q2 and Q4 2011 concerning the projects set out in the prospectus amounted to:

- Modernisation of the Janikowo power heat plant – Soda Polska CIECH Sp. z o.o. – PLN 41.6 million,
- Construction of a MCPA and MCPP-P manufacturing system – Z. Ch. „Organika-Sarzyna" S.A. – PLN 38,8 million
- Construction of a system and implementation of an innovative technology of producing epichlorohydrin out of glycerine
  ZACHEM S.A. – PLN 37.8 million.
- Intensification of baking soda production intended to increase the production capacity in the current baking soda facility up to 90 tons p.a. – Soda Polska Ciech Sp. z o.o. – PLN 2.1 million,
- Implementation of replacement and modernisation investments in Soda Polska Ciech Sp. z o.o. – PLN 27.1 million,
- TDI production optimisation in order to achieve production capacity at the level of 90 tons p.a.. – ZACHEM S.A. – PLN 0.4 million.

Total capital expenditures concerning the projects specified in the prospectus amounted to PLN 147.9 million, due to which PLN 43 million of net proceeds from the issue is to be used in the following years.

13 Information on CIECH S.A. share price

- February 10th, 2005 – debut of CIECH S.A.'s shares on the Warsaw Stock Exchange,
- February 2nd, 2011 – date of subscription right for shares Series D,
- March 30th, 2011 – the first listing of Series D shares.

Company shares are listed on the Stock Exchange basic market in continuous trading. They are currently listed on the following indices: WIG, mWIG40 and WIG-Chemia. Moreover, CIECH S.A.'s shares are listed on the prestigious RESPECT Index.

13 Information on CIECH S.A. share price (continued)

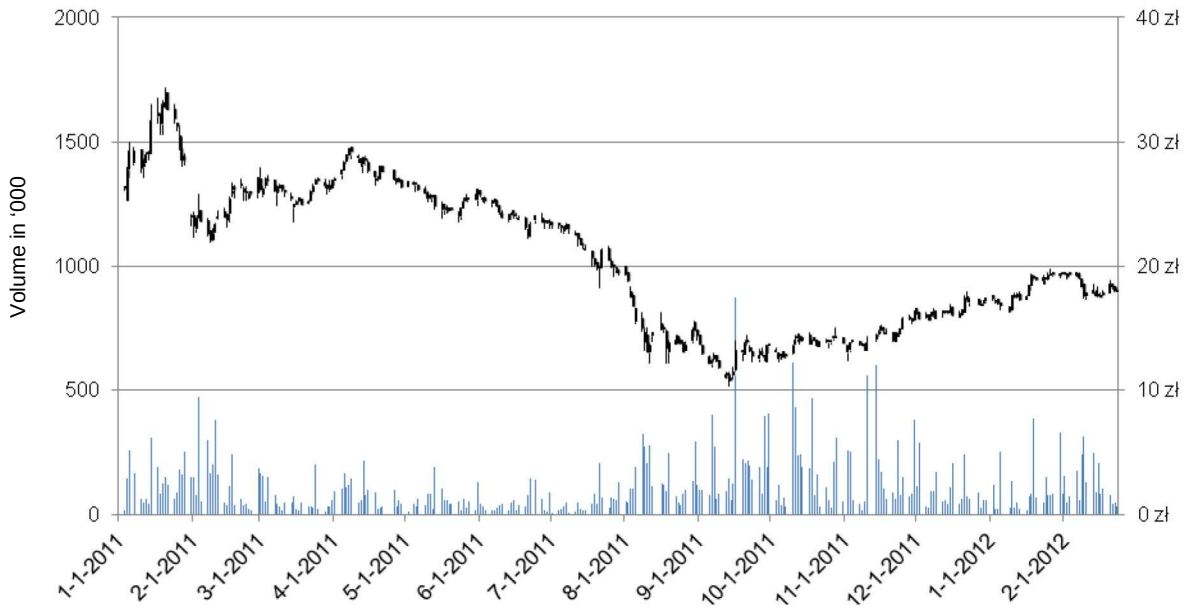


Figure 1 CIECH S.A. share price

In 2011 CIECH S.A. share price was changing with a moderate dynamics. As a result of an automatic calculation of the share price connected with the cut-off of the subscription right for the new issue shares, the share price recorded a significant discount, presented on the chart in the form of a price gap between the session of January 28th and 31st, 2011.

	unit	2010	2011
Number of shares	*pcs.*	28,000,000	52,699 909
Closing price on last quotations in the year	*PLN*	24.89	17.40
Company capitalisation at the end of the year	*PLN million*	697	917
Maximum price in the year	*PLN*	37.50	33.00
Minimum price in the year	*PLN*	19.30	10.83
Trade volume per session			
average value	*pcs.*	32,621	113,571
median value	*pcs.*	15,079	73,461

Figure 2. Key data on CIECH S.A. shares listed on GPW in Warsaw

The maximum share price in 2011 was PLN 33.00, recorded on January 19th, 2011. The minimum share price in 2011 was PLN 10.83, recorded on September 14th, 2011. The average volume in 2011 was 113,571 shares, with a median value of 73,461 shares.

Recommendations and reports of brokerage houses

CIECH S.A. as a representative of the chemical sector, whose shares are listed among others in the index of medium capitalization companies mWIG-40 is regularly assessed and measured by reputable institutions of the capital market. Reports and recommendations are prepared by:

- Dom Inwestycyjny BRE
- Dom Maklerski Amerbrokers
- Dom Maklerski Banku Handlowego
- Dom Maklerski IDM SA

13 Information on CIECH S.A. share price (continued)

- Dom Maklerski PKO BP
- Dom Maklerski TRIGON (since 2012)
- Erste Securities Polska
- ING Securities
- Ipopema Securities
- Millenium Dom Maklerski
- Raiffeisen Centrobank

In 2011 the following recommendations were issued for CIECH S.A. shares:

Issue date	Institution	Target price	Recommendation type
2011-01-14	Ipopema Securities	PLN 28.90	Sell
2011-01-27	Dom Maklerski IDMSA	PLN 27.30	Keep
2011-02-02	Dom Maklerski Banku Handlowego	PLN 34.40	Buy
2011-03-03	Dom Inwestycyjny BRE Banku	PLN 27.60	Keep
2011-03-29	Raiffeisen Centrobank	PLN 30.00	Keep
2011-04-08	Dom Inwestycyjny BRE Banku	PLN 30.10	Keep
2011-06-10	Ipopema Securities	PLN 26.40	Keep
2011-06-29	Erste Securities Polska	PLN 25.10	Keep
2011-07-05	Dom Inwestycyjny BRE Banku	PLN 30.10	Accumulate
2011-07-21	Dom Inwestycyjny BRE Banku	PLN 27.70	Buy
2011-07-28	Dom Maklerski IDMSA	PLN 18.40	Sell
2011-08-18	Dom Maklerski PKO BP	PLN 23.36	Buy
2011-08-31	Dom Maklerski IDMSA	PLN 15.90	Keep
2011-09-06	DM Amerbrokers	PLN 18.05	Buy
2011-09-09	Raiffeisen Centrobank	PLN 15.00	Keep
2011-09-13	ING Securities	PLN 12.00	Keep
2011-12-05	Erste Securities Polska	PLN 20.00	Buy

14 Growth prospects of the Ciech Group

The growth prospects of CIECH S.A. and the Ciech Group result from their position on the market and in the chemical industry as well as from the forecast conditions of the Group's business environment in Poland and around the world.

The Ciech Group has a strong position in many product markets and is:

- the second European manufacturer of soda ash;
- the third European manufacturer of baking soda;
- the sole Polish producer and main supplier of the domestic market in soda ash and baking soda, calcium chloride, isocyanine (TDI), epichlorohydrin, epoxy resins, glass blocks, sodium tripolyphosphate and non-fertilizer phosphoric acid;
- the leading Polish manufacturer of vacuum salt, unsaturated polyester resins and glass lanterns;
- a major supplier of European markets in soda ash and baking soda, TDI, calcium chloride, ECH, non-fertilizer phosphoric acid, glass blocks and lanterns.

In a short-term perspective, the most important macroeconomic factors in the environment of the Group will be:

- **The uncertainty of the situation on the financial and commodity markets** (high volatility of exchange rates and the price of crude oil and its derivatives, with a still relatively low credit activity of banks).
- **Re-weakening in economic activity in developed countries** (a slowdown in industrial production to the levels before the crisis of 2008-2009, a record budget savings programs in the largest EU economies related to the crisis in public finances in the euro area).

14 Growth prospects of the Ciech Group (continued)

- **Moderate rate of growth in target markets of the Group** (delay in the return to dynamic growth in construction output in the EU; slowdown in the development of furniture industry in Europe, with the opportunity for the domestic industry of less expensive furniture).

In the opinion of CIECH S.A., macroeconomic factors favouring further development and strengthening of the Ciech Group's position on the current and associated markets shall dominate in the mid- and long-term prospect. These include:

- **Comparatively high growth in Polish GDP** (forecasted dynamics of Polish economic development are among the highest in the EU; this provides a good basis for further sustainable development of the country).
- **Good perception of Poland by foreign investors** (as evidenced by the return to the upward trend in the inflow of investments into the country in 2011).
- **High potential of growing demand for chemicals in Poland**, where their consumption per capita, amounting to EUR 400, is still approx. 3-4 times lower than in the Western Europe.
- **European Union legislation reducing the competitiveness of Polish companies** (the negative effects of the EU ETS Directive on greenhouse gas emissions, a significant deterioration of conditions for use of the environment by business entities from 2016 as a result of implementation of the IED Directive on industrial emissions).

15 Characteristics of external and internal factor material for the development of the Ciech Group

General external factors

Situation in industries being the Ciech Group's recipients in Poland

Poland is the biggest selling market for the Ciech Group. The largest domestic recipients of the Group include: the chemical industry, plastics industry, glass industry, furniture industry and agriculture.

Development in these economic sectors depends on the economic situation in Poland. Sold industrial production in fixed price terms over 12 months of 2011 increased by 7.7% compared to the previous year (analogous to a 9.8 increase in 2010). Similarly, the dynamics of the chemical industry indicated: in the production of chemicals and chemical products (excluding pharmacy) - an increase of 11.4% and in the production of rubber products and plastics - an increase of 12.8%. In the same period, pharmaceutical production decreased by 12.3%.

After a significant acceleration of Polish economic growth in 2010-2011 (with an annual GDP growth of 4%) in 2012 it is expected to slow down to 2%-3% of GDP. A similar tendency should be expected in the chemical industry which usually develops in line with the whole economy.

Economic situation in Europe and around the world

Group's business is largely based on the sales of chemical products on foreign markets. The volume and profitability of sales depend on the global economic situation in Europe and around the world. A global economic slump usually affects the demand for raw materials on international markets, thus reducing the export turnover of the Group.

Various regions of the world recover after the 2008-2009 crisis in their own pace. In 2011, the largest countries in Asia, Central and Eastern Europe and Latin America developed relatively fast. According to estimates by the International Monetary Fund, global GDP grew in 2011 by 4.0% (China's by 9.5%, India's by 7.8%, Central and Eastern Europe's by 4.3% Latin America's by 4.5%, the EU's by 1.7%).

In 2012, we expect that the global scale GDP dynamics will remain at the level of 4% or drop to about 3%, and in the EU it will drop to about 0.5%.

After significant increases in chemical production in 2010 (globally by about 10% according to the American Chemistry Council - ACC, the EU also by about 10% according to the European Chemical Industry Council - CEFIC) in 2011 there was a marked reduction in the rate of growth (3.5% and 1.1% accordingly). ACC assumes that in 2012 the dynamics of the global chemical production will be maintained (3.6%) while CEFIC - further slowdown in the growth in EU to 1.5%.

Financial situation of agriculture

A portion of the Group's revenues covering fertilizers and plant protection chemicals is generated by sales to the agricultural sector. In the Group's opinion, in the long-term, the volume of demand for chemical products for agriculture in Poland and Central and Eastern Europe should continue to grow. The material factors favouring an increase in the consumption of agrochemicals in Poland and thus the demand for products manufactured by the Group are processes improving the financial situation and profitability of agricultural production, including: production quoting and direct subsidies. It should translate into a growth of Group's revenues. On the other hand, the lack of significant improvement in the purchasing capacity of the agricultural sector may equal a stagnation in the demand for fertilizers and plant protection chemicals and as a result stagnation in the Group's revenues related to agrochemical products.

According to data from the Institute of Agricultural and Food Industry Economics (IERiGŻ), 2011 was the third year in a row

15 Characteristics of external and internal factor material for the development of the Ciech Group (continued)

that saw an improvement in market conditions for domestic agriculture (however slightly worse than in 2010). The relatively favourable situation in the whole 2011 years was associated with a high rate of growth in purchase prices of agricultural products compared with the corresponding rates of changes in prices of inputs. The synthetic index of economic situation in agriculture (SWKR) in December 2011 was lower than the year before (a decrease from 101.4 to 100.8). In the coming months, market conditions should continue to promote agriculture.

Economic situation in the raw materials market
Import of chemical raw materials to Poland constitutes a significant portion of Group's turnover. The raw materials markets are characterised by a cyclical nature connected with fluctuations of the global economy. The growing prices of raw materials cause a decrease in margins of sales intermediaries and a decrease in demand from customers. On the other hand, falling prices are usually a symptom of decreasing demand and the beginning of an economic downturn. The maintenance of a stable pace of economic growth and stable prices of chemical raw materials will have a positive effect on Group's import of raw materials. Significant fluctuations of demand and prices may be caused by changes in the economic situation resulting, for instance, from quick economic growth or economic stagnation. Strong fluctuations of demand and prices may have negative influence on the activity related to trading in chemical raw materials by the Ciech Group.

REACH implementation
In accordance with REACH regulation, the Group Companies which trade in substances in quantities exceeding 1 ton p.a. will complete full registration of these substances by defined deadlines, which will allow them to continue to introduce their activities within current scope. As at December 31st, 2011, the Group registered 37 heavy tonnage substances (over 1,000 tons p.a.).

Emission trading system
Within the National Allocation Plan for 2008-2012, Ciech Group companies participating in the emission trading system (Soda Polska, Vitrosilicon and Alwernia) were allocated a total CO_2 emission allowance of 1,720,661 Mg p.a.. Additionally, the German member of the Group, Soda Deutschland, KWG Kraftwerksgesselschaft GmbH has obtained a right to a free of charge emission of CO_2 of 511,447 Mg p.a. The Group hold sufficient number of allowances to cover actual emission of carbon dioxide. A part of those allowances was sold, the rest was kept to be used within the upcoming years.

IED Directive
In connection with an amendment to EU law regarding industrial emissions, the coming years may bring more severe conditions of using environment by business entities. In compliance with the industrial emissions directive (IED), amendments to current regulations refer to three main areas: (i) strengthening the role of BREF reference documents, (ii) tightening the requirements regarding large combustion facilities and (iii) introducing new regulations regarding soil protection.
Soda Polska Ciech will experience the most severe consequences of these changes due to future conditions in terms of emissions of carbon dioxide, nitric oxides and ash from large combustion facilities. The new requirements will be applicable since 2016. However, the company has already been preparing in advance for the implementation of the revised regulations.

PLN/EUR relations
The Ciech Group's export sale is settled mostly in EUR. A strong EUR means higher profitability of exports, both for the Group and for other manufacturers from the chemical industry in Poland. Furthermore, it increases volumes of turnover carried out by the Group for other manufacturers. As a result, the EUR/PLN exchange rate influences profitability of sales revenues in the Group. If the Polish zloty becomes stronger against the EUR, the profitability of exports will decline, and the Group's export volumes will decrease.

Internal factors

Maintaining cost and quality competitiveness
The competitiveness of the Ciech Group concentrates on basic market factors, i.e. costs, quality, marketing, market position. The most important factors are:

- cost competitiveness based on the effects of the large scale of manufacturing, specialisation, standardisation and effects of experience,
- quality leadership and quality control systems,
- competition based on the enterprise's market power (market leader),
- cost leadership and diversification.

15 Characteristics of external and internal factor material for the development of the Ciech Group (continued)

Competitiveness of companies is to a great extent connected with innovations. Therefore, the basis for competition is innovative product and process technologies. Within the framework of the adopted investment strategy, Ciech Group's companies implement a number of innovative process and product solutions.

Liabilities connected with the purchase of ZACHEM S.A., Z.Ch. "Organika-Sarzyna" S.A.:
In accordance with obligations following from Privatisation Agreement regarding ZACHEM S.A. and Z.Ch. "Organika-Sarzyna", CIECH S.A. is charged with obligations connected mainly with the implementation of investment blocks, employee guarantees and minority interest buyout options.

Obligations following from the Privatisation Agreement of ZACHEM S.A.
In accordance with Agreement provisions, by December 20th, 2011, the Company had to realise a total investment of PLN 176.1 million in ZACHEM S.A. The investment deadline was prolonged by three years, i.e. until 2014 for specified investment tasks (electrolysis conversion, implementation of new ECH technology, increase of TDI production capacity up to 90 thousand tons p.a.).
The Agreement contains "a restricting condition". The restricting condition was calculated as the ratio of long-term capital to fixed assets on the basis of the Separate Financial Statements, prepared according to PAS. On June 30th, 2011, the ratio level equal to the Initial Value increased by 50 percentage points was reached. Pursuant to the annex to the Agreement on December 31st, 2011 the ratio will not be tested and the Company's obligation to maintain the Ratio level will not apply. The report on the execution of the ratio was submitted to the Office of MSP Toruń (legal successor of Nafta Polska S.A.) within the required deadline by August 31st, 2011.

A separate obligation of CIECH S.A. following from the the Agreement is the purchase of ZACHEM S.A. employee shares, implemented between 2008 and 2011. In the case of ZACHEM S.A. in 2011 the last mandatory purchase of employee shares was completed. Pursuant to the agreement, CIECH S.A. is no longer obliged to purchase the remaining employee shares in this company. So far, due to put options ZACHEM Group was consolidated under the assumption that CIECH S.A. owns 100% of its shares. Due to expiration of the options, the non-controlling interests have been recognised in the consolidated statements.
The Agreement included also a Company's obligation to file a bid to the State Treasury to purchase remaining ZACHEM S.A. shares.

Obligations following from the Privatisation Agreement of Z. Ch. "Organika- Sarzyna" S.A.
In accordance with agreement provisions, by December 20th, 2011, the Company had to realise a total investment of PLN 130 million in Z. Ch. "Organika Sarzyna". The deadline for realising the investment guaranteed in the agreement was prolonged by two years, i.e. until 2013. for one investment task (the construction of a production installation of the active substance MCPA with accompanying infrastructure).
At the same time, the Company had to fulfil the condition of maintaining the liabilities' structure in Z. Ch. "Organika Sarzyna" S.A. on such level that the value of long-term capital (equity/ own funds, non-current provisions and liabilities with maturity over one year) constitutes at least 110% of fixed assets as defined in the Accounting Act (with the exception of the right of the perpetual usufruct of land gained by virtue of a law or by way of an administrative decision).
A separate obligation of Ciech S.A. following from the the Agreement is the purchase of Z. Ch. "Organika Sarzyna" employee shares, to be implemented between 2008 and 2013.
The Agreement included also a Company's obligation to file a bid to the State Treasury to purchase remaining shares in Z. Ch. "Organika- Sarzyna" S.A.

The offer to purchase the remaining shares of ZACHEM S.A. and the offer to purchase the remaining shares of Z. Ch. "Organika - Sarzyna" S.A. from the State Treasury
While performing the agreement to purchase shares of ZACHEM S.A. and the agreement to purchase the shares of Z.Ch. "Organika Sarzyna" S.A., on December 20th, 2006, the Company placed to the State Treasury an irrevocable offer to purchase the remaining shares of ZACHEM S.A. and an irrevocable offer to purchase the remaining shares of Z.Ch.

"Organika Sarzyna" S.A., which were later amended by agreements between the Company and the State Treasury of January 5th, 2010, December 28th, 2011 and May 26th, 2011.

In the agreement dated May 26th, 2011, the parties decided that the State Treasury will acquire E series ordinary bearer shares in the increased share capital of CIECH S.A. issued by CIECH S.A. with a nominal value of PLN 5 each by way of a private subscription pursuant to art. 431 § 2 item 1) of the Commercial Companies Code and will pay for the New Issue Shares with a contribution in kind in the form of:

15 Characteristics of external and internal factor material for the development of the Ciech Group (continued)

- 762,224 ordinary registered shares with a nominal value of PLN 10.00 each, with the total nominal value of PLN 7,622,240.00, representing 5.15% of the share capital of ZACHEM S.A. with its registered seat in Bydgoszcz;
- 429,388 ordinary registered shares with a nominal value of PLN 10.00 each, with the total nominal value of PLN 4,293,880.00, representing 5.06 % of the share capital of Z. Ch. "Organika-Sarzyna" S.A.;
  and additionally
- 571,826 ordinary bearer shares with a nominal value of PLN 2.30 each, with the total nominal value of PLN 1,315,199.80, representing 25.01% of the share capital of Alwernia S.A.

At the same time, pursuant to the Agreement the State Treasury undertook, that:

- by the date the increase in the share capital of CIECH S.A. by the issue of New Issue Shares is registered by a registry court or
- by December 31st, 2011, whichever occurs earlier,

the State Treasury will not accept, including unconditionally, conditionally or with a reservation of the deadline, an irrevocable offer to purchase shares in ZACHEM S.A. or an irrevocable offer to purchase shares in Z. Ch. "Organika-Sarzyna" S.A., based on which CIECH S.A. made, in 2006, the offer to the State Treasury for buying from the State Treasury of these shares on conditions indicated in these offers. The share capital raise was registered in the National Court Register on August 10th, 2011.

In order to perform the obligations under the agreement, on July 27th, 2011 CIECH S.A. and the State Treasury entered into the Agreement for the Acquisition of Shares and Transfer of a Contribution in Kind. The details on the agreement are provided in section 10.2 of this report.

Liabilities connected with the purchase of companies of the Soda Deutschland Ciech Group.
Soda Deutschland Ciech Group has shown in its balance sheet the obligation to repurchase Elektrociepłownia. Elektrociepłownia was sold on September 1st, 1999 by KWG GmbH (a subsidiary of Soda Deutschland Ciech) for the benefit of VASA Kraftwerke – Pool for EUR 115.8 million. Following the conclusion of a new agreement with VASA Kraftwerke – Pool, the hard commitment to repurchase the plant on December 31st, 2014 was deferred for one year, while retaining the right to early redemption of the existing plant at the current price. As at December 31st, 2011, the respective obligation amounts to PLN 156,280 thousand (equivalent to EUR 35,383 thousand).

Quality and stability of the management and employees
To a great extent the Ciech Group owes its market position to highly qualified management and middle-level employees. The HR policy applied by the Group is a guarantee of stability, professional development opportunities and constant raising of qualifications.

16 Expected financial situation of the Ciech Group

The Management Board of CIECH S.A., pursuant to the assumptions of the applied strategy, expects that the financial results for 2012 will exceed those gained 2011, both in terms of operating profit (EBIT, EBITDA) and net profit.

The improvement of the results will be facilitated by the following:

- an improved macroeconomic situation,
- visible higher demand in the Soda Division, already contracted raises in prices of soda products and improved margins compared to 2011,
- maintaining stable level of production for all companies in Soda Division,
- slightly higher demand for plant protection chemicals compared to the previous year,
- lower financial costs due to a reduction of debt and more favourable financing conditions (achieved through a newly negotiated loan agreement),
- implementation of the restructuring plan,

The biggest risk for the Ciech Group is the TDI market situation (lowest margin since 2007).

17 Ciech Group's strategic priorities

Mission of the Ciech Group
The Company's mission is development through value formation in particular chemical market segments in which the Group is competent and where it form a strong and durable competitive position. The Group pertains to strengthen its market position, among others, by building a leader position in the chemical industry in the region and also by striving to increase Group's profitability and its value for shareholders.

17 Ciech Group's strategic priorities (continued)

Strategy of the Group

Dynamic changes which take place in Ciech Group's economic environment became a prerequisite to change the Group's strategy so as to adapt it to new conditions. The financial crisis which started in the second half of 2008 and the following economic downturn, high level of Group's debt and lack of possibilities of achieving a satisfactory competitive position on certain markets, all these factors provoked the Group to undertake restructuring activities.

To this end, in 2009 the Group began activities and initiatives which finally shaped into an integrated restructuring programme a year later. Its implementation is aimed at ensuring conditions for a long-term growth, optimisation of liabilities structure and improvement of Group's profitability. The Restructuring Plan, which was drawn up on the basis of these assumptions (in the operating and investment area) was approved by the Issuer's Management Board and the Supervisory Board in August 2010. The total amount of net revenue and savings which could be obtained on account of carrying out restructuring initiatives presented in the Restructuring Plan is estimated at approx. PLN 600 million. Restructuring activities will be carried out between 2010 and 2014.

Strategy implementation and realisation of the restructuring programme will lead to a substantial restructuring of the Ciech Group **resulting** in:

- Concentrating and specialisation of the Group in two segments: soda and organic,
- Limiting the size of product and raw materials portfolio,
- Full integration in two Divisions,
- Clear management structures on particular levels:
  - ✓ Corporate (strategy and finance): managed by the Management Board in cooperation with the Corporate Centre
  - ✓ Division (operations): the Division level managed by Heads of Divisions using their subordinate functional and operating units
  - ✓ Production (companies): the level of Companies, which are subordinated to Divisions, responsible for completing goals and tasks agreed together with Heads of Divisions
- Modern production base (selected investments concentrated on two segments),
- Increased efficiency resulting from greater specialisation,
- Increased competition capability in selected markets,
- Lower financing costs and further growth of innovation thanks to EU funds,
- Even greater care for natural environment.

Meeting Group's strategic goals will be achieved through acting in **three key areas**:

1. **Development of the Group** - realising development and modernising investments, product development, meeting environmental requirements and fulfilling obligations following from purchase agreements on Zachem S.A. and Z. Ch. "Organika- Sarzyna" S.A.
2. **Optimisation of Group's liabilities structure** - change of financing structure, decrease of debt level and reduction of financing costs.
3. **Integration and restructuring of Group's operating activities** - concentrating on Divisions: Soda and Organic Divisions and divestment of main assets of the Agro-Silicon Division as well as integration of purchase and sale function at the level of particular Divisions.

Priority - Development of the Group

CIECH S.A. assumes that total expenses on Group's physical investments in years 2012-2016 will amount to approx. PLN 1 billion. Investments attributable to Soda and Organic Divisions amount to PLN 0.9 billion. Part of the investments is carried out with funding from public funds, including the European Union (at the end of 2011 this amount exceeded PLN 140 million, the new subsidy contracts are being prepared for the amount of about PLN 15 million). Investments' aim is to maintain an optimal level of production capacity and also to implement projects connected with:

- The implementation of new, more efficient and innovative production technologies,
- Fulfil obligations following from purchasing agreements on companies: Z.Ch. "Organika-Sarzyna" S.A. and ZACHEM S.A.
- Environmental protection.

Soda Division will spend the majority of its development funds on improving the competitiveness of its main product, i.e. soda ash. With current production capacity in Poland and Germany maintained, the Divisions intends to raise the efficiency of supplying facilities with energy, which constitutes the main component of production costs.

Modernisation power plants in Inowrocław and Janikowo is aimed at improving the efficiency of energy production and reduction of emitted pollution. The Division's German facility in planning to make use if the

possibility of earlier repurchase of the power heating plant (modern building powered with gas). At present, the power heating plant is in the hands of an external owner, however, in 2011 a transaction was concluded for the lease of the plant, retaining the right to repurchase

17 Ciech Group's strategic priorities (continued)

the power heating plant earlier for the current price. On the basis of the signed agreement, the German company starts to manage the power heating plant on its own account which concerns, in particular, purchases of gas, electricity sales and repair policy. The expected effect of signing of the agreement will be an improvement in the profitability of the Soda Deutschland Ciech Group.

Funds connected with the planned development of Soda Division will also be spent on increasing baking soda production capacity. The intended increase in production capacity by 20 tons p.a. from 70 tons p.a. to 90 tons p.a. will be executed in Poland. The product has growth potential which is, among others, connected with new applications in the pharmaceutical industry and in industrial waste treatment processes. In the long run, it is also planned to develop highly processed salt types (salt tablets, salt bricks, granules) at the expense of low processed products (so-called wet salt). Increasing the volume of highly processed products will result in raised margins for this product category and stronger competitive position of the Soda Division on the salt market.

The Organic Division is concentrated on increasing production capacity and reducing production costs thanks to improvement of owned technology. These activities will increase profitability and EBITDA level as well as improve the competitive position of the Divisions in terms of main products.

In case of epichlorohydrin (ECH) it is planned to implement a new technology based on glycerine (GTE technology - so called "green chemistry") which will change the raw materials base from petrochemical to waste substances from biodiesel production which will reduce the need to purchase chloride and propylene and will improve the process indicators by approx. 30% (including reduction of energy consumption by 10 GWh p.a.), decrease pollution emissions.

The largest project carried out by Z. Ch. "Organika Sarzyna" S.A. is the construction of an innovative MCPA production facility for over PLN 100 million. As for MCPA, it is planned for conduct a thorough production modernisation, to significantly increase facility's production capacity (by 50%) and to continue the penetration of target markets, especially, foreign markets.

As for Epoxy Resins, lower ECH product costs will have a positive impact on the reduction of production costs in the category of Resins produced mainly on the basis of ECH. In the epoxides and polyester resins segment, it is planned to further increase production volume as well as extend the offer and diversify recipients' market.

Priority - Optimisation of Group's liabilities structure

The Management Board of CIECH S.A. strives to optimise the financing structure. The first stage of conducted works was to negotiate the Loan Agreement of April 26th, 2010, which allowed for debt consolidation, reduced the number of banks, organised the hedges, facilitated the process of liquidity management in the Group and allowed for adopting long-term financing.

In a follow-up of works initiated in previous years on optimizing the financing of the Group, in early 2011 a long term target financing structure was agreed with commercial banks, taking into account the development plans and business plan of the Group. On February 10th, 2011 a five-year Loan Agreement was concluded with a consortium of seven commercial banks. The European Bank for Reconstruction and Development (EBRD) has also acceded the Loan Agreement on February 15th, 2011. The conditions of the release of funds by EBRD include the fulfilment of conditions for releasing the Investment Loan stipulated in the Loan Agreement. A long-term Loan Agreement will ensure that the Ciech Group has a stable long-term financial structure, will allow for financing investment projects and offer more favourable financing conditions (lower financing cost, less strict credit conditions, debt servicing level adapted to cash flow generated by the Group).

An important element of the Group's restructuring programme is the issuance of CIECH S.A. shares on the Warsaw Stock Exchange realised in the first quarter of 2011. Capital raise by way of issuing shares with subscription right supplementing investment financing.

In addition, CIECH S.A. conducted in the third quarter of 2011 an in kind issue of Series E shares directed to the State Treasury with the exclusion of subscription rights for the existing shareholders, in exchange for a contribution in kind in the form shares in Alwernia SA and Z. Ch. "Organika-Sarzyna" S.A. held by the State Treasury.

Successful completion of the in kind issue means that CIECH S.A. has fulfilled in form of an in kind contribution the obligation to acquire the shares in ZACHEM S.A. and Z.Ch. "Organika- Sarzyna" S.A. from the State Treasury

resulting from the privatisation agreements concerning these companies (amounting to approx. PLN 26 million).

17 Ciech Group's strategic priorities (continued)

Priority - Integration and restructuring of operating activities

Restructuring of the Ciech Group is a response to the condition of the Group and its environment. The global economic crisis lead to a severe downturn on product markets where the Ciech Group operates. These changes have impaired Group's function and had a negative impact on its financial result. The Restructuring Plan has been prepared and carried out in order to adapt the Group to new market conditions as well as possible. Another reason to implement the Plan is a high level of Group's debt and related debt servicing costs. Furthermore, the Group has suffered from inability to gain a satisfactory competitive position on certain markets.

Group's essential aims in terms of integration and restructuring of operating activities include:

1. **Concentration** of the activity on two most prospective segments and corresponding divisions: the Soda and Organic Division.
2. **Organisation restructuring** and integration of purchase and sales function at the Division level.
3. **Divestment** of selected companies and disposal of certain production and non-operative assets.

Current strategy of the Ciech Group assumes a concentration of the activity on two most prospective segments and corresponding divisions: the Soda and Organic Division. These correspond to 40.3% and 37.1 of Group's revenue for 2011 respectively.

Within Soda Division products, the Ciech Group has a strong competitive position on an attractive market. As for the Organic Division, the Group has recognised corresponding product markets as prospective, however, the Group's competitive position on these markets is not as strong as in case of soda.

Apart from concentrating on those two chemical market segments, the Group will also strive to maintain profitable trade in goods such as sulphur, mineral fertilizers and raw materials for fertilizers production.

In terms of integration and restructuring, it is planned to separate auxiliary functions and sell them, and to change organisational structures. This will result in further integration of purchase and sales function at the Divisions level and allow for concentrating on production activity in companies. Thanks to integrated sales activity, Divisions will strengthen their competitive positions in supply for international groups. Integrating purchase activities is aimed at using the scale effects during negotiation with the largest suppliers.

As for the Agro-Silicon Division, the Group conducts divestments of companies within this division (possibly without breaking off trade relations with them). This is a consequence of low attractiveness of the majority of related product markets and lack of significant synergy effects.

The restructuring will significantly reduce the product portfolio of the Ciech Group. These activities are aimed at narrowing specialisation and concentrating operations on the most prospective markets. The plan also assumes that the competitiveness of CIECH Group will improve in the following segments: TDI, ECH, epoxy and polyester resins, plant protection chemicals, baking soda, soda ash and salt.

The entire divestment plan includes around 80 projects, and the most important projects include the sale of shares in the companies: Azoty Tarnów S.A., PTU S.A., GZNF "FOSFORY" Sp. z o.o., Ciech Service Sp. z o.o., Daltrade Ltd. – all of these companies have already been sold and CIECH S.A. is no longer a shareholder of them,

An essential element of the on-going divestment processes is the assumption that all loans granted by the Issuer to subsidiaries will be repaid once their shares are disposed of by the Issuer.

Sales of non-operative assets refer to redundant lots owned by the Group's companies with total area of approx. 95 ha.

Total financial effect resulting from implementation of the restructuring activities (sale of shares, real estates and property rights, the savings and grants) provided for the generation of PLN 375 million of revenues and savings to the end of 2011. As a result of acceleration in carrying out restructuring initiatives by December 31st, 2011 the financial effect achieved amounted to PLN 590 million, that is 90% of the proceeds planned to be generated by the end of 2014 (PLN 652.2 million).

18 Information about concluded agreements significant for the Ciech Group's activity (including agreements concluded between the shareholders, insurance agreements and cooperation agreements)

Information on existing agreements which are important for the activity of Ciech Group has been discussed in section 2 of this Report on Ciech Group's Activities.

19 Information about agreements concluded with the entity authorised to audit the Ciech Group's consolidated financial statement

Information about agreements concluded with the entity authorized to audit the consolidated financial statements was presented in section 34 of Notes to the consolidated financial statements.

20 Transactions with related entities

The Ciech Group's companies did not conclude any transactions on non-market conditions between themselves. Sales to and purchases from related entities are realised at market prices.

The description of transactions concluded with related entities has been in included in section 39.1 of Notes to the Ciech Group's consolidated statements.

21 Information about natural environment protection

The manufacturing activity of the Ciech Group's companies is connected with the need to use the environment, which results in disrupting its natural balance. Awareness of the impact on the environment and the need to meet the growing requirements of the law obliges the companies to control and monitor production processes, with particular emphasis on their impact on the environment. All companies of the CIECH Group strive for minimizing the influence on the environment through the effective use of raw materials and energy, reduced emission of air, water and soil pollutants, reasonable waste management as well as the application of solutions improving the safety of technological installations. The concern for the environment in reflected in a broad range of pro-ecological investments realized every year that bring measurable effects in the form of limited emission of pollutants and visible improvement of the state of the environment in the vicinity of the manufacturing facilities.

The majority of the Ciech Group's manufacturing companies has rich long-term experience in works related to implementing and maintaining in-house environment management systems in accordance with the ISO 14001 standard. Very often these are a part of integrated management systems, covering also quality management, occupational health and safety management and food safety management. Moreover, the companies ZACHEM S.A. i Z. Ch. "Organika – Sarzyna" S.A. are signatories of the Responsible Care Program. The companies apply the environmental management systems as basic tools for reduction of environmental impact, at the same time, they optimise the use of owned resources and build a positive image in the eyes of all stakeholders of the Ciech Group. It is extremely important for companies representing the chemical industry for many years identified as a major source of environmental pollution.
In June 2009, CIECH S.A.'s Management Board signed the Ciech Group's Environmental Declaration, which is a key document forming a part of the system for coordinating environment protection measures in the Group. The Declaration defines the overall direction and methods for implementing measures aimed at managing production processes in an environment-friendly manner.
In 2011 the Ciech Group joined the Environmental and Social Action Plan (ESAP) developed together with the European Bank for Reconstruction and Development, which contained a list of tasks of managerial nature and connected with the current activities of key companies of the Ciech Group, i.e. Soda Polska Ciech Sp. z o.o., US Govora, Sodawerk Stassfurt, ZACHEM S.A., Z. Ch. "Organika-Sarzyna" S.A. and Alwernia S.A. Actions covered by the ESAP intend to comply with the legal requirements and requirements arising from the EBRD policy and the best business practice. By Resolution of March 8th, 2011, the Management Board of CIECH S.A. appointed a task force that is responsible for the implementation of ESAP tasks applicable to CIECH S.A. and for the monitoring of implementation of actions in individual Ciech Group companies.

21.1 Legal status of using the environment

The Ciech Group's companies conduct their activities based on current administrative decisions, regulating the manner and scope of using the environment. The most important ones are integrated permits, permits required under the Water Law Act and decisions concerning waste disposal. All companies of the CIECH Group using IPPC installations obtained integrated permits within the required period of time. The permits are valid for 10 years, i.e. in most cases until December 31st, 2016. In the event of any material changes in the functioning of the facilities, the integrated permits are updated on a regular basis. The following table lists integrated permits owned by Ciech Group companies.

21 Information about natural environment protection (continued)
21.1 Legal status of using the environment (continued)

The following table lists integrated permits owned by Ciech Group companies:

Company	Subject of the permit	Expiry date
Soda Polska Ciech Sp. z o.o Production Facility in Inowrocław	Integrated permit for IPPC facility (production of light and dense soda ash, baking soda, calcium chloride) and auxiliary facility - production of agricultural lime.	December 31st, 2016.
Soda Polska Ciech Sp. z o.o. Production Facility in Janikowo	Integrated permit for IPPC facility (production of light and dense soda ash, waste disposal) and other facilities (production of wet and dry vacuum salt, agricultural lime, freight cable car).	December 31st, 2016.
Soda Polska Ciech Sp. z o.o. Power Plant in Inowrocław	Integrated permit for a power heating plant (4 OP-110 boilers).	December 31st, 2014.
Soda Polska Ciech Sp. z o.o. Power Plant in Janikowo	Integrated permit for a power heating plant (3 CKTI-75 boilers, 2 OP-140 boilers).	July 1st, 2016.
ZACHEM S.A.	Integrated permit for IPPC facility: brine electrolysis, production of phosgene, DNT, TDA, TDI, ECH and waste dumping.	December 31st, 2016.
Ciech Pianki Sp. z o.o.	Integrated permit for a PUR foam production facility.	May 28th, 2019.
US Govora	Integrated permit for IPPC facility: production of soda ash and dumping of soda waste.	December 31st, 2011.
Sodawerk Stassfurt	Integrated permit for IPPC facility: production of light and dense soda ash, baking soda.	unlimited term
Z. Ch. "Organika-Sarzyna" S.A.	Integrated permit for IPPC facility: unsaturated and saturated polyester resins, epoxy resins, hardening agents for epoxy resins, phenol-formaldehyde resins, Ukanol DOP, Flodur hardeners, Adufer, ortho-phenylenediamine o-FDA, phosphating concentrates and plant protection chemicals (MCPA, MCPP, carbendazim BCM).	October 31st, 2016.
Alwernia S.A.	Integrated permit for the system for the production of: chrome oxide, alkaline sodium sulphate and sodium bisulphite, phosphates and magnesium sulphate.	July 20th, 2015.
	Integrated permit for the system for the production of feed-grade calcium phosphates.	April 29th, 2015.
	Integrated permit for the system for the production of nitrate salts.	June 23rd, 2016.
	Integrated permit for the system for the production of granular fertilizers.	September 24th, 2017.
	Integrated permit for a waste dumping site.	April 30th, 2017.
Vitrosilicon S.A.- Facility in Żary	Integrated permit for the system for the production of sodium silicate in lumps and potassium silicate in lumps.	September 14th, 2015.
Vitrosilicon S.A. - Facility in Iłowa	Integrated permit for the system for the production of sodium and potassium water glass, glass packaging and glass blocks CLAROGLASS.	on December 28th, 2015.
Vitrosilicon S.A.- Facility in Pobiedziska	Integrated permit for the system for the production of large open glass - lanterns and jars.	October 31st, 2017.

Integrated permit for US Govora expired on December 31st, 2011. In Q3 2011 the Company applied for a new integrated permit. In order to obtain a new integrated permit the company must consult with appropriate authorities the issues related with the management of post-production sludge after 2012. Pursuant to the regulation of the Government no. 349/2005 the Company is obliged to withdraw from exploitation of soda sludge settling tanks until December 31st, 2012. U.S. Govora applied to the regulatory authorities with the proposal to change the Regulation of the Government to take into account the provisions of the BREF for soda industry in the post-production waste management and removal of soda sludge settling tanks provided to be excluded from use.

21 Information about natural environment protection (continued)
21.1 Legal status of using the environment (continued)

The Company intends to continue the management of soda sludge using the current method, pursuant with the requirements of BAT. In 2011, the Company applied to the competent environmental authorities for approval of such a solution, and obtained preliminary approval.

In January 2011, Marshal of the Carpathian made the decision to update the integrated permit for Z. Ch. "Organika-Sarzyna" S.A. having regard, inter alia, the following changes in the functioning of the Company:

- development of unsaturated polyester resin system and increasing its production capacity;
- construction of a thermal afterburner of off-gases from the installation of unsaturated polyester resins;
- termination of operation of ortho-phenylenediamine system (o-FDA).

21.2 Environmental protection costs

The amount of environmental usage charges paid by Polish Companies within the Group in 2011 amounted to PLN 23,717 thousand, including 99% paid by Soda Polska Ciech - mainly on account of releasing waste to surface waters.

The following table presents the amount of environmental usage charges paid in 2011

PLN '000.	Soda Polska Ciech Sp. z o.o.	ZACHEM S.A.	Z. Ch. "Organika-Sarzyna" S.A.	Alwernia S.A.	VITROSILICON S.A.	US Govora	Sodawerk
Amount paid in 2011.	22,795	418	275	171	58	RON 8,751 thousand	EUR 916 thousand

The activity of production companies in 2011, with exception of aforedescribed cases, was conducted in compliance with environmental usage conditions defined in appropriate administrative decisions. Moreover, in 2007 Soda Polska Ciech Sp. z o.o. was awarded a financial penalty of PLN 457 thousand for excessive ash and sulphur dioxide emission in the Janikowo power heating plant. Deadline for payment of the penalty for exceeding the allowable emissions of particulate matter was deferred pending the completion of the modernization of electrofilters and for exceeding the allowable emissions of sulphur dioxide by 31 December 2012, i.e. until the completion of the FGD plant. Every year, the company pays a penalty for exceeding the permissible noise level at night (the estimated amount of the penalty for 2011 year was PLN 22 thousand).
In connection with the excess in 2011 of acceptable standards of dust from boilers OP-110 in EC Inowrocław and OP-140 and CKTI in EC Janikowo penalties will be imposed on Soda Ciech Poland Sp. z o.o., in the total amount to be specified in the decision of WIOŚ in Pomerania and Kujawy.
Due to the operation of boiler OP-140 No 4 and 5 in EC Janikowo in the breach of the conditions specified in the current integrated permit, i.e., with reduced effectiveness of cleaning of electrostatic precipitators, WIOŚ in Pomerania and Kujawy issued proceedings on 16 December 2011, to halt the use of these devices. The reason for the reduced effectiveness of the above filters was incorrect installation of electro pneumatic ash removal installation of OP-140 boilers No. 4 and 5. To remove these anomalies company has installed emergency systems using hydraulic ash removal.
In addition, in connection with the disclosed excess of permissible emission of nitrogen dioxide and sulphur dioxide from the carbonating columns in Soda Ciech Poland Sp. z o.o., based on measurements taken by WIOŚ in October 2011, the Company may be charged a penalty for violation of the integrated permit.
In 2011 US Govora paid financial penalties for violation of the conditions of environment use amounting to RON 42.5 thousand.

21.3 Dealings with emissions

Implementing the obligations under the Kioto Protocol, the UE by way of directive 2003/87/EC introduced at the beginning of 2005 the European system of trading emissions (EU ETS), being the first international cap-and-trade system in the world realised at the enterprise level and based on trading with emission allowances regarding carbon dioxide and other greenhouses gasses.
In 2008 the second five-year settlement period begun, the EU ETS II - emission allowances were allocated free of charge to individual installations based on historical emissions in the national allocation plans. Currently, 4 of the Ciech Group's companies participate in the emission trading system:

21 Information about natural environment protection (continued)
21.3 Dealings with emissions (continued)

- Soda Polska Ciech Sp. z o.o - with 2 installations - in-house power heating plants in Inowrocław and Janikowo.
- VITROSILICON S.A. – with 3 installations - glass production lines in Żary, Iłowa and Pobiedziska,
- Alwernia S.A. – with an in-house power heating plant,
- KWG – subsidiary of Soda Deutschland Ciech GmbH, managing an in-house power heating plant in Stassfurt.

In 2011, the Ciech Group's Companies held sufficient number of allowances to cover actual emission of carbon dioxide. A part of those allowances was sold, the rest was kept to be used within the upcoming years.
In conjunction with the amendments to the EU ETS to become effective in 2013, including the inclusion of new sectors to the system and the new principles of granting allowances based on the auction system, the companies of the Ciech Group have been preparing in advance for the implementation of the revised regulations.
The Ciech Group companies that will participate in the 3rd phase of EU ETS (Soda Polska Ciech Sp. z o.o., US Govora, Sodawerk Stassfurt, Soda Deutschland – KWG, VITROSILICON S.A., Alwernia S.A. and ZACHEM S.A.) have prepared data used by appropriate bodies to prepare so-called National Implementation Measures (NIM's) pursuant to article 11 of the Directive 2009/29/EC. This document contains, i.a., a list of installations that will participate in the emission trading system since 2013. It also contains a list of free of charge allowances assigned to each of these installations. Based on the collected data, the Member States were obliged to submit to the EC such information by September 30th, 2011. The EC should decide on the assignment of free of charge allowances within 6 months from the submission of an application by a Member State.

The statements prepared by the Ciech Group companies indicate that the number of free allowances for the emission of CO_2 in EU ETS III will cover 60% of the needs for such settlement units. The resulting deficit of allowances to emit carbon dioxide will be possible to balance by using one or more of the following actions:
- the use of emission allowances received free of charge and unredeemed during the second period of the EU ETS (2008 - 2012);
- purchase missing allowances in the auction, exchange-traded or OTC transactions;
- capital investments aimed at reducing the emission of heat generated and / or emissivity of the processes;
- using raw materials and fuels causing lower emission.

In addition to the direct costs associated with the purchase of rights to emit carbon dioxide, all Ciech Company will incur higher costs of purchasing power due to the transfer of the costs of purchase of emission allowances by manufacturers.
In accordance with Article 10c of Directive 2009/29/EC by 30 September 2011, the Polish Government submitted to the Commission a request for free allowances for the modernization of electricity generation. The proposal includes a summary of the installation and the allocation of free allowances and the National Investment Plan (NIP). The draft proposal also includes two power-plants belonging to the Polish Soda Ciech Sp. z o.o.

21.4 REACH

The REACH ordinance in force since June 1st, 2007 refers to safe application of chemical substances produces or imported (from outside EU) in amounts exceeding 1 ton p.a. Manufacturers and importers who trade with such substances within the EU customs area have been forced to register - preliminary registration until December 1st. 2008, the proper registration in three terms, depending on the amount of substances being traded.
Ciech Group companies completed the preliminary registration for a total of 705 substances subject to the REACH provisions. It is estimated that approximately 153 substances will require proper registration. 37 heavy tonnage substances have already been registered (produced or imported in the quantity exceeding 1,000 tons per year), constituting 18% of the portfolio of substances subject to compulsory registration. The remaining substances will be registered in further terms defined in the REACH Ordinance: until June 1st, 2013, for tonnage between 100-1,000 tons p.a. and until June 1st, 2018, for tonnage between 1-100 tons p.a.
In accordance with section 6 of Appendix XVII to REACH, the use and marketing of chrysotile asbestos is forbidden in the EU, with the exception of diaphragms in electrolytic systems. The derogation applies until the end of the life of the installation or until adequate substitutes are available free of asbestos, depending on which of these is the sooner.

21 Information about natural environment protection (continued)
21.4 REACH (continued)

Member States benefiting from the derogation (Poland and Germany) were required by to submit an appropriate report to the European Commission by June 30th, 2011. ZACHEM S.A., the only Polish entity operating an installation for the electrolysis of brine in an asbestos diaphragm technology, developed the foundation for the report. The European Commission after the publication of reports over the next two years, in agreement with the European Chemicals Agency, will decide to ban the marketing or use of diaphragms containing chrysotile asbestos.

21.5 Environmental obligations

Due to the character of the Ciech Group's activities, some plots owned by the Group show active sources of soil-water environment pollution. The Group bears current operating costs and creates provisions relating to recultivation of such soil and treatment of contaminated underground waters. Provisions due to environmental obligations in the Ciech Group as at December 31st, 2011, amounted to PLN 59.3 million.

22 Significant research and development achievements of the Ciech Group

Science-industry cooperation
The Ciech Group, in cooperation with the Experts Board with the President of the Management Board of CIECH S.A., continue to conduct activities aimed at strengthening the science-industry cooperation.
In 2011 the Group continued the realisation of particular enterprises and project pursuant to signed framework agreements with 5 institutions (Institute of Heavy Organic Synthesis "Blachownia", Institute of Industrial Organic Chemistry, Industrial Chemistry Research Institute, Fertilizers Research Institute and its "IChN" division in Gliwice) and 7 universities (Warsaw University of Technology, Wrocław University of Technology, Poznań University of Technology, Rzeszów University of Technology, University of Technology and Life Sciences in Bydgoszcz, West Pomeranian University of Technology, Nicolaus Copernicus University in Toruń), this included the extension of Group's product offer and change or improvement of technological processes. Some projects received subsidies within aid programmes aimed at providing financial support to scientific institutions searching for innovative solutions.
In October of 2011 the first edition of the annual competition for the Scientific Award of the President of the Management Board of CIECH S.A. for best doctoral thesis and master's or engineering thesis was announced. The target of the competition are students and doctoral students of university chemistry departments and professional faculty research units, who in the period from September 2011 to June 2012 obtained a doctorate, master or engineer degree. The competition aims to link scientific development of the most talented graduates with the development of the Ciech Group.

Realization of scheduled research and development activities
1. "New TDI production technology - gas-phase phosgenation": carried out by ZACHEM S.A. in cooperation with the scientific consortium of the Industrial Chemistry Institute and the Faculty of Chemical and Process Engineering of Warsaw University of Technology, Materials Engineers Group Sp. z o.o. and Regula Sp. z o.o.

- *Project expenditure at the research stage: PLN 33 million, including over PLN 15 million of subsidies within the MNiSW IniTech programme.*
- *Implementation of the research project results: building a new amine phosgenation line on industrial scale, which will result in decreased amount of surplus phosgene applied in the production process by approx. 60% and reduction of TDI production energetic costs by approx. 40%.*

A TDA gas-phase phosgenation laboratory facility was constructed in 2011. The installation was commissioned in October and then the stage of the research in laboratory installation was started. By the end of 2011 four applications for the protection of patents developed solutions were filed.
2. "Research on production of sorbent from baking soda": carried out by Soda Polska Ciech in cooperation with Częstochowa University of Technology and the Inorganic Chemistry Institute. The project covers research on implementing new, profitable applications of baking soda.

- *Project expenditure - PLN 200 thousand*
- *Extending market offer by selling the product in segments characterised by attractive margins and high growth potential, increase of sales by approx. 30 thousand tons,*
- *In 2011 a research was conducted in cooperation with scientific institutions and industrial partners in order to determine the optimal path of research for the project.*

3. "Covering glass packaging with chromatic nanocoating" VITROSILICON S.A.

- *Project expenditure - PLN 700 thousand*
- *Estimated implementation effects - increase in revenue by approx. PLN 3 million p.a. resulting from selling a new state-of-the-art product.*

22 Significant research and development achievements of the Ciech Group (continued)

The project was awarded additional financing within Action 1.4 - 4.1 of the Operational Programme Innovative Economy and is carried out pursuant to subsidy agreement with Polish Agency for Enterprise Development. In 2011 the research part of the project was completed. The developed solution was submitted for patent protection. Based on the results of the research project an investment is being realised in order to implement the developed solutions on an industrial scale.

Co-financing for CIECH S.A.'s undertakings
In 2011, the Ciech Group continued activities aimed at supporting its operations with aid funds, in particular, EU funds allocated for 2007-2013.
The projects realized with the support of external funds are determined based on the analysis of investment plans, research and development plans and other initiatives.
By the end of 2011, the procured funding exceeded PLN 141 million (including the project of construction of a facility for channelling and isolating fly-ash, in which Soda Polska Ciech holds a 29% share). All projects are realised pursuant to subsidy agreements signed with Implementing Institutions.
By the end of 2011, proceeds of the subsidies amounted to PLN 37.28 million, including in 2011, PLN 20.87 million. CIECH S.A. and Group companies' absorption of external funds when realizing investment and other initiatives is a vital decisive factor due to the chances of broadening their scope, most importantly, of realising them using state-of-the-art and innovative technologies and tools as well as their faster than planned realization.

Optimization of the Group's companies operating activity
In 2011, works aimed at implementing system solutions within the Group with regard to the operating activity of the Group's companies were continued. These activities were aimed at gaining benefits resulting from the scale effect through management consolidation in certain operating activity aspects at the Group level.

- Optimization of the Ciech Group's Companies power expenses
- In 2011, an undertaking aimed at optimizing the Ciech Group's Companies power expenses was continued. The undertaking is realized within the Group in cooperation with a renowned consulting agency.
- On November 30th, 2011 the negotiation stage was completed and the contracts were signed for consolidated purchase of electricity in the TPA system in 2012 by the Ciech Group Companies. After an offering tender process, the company ENEA S.A. was selected as the electricity supplier on the liberated energy market. The following Ciech Group companies entered into agreements for year 2012: Soda Polska Ciech Sp. z o.o., ZACHEM S.A., Z.Ch. "Organika-Sarzyna" S.A., Alwernia S.A. and VITROSILICON S.A.
- The total electricity volume exceeded 454 thousand MWh in 2011 and the total net value of agreements for the Ciech Group Companies will amount to approx. PLN 105.6 thousand net (excluding distribution charges amounting to PLN 28 million and excluding VAT).
- The supplies will be supplemented by an in-house electricity generation by heat and power plants owned by a Group company – Soda Polska Ciech – which will contribute around 450 thousand MWh.
- The negotiated conditions of energy purchase in the TPA system for 2012, like in the years 2010-2011, will allow to maintain the prices for electricity at the lowest market level. The optimisation of the electricity purchase costs will contribute to improved financial ratios of the Ciech Group Companies.
- The optimization of the electricity purchase and electricity balance costs will contribute to improved financial ratios of the Ciech Group Companies.

- **Optimization of the current maintenance and repair costs**

The undertaking is aimed at optimizing expenditures in the area of operating expenses in 2010 and the following years. Optimisation and restructuring activities were coordinated in the area of movement maintenance in the following respect:

- **ZACHEM S.A./ Zachem UCR – the process of selling Zachem UCR**

Within the executed divestment process ZACHEM S.A. signed an agreement regarding the sale of shares in Zachem UCR Sp. z o.o. in a block with a long-term service agreement regarding maintenance of movement and repair work with PETRO Consortium. Estimated savings in 2012-2013 will amount to about PLN 9 million (based on analysis of projected savings made by ZACHEM S.A.)

- **S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A**. – cooperation with respect to establishing a new organisational model for movement maintenance and repair works services in US Govora S.A.
- **Soda Polska Ciech Sp. z o.o.** – in connection with completing a 3-year contract on movement maintenance in the Inowrocław Plant and power heating plants, a countrywide tender invitation was carried out in Poland in order to generate greater competitiveness in the area of movement maintenance and repair works services provided to the benefit of Soda Polska Ciech Sp. z o.o.

23 Information about material off-balance sheet items

The table below presents off-balance sheet items, including guarantees and sureties granted by the Ciech Group to other entities (from outside the Ciech Group). The description of sureties and guarantees granted to related entities (within the Ciech Group) has been included in the table "Sureties and guarantees granted".

OFF-BALANCE SHEET ITEMS *PLN '000*	**31.12.2011**	**31.12.2010**
1. Contingent assets	**663**	**-**
- other off-balance sheet receivables	663	-
2. Contingent liabilities	**105,122**	**99,071**
- guarantees and sureties granted	36,320	39,952
- other off-balance sheet liabilities	42,493	36,046
- other	26,309	23,073

As at December 31st, 2011, the contingent assets amounted to PLN 663 thousand. This is the amount to which the Company Z. Ch. "Organika-Sarzyna" S.A. may supplement the resulting incomplete promissory note to the company implementing for the Company as a performance bonds.

The amount of contingent liabilities as at December 31st, 2011 was PLN 105,122 thousand, which signifies an increase by PLN 6,051 thousand in relation to the balance as at December 31st, 2010.

Change of contingent liabilities in comparison with the state as at December 31st, 2010 results mainly from:

- expiry of a contingent liability in CIECH S.A. of PLN 17,253 thousand due to non-achievement of the ratio required under the agreement for the purchase of ZACHEM S.A.'s shares,
- changing EUR exchange rate applied by Soda Deutschland Ciech to calculate, among others, the recognised a potential provision for recultivation of ponds, which will be created in case it is required by the waste management regulations,
- expiry of the guarantee granted by ZACHEM SA to Spółka Wodna Kapuściska for an amount of PLN 3,632 thousand in connection with the repayment of the loan,
- change in the RON exchange rate in S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. for the contingent liability towards CET Govora,
- Alwernia SA's obligations for the purchase of property, plant and equipment and intangible assets amounting to PLN 648 thousand,
- calculation of the possible environmental penalty in the estimated amount of PLN 3,900 thousand in Soda Mątwy Group due to a failure of boilers. At the balance sheet date and the date of the report no dimensional decision was received. If the decision is obtained, the penalty will be offset against future investment,
- contingent liability of PLN 19,560 thousand in connection with a claim filed by ZA Puławy resulting from an alleged violation of provisions of the agreement regarding the sale of shares in GZNF "FOSFORY" Sp. z o.o.

The aforesaid items do not include the value of suits filed by third parties, described in notes 33.1 and 33.2 of Notes to the consolidated financial statements.

24 Information about agreements that may affect the proportions of shares held by the existing shareholders and bondholders

Until the publication date of this Report, no agreements that may affect the proportions of shares held by the existing shareholders were entered into.

25 Information about the employee stock ownership plan control system

The employee stock ownership plan is not applied in CIECH S.A. and any of the Ciech Group's Companies.

26 Remuneration of the Management Board and Supervisory Board

Information was included in section 39.4 of Notes to the consolidated financial statements.

27 Establishment of the total number and face value of all of the Company's shares as well as shares of related entities held by the management and supervisory staff

From the declarations submitted by the management and supervisory staff, it appears that as at December 31st, 2011:

- Mr Artur Osuchowski, Member of the Management Board, held 3,825 shares in CIECH S.A.

Other persons holding managerial and supervisory positions did not hold any shares in CIECH S.A. or shares of related entities.

28 Statement on the application of Corporate Governance

28.1 Application of Corporate Governance principles

In 2011, the CIECH S.A. applied the list of principles provided in "Good Practices of Stock Exchange Listed Companies" (hereinafter the "Good Practices of GPW Listed Companies") applicable at the Warsaw Stock Exchange. Corporate governance principles are available on the website concerning the corporate governance on the Warsaw Stock Exchange (http://corp-gov.gpw.pl/) and on the corporate website of CIECH S.A. (http://www.ciech.com) in a section dedicated to the shareholders of the Company - "Investors Relations" in the tab "Corporate Governance".

CIECH S.A. operates a corporate website, which is a reliable and useful source of information about the Company for the representatives of the capital market. The content of the website is prepared in a transparent and reliable way so as to enable investors and analysts to make decisions based on the information presented by the Company. The Company provides all interested parties with equal access to information published on the corporate site. The Company ensures the functioning of the website in the indicated scope - in accordance with the "Good Practices of GPW Listed Companies" - Part II. point 1, also in English. The investor relations section contains several tabs, in which the Company publishes all of its current and periodic reports. The website contains a tab with good practices of the WSE. The corporate website contains information concerning the dates of general meetings, draft resolutions and a set of documents presented to the shareholders at general meetings. Caring for compliance with best management standards in corporate governance, information governance and relations with CIECH S.A. investors was recognized for the second time, when the Company was included in the Respect Index, the first in Central and Eastern Europe index of responsible companies (SRI).

In 2011 CIECH S.A. observed all principles to which the "comply or explain" rule detailed in chapters II, III and IV of "Good Practices of GPW Listed Companies" applies.

As for chapter I of "Good Practices of GPW Listed Companies" which includes "Recommendation", two points require a commentary:

In compliance with the recommendation, CIECH S.A. has a remuneration policy which defines the form, structure and level of remuneration, including remuneration for members of management and supervisory bodies in the Company. The remuneration system is transparent and ensures that the remuneration paid to top executives is linked to the financial results achieved by the Company and effects of work performed by remunerated persons.

The principles of the remuneration system account for certain principles following from the European Commission recommendation of December 14th, 2004 regarding supporting an appropriate remuneration system for directors of stock exchange listed companies (2004/913/EC) supplemented by the European Commission recommendations of April 30th, 2009 (2009/358/EC). These principles include: defining fixed and variable elements of Management Board remuneration, establishing a link between variable remuneration elements and result criteria, and detailing the total remuneration and particular elements paid to Members of Management Board and Supervisory Board in Notes to the Annual Financial Statements. The adopted remuneration system does not include incentive programmes based on shares, stock options or other stock purchase rights, nor does it provide for receiving remuneration pursuant to fluctuations of share price.

Patterns recommended by the European Commission did not form a benchmark for establishing the remuneration system in the Company and not all aforementioned recommendations have been applied. The remuneration system does not constitute a separate item in the Annual General Meeting agenda and is not put to the vote. The Company has not published "the remuneration declaration" on its website. Nevertheless, various Company documents include information which should be contained in the declaration.

28 Statement on the application of Corporate Governance (continued)
28.1 Application of Corporate Governance principles (continued)

The remuneration principles and the level of remuneration for Members of the Management Board in CIECH S.A. are established by the Company's Supervisory Board. Functions of the Remuneration Committee, as defined by the European Commission, are performed by the Remuneration Committee of CIECH S.A.'s Supervisory Board. Remuneration for the Members of the Company's Supervisory Board is established by the Company's General Meeting.

Another issue which requires explanation is the recommendation regarding the broadcast of general meeting sessions by means of Internet, registering the sessions and publishing them on the website. In the discussed reporting period, the Company has not decided on recommended direct broadcasting of General Meeting sessions or registering sessions and publishing them on the website. However, in order to ensure a transparent and efficient information policy, which would ensure a fast and safe access to information for shareholders, analysts and investors, the Company has applied a number of communication tools.

28.2 Internal control and risk management systems in the process of compiling financial statements and consolidated financial statements

Ciech S.A.'s Management Board is responsible for the internal control system in the Company and its effectiveness in the process of compiling financial statements and interim reports, prepared and published in accordance with the principles included in the Ordinance of the Minister of Finance of February 19th, 2009 on Current and Interim Information Submitted by the Issuers of Securities and Conditions of Recognising as Equivalent the Information Required by the Law Provisions of a Country which is not a Member State.
The Company's effective system of internal control and risk management in the financial reporting process functions through:

- preparing procedures defining the principles and responsibility for compiling financial statements, including the responsibility for quality assurance,
- determining the scope of reporting based on the binding International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS);
- developing, implementing and supervising the application of consistent 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;
- financial statements authorisation prior to publication.

A Member of the Management Board responsible for financial matters supervises the process of preparing the Company's financial statements and interim reports. The Financial Department, directly responsible to a Member of the Management Board of CIECH S.A., is responsible for organizing tasks connected with the preparation of financial statements. The uniformity of the standards applied by the Group ensures the application of uniform accounting principles of the Ciech Group and uniform consolidation principles according to IAS/IFRS by all companies.

The scope of disclosed data published in interim reports results from the Company's accounting books and additional information submitted by particular organizational units of CIECH S.A. The Ciech Group's companies deliver the required data in the form of reporting packages in order to prepare the Group's consolidated financial statements. The scope of data disclosed within the Ciech Group is defined and results from the information obligations imposed by IAS/IFRS. Current IAS/IFRS monitoring is conducted to determine the need to update the scope of reporting.

Pursuant to the binding regulations, the Company's financial statements are reviewed and audited by an independent certified auditor.

A certified auditor is appointed by the Supervisory Board from a circle of reputable auditing companies, ensuring high standards of service and the required independence. Agreements for auditing financial statements by a certified auditor are concluded every year with an auditor appointed by the Supervisory Board. The Audit Committee, appointed within the competences of the Supervisory Board, supervises the financial reporting process, cooperates with an independent auditor and recommends an auditor to the Supervisory Board.
The Company operates financial statements authorisation procedures. Reports for Q1, Q3 and Q4 (Q4 if is published) are not subject to auditing, these are approved by the Management Board before publication. Semi-annual and annual interim reports reviewed or audited, as required, by an auditor are submitted to the Supervisory Board and Company's Shareholders. Annual statements approved by the Management Board, after obtaining the opinion of the Audit Committee and their evaluation by the Supervisory Board, are approved by the General Meeting.

28 Statement on the application of Corporate Governance (continued)

28.2 Internal audit and risk management systems in the process of compiling financial statements and consolidated financial statements (continued)

After the publication of annual or half-yearly financial statements, the conclusions from the financial statements' audit are presented to the Audit Committee. Representatives of the Audit Committee analyse the audit's and the review's results during closed sessions held with the Company's auditor. Additionally, the certified auditor presents a Letter to the Management Board, containing recommendations for the Management Boards of the Group's Companies, based on the results of the audit or the review of financial statements for a given year. The auditor's recommendations are discussed by the Audit Committee and the managerial staff of the Finance Division with the purpose of implementation.

Financial data forming the basis for financial statements and interim reports come from an accounting and financial system, where all transactions are registered in accordance with the Company's accounting policy (approved by the Management Board) based on the International Accounting Standards. Accounting books are kept in an integrated ERP IT system. The modular structure of the system ensures clear division of competences, consistency of accounting entries and compliance between the general ledger and sub-ledgers. The properties of the system allow for its ongoing adjustment to the changing accounting principles and other legal regulations. The system contains complete technical and functional documentation, which pursuant to Art. 10 of the Accounting Act dated September 29th, 1994 is periodically updated.

The access to information contained in the IT system is limited by relevant authorisations for entitled employees. Employees can only access those system areas on which they work. Access control is implemented at every stage, starting from entering source data, through data processing, to generating output information.

A reflection of the effectiveness of the applied procedures for audit and risk management in the process of compiling financial statements in CIECH S.A. and in the Ciech Group are the results in the form of high-quality financial statements, as confirmed by the opinions of certified auditors on the audited statements, positive assessment by recipients of financial statements and top rankings of CIECH S.A. in the competition "The Best Annual Report", organised by the Institute of Accounting and Taxes under the auspices of the Warsaw Stock Exchange.

The selection of the entity authorised to audit the financial statements of CIECH S.A. and financial statements of the Ciech Group is performed by the Company's Supervisory Board (after a preliminary recommendation of the Supervisory Board Auditing Committee), which has established the following selection principles to ensure that the opinion is unbiased:

- the entity authorised to audit financial statements may not perform audits for the Company/Group for more than 5 years in a row;
- the entity authorised to audit financial statements may return to performing auditing activity for the Company/ Group after 2 years at the earliest;
- the chief certified auditor may not perform the financial auditing activity for the Company/ Group for more than 5 years in a row;
- the chief certified auditor may return to performing financial auditing activity for the Company/ Group after 2 years at the earliest.

28.3 Shareholders of CIECH S.A. with large share blocks

CIECH S.A. shares are listed on the Warsaw Stock Exchange. The share capital is PLN 263,500,965 and it is divided into 52,699,909 shares of face value PLN 5 each, including:

- 20,816 ordinary bearer shares Series "A",
- 19,775,200 ordinary bearer shares Series "B",
- 8,203,984 ordinary bearer shares Series "C",
- 23,000,000 ordinary bearer shares Series "D",
- 1,699,909 ordinary bearer shares Series "E".

28 Statement on the application of Corporate Governance (continued)
28.3 Shareholders of CIECH S.A. with large share blocks (continued)

Shareholder	Type of shares	Number of shares	Share in the share capital (%)	Number of votes at GSM	Total number of votes at the General Meeting
State Treasury*	Ordinary bearer shares	20,407,437	38.72%	20,407,437	38.72%
Otwarty Fundusz Emerytalny (Open Pension Fund) PZU "Złota Jesień" S.A.***	Ordinary bearer shares	2,688,000	5.10%	2,688,000	5.10%
Pioneer Pekao Investment Management S.A.** (within the scope of portfolios managed by PPIM),	Ordinary bearer shares	5,267,246	9.99%	5,267,246	9.99%
including:					
Pioneer FIO	Ordinary bearer shares	5,209,354	9.88%	5,209,354	9.88%
SFIO of Telekomunikacja Polska	Ordinary bearer shares	44,857	0.09%	44,857	0.09%
ING Otwarty Fundusz Emerytalny (Open Pension Fund)***	Ordinary bearer shares	2,800,000	5.30%	2,800,000	5.30%
TFI Allianz Polska S.A.****	Ordinary bearer shares	2,840,640	5.39%	2,840,640	5.39%

* According to information provided by the State Treasury on August 24th, 2011 (cr 59/2011)
** According to the notification sent on October 14th, 2011 (cr 68/2011)
*** Based on the list of shareholders holding at least 5% of votes at the General Meeting of Shareholders of CIECH S.A. on June 30th, 2011 (Art. 70, item 3 of the Act on the Offering - GSM list above 5%)
**** According to the notification sent on November 15th, 2011 (cr 71/2011)

After December 31st, 2011, on February 20th, 2012, the Management Board of CIECH S.A. received the notification from \ TFI Allianz Polska S.A. (cr 7/2012) on the reduction of total involvement of the funds: Allianz FIO, Allianz Platinium FIZ, Bezpieczna Jesień SFIO ("Funds under the Management of Allianz TFI") in total number of votes at the General Meeting of CIECH SA, as the result of the sale of the Issuer's shares by Allianz FIO fund. According to a report as the result of the sale of the Issuer's shares by Allianz FIO on February 8th, 2012, Funds under the Management of Allianz TFI have reduced the involvement under 5% of participation in the total number of votes at the General Meeting of Ciech SA. After the transaction, Funds under the management of Allianz TFI held jointly 2,552,420 shares, which comprise 4.8433% of the share in the share capital of the Issuer and give 22,552,420 votes, which comprise 4.8433% of participation in total the number of votes.

28.4 Shareholders with special control authorisations together with description

No securities giving special control rights in relation to the issuer exist in CIECH S.A. No shares are privileged, each grants the same right to one vote at the General Meeting.

28.5 Restriction regarding the right to vote

In CIECH S.A., there are no restrictions as to exercising the right to vote such as the right to vote reserved for holders of a certain share or number of votes, time limits in exercising the right to vote or provisions pursuant to which, in collaboration with the company, equity rights connected with securities are separated from holding securities.

28.6 Restriction regarding the transfer of issuer's securities ownership

The CIECH S.A.'s Statute does not provide for any restrictions regarding the transfer of ownership of securities issued by the Company.

28 Statement on the application of Corporate Governance (continued)

28.7 Description of authorisation to make decisions on the issuance or redemption of shares

The Commercial Companies Code and the Company's Statute shall define the qualifications of the managerial staff. The Members of the Management Board have no special rights to decide about share issue or redemption.

28.8 Principles for introducing amendments to the issuer's Statute or Articles of Associations

The Statute can be amended in accordance with the regulations of the Commercial Companies Code. The Statute does not introduce any detailed regulations regarding the aforementioned documents. Amendment of Statute requires a resolution of the General Meeting of Shareholders of the Company and entering in the register of entrepreneurs. Resolution of the General Meeting of Shareholders concerning the amendments to the Statute is adopted by a majority of three-fourths of votes cast. After entering the amendments to the Statute in the register of entrepreneurs CIECH S.A. publishes a Current Report regarding this issue. The General Meeting of Shareholders may authorize the Supervisory Board to determine the uniform text of the Statute. In 2011 amendments were made to § 7 sec. 1 of the Statute of CIECH S.A. resulting from the increase in the share capital of the Company by issuing E series shares with the exclusion of subscription rights of the existing shareholders. All E series shares were offered to the State Treasury of the Republic of Poland. The State Treasury acquired all E series shares and covered them with an in kind contribution in the form of shares in Alwernia S.A., ZACHEM S.A. and Z. Ch. "Organika-Sarzyna" S.A.

28.9 Function of the General Meeting of Shareholders and its principle competence as well as description of shareholders competence and the manner of performing them

The operation of the General Meeting of CIECH S.A. and its powers are regulated by the Statute and Regulations of the General Meeting of CIECH S.A. These documents are available on the corporate website of CIECH S.A. www.ciech.comin the sections: "CIECH S.A./Dokumenty Spółki" and "Relacje inwestorskie/Regulamin Walnego".

The General Meeting of CIECH S.A. takes place either as an ordinary or extraordinary meeting, in compliance with the Commercial Companies Code regulations and the Statute according to principles defined in the General Meeting Regulations. The General Meeting is convened in the manner and on terms specified in generally applicable regulations. The General Meeting is convened by an announcement placed on the Company's website and by providing of a Current Report. The announcement should be made at least twenty-six days before the date of the General Meeting. The Ordinary Meeting of Shareholders is convened by the Management Board. The Supervisory Board may convene the Ordinary Meeting of Shareholders if the Management Board has failed to convene it within the specified time. The Extraordinary Meeting of Shareholders shall be convened by:
1) the Management Board,
2) the Supervisory Board, should they find it necessary,
3) a Shareholder or Shareholders representing at least half of the share capital or at least half of the total voting rights in the Company.
Shareholder or Shareholders representing at least 1/20 of the share capital may request that Extraordinary General Meeting be convened and particular issues be included in the Meeting's agenda. The request shall be presented, together with its justification, to the Management Board in writing or sent to the electronic mail address indicated on the Company's website. Shareholder or Shareholders representing at least 1/20 of the share capital shall have the right to:
1) request that particular issues be introduced into the agenda of the next General Meeting of Shareholders – such a request shall be presented to the Management Board in writing or electronically at the e-mail address listed on the Company's website, not later than twenty-one days prior to the designated date of the General Meeting and shall contain a justification or a draft of the resolution regarding the proposed point on the agenda;
2) prior to the date of the General Meeting, present the Company, either in writing or electronically at the e-mail address listed on the Company's website, with drafts of resolutions regarding issues introduced into the General Meeting's agenda or issues which are to be introduced into the General Meeting's agenda.
Pursuant to the Rules of the General Meeting of Shareholders, the Meeting may be cancelled if it impossible due to extraordinary obstacles (force majeure) or is obviously pointless. A Meeting whose agenda at the request of authorized entities includes certain issues, or which has been convened on such request, may be cancelled only with the consent of the applicants. It is cancelled in the same way as convened, ensuring the least negative consequences for shareholders. The date of the Meeting may be changed in the same way as it is cancelled, even if the proposed agenda remains unchanged.

Pursuant to the CIECH S.A.'s Statute, the competences of the General Meeting include:
examining and approving the Company's management report, financial statements for the previous financial year, consolidated financial statements and the Capital Group's management report,

28 Statement on the application of Corporate Governance (continued)
28.9 Function of the General Meeting and its principle competence as well as description of shareholders competence and the manner of performing them. (continued)

where the Company is the parent, if the Company prepares such statements, as well as examining and approving an annual report by the Supervisory Board, acknowledgement of the fulfilment of duties by the members of the Company's authorities;
1) passing resolutions on profit distribution or loss coverage;
2) adopting the regulations for the General Meeting;
3) amending the Company's Statute;
4) changing the subject of the Company's business activity;
5) selling and leasing the enterprise or its organised part and establishing a limited property right thereon;
6) appointing and dismissing Members of the Supervisory Board and determining their remuneration;
7) appointing and dismissing Members of the Management Board, including the President of the Management Board;
8) increasing or decreasing the share capital;
9) passing resolutions on the issue of bonds, including convertible bonds;
10) merging the Company with other companies, dividing and transforming the Company;
11) dissolving the Company;
12) approving the purchase of shares by the Company for redemption and passing resolutions on the terms of shares redemption;
13) passing other resolutions stipulated by legal regulations or the Articles of Association.

Pursuant to § 21 section 2 item 3) of the CIECH S.A. Statute, any issues brought at the General Meeting of CIECH S.A. are examined and approved by the Supervisory Board of CIECH S.A.

Shareholders may attend the General Meeting and perform their right to vote personally or by proxies. A power of attorney should be made in writing or in electronic form. The Shareholder who acknowledges or repeals a power of attorney to attend a General Meeting in electronic form must inform the Company by means of electronic mail at: wza@ciech.com.

Pursuant to the Regulations of the General Meeting of CIECH S.A., the participants of the General Meeting include Members of the Management Board and of the Supervisory Board, in a composition which allows for providing substantial responses to questions asked during the Meeting. Other persons authorised to attend the Meeting:
1) experts, advisors and employees of the Company whose attendance is deemed necessary by the Management Board, Supervisory Board or the Chairman;
2) persons in charge of servicing the Meeting;
3) representatives of mass media unless the Meeting votes against their presence;
4) persons mentioned in art. 370 § 3 and art. 395 § 395 sent. 3 of CCC

The Meeting elects the Chairman of the Meeting from among attendees. The Chairman presides over the Meeting in accordance with the adopted agenda, legal regulations, the Statute and the General Meeting Regulations, ensuring smooth course of the session and respect for the rights and interests of all Shareholders.

The competences of the Chairman of the General Meeting of Shareholders include in particular:
1) watching that all Attendees respect legal regulations, including the Regulations of the General Meeting and taking appropriate organisational decisions in this respect;

2) commencing discussion on particular points of the agenda, giving the floor;
3) taking the floor away if the speech:
    a. exceeds the limit of time for speeches or replies, or
    b. covers topics not included in the agenda, or
    c. is offensive;
4) closing discussion on particular points of the agenda;
5) closing lists mentioned in § 42 section 4 (List of Candidates for Members of the Management Board, including the President, or the Supervisory Board);
6) determining – based on the adopted motions – the content of draft resolutions of the Meeting;
7) ordering and supervising votes, signing all documents containing the results of a vote and announcing the results;
8) giving instructions to maintain order during the Meeting;
9) resolving procedural doubts and clarifying legal and regulatory issues, based on the obtained legal opinions, if required;
10) announcing exhaustion of the agenda;

28 Statement on the application of Corporate Governance (continued)
28.9 Function of the General Meeting and its principle competence as well as description of shareholders competence and the manner of performing them. (continued)

11) closing the Meeting after exhausting the agenda;
12) taking other organisational decisions.

The Chairman may, at their own discretion, order the adjournment of the Meeting, other than the adjournment ordered by the General Meeting pursuant to Art. 408 § 2 of the CCC. The adjournment should be ordered by the Chairman in such a way that the Meeting can be closed on the day of its opening.

The Chairman may include in the agenda examination of motions and adopting a resolution to call an extraordinary general meeting and other organisational issues such as:
1) allowing persons mentioned in § 8 section 2 items 1-3 to attend the meeting;
2) proposing motions for changing the order of discussing particular issues on the agenda;
3) appointing committees described in the Regulations.

The participants of the Meeting may propose subject-related motions relating to the matters included in the agenda, organisational motions and a motion calling for convening an Extraordinary General Meeting of Shareholders.

Resolution proposals presented to the General Meeting for approval are published on the Company's website.

The resolutions of the General Meeting of CIECH S.A. are passed by an absolute majority of votes, unless the regulations of the Commercial Companies Code provide otherwise.

The General Meeting Regulations do not allow for voting by correspondence, as defined in Art. 411^1 of the Commercial Companies Code.

The Statute does not allow for attending and taking the floor during a General Meeting by means of electronic communication.

The voting is open. Secret voting is ordered:
1) in the case of election,
2) on motions calling for the appointment/dismissal of members of the Company's authorities,
3) on motions calling for the dismissal of the Company's liquidators,
4) on motions calling for bringing the individuals described in points 2) and 3) to justice,
5) in personal matters,
6) at the request of at least one of the Meeting's participants.

The right to demand secret voting is ineffective when passing resolutions on organisational matters. The General Meeting may repeal the secret ballot for election of committees appointed thereby.

In 2011 two General Meetings were held. On June 30th, 2011, the Annual General Meeting took place. During the session of the AGM the Shareholders approved the annual reports on the Company's and Ciech Group's activities and the financial statements for 2010. They also decided to acknowledge the fulfilment of duties by all members of the Supervisory Board and the Management Board. The General Meeting decided also to cover the loss of CIECH S.A. for the financial year 2010 with the supplementary capital of the Company. Additionally, the Ordinary General Meeting appointed the Supervisory Board for its next joint term of office and gave its consent to the establishment of collaterals required in connection with the conclusion of the loan agreement and other agreements connected with the loan agreement. On that day the Shareholders also passed a resolution regarding the raise of Company's share capital by issue of E series shares with the exclusion of subscription rights of the existing shareholders and the amendments to the Company's Statute and applying for admission and introduction of E series shared to trading on a regulated market and their dematerialisation. On November 7th, 2011, the Extraordinary Meeting of Shareholders adopted resolution regarding the merger of the companies: CIECH S.A., SODA MĄTWY S.A. and JANIKOSODA S.A.

28.10 Composition of issuer's managing, supervising and administering bodies and their committees, changes they underwent during the last financial year and description of their activities

CIECH S.A.'s Management Board
Pursuant to § 23 section 1 of the Company's Statute, the Management Board is composed of three to five persons. The joint term of office of the Members of the Management Board lasts three years. The mandate of a Member of the Management Board expires at the day of the General Meeting which approves the financial statements for the last full financial year of this

Member's office at the latest. Expiry of the Member's mandate shall also take place following their death, resignation or dismissal from the composition of the Management Board.

28 Statement on the application of Corporate Governance (continued)

28.10 Composition of issuer's managing, supervising and administering bodies and their committees, changes they underwent during the last financial year and description of their activities (continued)

The competence of the Management Board covers all matters and economic decisions and other matters not reserved by the Commercial Companies Code or the company's Statute to the sole competence of the General Meeting or the Supervisory Board. The President of the Management Board acting independently, two Members of the Management Board or one Member of the Management Board acting jointly with a proxy are authorised to make declarations of will and sign documents on behalf of the company.

The current joint term of office of the Company's Management Board began on June 21st, 2010. Detailed distribution of competence of particular Members of the Management Board is defined in a Management Board resolution.

The Management Board of CIECH S.A. acts based on the regulations adopted by the Management Board and approved by the Supervisory Board. Resolutions are adopted by an absolute majority of votes. In case of an equal number of votes, the President of the Board has a decisive vote. In compliance with the principle of good practice, the Management Board Regulations state that, in case of a conflict between Company's interest and personal interests of a Member of the Management Board, their spouse, relatives up to second degree or persons with whom they remain in personal relations, this Member should refrain from deciding upon such issues and demand that this fact is indicated in the Management Board session minutes.

In compliance with Regulations, all matters beyond Company's ordinary activities shall be decided upon by a resolution of the Management Board, in particular:

1) approval and amendment of Management Board Regulations;
2) approval and amendment of Company's Organisational Regulations;
3) approval of motions addressed to the Supervisory Board or to the General Meeting;
4) calling the General Meeting and approval of proposed agenda;
5) approval of annual and long-term financial plans and development strategies of the Company;
6) granting power of attorney or general proxies;
7) taking out loans and borrowings;
8) granting borrowings and donations;
9) disposal of right or taking out liabilities exceeding PLN 500 thousand;
10) application for bank guarantees, taking out liabilities on promissory notes, awarding all categories of securities and establishment of other hedges.

A Resolution of the Management Board is also required in matters which do not exceed the scope of Company's ordinary activities, if this is demanded by any Member of the Management Board.

On January 1st, 2011 the Management Board of CIECH S.A. was composed of:

- Ryszard Kunicki – President of the Management Board
- Andrzej Bąbaś - Member of the Management Board
- Artur Osuchowski – Member of the Management Board
- Rafał Rybkowski - Member of the Management Board.

The composition of CIECH S.A.'s Management Board remained unchanged as at December 31st, 2011 and as at the day of approval of the financial statements.

The body responsible for the establishment of principles and level of remuneration of Members of the Management Board is the Supervisory Board of CIECH S.A.

In accordance with their employment contracts, Members of the Management Board receive base remuneration and an annual bonus based on profits. Furthermore, employment contracts of Members of the Management Board stipulate a possibility of awarding a task-based bonus calculated as multiple number of the monthly remuneration and paid according to principles and in the level indicated by the Supervisory Board.
The total amount of remuneration paid to Members of the Board (who performed their functions in 2011) by the Company in 2011 is PLN 4,966 thousand.

Information on amounts of remuneration paid to particular Members of the Management Board, divided into the base and the bonus, have been presented in sec. 39.4 of Notes to the financial statements of the Ciech Group in accordance with the International Financial Reporting Standards for 2011.

28 Statement on the application of Corporate Governance (continued)

28.10 Composition of issuer's managing, supervising and administering bodies and their committees, changes they underwent during the last financial year and description of their activities (continued)

Below is the detailed information about the Members of the Management Board of CIECH S.A.

First name and surname	**Ryszard Kunicki**
Title	**President of the Management Board since August 19th, 2008; Member of the Management Board since April 2nd, 2008**
Qualifications	graduated from the University of Warmia and Mazury Post-graduate MBA studies at the Warsaw School of Administration and Management
Experience	Strategy and Development Director of Yara Continental Europe in Yara International ASA. In 1991 - 2007, the President and Vice-President of the Management Board and Sales Director of Hydro Poland Sp. z o.o. (after the change of the company's name into Yara Poland). In 1975 - 1991, the Chief Specialist, Deputy Director of Production, Plant Manager in Człuchowskie Przedsiębiorstwo Rolniczo-Przemysłowe in Człuchów. Working for Yara International ASA (before the change of the company's name from Norsk Hydro), Ryszard Kunicki gained enormous professional experience. Yara International ASA is one of the biggest consolidated chemical concern in the world. It occupies first place in the world in production of mineral fertilizers, also ranks among the top manufacturers of other chemical products. It is also active in the areas of explosives, crude oil extraction systems, chemical products for industry. Many times Ryszard Kunicki was appointed to task forces of the concern in Oslo, Brussels, and Dulmen. In 2004 - 2007, he participated in the initiatives of the strategy and development team in the member states of the European Union.
Scope of responsibilities in Ciech Group	Representing of the Management Board and CIECH S.A. Managing the works of the Management Board Supervising the implementation of the Ciech Group's development strategy. Supervision over the ownership supervision over Group's companies. Supervising the implementation of resolutions and other tasks undertaken by the Management Board of CIECH S.A., the General Meeting and the Supervisory Board. Supervising the information policy of CIECH S.A. and Ciech Group. Supervising the employment and remuneration policy in CIECH S.A. and in Ciech Group companies. Coordinating and supervising enterprises relating to CIECH S.A. assets management. Creating policy in terms of transport, forwarding and cargo insurance services relating to CIECH S.A. activity. Supervising the control and audit tasks. Supervising policies relating to quality management, information security and continued operations. Supervising tasks relating to occupational health and safety. Supervising the implementation of Ciech Group's development strategy as carried out by the Organic Division. Creating and coordinating trade policy in CIECH S.A. and Ciech Group as carried out by the Organic Division. Creating and coordinating investment policy in CIECH S.A. and Ciech Group as carried out by the Organic Division. Supervision over domestic companies within the Ciech Group in the area supervised by the Organic Division.

28 Statement on the application of Corporate Governance (continued)
28.10 Composition of issuer's managing, supervising and administering bodies and their committees, changes they underwent during the last financial year and description of their activities (continued)

First name and surname	Andrzej Bąbaś
Title	**Member of the Management Board of CIECH S.A. since June 21st, 2010**
Qualifications	Graduated from the University of Economics in Cracow, Production Economics Division Postgraduate Studies in Accounting.
Experience	From 2007 to 2009 the president of the Huta Szkła Gospodarczego S.A. in Tarnów and Vice President of the Management Board of Krośnieńskie Huty Szkła S.A. From 2004 to 2007 served as Director of the Board of Roads and Transport in the City Office of Krakow, and then Chairman of the Board of Krakowski Holding Komunalny S.A. In 2000-2003 he was the CEO of Tele-Fonika sc, president of Tele-Fonika SA and Vice President of Tele-Fonika Kable SA In 1994-1995 he was Chief Financial Officer in the Orbis SA Hotel Holiday Inn. Subsequently he was the Vice President of the Board of Mostostal Kraków Galicia SA (1995-2000). In 1991 he won the competition for Director of the MPO and led the company until 1993. In the years 1980-1991 he worked at Elektromontaż 2 in Cracow, reaching the position of director for labour economics and chief accountant.
Scope of responsibilities in Ciech Group	Supervising restructuring processes in Ciech Group Supervising the disposal of redundant components of fixed and financial assets in Ciech Group Supervising the implementation of efficiency improvement projects in Ciech Group companies Supervising the implementation of Ciech Group's development strategy as carried out by the Agro-Silicon Division. Creating and coordinating trade policy in CIECH S.A. and Ciech Group as carried out by the Agro-Silicon Division. Creating and coordinating investment policy in CIECH S.A. and Ciech Group as carried out by the Agro-Silicon Division. Supervision over domestic and foreign companies within the Ciech Group in the area supervised by the Agro-Silicon Division. Supervision over non-productive foreign companies

First name and surname	Artur Osuchowski
Title	**Member of the Management Board of CIECH S.A. since April 2nd, 2008**
Qualifications	He graduated from the Private School of Business and Administration in Warsaw, Faculty of Economics with Major in Finance and Banking. He completed professional training in enterprise value management, company valuation in the capital market and restructuring of enterprise business. He was awarded grants by Die Zeit, American Council on Germany, Dreager Foundation.
Experience	Between 2003 and 2008, he held the position of a Manager with KPMG Advisory in the Department of Economics Consultancy. He was responsible for developing services regarding strategic projects, reorganisation of enterprise business, projects associated with business financing and projects connected with direct investment assistance. In 2001-2003, he was the Senior Consultant in the Department of Corporate Finance with Capgemini. He was responsible for merger and acquisition projects in the capital market and strategic projects related to restructuring and reorganisation of enterprise business. Between 1998 and 2001, he was the Senior Consultant in the Department of Corporate Finance with Ernst & Young, responsible for merger and acquisition projects in the capital market, and strategic projects related to restructuring and reorganisation of enterprise business. Between 1996 and 1997, he held the position of an Analyst in the department of management accounting with Raiffeisen Bank Polska.
Scope of responsibilities in Ciech Group	Creating policy regarding investments, research and development. Supervision over gaining EU funds for enterprises carried out by the Ciech Group. Supervising the implementation of Ciech Group's development strategy as carried out by the Soda Division. Creating and coordinating trade policy in CIECH S.A. and Ciech Group as carried out by the Soda Division. Creating and coordinating investment policy in CIECH S.A. and Ciech Group as carried out by the Soda Division. Supervision over domestic and foreign companies within the Ciech Group in the area supervised by the Soda Division.

28 Statement on the application of Corporate Governance (continued)

28.10 Composition of issuer's managing, supervising and administering bodies and their committees, changes they underwent during the last financial year and description of their activities (continued)

First name and surname	Rafał Rybkowski
Title	**Member of the Management Board of CIECH S.A. since June 21st, 2010**
Qualifications	Graduated from the Faculty of Foreign Trade of the Warsaw School of Economics - Master of Arts in Economics. ACCA certificate.
Experience	In the period 1991-1993, he worked as senior auditor at Coopers & Lybrand Polska Sp. z o.o. Later, until 1996, as director of the Financial Economy Department at Benckiser Poland SA. From 1996 to 1999, he was financial director at AIG Polska SA, and in the period 1999-2003 financial director and vice-president of the Management Board of joint-stock company Metropolitan Life Ubezpieczenia na Życie. In 2003, he was delegated to MetLife Indonesia, where he was financial director and vice-president of the Management Board until 2005. In the years 2005-2006, he was deputy financial CEO at MetLife for EIMEA Region (Europe, India and Middle-East Asia). Later, until June 2008, he worked as a deputy financial CEO at MetLife Australia and Asia and Pacific. Financial projects coordinated by him included, among others, integration of joint venture companies in China, as well as integration of MetLife Australia with the international structures of MetLife. From October 2008 to appointment as a member of the Management Board of Ciech S.A., he cooperated as an independent consultant on many projects concerning investments in small and medium enterprises in different branches of the economy. From February 2009 he was also engaged by MetLife US as a financial and business advisor on an international M&A project.
Scope of responsibilities in Ciech Group	Supervising the financial activity of Ciech Group and CIECH S.A. Creating information and telecommunication policies in CIECH S.A. and Ciech Group and supervision over its implementation.

CIECH S.A.'s Supervisory Board

Pursuant to § 20 section 1 the Supervisory Board composed of five to nine members appointed by the General Meeting. The joint term of office of the Members of the Supervisory Board lasts three years. On June 30th, 2011, the General Meeting of Shareholders of CIECH S.A. appointed the Supervisory Board of CIECH S.A. for its next joint term of office.

The Supervisory Board of CIECH S.A. acts based on the regulations adopted by the Supervisory Board and approved by the General Meeting. Appointing and dismissing Members of the Supervisory Board is within the competence of the General Meeting. The Supervisory Board appoints the Chairman of the Supervisory Board and, if necessary, the Vice Chairman and the Secretary of the Supervisory Board. The Supervisory Board supervises the Company's operations.

The competence of the Supervisory Board includes in particular:

1) assessment of the Company's management report and financial statements for the previous financial year, consolidated financial statements and management report of the capital group, where the Company is the parent, if the Company compiles such statements, for their consistency with accounting books and documents and the actual status, as well as assessment of the Management Board's motions as to profit distribution or loss coverage and submitting to the General Meeting an annual written report on the results of this assessment;
2) giving opinions on the Company's action plans prepared by the Management Board;
3) examining and giving opinions on matters subject to resolutions of the General Meeting;
4) adopting the regulations of the Supervisory Board;
5) approving the regulations of the Management Board;
6) determining remuneration rules and remuneration amount for the Members of the Management Board, including the President of the Management Board;
7) appointing a certified auditor to audit the Company's financial statements and the capital group's consolidated financial statements;
8) expressing consent for the execution of any right or assumption of any liability, exceeding the amount of PLN 10,000,000) based on one or several related acts in law, with the exemption for:
   a) agreements for the sale of raw materials, semi-finished products and finished products linked to the Company's business;
   b) actions which require the consent of the General Meeting.

The Supervisory Board adopts resolutions by an absolute majority of votes with at least half of Members present, in case of an equal number of votes, the decisive vote belongs to the Chairman. Pursuant to CIECH S.A.'s Statute, the Supervisory Board may pass resolutions without convening a meeting in a written ballot or with the use of means of remote communication,

28 Statement on the application of Corporate Governance (continued)
28.10 Composition of issuer's managing, supervising and administering bodies and their committees, changes they underwent during the last financial year and description of their activities (continued)

whereby for such a resolution to be effective it is necessary to inform all Members of the Board about the draft content thereof. The Members of the Supervisory Board may participate in passing the Board's resolutions through voting in writing via another Member of the Supervisory Board. Submitting a vote in writing is not allowed for matters included in the agenda during the session of the Supervisory Board.

Supervisory Board meetings are held as necessary, but not less than once a quarter.

CIECH S.A.'s Supervisory Board annually submits to the Company's General Meeting the Report on the activity of the Board for the concerned financial year. The report contains a detailed description of the activity of Supervisory Board, the information about the implementation of action programs by the Management Board, an evaluation of the Management report on the activity of the Company and Ciech Group, assessment of financial statements of the Company and the Ciech Group and the Management Board's proposals regarding the distribution of profit or coverage of loss.

Bearing in mind the highest standards of good practice and to ensure the possibility of a reliable evaluation of the Company by the shareholders, the Supervisory Board of CIECH S.A. makes a brief assessment of CIECH S.A. This assessment is presented annually before the Annual General Meeting in time enabling the shareholders of CIECH S.A. to read the document.

As at January 1st, 2011, the Supervisory Board of CIECH S.A. was composed of:

- Ewa Sibrecht-Ośka – Chairman of the Supervisory Board
- Przemysław Cieszyński - Vice Chairman of the Supervisory Board
- Krzysztof Salwach – Secretary of the Supervisory Board
- Jacek Goszczyński - Member of the Supervisory Board
- Arkadiusz Grabalski – Member of the Supervisory Board
- Waldemar Maj - Member of the Supervisory Board
- Sławomir Stelmasiak – Member of the Supervisory Board.

On June 30th, 2011, in connection with the end of the Supervisory Board's term of office, the Ordinary General Meeting of CIECH S.A. acting pursuant to Art. 385 § 1 of the Commercial Companies Code and § 18 item 7) of CIECH S.A.'s Statute appointed the Supervisory Board for its next term of office, with unaltered composition.

On July 12th, 2011, the Supervisory Board of the 7th term of office passed resolutions on the election of its Chairman, Vice Chairman and Secretary:

- Ewa Sibrecht-Ośka – Chairman of the Supervisory Board
- Przemysław Cieszyński - Vice Chairman of the Supervisory Board
- Krzysztof Salwach – Secretary of the Supervisory Board

On December 31st, 2011, the Supervisory Board of CIECH S.A. was composed of:

- Ewa Sibrecht-Ośka – Chairman of the Supervisory Board
- Przemysław Cieszyński - Vice Chairman of the Supervisory Board
- Krzysztof Salwach – Secretary of the Supervisory Board
- Jacek Goszczyński - Member of the Supervisory Board
- Arkadiusz Grabalski – Member of the Supervisory Board
- Waldemar Maj - Member of the Supervisory Board
- Sławomir Stelmasiak – Member of the Supervisory Board.

On January 19th, 2012, the Extraordinary General Meeting of CIECH S.A. changed the composition of the Supervisory Board by dismissing Mr Jacek Goszczyński and Mr Krzysztof Salwach and appointing Mr Dariusz Krawczyk and Mr Mariusz Obszyński.
On February 8th, 2012, the Supervisory Board appointed Mr Mariusz Obszyński as a Secretary of the Board.
On the date of approval of the financial statements, the Supervisory Board of CIECH S.A. was composed of:

- Ewa Sibrecht-Ośka – Chairman of the Supervisory Board
- Przemysław Cieszyński - Vice Chairman of the Supervisory Board
- Mariusz Obszyński – Secretary of the Supervisory Board

28 Statement on the application of Corporate Governance (continued)
28.10 Composition of issuer's managing, supervising and administering bodies and their committees, changes they underwent during the last financial year and description of their activities (continued)

- Arkadiusz Grabalski – Member of the Supervisory Board
- Dariusz Krawczyk – Member of the Supervisory Board
- Waldemar Maj - Member of the Supervisory Board
- Sławomir Stelmasiak – Member of the Supervisory Board.

Members of the Supervisory Board receive remuneration pursuant to principles and in the amount defined by a General Meeting Resolution.

The total amount of remuneration paid by the Company to all Members of the Supervisory Board who performed their functions in 2011 is PLN 667 thousand.

Detailed information on amounts of remuneration paid to particular Members of the Supervisory Board have been presented in sec. 39.4 of the Notes to the Consolidated Financial Statements of the Ciech Group for 2011.

Below is the detailed information about the Members of the Supervisory Board of CIECH S.A.

First name and surname	**Ewa Sibrecht - Ośka**
Title	**Chairman of the Supervisory Board of CIECH S.A. since October 22nd, 2009, Member of the Supervisory Board since September 14th, 2009.** **Does not conduct activity competitive with the activity of CIECH S.A.**
Qualifications	Graduate of the University of Lodz, Faculty of Law. Since 1994, legal counsel – legal counsellor's traineeship completed in Warsaw.
Experience	From 1991 to 2001 employed in the Legal Department of the Ministry of Finance. 1995-1996 employed at Baker McKenzie Legal Office 1998-2001 employed at Cavere Legal Office 2000-2001 employed in the Office of the Committee for European Integration 2001-2006 Nafta Polska SA 2006-2007 - a legal counsel at Korporacja Polskie Stocznie S.A. 2007 - legal counsel in the Office of the City of Warsaw, Ownership Supervision Office and at Progres Services Sp. z o.o. 2007 - Minister's adviser at the Department of Ownership Supervision and Privatisation at the Ministry of the State Treasury; from May 2009, Director of the Analysis Department at the Ministry of the State Treasury. Participated in the drafting of the Act on tax consultancy and Act on compensation proceedings at entities of special significance for the Polish shipbuilding industry and in preparation of the LOTOS SA Group for its debut on the stock exchange. Moreover, she participated in the privatisation process of the Great Chemical Synthesis sector (Zakłady Chemiczne Organika-Sarzyna and Zakłady Chemiczne Zachem) – participation in preparation of sale of shares of the companies to investors, including acceptance of pre-privatization analyses, contracts with privatized companies and negotiations of contracts with investors, including public investment issues.

First name and surname	**Przemysław Cieszyński**
Title	**Vice Chairman of the Supervisory Board of CIECH S.A. since July 12th, 2011, Member of the Supervisory Board since June 21st, 2010.** **Does not conduct activity competitive with the activity of CIECH S.A.**
Qualifications	Graduate of the Wrocław University of Technology – Faculty of Computer Science and Management, Master of Science specialising in IT systems. He studied management specialising in marketing at Vanderbilt University, Nashville TN (USA) as a Fulbright scholar and gained an MBA.
Experience	In the period 1990-1993, he was a consultant in the IT Office of URM. From 1994 to 1998 he worked at Tricon Restaurants International Warszawa (formerly PepsiCo) 1998-2003 Senior Manager in Accenture Warszawa where he was occupied with financial services and strategy issues. 2003-2004 he worked at CII Group Warszawa (now Kolaja and Partners) as executive director. 2004-2005 - Member of the Management Board, Director of Banking Services Division at Polcard SA. From March to November 2005 he was director of the Reorganisation Office at Telewizja Polska SA. From December 2005 he is a partner at Raitaro Consulting, a company providing comprehensive management consulting services.

28 Statement on the application of Corporate Governance (continued)
28.10 Composition of issuer's managing, supervising and administering bodies and their committees, changes they underwent during the last financial year and description of their activities (continued)

First name and surname	Krzysztof Salwach
Title	**Secretary of the Supervisory Board of CIECH S.A. since July 7th, 2008, Member of the Board since April 2nd, 2008. Dismissed from the CIECH S.A.'s Supervisory Board on January 19th, 2012.** **Does not conduct activity competitive with the activity of CIECH S.A.**
Qualifications	He graduated from the University of Łódź, Faculty of Economics and Sociology, two faculties: Informatics and econometrics, and finance and banking.
	He completed courses in the Code of Administrative Procedure, public procurement law and public procurement process, selection of the most competitive offer in accordance with public procurement law. He also passed the exam for applicants for supervisory board members in the State Treasury companies.
Experience	Since 2005, he has been a co-owner and President of the Management Board of SNS Trading Sp. z o.o. in Łódź – a company exporting agricultural and food products. Since October 2007, he has been advising the President of the Management Board and acting as General Director in Zakład Przemysłu Mięsnego Biernacki. He also worked as an Accounting Consultant in Biuro Rachunkowe Andrzej Cygan in Stryków, was the Deputy President in the Agricultural Market Agency in Warsaw (2004-2005). Deputy President and President of the Management Board in Towarowy Dom Maklerski ARRTRANS SA (2000-2004). Head of the Brokerage Department in Dom Maklerski TRANSARR Sp. z o.o. (1998–2000). He worked as an Analyst and later as the Head of the Analysis Department in ARRTRANS Sp. z o.o. in Łódź (1996-1998).

First name and surname	Jacek Goszczyński
Title	**Member of the Supervisory Board of CIECH S.A. since June 26th, 2008, of which from July 7th, 2008 to June 30th, 2011 as the Vice Chairman. Dismissed from the CIECH S.A.'s Supervisory Board on January 19th, 2012.** **Does not conduct activity competitive with the activity of CIECH S.A.**
Qualifications	He graduated from the Warsaw University of Technology, Faculty of Power and Aeronautical Engineering, specialisation in applied mechanics (1986); PhD in Mechanics (1994). In 2002, he completed the course for applicants for supervisory board members in the State Treasury companies.
Experience	Since 2007, he has been the Director of the Department of Ownership Supervision and Privatisation I in the Ministry of Treasury. In 2005-2007, the Director of the Restructuring and Development Office in Korporacja Polskie Stocznie SA. Between 2004 and 2005 he advised the Management Board on issues concerning TBM Telekom Sp. z o.o. In 1989-2002, he worked in the Institute of Aviation, since 1994 as an assistant professor in the special aeroplanes team.

First name and surname	Arkadiusz Grabalski
Title	**Member of the Supervisory Board of CIECH S.A. since June 21st, 2010.** **Does not conduct activity competitive with the activity of CIECH S.A.**
Qualifications	Graduate of the Faculty of Law and Administration of the University of Warsaw. In 1998, he was entered in the list of legal counsellors of the Regional Chamber of Legal Counsellors in Warsaw.
Experience	In 1995-1996, he was employed at the Legal Department of the Ministry of Ownership Transformations. From 1996 to 1998 he worked in Creditanstaldt SCG Fund Management SA – a company managing NFI Hetman SA. From 1998-2005, he was employed at White & Case, W. Daniłowicz, W. Jurcewicz Kancelaria Prawnicza Sp. K . law offices. From 2005 he is a partner at Stolarek & Grabalski Kancelaria Prawnicza sp. k. Mr. Arkadiusz Grabalski specialises in capital market law, M&A transactions and private equity. A considerable part of his practice is devoted to restructuring processes, bankruptcy law, public subsidies and litigation. Mr. Arkadiusz Grabalski participated in preparation of companies for privatisation and sale of shares of privatised companies to investors. He actively participated in the mergers of several banks and other companies, including public companies. He advised many companies on initial public offerings (IPO), as well as subsequent issues of those companies, including issues of bonds convertible into shares. He participated in the establishment of one of the first securitisation funds. He represented enterprises in restructuring processes, acquisition of funds for investment activities, as well as significant litigations.

28 Statement on the application of Corporate Governance (continued)
28.10 Composition of issuer's managing, supervising and administering bodies and their committees, changes they underwent during the last financial year and description of their activities (continued)

First name and surname	Dariusz Krawczyk
Title	**Member of the Supervisory Board of CIECH S.A. since June 19th, 2012.** **Does not conduct activity competitive with the activity of CIECH S.A.**
Qualifications	Graduate of the Warsaw University of Technology (1993), Tax School (1996), Management School (1997) and Post-Graduate Courses in the area of goodwill management (2002) at the Warsaw School of Economics. He has held a securities broker license since 1993.
Experience	In the period 1993 – 1998, he worked at the Brokerage Office of Bank Handlowy, Centrum Operacji Kapitałowych (Equity Operations Centre) as the Trade and Sales Office Director. In the period 1998 – 1999, he was the President of the Board of Directors at Expandia Polska SA. In the period 1999-2000, he was the Investment Banking Department Director at PKO BP. In 2001, he became a member of the Board of Directors of Nafta Polska SA. In the period 2000 – 2002, he was the Investor's Supervision Office Director at PKN ORLEN SA. In the period 2002-2003 – Capital Investments Department Director at PSE SA. In the period 2004-2005, – President of the Board of Directors at PSE Centrum SA. In the period 2005-2011, he was the President of the Board of Directors at Synthos SA. Member of many supervisory boards, among others, At Rafineria Trzebinia SA., Rafineria Glimar SA, II Narodowy Fundusz Inwestycyjny SA, Huta Buczek SA, Warszawska Giełda Towarowa SA, Warta Vita SA, Petrolot Sp. z o.o., Petrogaz Płock, Kaučuk a.s., Active Zone Group SA, Firekom SA. Currently, he is the Chairman of the supervisory boards of Firekom SA and Active Zone Group SA.

First name and surname	Waldemar Maj
Title	**Member of the Supervisory Board of CIECH S.A. since June 21st, 2010.** **Does not conduct activity competitive with the activity of CIECH S.A.**
Qualifications	He graduated from the Faculty of Technical Physics and Applied Mathematics of the Warsaw University of Technology (1980). He gained a doctorate in the Institute of Physics of the Polish Academy of Sciences (PAN) (1989) and a MBA at Harvard Business School in the USA (1996).
Experience	Founding partner of Metropolitan Capital Solutions Sp. z o.o. SKA, a company involved in strategic consultancy and corporate finance (from April 2009). Member of the Supervisory Board of PZU SA (from December 2009), Chairman of the IPO Committee (until May 2010). From September 2007 to June 2008 Financial Vice-President of the Management Board at PKN Orlen SA in charge of the financial division and investor relations; member of the Management Board of AB Mazeikiu Nafta and Chairman of the Audit Committee of the Supervisory Board of Unipetrol a.s. From April 2005 to August 2007 he was Vice-President of the Management Board of Bank BGŻ SA (recommended by Rabobank) in charge of corporate and fiscal banking. From July 2002 to March 2005 he was Member of the Management Board and later President of the listed DZ Bank Polska SA. In the period 1996-2000, he was senior investment officer at the International Finance Corporation (World Bank Group) in Washington D.C. In the period 1991-1994, he was adviser of the Minister of Finance and President of the Foundation for Financial System Development; chairman of the Supervisory Board of Bank Gdański SA (1993-1994). In the period 1981-1991, he was junior lecturer and later assistant professor in the Institute of Physics of Polish Academy of Sciences; postdoctoral fellow at Kamerlingh Onnes Laboratory in Leiden in the Netherlands. He was honoured with Officer's Cross of the Order of Rebirth of Poland.

First name and surname	Mariusz Obszyński
Title	**Member of the Supervisory Board of CIECH S.A. since January 19th, 2012; does not conduct activity competitive with the activity of CIECH S.A.**
Qualifications	Graduate of Maria Curie Skłodowska University in Lublin, Faculty of Economy.
Experience	He was employed, among others, at PGNiG SA as advisor to the board of directors, mergers and acquisitions department manager at Agencja Rozwoju Przemysłu SA and investor's supervision office director at Nafta Polska SA. Rafineria Czechowice SA having its registered office in Czechowice - Dziedzice, Zakłady Chemiczne Police SA having its registered office in Police, Zakłady Azotowe w Tarnowie-Mościcach SA having its registered office in Tarnów and LOTOS SA having its registered office in Gdańsk. Currently, he is the Chairman of the Supervisory Board of Przedsiębiorstwo Eksploatacji Rurociągów Naftowych Przyjaźń SA. He is employed by PGE Energia Jądrowa SA and PGE EJ1 Sp. z o.o. as the capital office director.

28 Statement on the application of Corporate Governance (continued)
28.10 Composition of issuer's managing, supervising and administering bodies and their committees, changes they underwent during the last financial year and description of their activities (continued)

First name and surname	Sławomir Stelmasiak
Title	**Member of the Supervisory Board of CIECH S.A. since September 14th, 2009.** **Does not conduct activity competitive with the activity of CIECH S.A.**
Qualifications	Graduate of A. Mickiewicz University in Poznan, Faculty of Chemistry Postgraduate studies in mediation and negotiation (the Poznan School of Social Sciences) and internal audit (Poznan University of Trade and Accounting). Doctoral studies at the Faculty of Management of the Economic University in Poznan. In 1997, he passed the exam for members of Supervisory Boards of State owned enterprises.
Experience	From 2003, member of the Supervisory Board of MPK Poznań Sp. z o.o. He participated in many training sessions, internships and conferences on environmental protection, the energy market and renewable energy sources. From 1988, he managed businesses, on his own, as partner and as shareholder of commercial law companies. He participated in investment projects as a member of management and supervisory bodies, in the commercial, real estate, mining and chemical industries. Form 2008, at GK Enea – Adviser to the Management Board on renewable energy sources, currently President of the Management Board of BHU SA (Enea Group). From 1998, member of authorities of the Wielkopolska Association of Trade and Services. Member of the Financial Board and adviser of the President of the Poznan University of Trade and Services.

Committees of CIECH S.A.'s Supervisory Board
The following Committees operate within 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 way of Resolution no. 57/IV/2005 of February 16th, 2005.

Pursuant to the Audit Committee Regulations, its particular tasks include:
- monitoring financial reporting processes,
- monitoring the efficiency of internal control system,
- monitoring the efficiency of internal auditing system,
- monitoring the efficiency of risk management system,
- monitoring financial auditing activity,
- monitoring the autonomy of the certified auditor and the entity entitled to audit Company's financial statements.

The Audit Committee of the Supervisory Board of CIECH S.A. submits annual reports on its activity, which constitute a part of the Report on the Operations of the Supervisory Board of CIECH S.A., presented to the Shareholders during the Annual General Meeting of CIECH S.A.

As at January 1st, 2011, and as at December 31st, 2011 the Audit Committee was composed of:
1. Waldemar Maj – Chairman since August 4th, 2010, Member of the Committee since July 2nd, 2010.
2. Przemysław Cieszyński – Member of the Committee since July 2nd, 2010.
1. Krzysztof Salwach - Member of the Committee since July 2nd, 2010.
2. Sławomir Stelmasiak - Member of the Committee since July 2nd, 2010.

As a result of dismissing Krzysztof Salwach from the Supervisory Board, the Supervisory Board supplemented the composition of the Audit Committee.

With relation to the abovementioned, as at the date of approval of the report the composition of the abovementioned Committee was as follows:
1. Waldemar Maj - the Chairman,
2. Przemysław Cieszyński – Member of the Committee
3. Mariusz Obszyński - Member of the Committee since February 8th, 2012
4. Sławomir Stelmasiak – Member of the Committee.

Remuneration Committee of CIECH S.A.'s Supervisory Board
The Remuneration Committee was appointed by way of Resolution no. 66/IV/2005 of CIECH S.A.'s Supervisory Board.

28 Statement on the application of Corporate Governance (continued)
28.10 Composition of issuer's managing, supervising and administering bodies and their committees, changes they underwent during the last financial year and description of their activities (continued)

Pursuant to the Remuneration Committee Regulations, the main task of the Committee is to advise the Supervisory Board on issues connected with determining remuneration rules and remuneration of the Members of the Management Board of CIECH S.A.
CIECH S.A.

The Committee's tasks include in particular:

- presenting the Supervisory Board a proposal concerning the rules of remunerating the Members of the Management Board of CIECH S.A., which should take into account all forms of remuneration, in particular, with regard to: base remuneration, result-based remuneration system, pension and severance benefits system;
- presenting the Supervisory Board a proposal concerning the amount of remuneration for every Member of the Management Board of CIECH S.A.;
- presenting the Supervisory Board draft agreements regulating the duties of the Members of the Management Board of CIECH S.A.;
- discussing (with or without the participation of the Company's Management Board) any problems or reservations which may arise in relation to remunerating the Members of the Management Board of CIECH S.A.;
- considering any other issues of interest to the Committee or the Supervisory Board;
- informing the Supervisory Board about all material issues within the scope of its competence.

The Remuneration Committee of the Supervisory Board of CIECH S.A. submits annual reports on its activity, which constitute a part of the Report on the Operations of the Supervisory Board of CIECH S.A., presented to the Shareholders during the Annual General Meeting of CIECH S.A.

As at January 1st, 2011, and as at December 31st, 2011 the Remuneration Committee was composed of:
1. Jacek Goszczyński - Member of the Committee since July 2nd, 2010.
2. Arkadiusz Grabalski - Member of the Committee since July 2nd, 2010.

As a result of dismissing Jacek Goszczyński from the Supervisory Board, the Supervisory Board supplemented the composition of the Remuneration Committee with Mr Dariusz Krawczyk.

With relation to the abovementioned, as at the date of approval of the report the composition of the abovementioned Committee was as follows:
1. Arkadiusz Grabalski - Member of the Committee since July 2nd, 2010.
2. Dariusz Krawczyk - Member of the Committee since February 8th, 2012

28.11 Information about agreements concluded between the issuer and the managerial staff, providing for compensation in the event of their resignation or dismissal from the occupied post without a valid reason or when their resignation or dismissal are caused by a merger of the issuer through acquisition

In the event of dismissing any Member of the Management Board from his post, such a Member shall be entitled to one-time severance pay not exceeding twelve-month remuneration.

The non-competition agreement with the Members of the Management Board after the termination of employment provides for a compensation amounting to 100% of monthly remuneration for a period not exceeding 12 months.

II. CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2011

CONSOLIDATED INCOME STATEMENT OF THE CIECH GROUP

		01.01-31.12.2011			01.01-31.12.2010		
PLN '000	*Note*	Continued operations	Discontinued operations	TOTAL	Continued operations	Discontinued operations	TOTAL
Net sales of products, goods and materials	*5*	3,992,381	182,105	4,174,486	3,699,156	261,160	3,960,316
Cost of sales	*6*	(3,487,277)	(126,530)	(3,613,807)	(3,224,527)	(171,076)	(3,395,603)
Gross profit/loss on sales		**505,104**	**55,575**	**560,679**	**474,629**	**90,084**	**564,713**
Other operating revenues	*7*	113,084	3,938	117,022	161,085	12,234	173,319
Selling costs	*7*	(255,093)	(20,926)	(276,019)	(230,655)	(46,974)	(277,629)
General and administrative expenses	*7*	(191,708)	(21,611)	(213,319)	(192,972)	(38,077)	(231,049)
Other operating expenses	*7*	(64,676)	(4,972)	(69,648)	(75,464)	(7,037)	(82,501)
Operating profit/loss		**106,711**	**12,004**	**118,715**	**136,623**	**10,230**	**146,853**
Financial revenue	*7*	36,430	(2,940)	33,490	166,635	3,691	170,326
Financial costs	*7*	(136,414)	(7,207)	(143,621)	(241,493)	(14,597)	(256,090)
Net financial revenues/costs	**7**	**(99,984)**	**(10,147)**	**(110,131)**	**(74,858)**	**(10,906)**	**(85,764)**
Share in net profit of subsidiaries evaluated under the equity method	*18*	46	-	46	(6,610)	-	(6,610)
Profit/loss before tax		**6,773**	**1,857**	**8,630**	**55,155**	**(676)**	**54,479**
Income tax	*8*	(8,532)	13,118	4,586	(30,330)	(1,815)	(32,145)
Net profit/loss		**(1,759)**	**14,975**	**13,216**	**24,825**	**(2,491)**	**22,334**
Profit/loss on sales related to discontinued operations	*9*	-	(11,715)	(11,715)	-	-	-
Net profit/loss for the financial year		**(1,759)**	**3,260**	**1,501**	**24,825**	**(2,491)**	**22,334**
including:							
Net profit/loss attributable to shareholders of the parent	*10*	(1,317)	2,823	1,506	27,037	(2,693)	24,344
Net profit/loss attributed to non-controlling interest	*10*	(442)	437	(5)	(2,212)	202	(2,010)
Earnings (loss) per share (in PLN):							
Basic	*10*	(0.03)	0.06	0.03	0.97	(0.10)	0.87
Diluted	*10*	(0.03)	0.06	0.03	0.97	(0.10)	0.87

The consolidated income statement of the Ciech Group should be analysed only together with Notes, which constitute an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF CIECH GROUP

PLN '000	01.01.-31.12.2011			01.01.-31.12.2010		
	Continued operations	Discontinued operations	TOTAL	Continued operations	Discontinued operations	TOTAL
Net profit/loss for the financial year	**(1,759)**	**3,260**	**1,501**	**24,825**	**(2,491)**	**22,334**
Other gross comprehensive income						
Currency translation differences (foreign companies)	(16,056)	-	(16,056)	9,673	-	9,673
Revaluation of available-for-sale financial assets	-	-	-	6,111	-	6,111
Cash flow hedging	(9,471)	-	(9,471)	(21,826)	-	(21,826)
Net currency translation differences (investments in foreign companies)	31,955	-	31,955	(10,353)	-	(10,353)
Other components of other comprehensive income	(1)	-	(1)	(169)	-	(169)
Income tax attributable to other components of comprehensive income	1,799	-	1,799	3,456	-	3,456
Other net comprehensive income	**8,226**	**-**	**8,226**	**(13,108)**	**-**	**(13,108)**
TOTAL COMPREHENSIVE INCOME	**6,467**	**3,260**	**9,727**	**11,717**	**(2,491)**	**9,226**
Total comprehensive revenue including attributable to:	**6,467**	**3,260**	**9,727**	**11,717**	**(2,491)**	**9,226**
Controlling shareholders	8,943	3,260	12,203	12,588	(2,491)	10,097
Non-controlling interest	(2,476)	-	(2,476)	(871)	-	(871)

The consolidated statement of comprehensive income of the Ciech Group should be analysed only together with the Notes, which constitute an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CIECH GROUP

ASSETS (PLN '000)	***Note***	**31.12.2011**	**31.12.2010***	**31.12.2009***
Tangible fixed assets	*12*	2,217,219	2,063,540	2,265,676
Right of perpetual usufruct	*13*	129,491	134,181	137,302
Intangible assets, including:	*14*	181,121	156,499	164,862
- goodwill	*14*	64,149	51,273	*52,343*
Investment property	*16*	7,084	5,920	8,935
Long-term receivables	*17*	72,227	32,521	23,586
Investments in associates and jointly-controlled entities measured under the equity method	*18*	4,655	4,344	34,436
Other long-term investments	*19*	40,915	49,593	96,159
Deferred income tax assets	*8*	24,489	9,801	20,723
Total fixed assets		**2,677,201**	**2,456,399**	**2,751,679**
Inventories	*20*	335,591	297,233	314,228
Short-term investments	*22*	1,505	533	2,529
Income tax receivables	-	8,800	8,542	16,175
Trade and other receivables	*21*	840,586	731,412	801,000
Cash and cash equivalents	*23*	145,805	177,077	131,638
Assets classified as held for sale	*9*	57,017	257,820	500
Total current assets		**1,389,304**	**1,472,617**	**1,266,070**
Total assets		**4,066,505**	**3,929,016**	**4,017,749**
EQUITY AND LIABILITIES (PLN '000)				
Share capital	*24*	287,614	164,115	164,115
Share premium	*24*	508,122	151,328	151,328
Cash flow hedge	*24*	(8,111)	(439)	15,688
Financial asset revaluation reserve	*24*	-	-	(3,458)
Other reserve capitals	*24*	78,521	78,521	78,521
Net currency translation differences (investments in foreign companies)	*24*	11,396	(20,559)	(10,206)
Currency translation differences (foreign companies)	*24*	(62,796)	(49,419)	(57,116)
Retained earnings	*24*	495,365	494,304	470,453
Equity attributable to shareholders of the parent		**1,310,111**	**817,851**	**809,325**
Non-controlling interest		(2,021)	32,619	37,232
Total equity		**1,308,090**	**850,470**	**846,557**
Liabilities on credits, loans and other debt instruments	*25*	190,916	495,343	665,876
Other non-current liabilities	*25*	257,803	231,196	269,153
Employee benefits	*28*	63,163	66,391	64,254
Provisions (other long-term)	*29*	52,666	62,002	72,617
Deferred tax provision	*8*	119,015	106,401	115,011
Total non-current liabilities		**683,563**	**961,333**	**1,186,911**
Overdraft facility	*23*	6,744	-	78,640
Liabilities on credits, loans and other debt instruments	*30.31*	1,017,663	1,119,222	921,242
Trade and other liabilities	*30*	969,223	908,775	919,196
Income tax liabilities	-	21,930	36,147	33,656
Provisions (short-term provisions for employee benefits and other provisions)	*28.29*	26,221	31,515	31,547
Liabilities directly related to assets classified as held for sale	*9*	33,071	21,554	-
Total current liabilities		**2,074,852**	**2,117,213**	**1,984,281**
Total liabilities		**2,758,415**	**3,078,546**	**3,171,192**
Total equity and liabilities		**4,066,505**	**3,929,016**	**4,017,749**

** restated*

The consolidated statement of financial position of the Ciech Group should be analysed only together with the Notes, which constitute an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE CIECH GROUP

PLN '000	Share capital	Share premium	Cash flow hedge	Financial asset revaluation reserve	Other reserve capitals	Net currency translation differences (investments in foreign companies)	Currency translation differences (foreign companies)	Retained earnings	**Equity attributable to shareholders of the parent**	Non-controlling interest	**Total equity**
Equity as at 01/01/2011:											
Restated	**164,115**	**151,328**	**(439)**	**-**	**78,521**	**(20,559)**	**(49,419)**	**494,304**	**817,851**	**32,619**	**850,470**
Issue of shares	123,499	-	-	-	-	-	-	-	**123,499**	-	**123,499**
Issue premium over nominal value (agio)	-	356,794	-	-	-	-	-	-	**356,794**	-	**356,794**
Change in the Group's composition	-	-	-	-	-	-	1,038	(1,274)	**(236)**	(32,164)	**(32,400)**
Total comprehensive revenue for the period	**-**	**-**	**(7,672)**	**-**		**31,955**	**(14,415)**	**2,335**	**12,203**	**(2,476)**	**9,727**
Net profit / loss	-	-	-	-	-	-		1,506	**1,506**	(5)	**1,501**
Other comprehensive income	-	-	(7,672)	-	-	31,955	(14,415)	829	**10,697**	(2,471)	**8,226**
Equity as at 31/12/2011:	**287,614**	**508,122**	**(8,111)**	**-**	**78,521**	**11,396**	**(62,796)**	**495,365**	**1,310,111**	**(2,021)**	**1,308,090**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE CIECH GROUP

PLN '000	Share capital	Share premium	Cash flow hedge	Financial asset revaluation reserve	Other reserve capitals	Net currency translation differences (investments in foreign companies)	Currency translation differences (foreign companies)	Retained earnings	**Equity attributable to shareholders of the parent**	Non-controlling interest	**Total equity**
Equity as at 01/01/2010:											
Previously reported	**164,115**	**151,328**	**15,688**	**(3,458)**	**78,521**	**(10,206)**	**(57,536)**	**478,123**	**816,575**	**37,232**	**853,807**
adjustment of the opening balance sheet at USG – creation of a deferred tax provision	-	-	-	-	-	-	420	(7,670)	**(7,250)**	-	**(7,250)**
Equity (restated) as at 01/01/2010	**164,115**	**151,328**	**15,688**	**(3,458)**	**78,521**	**(10,206)**	**(57,116)**	**470,453**	**809,325**	**37,232**	**846,557**
Dividends paid	-	-	-		-	-	-	-	**-**	(3,742)	**(3,742)**
Change in the Group's composition	-	-	-	(1,145)	-	-	-	(426)	**(1,571)**	-	**(1,571)**
Total comprehensive revenue for the period	**-**	**-**	**(16,127)**	**4,603**	**-**	**(10,353)**	**7,697**	**24,277**	**10,097**	**(871)**	**9,226**
Net profit / loss	-	-	-	-	-	-	-	24,344	**24,344**	(2,010)	**22,334**
Other comprehensive income	-	-	(16,127)	4,603	-	(10,353)	7,697	(67)	**(14,247)**	1,139	**(13,108)**
Equity as at 12/31/2010	**164,115**	**151,328**	**(439)**	**-**	**78,521**	**(20,559)**	**(49,419)**	**494,304**	**817,851**	**32,619**	**850,470**

CONSOLIDATED STATEMENT OF CASH FLOWS OF THE CIECH GROUP

PLN '000	*Note*	**01.01-31.12.2011**	**01.01-31.12.2010**
Operating cash flows			
Net profit (loss) for the period		**1,501**	**22,334**
Adjustments			
Amortisation/depreciation		222,109	237,849
Recognition / reversal of write-downs		(2,161)	(9,681)
Foreign exchange profit / loss		(12,300)	20,115
Investment real property revaluation		-	145
Profit / loss on investment activities		11,543	(126,971)
Profit / loss on disposal of fixed assets		1,318	(5,997)
Dividends and interest		100,202	135,624
Input income tax	*8*	11,092	32,145
Profit/ loss after the settlement of construction contracts (voids)		(38,967)	(33,188)
Profit / loss on shares in companies valued under the equity method		(46)	7,375
Operating profit / loss before changes in working capital and provisions		**294,291**	**279,750**
Change in receivables		(160 577)	(2,673)
Change in inventories		(83,929)	(14,176)
Change in current liabilities		71,465	180,269
Change in provisions and employee benefits		(23,039)	(2,274)
Net cash generated from operating activities		**98,211**	**440,896**
Interest paid		(93,667)	(122,819)
Inflows from construction contracts (voids)		11,166	12,424
Income tax paid		(33,434)	(13,894)
Evaluation of derivatives		(7,647)	(53,859)
Other adjustments		6,033	55,603
Net cash on operating activity		**(19,338)**	**318,351**
Cash flows from investment activities			
Inflows (in "+")		**248,085**	**244,015**
Disposal of a subsidiary		94,275	3,380
Disposal of intangible and tangible fixed assets		28,658	24,488
Disposal of financial assets		2,143	179,130
Disposal of investment property		-	24,614
Dividends received		1,598	1,936
Interest received		567	865
Repayment of borrowings		120,611	-
Other inflows		233	9,602
Outflows (in "-")		**(311,745)**	**(234,037)**
Acquisition of a subsidiary (after deduction of acquired cash)		(5,115)	(7,420)
Acquisition of intangible and tangible fixed assets		(295 553)	(217 845)
Acquisition of financial assets		-	(190)
R&D expenditures		(10,554)	(3,129)
Other		(523)	(5,453)
Net cash on investment activities		**(63,660)**	**9,978**
Cash flows from financial activities			
Inflows (in "+")		**477,483**	**641,299**
Net inflows from issue of shares and other equity instruments, and equity contributions		435,994	-
Loans and borrowings raised		18,210	623,087
Subsidies received		20,628	15,912
Other financial inflows		2,651	2,300
Outflows (in "-")		**(458,182)**	**(816,054)**
Dividends paid to non-controlling interest		(1,499)	(2,806)
Repayment of loans and borrowings		(443 407)	(801 684)
Payments of liabilities under finance lease agreements		(13,160)	(11,564)
Other financial expenditures		(116)	-

PLN '000	*Note*	**01.01-31.12.2011**	**01.01-31.12.2010**
Net cash on financing activity		**19,301**	**(174,755)**
Total net cash flows		**(63,697)**	**153,574**
Cash as at the beginning of period	*23*	**208,394**	**53,002**
Effect of foreign exchange differences		4,347	1,818
Cash as at the end of period*	***23***	**149,044**	**208,394**

The consolidated cash flow statement should be analysed only together with Notes, which constitute an integral part of the consolidated financial statements.

** The difference between the value of cash recognised in the Consolidated Cash Flow Statement of Ciech Group for 2011 and the value recognised in the consolidated Statement of Financial Position of Ciech Group results from the classification of the POLFA Sp. z o.o., Ciech Finance Sp. z o.o. and Cheman S.A. funds as assets held for sale.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP

1 General Information

The presented consolidated financial statements of the Ciech Group for the period between January 1st, 2011 and December 31st, 2011, including comparative data, was approved for publication by the Management Board of CIECH S.A. on March 19th, 2012.

CIECH Spółka Akcyjna, having its registered office in Warsaw, ul. Puławska 182, registered under the number 0000011687 in the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Department of the National Court Register, is the parent entity in the Ciech Group.
As at December 31st, 2011, the State Treasury held a significant share and was able to control CIECH S.A.

The Ciech Group is the leader of chemical industry in Poland, a holding which groups domestic and foreign production, trade and service companies which conduct their operations within the chemical sector. The Group is a major domestic manufacturer in the chemical industry, it concentrates its operations mainly on CEE markets, it also operates on Western European markets and in other regions of the world. The Group also deals in trading and distribution of chemical goods produced by manufacturers not being part of the Ciech Group.

The Management Board of CIECH S.A. declares to the best of its knowledge that the consolidated financial statements as at December 31st, 2011 and comparative data have been prepared in accordance with the binding accounting principles and that they are a true, accurate and fair reflection of the Ciech Group's material and financial condition and its financial result. Moreover, the Management Board of CIECH S.A. declares that the statement for 2011 contains a true image of developments and achievements, and the Group's condition, including the description of major risks and hazards.
The Management Board of CIECH S.A. declared that the entity authorised to audit financial statements, auditing the financial statements for the period between January 1st, 2011 and December 31st, 2011, was chosen in accordance with the binding legal regulations and it is: KPMG Audyt Sp. z o.o., having its registered office in Warsaw, entered into the list of entities authorised to audit financial statements under register no. 458, kept by the National Chamber of Statutory Auditors. The aforesaid entity and the certified auditors performing the review satisfy all conditions necessary to issue an unbiased and independent opinion and audit report, pursuant to the applicable legal regulations.

2 Basis for the preparation of the consolidated financial statement

The individual financial statements of the parent entity and the Ciech Group's subsidiaries, prepared based on the accounting ledgers maintained in accordance with the binding balance sheet law, were the basis for compiling the consolidated financial statements. For the purpose of the consolidated financial statements, the data included in individual statements have been adjusted to the accounting principles established by the International Financial Reporting Standards.

All the Ciech Group's units apply uniform accounting principles (policy), established by the controlling entity CIECH S.A. The accounting year for all the Ciech Group's companies is the calendar year.

The consolidated income statement of the Ciech Group is prepared in the function format. The consolidated cash flow statement of the Ciech Group is prepared using the indirect method.

The Polish zloty (PLN) is the functional and reporting currency of the presented consolidated financial statements. Unless provided otherwise, the data in the consolidated financial statements have been presented in thousands of Polish zlotys (PLN '000).
The individual financial statements of the Ciech Group's companies are presented in a currency effective on the basic market of a given unit, i.e. in its functional currency. For most of the companies their functional currency is the currency of the country of their head office. Only in case of CIECH - POLSIN Pte. Ltd. the functional currency is USD. The results and financial items of particular units in the consolidated financial statements are presented in the Polish zloty, being the functional currency of the parent entity and the reporting currency of the consolidated financial statements.

For the purposes of presenting selected financial data, particular assets and liabilities disclosed in the statement on financial position were converted into EURO according to the average exchange rate of the National Bank of Poland as at the balance sheet date (December 31st, 2011), i.e. 4.4168. Individual items of the income statement were translated

2 Basis for preparation of the Financial Statements (continued)

into EURO according to the exchange rate calculated as the arithmetic mean of the average EURO exchange rates determined by the National Bank of Poland as at the last day of every month, i.e. from January 2011 to December 2011. The exchange rate for the presented comparable period is 4.1401.

For the purposes of presenting selected financial data, particular assets and liabilities disclosed in the balance sheet were converted into EURO according to the average exchange rate of the National Bank of Poland as at the balance sheet date (December 31st, 2010), i.e. 3.9603. Individual items of the income statement were translated into EURO according to the exchange rate calculated as the arithmetic mean of the average EURO exchange rates determined by the National Bank of Poland as at the last day of every month, i.e. from January 2010 to December 2010. The exchange rate for the presented reporting period is 4.0044.

The preparation of financial statements in compliance with the IFRS requires the Management Board to exercise professional judgement, estimates and assumptions that impact the adopted accounting principles and the value of assets, liabilities, revenues and expenses presented. Detailed information on the estimates is provided in section 2.21 “Estimates adopted in the preparation of the financial statements” of this financial statements.

The presented consolidated financial statements have been prepared on a going concern basis. The Management Board is not aware of any circumstances that would point to significant threats to the going concern of any of the companies subject to consolidation. The business duration of the parent entity CIECH S.A. and its subsidiaries is unlimited.

Statement by Management Board concerning compliance with the International Financial Reporting Standards
The Management Board of CIECH S.A. declares that the Group’s consolidated financial statements for the reference period and comparable period has been presented in accordance with all the International Financial Reporting Standards (IFRS) adopted in the European Union and relevant Interpretations announced in the form of EC regulations.

New and amended IFRS which have no significant impact on the consolidated financial statement
The following new and amended IFRS were also applied to these consolidated financial statements. Application of the following new and amended IFRS had no significant impact on the amounts recognised both in the current period and in the past, however, it may influence the settlement of future transactions or contracts.

Standards and interpretations applied for the first time in 2011

Amendments to IAS 24 "Disclosing information on related entities" - Simplification of requirements regarding disclosures made by entities related to the State Treasury and complement to the related entity definition, approved by the EU on July 19th, 2010 (applicable for annual periods beginning January 1st, 2011 or later). The amendments introduce partial exemptions for entities related to the State Treasury. Until now, if an entity was controlled or highly influenced by the State, this entity was required to disclose all transactions with other controlled entities or entities which remained under a significant influence of that State. The modified standard still requires disclosure of information which is significant for users of financial statements but it eliminates the requirement of disclosing information in case the costs of gaining such information exceeds the benefits to be gained by users of financial statements. IASB also supplemented the definition and removed any discrepancies. The Group benefited from the possibility of earlier adoption of the amended standard.

Amendments to IAS 32 "Financial instruments: presentation" - Classification of subscription right emission, issued by IASB on October 8th, 2009. Amendments refer to the manner of classification of subscription rights emission (rights, options, warrants) which are not expressed in the issuer's functional currency. The previous standard required that such subscription rights be recognised as liabilities on derivatives. The amendments require that such subscription rights, once certain conditions have been met, be classified as equity regardless of the currency in which those rights are settled.

Amendments to IFRS 1 “First-time Adoption of IFRS” – Limited Exemption for First-time Adopters. Approved by the EU on June 30th, 2010 (effective for annual periods starting on July 1st, 2010 or later).

Amendments to various standards and interpretations "Amendments to IFRS (2010) - changes made within the framework of the procedure of introducing yearly amendments to the IFRS, issued on May 6th, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13), aimed mainly at explaining discrepancies and terminology specification (effective for annual periods starting on July 1st, 2010 or January 1st, 2011 or later – depending on the standard/interpretation). Introduced amendments

2 Basis for preparation of the Financial Statements (continued)

additionally defined the accounting recognition in cases where free interpretation was previously acceptable. The most important ones are new or amended requirements regarding: (i) changes to accounting principles in the year of adopting IFRS, (ii) revaluation base as assumed cost, (iii) using the assumed cost in activity covered by rate regulations, (iv) interim requirements regarding contingent revenue on account of business mergers performed before the amended IFRS 3 effective date , (v) evaluation of non-controlling interest, (vi) not renewed or voluntarily renewed prices - share-based payments, (vii) additional details regarding disclosures required by IFRS 7, (viii) additional details regarding the presentation of changes in equity, (ix) interim requirements with regards to amendments resulting from amended IAS 27, (x) significant events and transactions discussed in IAS 34, (xi) stating the fair value of loyalty points.

Amendments to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" – Prepayments of a Minimum Funding Requirement, approved by the EU on July 19th, 2010 (effective for annual periods beginning January 1st, 2011 or later). The previous version of this interpretation in some cases did not allow entities for recognition of minimum funding requirements as an asset component. New amendments remove this problem.

Interpretation IFRIC 19 "Regulating financial liabilities by means of capital instruments"
approved by the EU on July 23rd, 2010 (effective for annual periods starting on July 1st, 2010 or later). This interpretation complements requirements defined by International Financial Reporting Standards with reference to a case when an entity renegotiates financial liabilities conditions with a lender and the lender agrees to accept capital instruments in order to settle financial liabilities in part or in full.

Discussion of the application of the above amendments to IAS 24 is presented in section 39 of these statements. The remaining above-mentioned standards, interpretations and amendments did not have a material effect on the accounting policy previously applied in the Ciech Group.

Standards and interpretations published and approved by the EU but not yet effective

Amendments to IFRS 7 "Financial Instruments: disclosing information" – Financial asset transfers (effective for annual periods starting on July 1st, 2011 or later). The amendments were approved by EU on November 22nd, 2011. The aim of these amendments id to improve the quality of information on transferred financial assets which the entity continues to, at least partially, recognised since they were not derecognised; and on financial assets which are not represented by the entity since they met derecognition requirements but which are still used by the entity.

The Ciech Group decided not to adopt the above amendment to the standard earlier. According to the Group's estimates, this amendment would have had no material effect on the consolidated financial statements, had it been applied as at the balance sheet date.

Standards and Interpretations adopted by IASB but not yet approved by the EU

IFRS, as approved by the EU, do not differ significantly from the regulations adopted by the International Accounting Standards Board, except for the following standards, amendments to standards and interpretations that were not effective as at March 19th, 2012:

IFRS 9 "Financial Instruments" (effective for annual periods beginning on January 1st, 2015 or later) issued by IASB on November 12th, 2009.
On September 28th, 2010, the IASB issued an amended IFRS 9 which introduced new requirements regarding the settlement of financial liabilities and moved requirements regarding derecognition of financial assets and liabilities from IAS 39. This standard assumes a single approach aimed at stating if financial assets are evaluated at depreciated cost or at fair value, it replaces numerous principles described in IAS 39. The IFRS 9 approach is based on assessment of the manner in which an entity manages its financial instruments (i.e. based on assessment of the business model) and assessment of the characteristics of the contractual cash flow related to financial assets. The new standard also requires an application of the single method of impairment evaluation, which replaces numerous impairment evaluation methods described in IAS 39. New requirements regarding settlement of financial liabilities refer to the issue of fluctuations in the financial result resulting from the issuer's decision to evaluate their own debt at fair value. IASB decided to maintain the current evaluation at depreciated costs with relation to most liabilities, amendments covered only the regulations regarding own credit risk. Within the new requirements, an entity which decides to evaluate liabilities at fair value presents the change in fair value resulting from changes in own credit risk under other comprehensive income and not in the income statement.

2 Basis for preparation of the Financial Statements (continued)

IFRS 10 "Consolidated Financial Statements" – issued by IASB on May 12th, 2011. IFRS 10 replaces the consolidation requirements in IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities" by establishing a uniform model of consolidation for all entities based on control, regardless of the nature of the investment (i.e., whether the entity is controlled by the voting rights of investors, or through other contractual arrangements commonly used in special purpose entities). Pursuant to IFRS 10, the control is based on whether an investor has 1) the ability to control the investment, 2) exposure or right to variable profits resulting from its involvement in the investment, 3) ability to exercise its control over the investment in order to affect the return on investment (effective for annual periods beginning January 1st, 2013 or later).

IFRS 11 "Joint arrangements" – issued by IASB on May 12th, 2011. IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31: "Participation in joint ventures". Possibility to use the proportional consolidation method in relation to jointly controlled entities has been removed. Additionally, IFRS 11 eliminates jointly controlled assets, maintaining the distinction for joint operations and joint ventures. Joint operations are the joint contractual arrangements under which the parties exercise a joint control over the rights to assets and liabilities. A joint venture is a joint contractual arrangement in which the parties have a joint control over the right to net assets (effective for annual periods beginning on January 1st, 2013 or later).

IFRS 12 "Disclosure of Interests in Other Entities" – issued by IASB on May 12th, 2011. IFRS 12 will require additional disclosures relating to both the consolidated, and the non-consolidated entities, in which the entity holds interest. The purpose of IFRS 12 is to require disclosures that will allow users of financial statements to evaluate the basis of control, any restrictions on consolidated assets and liabilities, exposure to risks arising from interests in non-consolidated special purpose entities and minority interests in consolidated entities (effective for annual periods beginning January 1st, 2013 or later).

IFRS 13 "Fair Value Measurement" – issued by IASB on May 12th, 2011. IFRS 13 defines "fair value" and provides guidelines for the measurement of fair value. IFRS 13 does not, however, change the requirements as to which elements should be measured or recognised in the fair value (effective for annual periods beginning January 1st, 2013 or later).

IAS 27 (revised in 2011) "Separate Financial Statements" - issued by IASB on May 12th, 2011. The rules relating to separate financial statements remain unchanged and are provided in the revised IAS 27. Other parts of IAS 27 have been replaced by IFRS 10 (effective for annual periods beginning January 1st, 2013 or later).

IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures" - issued by IASB on May 12th, 2011. IAS 28 has been amended as a result of issuing IFRS 10, IFRS 11 and IFRS 12 (effective for annual periods starting on January 1st, 2013 or later).

Amendments to IFRS 1 "First-time Adoption of IFRS" – Severe hyperinflation and removal of strict deadlines for First-time Adopters (effective for annual periods beginning on July 1st, 2011 or later) issued by IASB on December 20th, 2010.
The first amendment refers to replacement of strict deadlines indicated in the Standard - "January 1st, 2004" to "the day of adoption of IFRS". In effect, first-time adopters will not have to amend derecognition operations conducted before adopting IFRS. The other amendment introduces guidelines referring to returning to drawing up financial statements in compliance with IFRS after a period of inability to comply with IFRS due to a severe hyperinflation of the functional currency.

Amendments to IFRS 7 "Financial Instruments: Disclosures" – offsetting financial assets and liabilities issued by IASB on December 16th, 2011 (effective for annual periods beginning on January 1st, 2013 or later). The amendments require disclosure of all recognized financial instruments which have been offset in accordance with paragraph 42 of IAS 32 The amendments also require disclosure of recognized financial instruments which give the right to offset them pursuant to an applicable agreement or similar agreements, even if they have not been offset pursuant to IAS 32.

Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments": disclosures" – mandatory date of entering into force and transitional provisions issued by IASB on December 16th, 2011. The amendment defers the mandatory effective date from January 1st, 2013 to January 1st, 2015.

2 Basis for preparation of the Financial Statements (continued)

The adoptees will also be granted relief from restating comparative periods in financial statements in connection with the application of IFRS 9. This relief was originally available only for those entities that decided to apply IFRS 9 before 2012. Instead, it requires additional disclosures about the effects of the transition to new standards, drawn up in such a way as to help investors understand the impact of initial adoption of IFRS 9 on the classification and valuation of financial instruments.

Amendments to IAS 1 "Presentation of Financial Statements" – recognition of other comprehensive income issued by IASB on June 16th, 2011. The amendments require the entities preparing financial statements in accordance with IFRS for the total presentation of these components in other comprehensive income, which can be transferred to the income statement. The amendments also confirm that the components of other comprehensive income and income statement should be presented in a single statement or in two successive statements (effective for annual periods beginning July 1st, 2012 or later).

Amendments to IAS 12 "Taxes" – Deferred tax: realisation of assets issued by IASB on December 20th, 2010. IAS 12 requires entities to evaluate their assets on deferred income tax depending on the manner in which the entity plans to realise the assets: by usage or by sale. For assets evaluated in compliance with IAS 40 "Investment property", the evaluation of whether assets will be realised by usage or by sale may be difficult and biased. Amendments solve this issue by introducing an assumption that the value of an asset component is usually not realised until it is sold (effective for annual periods beginning January 1st, 2012 or later).

Amendments to IAS 19 "Employee Benefits" – amendments to the accounting of benefits after the period of employment of an employee issued by IASB on June 16th, 2011. The amendments contribute to significant improvements by: (1) elimination of the option to defer profits and losses, so-called "corridor method", contributing to the improvement of comparability and fairness of the presentation; (2) improvement in the presentation of changes in assets and liabilities arising from certain employee benefits, also by requiring the presentation of the changes resulting from the revaluation of other comprehensive income, thereby isolating these changes from changes resulting from normal operations of a unit; (3) increased disclosure requirements on the characteristics of certain employee benefits, thereby improving the quality of the information on the characteristics of certain employee benefits and on the individual risks associated with participation in these benefits (effective for annual periods beginning on January 1st, 2013 or later).

Amendments to IAS 32 "Financial Instruments: Presentation" – offsetting financial assets and liabilities issued by IASB on December 16th, 2011. The amendments clarify the rules for compensation and focus on four main areas (a) an explanation of the "possession of an enforceable right to carry out compensation" (b) simultaneous execution of offsets and settlements, (c) offsetting the collaterals, (d) a unit of account for offsetting (effective for annual periods beginning on January 1st, 2014 or after that date).

Interpretation IFRIC 20 "Stripping costs in the production phase of a surface mine" issued by IASB on October 19th, 2011. The interpretation states that the costs associated with removal of overlays in opencast mining should be included as an additional element to an existing asset (or as its increase) and amortized over the projected period of availability of resources identified by removing the overlays (using the method of production, unless another method is more appropriate) (effective for annual periods beginning on January 1st, 2013 or after that date).

According to the company's estimates, the above-mentioned standards, interpretations and amendments would have had no material effect on the financial statements, had they been applied as at the balance sheet date.

Changes in accounting principles and comparative data

In 2010, the Ciech Group updated the principles of financial statements consolidation to amended financial reporting standards - IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements". Amendments introduced to aforementioned standards did not influence the consolidated financial statements, except for attribution of the loss from the period to non-controlling interest. Until now, loss referring to minority interest which exceeded the minority share in given subsidiary's equity was attributed to owners of the parent. From 2010, all minority interest loss is attributed to non-controlling interest.

The remaining accounting principles presented below were applied with reference to all periods presented in the consolidated financial statements.

2 Basis for preparation of the Financial Statements (continued)

Accounting principles

The consolidated financial statements have been prepared in accordance with the concept of historical cost, except for the recognition of the fair value of some financial instruments.

2.1 Consolidation principles

(i) Subsidiaries

The entities controlled by the Parent account for subsidiaries. Control occurs when the Group is able to manage, directly or indirectly, the financial and operating strategy of a given unit in order to obtain benefits from its activity. In evaluating the level of control, the influence of existing and potential rights to vote, which may be realised or be subject to conversion as at the balance sheet date, should be taken into account. Financial statements of subsidiaries are included in the consolidated financial statements starting from the day of obtaining control until its expiry.

(ii) Consolidation adjustments

Internal settlement balances within the Group's entities, transactions concluded within the Group and all unrealised profits and losses arising therefrom, as well as the Group's revenues and costs, allowances on intragroup doubtful accounts, write-downs on investments, intragroup dividends and intragroup sale of fixed assets are eliminated when compiling the consolidated financial statements. In the event of occurrence of unrealised profits arising from transactions with affiliates and co-subsidiaries, these will be excluded from the consolidated financial statements proportionally to the Group's share in the aforesaid entities. Analogically, unrealised losses shall be excluded from the consolidated financial statements similarly to unrealised profits until the occurrence of the prerequisites indicating the loss of value.
The equity of subsidiaries in the amount as at the date of acquisition of shares, in the portion corresponding to the Group's share in the share capital of these entities, is compensated with the purchase value of shares included in the balance sheet of the parent entity as at the date of acquisition. Consolidation adjustments are recorded under respective capital items, depending on the nature thereof. Changes in the parent's ownership that do not result in loss of control of the subsidiary are accounted for as equity transactions.

2.2 Foreign currencies

Financial statements of entities operating abroad

The currency for the annual consolidated financial statements presentation is the functional currency of the parent. For each of the foreign companies, which produce their financial statements in currencies other than the presentation currency translate their results and financial position into the presentation currency in accordance with the following procedure:

- All items of income and costs in the functional currency of the subsidiary are translated into the presentation currency at the rate of the date of transactions. It is possible to adopt a simplified solution, i.e. average rates for a given period, as there were no such exchange rate fluctuations that would have a significant impact of the consolidated financial result.
- All assets and liabilities are translated into the presentation currency at the closing rate at the balance sheet date.
- Individual equity items are translated at historical rates e.g. capital at the rate of clearance of the connection, income and costs recognized directly in equity are translated at the exchange rate of the transaction date or to simplify at the average exchange rate for the period.

The difference arising from the calculation of equity capital according to rates other than the closing rate as at the balance sheet date, applied to other balance sheet items, is presented in equity capitals as "currency translation differences". When the exchange differences relate to a foreign company that is a consolidated but not wholly-owned by the entity that produces consolidated financial statements, some accumulated exchange differences resulting from the conversion shall be transmitted to non-controlling shareholders.

Goodwill relating to foreign companies should be measured as at the date of settlement of merger calculated in the functional currency of a subsidiary and each time translated into the presentation currency of the consolidated financial statements at the closing rate as at the balance sheet date. Exchange differences resulting from this conversion are recognized in other comprehensive income and are recognized in equity as "Foreign currency translation of foreign operations."

When a parent has a monetary item in the from a receivable or payable in respect of a foreign operation, which settlement is neither planned nor likely in the foreseeable future, then this item should be considered as part of the net investment in the unit. FX differences

2 Basis for preparation of the Financial Statements (continued)
2.2 Foreign currencies (continued)

arising on a monetary item that forms part of the net investment in foreign entity in the consolidated financial statements are recognized in other comprehensive income and recognized in the separate component of equity, i.e. "Net currency translation differences (investments in foreign companies)".

At the time of loss of control over the foreign operation, the accumulated amount of exchange differences recognized in equity under separate positions, i.e. "Currency translation differences (foreign companies)" and "Net currency translation differences (investments in foreign companies)" relating to a given foreign company is recognised in the financial result at the moment the profit or loss from the loss of control is recognised (as a reclassification adjustment).

2.3 Financial instruments

Financial instruments are recognised and evaluated in compliance with IAS 32 (Financial Instruments: presentation), IAS 39 (Financial Instruments: recognition and evaluation) and IFRS 7 (Financial Instruments: Disclosure to the financial statements). The principles of measuring and recognising of financial assets described below do not refer to the measurement of shares of subsidiaries, financial lease agreements, insurance agreements, financial instruments under employee programmes, and financial instruments issued by the entity and constituting its equity instruments.

The most important asset which are subject to the principles of measurement for financial instruments include:
1. shares of other entities,
2. bonds issued by other entities,
3. other securities issued by other entities (e.g. participation units),
4. borrowing receivables,
5. trade receivables,
6. cash,
7. derivatives (options, forwards, futures, swaps, embedded derivatives) with positive fair value,
8. other financial assets.

The most important liabilities which are subject to the principles of measurement for financial instruments include:
1. borrowing liabilities,
2. loan liabilities,
3. liabilities due to bonds issued,
4. trade liabilities,
5. derivatives with negative fair value,
6. other financial liabilities.

Classification of financial instruments

Financial assets are classified into:
1. financial assets measured at fair value through the financial result,
2. loans and receivables,
3. financial assets kept until maturity date,
4. financial assets available for sale.

Financial liabilities are classified into:
1. financial liabilities evaluated at fair value through the financial result,
2. other financial liabilities.

Loans, receivables and deposits are recognized at the date of creation. All other financial assets (including assets measured at fair value through profit or loss) are recognized on the transaction date, which is the day when the Group becomes a party to the mutual agreement relating to the financial instrument. The Group ceases to recognize a financial asset at the expiry of contractual rights to receive cash flows from the asset or from the date when the right to receive cash flows from financial assets are transferred in a transaction transferring substantially all the significant risks and rewards resulting from ownership. Each share in the transferred financial asset, which is created or retained by the Group is treated as an asset or liability.
Issued debt instruments and subordinated liabilities are recognized by the Group at the date of their creation. All other financial liabilities (including liabilities measured at fair value through profit or loss) are recognized on the transaction date, which is the day when the Company becomes a party

2 Basis for preparation of the Financial Statements (continued)
2.3 Financial instruments (continued)

to the mutual agreement under which the financial instrument is to be released. The Group excludes a financial liability from the books when the obligation is repaid, redeemed or expired.

(i) Financial assets valuated at fair value through financial result

Financial assets measured at fair value through the financial result are classified as short-term assets and disclosed at the fair value, while profits and losses arising from their measurement are recognised directly in the income statement. Financial assets measured at fair value through the financial result consist of the following financial assets:

- acquired to be sold in a short period of time,
- accounting for a part of jointly managed portfolio, for which there is a confirmation of earning short-term profits in the future,
- assigned to this category at the initial recognition.

Financial assets may be the primary classified as assets measured at fair value through profit or loss if the following criteria are met:

- such classification eliminates or significantly reduces an inconsistency in the recognition or measurement (accounting mismatch),
- assets are part of a group of financial assets that are managed and evaluated based on a fair value in accordance with a documented risk management strategy,
- financial assets include embedded derivatives that should be separately recognized.

Financial assets measured at fair value through the financial result also include derivatives, provided that the conditions of applying hedge accounting have not been satisfied.

(ii) Assets held until maturity

Assets held until maturity are the financial assets other than derivatives, with established or possible to establish payment dates and established maturity date, in relation to which the Company has a strong intention and is capable of keeping them until the lapse of the maturity date and which are not borrowings or receivables, and which upon initial recognition were not defined as financial assets evaluated at the fair value through the financial result or 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 last two financial years it sold or reclassified more than a non-significant amount of investments maintained until the maturity date, save for sale or reclassification performed:

- so close to the date of maturity or redemption of a financial asset that the changes of market interest rates would have no major effect on the fair value of this financial asset;
- upon the recovery of the fundamental part of nominal amount through repayment or prepayment according to the schedule; or
- as a result of a separate event, which is not subject to control, is not a repetitive event and which could not have been predicted on the basis of reasonable prerequisites.

Financial assets held-to-maturity are measured at the amortised cost with the application of the effective interest rate method.

(iii) Borrowings and receivables

Borrowings and receivables are financial assets other than derivatives, with established or possible to establish payment dates, not quoted on the active market, other than financial assets, which:

- the Group intends to sell immediately or in near future, classified as marketable and those which upon initial recognition were defined as financial assets measured at the fair value through the financial result;
- upon initial recognition were defined by the Group as available for sale; or
- the Group may not generally recover the full initial investment amount for a reason other than a deterioration of loan service, classified as available for sale.

Borrowings and receivables are measured at the amortised cost with the application of the effective interest rate method and decreased by potential impairment losses.

(iv) Financial assets available for sale

Financial assets available for sale are financial assets other than derivatives, which have been recognised as available for sale or which are not borrowings and receivables, investments held-to-maturity and financial assets measured at fair value through the financial result.

Financial assets available for sale are measured at fair value, whilst profits and losses from measurement are

2 Basis for preparation of the Financial Statements (continued)
2.3 Financial instruments (continued)

recorded in revaluation reserve. For interest-bearing debt instruments belonging to this category, the interest established with the application of the effective interest rate method is presented directly in the income statement.
In the absence of stock prices in an active market and the inability to reliably determine the fair value of equity instruments using alternative methods, financial assets available for sale are measured at cost adjusted for impairment losses.

(v) Financial liabilities
Marketable financial liabilities, including, in particular, derivatives with negative fair value, which have not been designated as hedging instruments, are recognised at fair value, while profits and losses from their measurement are recognised directly in the income statement.
Other financial liabilities are measured at the amortised cost with the application of the effective interest rate method.

Principles of measurement and presentation of financial instruments in financial statements

Group of assets or liabilities	Evaluation principle	Recognition principle
Assets measured at fair value through the financial result	According to the fair value	Difference from measurement recognised in the financial result of the current reporting period under financial revenues or financial costs
Liabilities measured at fair value through the financial result	According to the fair value	Difference from measurement recognised in the financial result of the current reporting period under financial revenues or financial costs
Other financial liabilities	At the amortised cost with the application of the effective interest rate (IRR)	Difference from measurement adjusts the value of a measured liability and is recognised in the financial result of the current reporting period.
Granted borrowings and receivables	At the amortised cost with the application of the effective interest rate (IRR)	Difference from measurement adjusts the value of a measured asset and is recognised in the financial result of the current reporting period.
Held-to-maturity assets	At the amortised cost with the application of the effective interest rate (IRR)	Difference from measurement adjusts the value of a measured asset and is recognised in the financial result of the current reporting period.
Financial assets available for sale	According to the fair value	Difference from measurement at fair value is recognised under revaluation reserve. For debt instruments, the interest is recognised directly in the income statement.
Financial liabilities appropriated to trading.	At the acquisition price adjusted by impairment losses	Asset or liability is recognised at the acquisition price until its realisation (e.g. sale). Impairment losses are entered as financial costs.

In the case of an increase in the value of financial investments, which may be objectively attributed to events occurring after creating an impairment loss, the Group appropriately decreases the impairment loss in correspondence with the income statement, except for capital investments classified as available for sale.

Hedge accounting and embedded derivatives

Hedge accounting
The aim of derivatives and, in certain circumstances, of other financial assets or liabilities designated as hedging instruments is to hedge the fair value of assets or liabilities, or future cash flows so that the change in their fair value balances in full or in part the change in the fair value of a hedged item or future cash flows related to the hedged item.

The aforesaid derivatives may be considered a hedge and entered into the books in accordance with the principles of hedge accounting after satisfying at least the following conditions stipulated in IAS 39:

- before establishing a hedge the entity possesses documentation including, at least: determination of risk management objectives

2 Basis for preparation of the Financial Statements (continued)
2.3 Financial instruments (continued)

and strategy, identification of a hedging instrument and assets, liabilities or planned transactions hedged by this instrument, characteristics of risk connected with the hedged item or planned transaction, hedging period, description of a selected method of measuring the effectiveness of a fair value hedge or cash flow hedge of a hedged item connected with a specific type of risk.

- Hedging is highly effective in terms of balancing changes in fair value or cash flows. The effectiveness of a hedge is determined through comparing the change in the value of a hedging instrument or cash flows arising therefrom and the change in the value of the hedged item or cash flows arising therefrom. A hedge is considered highly effective, if for the entire hedging period almost the whole amount of changes in fair value of a hedged item or cash flows connected therewith is made good by the changes in fair value or cash flows of a hedging instrument, and the actual effectiveness level is between 80% and 125%.
- The effectiveness of a hedge may be credibly assessed through measuring the fair value of a hedged item or cash flows connected therewith and the fair value of a hedging instrument. The effectiveness of a hedge is assessed retrospectively (so-called ex-post tests), determining whether a given hedge relationship was highly effective in the audited accounting periods.
- When hedging cash flows from a future transaction, such a transaction must be highly probable.

The adoption of cash flow hedge accounting makes it possible to adjust the influence on the financial result of hedging instrument measurement and the realisation of a hedged item by entering an effective part of the hedge in other comprehensive income and under cash flow hedge. This makes it possible to reduce the fluctuations of the financial result pertaining to derivatives measurement and to achieve a compensation effect in the income statement in one reporting period. Consequently, the economic and accounting effect of a hedge is reflected in the same period.

Gains and losses arising from the change in fair value of a cash flow hedge are recognised in other comprehensive income and under a separate equity item (cash flow hedge) in such a portion in which a given instrument constitutes an effective hedge of a relevant hedged item. The ineffective portion is presented in the income statement (financial costs/revenues). If a hedged forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses that were recognized in other comprehensive income and accumulated in equity are transferred to profit or loss in the same period or periods during which the asset acquired or liability assumed affect profit or loss.

A derivative designated as a fair value hedge is an instrument used to limit the risk of changes of the fair value of an asset, liability or probable future liability presented in the balance sheet and its influence on the financial result (or its portion) and may be attributed to a specific risk factor connected therewith.

Gains and losses arising from the change in fair value due to the measurement of a fair value hedge as at the balance sheet date are recognised under a separate item of the income statement under financial revenues or costs. A hedged asset/liability will be measured at fair value in the amount hedged only due to a risk factor subject to hedging. The changes in the fair value of hedged items are recognised as financial costs or revenues, depending on the change. If a hedge of the proposed transaction results in subsequent recognition of non-financial asset or non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment, to which a fair value hedge will apply, the gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss in the same period or periods during which the non-financial asset acquired or liability assumed affect profit or loss.

In the event of hedging a probable future transaction, if its realisation turns out to be impossible, the accumulated effective result on hedging transactions recognised under cash flow hedge is entered as financial revenues or costs.

The Group will cease to record instruments as hedging instruments if a derivative expires, is sold, terminated or realised, or if the Group ceases to designate a given instrument as a hedging instrument. In such a case, the accumulated gains/losses connected with the hedging instrument, previously recognised under a separate equity item, remain under equity until the transaction is realised.

2 Basis for preparation of the Financial Statements (continued)
2.3 Financial instruments (continued)

Embedded derivatives
Agreements with an embedded derivative are agreements containing conditions causing that a part of cash flows due to the agreement changes similarly to cash flows arising from independent derivatives.
Embedded derivatives are subject to exclusion from a compound instrument and to separate measurement at fair value if all the following conditions are satisfied:

1. the economic nature and risk of the embedded instrument are not strictly related to the economic nature and risk of the agreement in which the instrument is embedded,
2. independent instrument with the same realisation conditions as the embedded instrument would fit the definition of a derivative,
3. it is possible to reliably establish the fair value of an embedded derivative,
4. a compound derivative is not measured and recognised at fair value in the financial statements.

2.4 Tangible fixed assets

(i) Own tangible fixed assets
Tangible fixed assets are recorded in the books according to their acquisition price or manufacturing cost, decreased by depreciation charges and impairment losses. The initial value of fixed assets comprises its purchase price plus all costs directly related to the purchase and adaptation of the asset to a condition for use. The cost also includes the cost of replacing components of machines and equipment when it is incurred if the recognition criteria are met.

(ii) Tangible fixed assets used under lease agreements
Lease agreements under which the Group bears practically the entire risk and derives practically all benefits arising from the holding of tangible fixed assets are classified as financial lease agreements. Tangible fixed assets acquired through financial lease are initially recognised at fair value or current value of minimum lease charges, whichever is lower,
and then decreased by depreciation charges and loss on impairment. Payments due to operating lease agreements concluded by the Group's entities are recognised in the income statement in the lease period.

In the case of fixed assets used on the basis of financial lease agreements, if there is no certainty as to the acquisition of a fixed asset prior to the expiry of the lease agreement, the value of fixed assets is fully depreciated in one of the two periods, whichever is shorter:

- term of lease agreement,
- useful life.

When classifying an agreement as a financial lease agreement, the subject of the agreement is recorded in the Company's (lessee's) fixed assets and depreciation charges are made in accordance with principles specified in point (iv).

(iii) Future expenditure
The costs borne in future periods and aimed at replacing separately recognised parts of a tangible fixed asset are subject to activation. Other costs are capitalised only if they may be credibly measured and increase future economic benefits connected with a given tangible asset. Other expenditures are recognised in the income statement as costs on a regular basis.

According to IAS 16, a separate part of a fixed asset, requiring replacement at regular intervals, is depreciated in accordance with its useful life. Renovation costs are activated when the amount of outlays is related to parts recognised as a separate component of a fixed asset. If those components are not separated at the time of recognising a fixed asset, it may be done upon bearing subsequent costs.

Pursuant to IAS 16 the Group increases the value of fixed assets by the value of outlays for regular overhauls, necessary for the functioning of a given fixed asset. These expenditures are treated as a separate fixed asset and depreciated through the anticipated period to the next planned overhaul. Upon capitalisation of new costs of overhauls, the non-depreciated value of previous renovations is allocated to operating expenses.

Upon the acquisition or creation of a fixed asset, the Group separates from the acquisition price or the manufacturing cost a value equal to the expenditures that need to be made during the next overhaul of a given fixed asset and depreciates it through the anticipated period left until the next planned overhaul.

2 Basis for preparation of the Financial Statements (continued)
2.4 Tangible fixed assets (continued)

(iv) Depreciation
Tangible fixed assets, alternatively their material and separate components, are depreciated under the straight-line method through the useful economic life. Lands are not depreciated. The Group assumes the following useful economic lives for the following categories of fixed assets:

Buildings	**20 - 50**	**years**
Machinery and equipment	**2 - 20**	**years**
Means of transport	**2-20**	**years**
Other	**1-15**	**years**

Depreciation period and final value are subject to verification as at every balance sheet date. Any changes resulting from verification are recognised prospectively as a change of estimated value.

2.5 Right of perpetual usufruct

Acquired right of the perpetual usufruct of land is recognised under a separate item in the statement of financial position, while the right of the perpetual usufruct of land received under an administrative decision is recognised in off-balance sheet record.

Right of perpetual usufruct of land is depreciated using the straight-line method through the period of economic utility.

2.6 Intangible assets

(i) Goodwill
Goodwill is created at the time of a merger of two separate entities or businesses into one entity preparing financial statements. In particular, this takes place in the case of the acquisition of shares in subsidiaries, associates or co-subsidiaries. All mergers of unrelated units are recognised under the acquisition method.

Goodwill on acquisition of the unit is initially recognized as the difference between:

- total value:
  - ✓ fair value as at the date of receipt of payment,
  - ✓ value of non-controlling interest evaluated at the value or in the value of their proportionate share in subsidiary's net assets, and
  - ✓ if a business combination achieved in stages in the fair value at the acquisition date of the share capital of the acquiree previously held by the acquirer.
- over the net amount established at the date of acquisition of values of acquired assets and assumed liabilities that can be identified measured at fair value.

Sometimes a unit makes a bargain acquisition. It is a combination of units, in which the net value established as at the acquisition date of the identifiable acquired assets and liabilities valued at fair value exceeds the total fair value as at the date of receipt of payment, the value of non-controlling interests at fair value or the value of their proportionate share in net assets of the acquiree, and in a business combination achieved in stages, the fair value of previously owned shares of the acquirer in the acquiree at the acquisition date. In this situation it should be reassessed, if the assets acquired and liabilities assumed, non-controlling interests, the payment submitted, in case of a multistage merger the capital share in the acquired party held previously by the acquiring party have been properly identified and valued. The purpose of this review is to ensure that the measurements appropriately reflect all information available on the date of acquisition. If, despite the re-valuation the surplus still remains, then the acquirer shall recognize the resulting gain as a bargain purchase in profit or loss on the acquisition date (as other operating income).

For a PUT option to buy non-controlling interests acquired before January 1st, 2010, for which the purchase price is subject to periodic adjustments, the change in the liability is recognized in goodwill. For a PUT option to buy non-controlling interests acquired on January 1st, 2010 or later, for which the purchase price is subject to periodic adjustments, the change in the liability is recognized in the income statement.

At the date of acquisition, the acquired goodwill is allocated to each of cash-generating units that can benefit from the synergy of the combination. Each unit or set of units to which the goodwill was assigned:

2 Basis for preparation of the Financial Statements (continued)
2.6 Intangible assets (continued)

- reflects the lowest level within the Group, on which the goodwill is monitored for the internal supervisory purposes, and
- is not larger than a single operating segment defined pursuant to IFRS 8 “Operating Segments”.

Goodwill as an asset with an unlimited useful life is subject to annual tests for impairment. Goodwill is tested at least at the segment level.

Goodwill referring to associates is recognised at the carrying value of these entities presented in the Group’s consolidated financial statements. Consequently, the impairment analysis is carried out jointly for the shares in associates and goodwill connected therewith.

(ii) Other intangible assets

Other intangible assets acquired by the group are recorded based on their acquisition price, decreased by amortization charges and impairment losses. The expenses on internally created goodwill and commercial brands are recognised in the income statement when they are borne.

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 and registration fees, are activated as expenditures for intangible assets.

(iii) Future expenditure

Future expenditures on existing intangible assets are subject to capitalisation only when they increase future economic benefits connected with a given asset. Other expenditures are recognised directly in the income statement as costs.

(iv) Amortisation

Intangible assets are amortised under the straight-line method through their useful economic life. The Group assumes the following useful economic life for the following categories of intangible assets:

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

Amortisation period and final value are subject to verification as at every balance sheet date. Any changes resulting from verification are recognised prospectively as a change of estimated value.

Amortisation of intangible assets, connected with expenditure borne on the registration in the REACH system, should start in the month following the month of proper registration of a given substance. Amortisation period equals 12 months. Amortisation charges are recorded under cost of sales.

(iiv) Costs of completed research and development

Research constitutes an innovative and planned search for solutions, undertaken with the intention to acquire new scientific and technical knowledge. Development works are understood as 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 application.
All costs incurred in the course of research are recorded in the income statement for the period in which they were incurred. If it is impossible to distinguish between research and development works in the process of asset creation, the Group treats the outlays for the undertaking leading to the creation of an intangible asset as if they were incurred solely at the stage of research works.
Intangible assets created as a result of development works should be recognised only if the Group is able to prove:
– the possibility to finish the intangible assets so that it can be used or sold (technical evaluation),
– the intention to finish the asset and to use or sell it,

2 Basis for preparation of the Financial Statements (continued)
2.6 Intangible assets (continued)

- the capability of using or selling the asset,
- the manner in which the asset will bring probable economic benefits (among others, the entity should prove the existence of a selling market for products created due to the asset or a selling market for the very asset, or – if the asset is to be used by the Group – the usefulness of such an intangible asset),
- the availability of appropriate technical, financial and other means, which are to serve the completion of development works and the use or sale of an asset, and
- the possibility of credible establishment of the outlays incurred during development works, which may be attributed to a given asset.

Self-produced trademarks, magazine titles, editorial titles, lists of buyers and other items of similar nature are not recognised in the financial statements.
The period of creating write-downs for the capitalized costs of development works should reflect the period of their useful economic life.

2.7 Associates and joint ventures
Associates are business units on whose operating and financial strategy the Group has a significant impact but which are not under its control.
Joint venture is a contractual arrangement whereby two or more parties undertake an economic activity subject to joint control.

The consolidated financial statements contain the Group's share in gains and losses of associates and joint ventures recognised under the equity method from the moment of obtaining significant influence or joint control until the expiry thereof. The Group also measures the loss of value of share in the net assets of associates and joint ventures and creates appropriate write-downs. If the Group’s share in losses exceeds the carrying value of an associate or joint venture, this value is reduced to zero and the Group stops recognising further losses.

2.8 Costs of external financing
External financing costs (e.g. interest on loans and borrowings, discounts and bonuses, costs relating to entering into agreements on loans or borrowings and FX differences) do not increase the value of tangible components of non-current assets, except for the case described below:
In case of adjusted asset components, external financing costs which could be avoided if the entity did not bear expenses on purchase, construction or adjustment of the given asset component, are capitalised as part of purchase price or production costs for this asset component. The amount of external financing costs, which can be activated, is defined as a value of interest on loans, the cost of arranging financing and appropriate exchange rate of foreign currency loans.

2.9 Investment property
Investment real property is maintained to obtain revenue from rents, increase in its value or for both reasons.

Real property investments are measured in accordance with the principles of tangible fixed assets measurement, i.e. at the acquisition prices or manufacturing cost decreased by depreciation charges and impairment losses. Investment real property is depreciated under the straight-line method. Depending on the real property, the depreciation rate is between 1.7% and 4%, while useful economic life between 25 and 60 years. Plant and equipment, being components of an investment property, are depreciated at 8.5% (cranes and heat devices) and 10% (internal systems) and their utility periods are estimated at 12 and 10 years respectively.

Revenues from property lease to third parties are disclosed in accordance with the principles set forth in section 2.19.

2.10 Trade and other receivables
Current trade and other receivables are measured at the amortized cost with the application of the effective interest rate method and decreased by possible impairment losses.

2.11 Inventories
Goods and materials are measured at the acquisition price constituting the purchase prices increased by the costs directly connected with purchasing and adjusting an asset for use or trading.

Finished goods inventories and work in progress are measured at the manufacturing cost including direct costs and reasonable portion of costs indirectly connected with the manufacturing process.

2 Basis for preparation of the Financial Statements (continued)
2.11 Inventory (continued)

The Group creates appropriate write-downs if the acquisition price and the cost of manufacturing an inventory asset are higher than the price that can be possibly achieved, established in the transaction of sale, performed in the course of regular economic activity and decreased by estimated finishing costs and costs necessary to accomplish sale.

Inventory is presented in the balance sheet in the net value, i.e. decreased by write-downs.
Outlays of inventory are determined under the first in – first out method (FIFO).

2.12 Cash and cash equivalents
Cash and cash equivalents include cash in hand and bank deposits on demand. Short-term investments that are not subject to significant changes of value and may be easily exchanged for a defined amount of cash and constitute a part of the Company's liquidity management policy are recognised as cash and cash equivalents for the purposes of the cash flow statement.
As at the balance sheet date, the currencies collected on bank accounts and in foreign currency funds are measured according to the average exchange rate for a given currency, established by the President of the National Bank of Poland.

2.13 Impairment losses

(i) Asset impairment

The carrying value of non-financial assets other than inventory and deferred tax assets is subject to an analysis as at every balance sheet date in order to determine whether there exist prerequisites indicating their impairment. If such prerequisites exist, the Group estimates the recoverable value of the respective cash flow generating centres. The recoverable value of goodwill, assets with indefinite useful life and intangible assets which are not useful yet is estimated as at every balance sheet date, irrespectively of the existence of the aforesaid prerequisites.

(ii) Recoverable value

The recoverable value of an asset or cash generating unit is fair value less costs of selling the asset or, where appropriate cash-generating unit or its useful value, depending on which one is higher. The recoverable amount is determined for individual assets, unless the asset does not generate cash inflows independently, which are largely independent of the generated by other assets or groups of assets. If the asset's carrying amount is greater than its recoverable amount, impairment loss is taking place and a write-off is made to the established recoverable amount. In assessing use value the projected cash flows are discounted to their present value using a discount rate before taking into account the effects of taxation that reflects current market assessment of the value of money and the risks specific to the asset.

Impairment losses are recognised when the carrying value of an asset or a centre generating cash is higher than the recoverable value. The loss of value of a centre generating cash is in the first place recognised as a decrease of goodwill ascribed to such a centre (group of centres) and then as a decrease of the carrying value of other assets of such a centre (group of centres) proportionally. Impairment losses are presented in the income statement. Write-downs for impairment of assets are recognized in those cost categories that correspond to the function of the asset for which impairment was found.

Goodwill impairment loss is not subject to reversal.
In other cases impairment losses are reversible, if the estimates applied to establish the recoverable value have changed.
Impairment losses are reversible only to the amount of the carrying value of an asset, decreased by depreciation or amortisation charges, which would be disclosed if impairment losses were not recognised.

(iii) Impairment of non-derivative financial assets
At each balance sheet date the Company assesses whether there is objective evidence of impairment of a financial asset or group of financial assets.

Assets recognized at amortized cost
If there is objective evidence that a loss has been suffered due to impairment of loans and receivables measured at amortized cost, the amount of the impairment

2 Basis for preparation of the Financial Statements (continued)
2.13 Impairment losses (continued)

is equal to the difference between the carrying value of financial assets and the present value of estimated future cash flows (excluding future losses on receivables that have not yet been incurred) discounted at the original (i.e., determined at initial recognition), effective interest rate. The carrying value of assets is reduced through the use of write-downs. The amount of loss is recognized in profit or loss.
The Company first assesses whether there is objective evidence of impairment of individual financial assets that are individually significant, and also the impairment of financial assets, which individually are not significant. If the analysis shows that there is no objective evidence of impairment of individually assessed financial asset, regardless of whether it is significant or not, the Company includes this asset in a group of financial assets with similar credit risk and evaluates them in terms of impairment. Assets that are individually assessed for impairment and for which an impairment loss has been recognised or it was considered that the existing write-down is not changed, are not taken into account when assessing the total group of assets for impairment.
If in a subsequent period the impairment has declined and the decrease can be related objectively to an event occurring after the write-off, the previously recognized write-off is reversed. Subsequent reversal of an impairment write-off is recognized in profit or loss in the extent in which as at the reversal date the asset's carrying amount does not exceed its amortized cost.
In particular, in relation to trade receivables from debtors in liquidation or in bankruptcy, from debtors in the event of dismissal of the bankruptcy, contested by debtors (disputable receivables) and for the payment of which the debtor is in arrears, and according to his financial situation the payment by the contractual amount is not probable and such where the delay is 180 days impairment is recognized in the full amount after taking into account security, which the Board considers it highly probable.

Financial assets available for sale
If there is objective evidence that impairment of financial assets available for sale, the amount of the difference between the purchase price of the asset (net of any principal repayment and depreciation) and its current fair value, less any impairment loss of this component previously recognized in profit or loss is removed from equity 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 debt instrument available for sale increases and the increase can be objectively related to an event occurring after the recognition of impairment loss in profit or loss, the amount of the reversed impairment write-off is recognized in profit or loss.

Financial assets recognised at purchase price
If there is objective evidence of an impairment of unquoted equity instrument that is not recognized at fair value because its fair value cannot be reliably measured, or a derivative, which is associated or must be settled by delivery of such unquoted equity instrument, the amount of impairment loss is determined as the difference between the carrying value of financial assets and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets.

2.14 Equity

The sum of consolidated equity in total includes the controlling shareholders' equity and minority interest.

The share capital of the controlling entity is the Group's share capital and is shown according to nominal value adjusted by the effects of hyperinflation in the years 1989-1996.

Increase (decrease) in capitals after the date of acquiring shares in the portion attributable to the parent is recognised in the Group's capitals and presented under relevant equity items of the Group. The remaining equity of entities consolidated under the full method is recognised in minority interest, described hereinbelow.

At the date of the sale of shares (stocks) of an entity under consolidation, currency translation differences (foreign companies) and net currency translation differences (investments in foreign companies), consolidation FX differences, related to this entity, are allocated to the income statement.

In the case of purchasing own shares (by the parent entity or a consolidated subsidiary), the payment amount together with direct transaction costs is recognised as a change in equity. Purchased shares are recognised as a decrease in equity.

2 Basis for preparation of the Financial Statements (continued)
2.14 Equity (continued)

Dividends are recognised as liabilities in the period in which they have been approved.

Dividends from the profits earned prior to the acquisition of control is not deducted from the purchase price of the shares, and can provide evidence of impairment.

The consolidated net profit (loss) is presented in equity under retained profits and is the sum of net profit (loss) of the controlling entity, the share in net profit (loss) of subsidiaries measured under the equity method, net profit (loss) of entities consolidated under the full method and profit (loss) of minority shareholders.

Non-controlling interest
Non-controlling interest is capital in a subsidiary which is not directly or indirectly attributable to the parent.
Non-controlling interest is measured:
- at the value of their proportionate share in subsidiary's net assets or
- at fair value

for each business combination separately at the time of initial recognition.
The value of non-controlling interest should correspond to their value calculated by adding changes to their value in the current period to the value of non-controlling interest at the end of the proceeding 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 base capital,
- changes in the value of equity, not connected with the changes in the percentage share of interest held – e.g. increase or decrease of capital having no influence on the distribution of shares, additional equity contributions made by non-controlling shareholders, result of the current year, transactions directly recognised in other comprehensive income, dividends paid..

Profit and loss as well as any comprehensive income components are attributable to owners of the parent and to non-controlling interest even if this attribution results in a negative value of non-controlling assets.

2.15 Employee benefits

Service anniversary awards, retirement severance pays and disability pensions:
According to the company's rules of remuneration, the employees of the Group's companies are entitled to compensation for long service anniversary awards and retirement severance pays. These obligations arise from the rights obtained by the employees of the Group's companies in the current year and previous years.
The amount of the Group's liabilities due to service anniversary awards, retirement severance pays and disability pensions is calculated by an authorised actuary with the application of the method of projected unit credits discounted to the current value after deducting the fair value of any related assets.
The use of this type of provisions creates a decrease in reserves while the creation/release of such provision increases other operating profits/costs, respectively.
Actuarial profit/ loss is the change resulting from differences between earlier assumptions and their realisation as well as the change of assumed calculations of parameters and assumptions - in the income statement it is presented under financial activity.

2.16 Provisions

A provision is recognized if the Group is encumbered with an obligation arising from previous events and it is probable that the fulfilment of this obligation will result in an outflow of economic benefits from the Group. effect of money value in time is significant, provisions shall be established by discounting the expected future through discounting expected future cash flows based on the pre-tax rate, which reflects the current market estimates of money value fluctuations in time and the risk connected with a given liability.

(i) Restructuring
A restructuring provision is recognised if a detailed and official restructuring plan has been approved by the Management Board, and the process has started or was officially announced, and it is possible to estimate the value of future liabilities in a reliable manner.

(ii) Recultivation
According to the published and applied policy of the Group, related to environment protection, and applied legal

2 Basis for preparation of the Financial Statements (continued)
2.16 Provisions (continued)

requirements, provision for the coverage of costs of land recultivation shall be recognized if such costs appear. Provisions are recognised at discounted value of planned costs on the performance of works related to recultivation.

2.17 Trade and other liabilities

Trade and other liabilities are divided into current and non-current liabilities, applying the following criteria:

- those requiring payment within 12 months from the balance sheet date and trade receivables are considered current liabilities,
- other liabilities, which do not meet the current liability criterion, are considered non-current liabilities.

Trade liabilities are evaluated as at the balance sheet date at the amortized cost (i.e. discounted with the application of the effective interest rate) and increased by possible interest for delay due as at the date of evaluation.
Interest for delay due to late payment of liabilities is not calculated if the authorized entity submits a written statement on the abandonment of its calculation. Otherwise, interest is calculated and recorded in accordance with the following principles:

- on an ongoing basis, pursuant to the received interest notes,
- according to the estimated value, whereby the estimate is based on historical data reflecting the amounts of interest calculated by particular contractors in comparison with the debt owed to them.

2.18 Contingent liabilities

The Company recognises possible future obligations to perform specific work, which depend on the occurrence of certain events which are behind the control of the entity, as contingent liabilities. These liabilities are not recognised in the statement of financial position but are disclosed in the financial statements.

2.19 Revenue and costs

Revenues from the sale of products and goods are recognised in the income statement if the major risk and benefits arising from their ownership have been transferred to the buyer.

Revenues from the provision of services are recognised in the income statement proportionally to the level of their realisation as at the reporting date. The level of service realisation is evaluated on the basis of the results of a review of works. Revenues are not recognised, when there are serious doubts linked to obtaining due remuneration, reimbursement of costs or potential return of goods and products.

Costs constitute the probable decrease of economic benefits resulting from decreasing value of assets or increasing value of liabilities and provisions.

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

The selling **costs** include, among others: the costs of sales agency, costs of advertising, promotion and distribution.

General and administrative expenses constitute the cost of maintaining the management of an entity or of general servicing units.

The reporting period results are also influenced by other operating revenue and costs directly related to Group's basic activity. The key positions are:

- Profit/ loss on disposal and liquidation of non-financial non-current assets
- Profit/ loss on sales of emission allowances
- Creation/ release of revaluation write-downs (including for receivables) and provisions (e.g. for retirement and disability gratuities),
- Revenue/ costs relating to a construction service agreement - In the case where the effect of a construction services agreement may be evaluated in a reliable manner, the result on this account is recognised in the income statement proportionately to the completion stage indicated in the agreement. The level of service realization is evaluated on the basis of the results of independent inspection. The forecasted loss under the contract is recognised in the income statement on a regular basis.

2 Basis for preparation of the Financial Statements (continued)
2.19 Revenue and costs (continued)

- Lease revenue - the revenue from lease of investment property is recognised in the income statement with the application of the straight-line method. Granted discounts are an integral part of the sum of lease revenues.

Financial revenue/ costs relating to financial activity in the company, including sales/ purchase of securities, shares, raising loans and borrowings, issuance of debt securities. Consequently, the key financial activity items are:

- interest paid due to debt, established on the basis of effective interest rate,
- interest due to funds invested by the Group (on bank deposits and accounts, granted loans, receivables) - disclosed in the income statement according to the accrual principle with the application of the effective interest rate method.
- revenue on dividends - recognised in the income statement when the Group obtains the right to a dividend,
- surplus of positive or negative f/x differences,
- profit/ loss on sales of financial assets,
- profit/ loss related to derivatives.

2.20 Taxes

Current tax
Liabilities and receivables from current tax for current and prior periods are measured at the amounts expected to be payable to the tax authorities (recoverable from tax authorities) using the tax rates and tax laws, which legally or in fact already existed at the balance sheet date.

Deferred tax
For financial reporting purposes, deferred tax is calculated in relation to temporary differences existing at the balance sheet date between the tax bases of assets and liabilities and their carrying value as disclosed in the financial statements.
Deferred tax provision is recognized for all positive temporary differences:

- except for a situation where the deferred tax provision arises from initial recognition of goodwill or the initial recognition of an asset or liability in a transaction not constituting a business combination and at the conclusion of which does not affect either accounting profit nor taxable profit or tax loss, and
- except for a situation where the terms for reversals of temporary differences are controlled by the investor and it is probable that in the foreseeable future the temporary difference will not reverse, in the case of positive temporary differences arising from investments in subsidiaries and associates and interests in joint ventures.

Deferred tax assets are recognized for all deductible temporary differences and unused tax credits and unused tax losses carried forward to subsequent years, in such amount in which it is likely that a taxable profit will be generated that will take advantage of the above differences, assets and losses:

- except for a situation where the deferred tax assets concerning the negative temporary differences arise from initial recognition of an asset or liability in a transaction not constituting a business combination and at the conclusion of which does not affect either accounting profit nor taxable profit or tax loss, and
- in the case of deductible temporary differences arising from investments in subsidiaries and associates and interests in joint ventures, deferred tax asset is recognized on the balance sheet only in such amount as it is probable that in the foreseeable future the above temporary differences are reversed and a taxable profit will be generated, which will allow the deduction of negative temporary differences.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is to be reduced in so far as no longer probable that sufficient taxable income will be generated sufficient for the partial or total realization of a deferred tax asset. Unrecognized deferred income tax asset is reassessed at each balance sheet date and is recognized for the amount that reflects the probability of future taxable income that will allow for the recovery of the asset.
Deferred income tax assets and provisions are measured using tax rates that are expected to apply during a period when the asset is realized or the provision is released, based on tax rates (and tax laws) in force at the balance sheet date or those whose validity in the future is certain at the balance sheet date.

2 Basis for preparation of the Financial Statements (continued)
2.20 Taxes (continued)

Income tax relating to items recognized outside profit or loss is recognized outside profit or loss: in other comprehensive income relating to items recognized in other comprehensive income or directly in equity relating to items recognized directly in equity.
The Group offsets deferred income tax assets and provisions if and only if it has enforceable legal right to carry out the offsetting of current income tax receivables with current income tax liabilities and deferred tax is related to the same taxpayer and the same tax authority.

2.21 Estimates adopted in the preparation of the financial statements

The preparation of financial statements in compliance with IFRS requires the Management Board to exercise professional judgements, assumptions and estimates that impact the value of assets, liabilities, revenues and expenses presented in the financial statements and Notes thereto.

All estimates and related assumptions are based on historical experience and various other factors considered reasonable under the given circumstances, and the results of such estimates are the basis for professional judgement of the carrying value of assets and liabilities, which cannot be calculated using other sources. In vital matters the Management board bases its estimates on the opinions of independent experts.

The actual value may differ from the estimated value. The estimates and related assumptions are subject to regular verification. Changes in accounting estimates are recognised in the period in which they are made, if such changes apply solely to that period, or in the current period and future periods, if such changes apply both to the current and future periods.

Main estimates and judgements presented in these statements concern, among others, the following issues:

Type of estimate	
Deferred tax	Recognition of a deferred tax asset based on the assumption that future tax profits will be achieved allowing for its use.
Employee benefits	Actuarial valuation. Assumptions about discount rates, increase in wages, inflation, employment turnover ratio.
Provisions	Assumptions about discount rates, amounts and payment dates.
Amortisation/depreciation rates	Determined on the basis of the expected economic lifetime of tangible fixed assets and intangible assets - subject to annual review.
Impairment of assets	Assumptions allowing to establish the recoverable value – future cash flows, discount rates, cost of capital, rate of growth.

2.22 Receivables, liabilities and revenue in foreign currencies

Receivables in foreign currencies are recognised as at the average NBP exchange rate effective for a given currency on the last working day preceding the day of operation, unless another exchange rate was determined in the customs declaration or other document binding for the entity.

At the balance sheet date, receivables in foreign currencies are measured on the basis of the average exchange rate established for a given currency by the National Bank of Poland on that day.

Liabilities in foreign currencies are disclosed according to NBP's average exchange rate for a given currency effective on the last working day preceding the day of transaction.
Prepayments received in foreign currencies for future deliveries are recorded at average exchange rate of NBP on the date of receipt of prepayment.
As at the balance sheet date, liabilities in foreign currencies are measured according to the average exchange rate of the National Bank of Poland established for a given currency and effective on this day.
Currency translation differences resulting from the payment of a liability or its evaluation (unrealized) are presented under financial revenues or costs.

Revenues from the sale of products and goods are recognised in the income statement at the average exchange rate of NBP from the date preceding the date of issue of the invoice, if the major risk and benefits arising from their ownership have been transferred to the buyer.

2 Basis for preparation of the Financial Statements (continued)
2.23 Government subsidies

Government subsidies are recognised, if there is a justified certainty that the subsidy will be granted and all conditions connected therewith will be satisfied. Should a subsidy refer to a cost item, it is recognised as revenue adequately to costs to be compensated by the subsidy. Should a subsidy refer to an asset, its fair value is disclosed under deferred revenues and then gradually, through equal annual write-downs, recorded in the Profit and Loss Statement through the estimated useful life of a respective asset.

2.24 Operations to be discontinued and non- current assets held for sale

Non-current assets are classified as assets allocated for sale, if their carrying value will be realised through a transaction of sale and when they are available for sale in the current condition with a high probability of conducting a transaction of sale.
Discontinued operations are understood as a part of the Group disposed of or classified as meant for disposal and representing:

- a separate main line of business,
- a part of the plan of disposal of a separate main line of business or geographical segment,
- a subsidiary acquired only for resale.

A part of the Group is defined as operations and cash flows that may be distinguished in terms of operations and for the purposes of financial reporting.
These assets are evaluated at the lower of the two values: the net sale price or the net book value.

2.25 Establishment of fair value

The fair values are established and disclosed using the following methods.

(i) Tangible fixed assets
The fair value of tangible fixed assets acquired in a business combination is based on their market value. The market value of real properties is the estimated at the amount for which on the date of purchase it could be exchanged on market conditions between the parties, after proper marketing activities, while both parties would have acted knowingly and willingly. The fair value of other tangible fixed assets is determined by applying the market approach and cost methods, which rely on market prices for similar components, providing that the information is available and, if appropriate, based on replacement cost. Estimates of the replacement cost less any accumulated depreciation adjustments reflect the effect of physical deterioration, and loss of functional and economic life of assets.

(ii) Intangible assets
The fair value of intangible assets used by the Company is based on discounted cash flows that are expected in connection with the use or the possible sale of those assets.

(iii) Investment real property
Investment property portfolio is valued by an external, independent valuer who has duly recognized professional qualifications and experience in the valuations, in the location and category of property being valued. Fair values are based on market prices, which are the estimated amount for which on the date of valuation, on market conditions, the property could be exchanged between the parties on market conditions, after proper marketing, while both parties would have acted knowingly and willingly.
Investment properties under construction are valued by estimating the fair value of the completed investment property and deducting the estimated costs of completing the construction, financing costs and a reasonable profit margin.

(iv) Inventory
The fair value of inventory acquired in a business combination is determined based on estimated selling price in the ordinary course of business less the estimated costs of preparation for sale and sale and a reasonable profit margin based on inputs in the preparation for sale and the sale of inventory.

(v) Equity instruments and debt instruments
The fair value of equity and debt instruments is determined based on the listing of their purchase price as at the reporting date, or if not quoted, using appropriate valuation techniques. Used valuation techniques include market multiples and discounted cash flow analysis using the expected future cash flows and market discount rate. The fair value of investments held to maturity is determined only for the purpose of disclosure.

2 Basis for preparation of the Financial Statements (continued)
2.25 Establishment of fair value (continued)

(vi) Trade and other receivables
The fair value of trade and other receivables, excluding receivables from uncompleted contracts for construction services, but including receivables from concessioned service contracts, is estimated as the current value of future cash flows discounted using the market interest rate as at the reporting date. The fair value is estimated to disclosure or upon the acquisition in a business combination.

(vii) Derivatives
The fair value of futures contracts for the purchase or sale of foreign currencies is determined on the basis of market quotations, if available. If quotations are not available, fair value is estimated by discounting the difference between the forward rate resulting from the contract and the forward rate at the measurement date over the remaining period of the contract, at a risk-free interest rate (based on treasury bills). The fair value of swap contracts on interest rates is based on quotations of brokers. The rationality of these quotes is verified by discounting the estimated future cash flows based on the conditions and terms appropriate for each contract using market rates for similar instruments at the measurement date. The fair value reflects the credit risk associated with the instrument, and includes the necessary adjustments arising from the consideration of the Company's credit risk and, where appropriate, the other party to the contract.

(viii) Non-derivative financial liabilities
The fair value, estimated for purposes of disclosure, is calculated based on the present value of future cash flows of principal and interest discounted at the market rate of interest as at the reporting date. For the liability component of convertible bonds, the market interest rate is determined by reference to similar liabilities with no conversion option. For finance leases, the market interest rate is determined by reference to similar lease agreements.

2.26 Carbon dioxide emission allowances

The principles of recognising emission rights are as follows:

- The emission rights granted free of charge are recognised in the balance sheet at the date of their granting and in subsequent periods in their nominal value (zero zlotys). Charges for the granting of rights together with a charge for entering into the register are recognised as deferred expenses, whereby if the amount of these charges is insignificant it is possible to settle them under operating costs. The charge does not reflect the value of these rights; the value of emission rights is not established in any other manner.
- Lodged payments are written down under costs of sale proportionally to their use in a given settlement period.
- As at the balance sheet date, an entity makes a comparison of the rights granted for a given period and their actual use; if the use in a given year exceeds the rights granted for this year, a provision amounting to the product of missing and purchased rights and their market price is established. If the entity is able to prove that in the entire accounting period it will not be forced to buy additional rights to cover their deficiency, the provision is not established. The established provision encumbers the costs of sale.
- Should additional rights be bought on the market, these rights shall be evaluated at the acquisition price and presented as intangible assets. If at the balance sheet date the entity is able to prove that certain rights purchased on the market are meant for sale and it is highly probable that the benefits arising from these rights will be consumed in such a way, that part of the rights is recognised at the historical cost and presented in the financial statements as intangible assets.
- The acquired emission rights are not subject to amortization as their residual value corresponds to the acquisition price. However, as at the balance sheet date these rights should be subject to an impairment test according to general principles, which in the event of their decrease will lead to the need of recognising an impairment loss. Impairment losses are recorded under other operating expenses.
- In the case of using the purchased rights to cover a deficiency disclosed upon the settlement of the annual limit, the used rights according to the book value are settled with a provision created with the purpose of covering such a deficiency.
- In the case of selling the granted rights, the revenues from sale are recognised according to general principles as other operating revenues. The cost of selling these rights is recognised if purchased rights are sold. The profit on the sale of rights is presented in the income statement under profit on the sale of non-financial fixed assets.
- The use of purchased rights as well as the recognition of the cost of sale of rights are subject to the FIFO method.

3 Information about related entities

3.1 List of companies covered by the Group's consolidated financial statements

The consolidated financial statements include the financial statements of the following companies/lower-tier groups:

List of consolidated entities measured under the equity method in 2011 and in the comparable period

Company/Group	Consolidation method as at 31.12.2011 and CIECH S.A.'s control.	Consolidation method as at 31.12.2010 and CIECH S.A.'s control.	Share in the capital as at 31.12.2011	Business
1) CIECH S.A.	Parent entity	Parent entity	–	According to the Statute, the core business of the parent entity includes: commercial activity including trade activity, investment activity, manufacturing activity, service activity and financial operations with particular focus on foreign and domestic trade in chemicals and activity connected therewith. The Company is also licensed to act as an agent for Polish and foreign companies.
2) "POLFA" Sp. z o.o.	Subsidiary of CIECH S.A. - fully consolidated	Fully consolidated subsidiary of CIECH S.A.	100%	– wholesale of pharmaceutical goods, – wholesale of chemical products, – wholesale of perfumes and cosmetics, – retail sale of medical and orthopaedic goods.
CIECH FINANCE Group				
3) CIECH FINANCE Spółka z ograniczoną odpowiedzialnością	Subsidiary of CIECH S.A. - fully consolidated	Fully consolidated subsidiary of CIECH S.A.	100%	– implementing divestment projects concerning unnecessary fixed assets (property) and financial assets (shares in companies),
3.1.) Cheman S.A.	Indirect subsidiary of CIECH S.A. – full consolidation at the level of the Ciech Group.	Indirect subsidiary of CIECH S.A. – full consolidation at the level of the Ciech Group.	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 builders, 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
SODA MĄTWY Group	Fully consolidated lower-tier Group	Fully consolidated lower-tier Group	100%	– manufacture of other inorganic basic chemicals, – wholesale of chemical products, – production and distribution of electricity, – goods shipment
4) SODA MĄTWY S.A.	Lower-tier parent	Lower-tier parent	100%	
4.1.) Soda Polska CIECH Sp. z o.o.	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	100%	

Company/Group	Consolidation method as at 31.12.2011 and CIECH S.A.'s control.	Consolidation method as at 31.12.2010 and CIECH S.A.'s control.	Share in the capital as at 31.12.2011	Business
4.1.1) TRANSODA Sp. z o.o.	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	100%	
4.2) Polskie Towarzystwo Ubezpieczeń Spółka Akcyjna	-	Indirect associate of CIECH S.A. measurement under the equity method at lower tier. Company sold on December 29th, 2010	–	
5) JANIKOSODA S.A.	Subsidiary of CIECH S.A. - fully consolidated	Subsidiary of CIECH S.A. - fully consolidated	100%	– production of salt, – manufacture of industrial gases, – manufacture of other inorganic basic chemicals, – manufacture of other chemical products n.e.c.
FOSFORY Group	FOSFORY Group was sold on April 27th, 2011	Fully consolidated lower-tier Group	–	– manufacture of chemical fertilizers and nitrogen compounds, – manufacture of other inorganic chemicals, – manufacture of other organic chemicals, – manufacture of refined petroleum products, – manufacture of plastics, – wholesale of grain, seeds and animal feed, – transhipment services based on own transhipment and storage base
6.) GZNF "FOSFORY" Sp. z o.o.		Lower-tier parent	–	
6.1)"AGROCHEM" Spółka z ograniczoną odpowiedzialnością – in Dobre Miasto		Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	–	
6.2) "AGROCHEM" Spółka z ograniczoną odpowiedzialnością – in Człuchów		Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	–	
7) „Alwernia" S.A.	Subsidiary of CIECH S.A. - fully consolidated	Fully consolidated subsidiary of CIECH S.A.	99.62%	– manufacture of other inorganic basic chemicals, – manufacture of dyes and pigments, – manufacture of other organic basic chemicals, – manufacture of chemical fertilizers and nitrogen compounds, – manufacture of gypsum, – production of heat (steam and hot water)
8) CIECH-POLSIN PRIVATE LIMITED	Subsidiary of CIECH S.A. - fully consolidated	Fully consolidated subsidiary of CIECH S.A.	98.00%	– wholesale and retail sale of a variety of goods in the Far East markets
9) DALTRADE Ltd.	Daltrade Ltd. was sold on May 19th, 2011	Fully consolidated subsidiary of CIECH S.A.	–	– distribution and wholesale of chemicals in the UK market.
10) VITROSILICON Spółka Akcyjna	Subsidiary of CIECH S.A. - fully consolidated	Fully consolidated subsidiary of CIECH S.A.	100%	– manufacture of other inorganic basic chemicals, – manufacture of household and technical glassware, – manufacture of plastic packing goods, – manufacture of other plastic products
11) Przedsiębiorstwo Transportowo-Usługowe TRANSCLEAN Sp. z o.o.	Subsidiary of CIECH S.A. - fully consolidated	Fully consolidated subsidiary of CIECH S.A.	100%	– international transport of liquid chemicals, – tank truck and rail tank car wash

Company/Group	Consolidation method as at 31.12.2011 and CIECH S.A.'s control.	Consolidation method as at 31.12.2010 and CIECH S.A.'s control.	Share in the capital as at 31.12.2011	Business
12) Zakłady Chemiczne "Organika-Sarzyna" S.A.	Subsidiary of CIECH S.A. - fully consolidated	Fully consolidated subsidiary of CIECH S.A.	98.54%	– manufacture of plastics, – manufacture of pesticides and other chemical products
ZACHEM Group	Fully consolidated lower-tier Group	Fully consolidated lower-tier Group	97.44%	– manufacture of organic and other non-organic chemicals, – manufacture and sales of plastics, – manufacture of plastic plates, sheets, tubes and profiles, – manufacture of dyes and pigments, – services of installation, repairs and maintenance of general-purpose machinery n.e.c.
13) ZACHEM S.A.	Lower-tier parent	Lower-tier parent	97.44%	
13.1) BORUTA - ZACHEM Kolor Spółka z ograniczoną odpowiedzialnością	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	97.43%	
13.2) ZACHEM UCR Spółka z ograniczoną odpowiedzialnością	Indirect associate of CIECH S.A. measurement under the equity method at lower tier.	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	24.39%	
14) S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A.	Subsidiary of CIECH S.A. - fully consolidated	Fully consolidated subsidiary of CIECH S.A.	92.91%	– manufacture of other inorganic basic chemicals, – wholesale of chemical products
Soda Deutschland Ciech Group	Fully consolidated lower-tier Group	Fully consolidated lower-tier Group	100%	– manufacture of other inorganic basic chemicals, – wholesale of chemical products, – production and distribution of electricity,
15.) Soda Deutschland Ciech GmbH	Lower-tier parent	Lower-tier parent	100%	
15.1.) Sodawerk Holding Stassfurt GmbH	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	100%	
15.1.1.) Sodawerk Stassfurt Verwaltungs GmbH	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	100%	
15.1.2) Sodawerk Stassfurt GmbH&Co.KG	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	100%	
15.1.3) KWG GmbH	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	Indirect subsidiary of CIECH S.A. - full consolidation at lower tier	100%	
15.1.4) Kaverngesellschaft Stassfurt GmbH	Indirect associate of CIECH S.A. measurement under the equity method at lower tier.	Indirect associate of CIECH S.A. measurement under the equity method at lower tier.	50%	
16) Ciech Pianki Sp. z o.o.	Subsidiary of CIECH S.A. - fully consolidated.	-	100%	– manufacture of organic and other non-organic chemicals,

3 Information about related entities (continued)

The table below presents total data of subsidiaries not covered by consolidation under the full method due to the irrelevance of the data compared to total values for the Ciech Group:

Total value	Non-consolidated entities	Ciech Group	% share
Balance sheet totals	16,027	4,066,505	0.39%
Net sales and financial operations	59,801	4,207,976	1.43%

4 Information about operating segments

Operating segments in the Ciech Group were determined in compliance with IFRS 8 requirements which define the principles of determining operating segments on the basis of internal reports regarding entity's constituents which are regularly examined by the Management Board responsible for taking organisational decisions so as to allocate resources to particular segments and assess achieved results.
Particular operating segments may also include the sales of products and goods which constitute the key range of other Divisions. Nevertheless, those items are not significant from the perspective of controlling reporting in particular Divisions.
Pursuant to the current organisational structure, the Group has been divided into the following operating segments:
Soda Segment - Soda Division - groups together the products (in particular soda ash) manufactured by the Soda Mątwy Group, S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. and Soda Deutschland Ciech Group. Soda Mątwy Group products are sold by the CIECH S.A. Soda Division. This Division also includes JANIKOSODA S.A. the Ciech Group in this segment is the sole manufacturer of soda ash in Poland. In the soda segment, two of the clients reached the level of 5% share in the total turnover of the segment. At the same time, eight clients exceeded 30% in the revenues if the entire segment.

Organic Segment - Organic Division - includes mainly products manufactured by ZACHEM Group – TDI, ECH, hydrochloric acid, soda lye and plastics - and by Z.Ch. „Organika-Sarzyna" S.A.: epoxy and polyester resins and plant protection chemicals and by Ciech Pianki Sp. z o.o. - Polyurethane foams. Organic segment includes commercial goods purchased and sold by the Organic Division of CIECH S.A. The majority of sales of organic segment products, including: TDI, hydrochloric acid, soda lye and epoxy resins, is conducted by CIECH S.A. on its own account while the sale of ECH outside the Ciech Group and purchase of strategic raw materials is performed under agency agreements. There has been a consolidation of purchase of raw materials for epoxides (bisphenol A, ECH, chloride, propylene), plant protection chemicals (o-cresol, MCAA acid). Such organisation of the Organic Division business complies with the Group's strategy, it ensures optimal management of activity in the Organic Division resulting from a market-product consolidation, dynamic product development and reduction of sales costs. In 2011, in the organic segment, none of the clients reached the 5% share in the turnover of the segment. This threshold is only achieved by the total revenues generated by the two major clients.

Agro-Silicon Division - is divided into two segments of two different types of activity:

- **Agrochemical Segment** provides a full product offer for agriculture chemicals. This segment covers fertilizers manufactured by Alwernia S.A. Materials for fertilizer production supplied to Alwernia S.A. are also present in this segment. This segment also includes trading of fertilizers and materials for fertilizers for the benefit of other entities, not belonging to the Ciech Group. In the agro-chemical segment, two of the clients reached the level of 5% share in the total turnover of the segment. At the same time, five clients achieved almost 21% in the revenues if the entire segment.

- **Silicates and Glass Segment** includes mainly the products of "VITROSILICON" Spółka Akcyjna and other manufacturers, such as glass and sodium silicate, exported by CIECH S.A. In the silicates and glass segment, two of the clients reached the level of 5% share in the total turnover of the segment. At the same time, five clients exceeded 55% in the revenues if the entire segment.

4 Information about operating segments (continued)

Other Operations Segment includes goods and services provided outside the Group, mainly by CIECH S.A. and Cheman S.A. and foreign companies outside the field of basic chemistry.

The accounting principles applied in the reporting segments are the same as the Group's accounting policy compliant with the International Financial Reporting Standards. The transfers between particular segments are determined based on actual data. Information on Group's geographical areas is established on the basis of the location of the Group's assets.
The tables below present data concerning profits and losses as well as assets and liabilities of particular business segments of the Ciech Group in the period covered by the financial statements:

Results of operating segments are evaluated by the Management Board of CIECH on the basis of the level of sales revenue, EBIT operating result, EBITDA level.

OPERATING SEGMENTS

01.01-31.12.2011 *PLN '000*	**Soda Segment - Soda Division**	**Organic Segment - Organic Division**	*including: discontinued operations*	**Silicates and Glass Segment**	**Agrochemical Segment**	*including: discontinued operations*	**Other operations segment**	*including: discontinued operations*	**Corporate functions - reconciliatory item**	**Eliminations (consolidation adjustments)**	**TOTAL**
				Agro-Silicon Division							
Revenues from third parties	1,681,429	1,548,487	*3,140*	315,452	378,753	*50,598*	250,365	*128,367*	-	-	4,174,486
Revenues from inter-segment transactions	47,382	56,583	-	74	11,455	-	1,665	-	-	(117,159)	-
Total revenues	**1,728,811**	**1,605,070**	***3,140***	**315,526**	**390,208**	***50,598***	**252,030**	***128,367***	-	**(117,159)**	**4,174,486**
Cost of sales	(1,425,644)	(1,518,646)	-	(248,091)	(312,160)	*(24,076)*	(220,816)	*(102,454)*	-	111,500	(3,613,807)
Gross profit/loss on sales	**303,167**	**86,424**	***3,140***	**67,435**	**78,048**	***26,522***	**31,214**	***25,913***	-	**(5,609)**	**560,679**
Selling costs	(117,544)	(81,512)	-	(49,061)	(17,086)	*(8,451)*	(16,998)	*(12,475)*	-	6,182	(276,019)
General and administrative expenses	(72,634)	(66,092)	*(2,468)*	(8,309)	(12,526)	*(5,718)*	(16,293)	*(13,425)*	(37,676)	211	(213,319)
Receivables management result	(1,246)	(2,681)	-	(380)	(2,021)	*(2,082)*	287	*289*	11	73	(5,957)
Result on other operating activities	68,687	(9,226)	*215*	270	(8,812)	*(479)*	2,822	*1,023*	(408)	(2)	53,331
Operating profit/loss	**180,430**	**(73,087)**	***887***	**9,955**	**37,603**	***9,792***	**1,032**	***1,325***	**(38,073)**	**855**	**118,715**
The balance of f/x differences and interest on trade settlements	(12, 066)	(37,845)	*(107)*	(10,507)	(19,508)	*141*	(826)	*(669)*	136	(2)	(80,618)
Group financing costs	-	-	-	-	-	-	-	-	(101,657)	-	(101,657)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	-	-	-	72,144	-	72,144
Share in profit of associates	132	(86)	-	-	-	-	-	-	-	-	46
Profit/loss before tax	**168,496**	**(111,018)**	***780***	**(552)**	**18,095**	***9,933***	**206**	***656***	**(67,450)**	**853**	**8,630**
Tax	-	-	-	-	-	-	-	-	-	-	4,586
Net profit/loss	-	-	-	-	-	-	-	-	-	-	**13,216**
Profit on discontinued operations	-	-	-	-	-	-	-	-	-	-	(11,715)
Net profit/loss for the financial year	-	-	-	-	-	-	-	-	-	-	**1,501**
Amortisation/depreciation	134,087	62,693	*543*	17,087	3,211	-	496	407	4,535	-	222,109
EBITDA	**314,517**	**(10,394)**	***1,430***	**27,042**	**40,814**	***9,792***	**1,528**	**1,732**	**(33,538)**	**855**	**340,824**

01.01-31.12.2010 *PLN '000*	**Soda Segment - Soda Division**	**Organic Segment - Organic Division**	including: discontinued operations	**Silicates and Glass Segment**	**Agrochemical Segment**	including: discontinued operations	**Other operations segment**	including: discontinued operations	**Corporate functions - reconciliatory item**	**Eliminations (consolidation adjustments)**	**TOTAL**
				Agro-Silicon Division							
Revenues from third parties	1,458,186	1,496,946	*3,584*	290,610	500,375	*141,772*	214,199	*115,804*	-	-	3,960,316
Revenues from inter-segment transactions	44,139	54,653	-	3,004	13,947	-	992	-	-	(116,735)	-
Total revenues	**1,502,325**	**1,551,599**	***3,584***	**293,614**	**514,322**	***141,772***	**215,191**	***115,804***	-	**(116,735)**	**3,960,316**
Cost of sales	(1,293,098)	(1,376,729)	-	(224,574)	(425,513)	*(86,142)*	(182,534)	*(84,934)*	-	106,845	(3,395,603)
Gross profit/loss on sales	**209,227**	**174,870**	***3,584***	**69,040**	**88,809**	***55,630***	**32,657**	***30,870***	-	**(9,890)**	**564,713**
Selling costs	(103,762)	(82,323)	-	(46,560)	(37,237)	*(29,274)*	(17,712)	*(17,700)*	-	9,965	(277,629)
General and administrative expenses	(69,887)	(67,336)	*(2,957)*	(9,218)	(24,767)	*(18,427)*	(20,283)	*(16,693)*	(40,816)	1,258	(231,049)
Receivables management result	165	(461)	-	62	(1,438)	*(1,715)*	399	*399*	4	41	(1,228)
Result on other operating activities	83,574	(15,838)	*(732)*	1,253	2,779	*3,968*	4,803	*3,277*	15,753	(278)	92,046
Operating profit/loss	**119,317**	**8,912**	***(105)***	**14,577**	**28,146**	***10,182***	**(136)**	***153***	**(25,059)**	**1,096**	**146,853**
The balance of f/x differences and interest on trade settlements	(35,228)	(67,202)	*(37)*	(10,326)	(15,053)	*23*	(924)	*(988)*	-	-	(128,733)
Group financing costs	-	-	-	-	-	-	-	-	(146,513)	-	(146,513)
Result on the sale of an entity evaluated under the equity method	-	-	-	-	-	-	-	-	-	-	-
Result on financial activity (non-attributable to segments)	-	-	-	-	-	-	-	-	189,482	-	189,482
Share in profit of associates	(6,610)	-	-	-	-	-	-	-	-	-	(6,610)
Profit/loss before tax	**77,479**	**(58,290)**	***(142)***	**4,251**	**13,093**	***10,205***	**(1,060)**	***(835)***	**17,910**	**1,096**	**54,479**
Tax	-	-	-	-	-	-	-	-	-	-	(32,145)
Net profit/loss	-	-	-	-	-	-	-	-	-	-	**22,334**
Profit on discontinued operations	-	-	-	-	-	-	-	-	-	-	-
Net profit/loss for the financial year	-	-	-	-	-	-	-	-	-	-	**22,334**
Amortisation/depreciation	129,806	67,984	*465*	18,099	16,284	*12,648*	1,744	*1,669*	3,932	-	237,849
EBITDA	**249,123**	**76,896**	***360***	**32,676**	**44,430**	***22,830***	**1,608**	***1,822***	**(21,127)**	**1,096**	**384,702**

31.12.2011 *PLN '000*	**Soda Segment - Soda Division**	**Organic Segment - Organic Division**	**Silicates and Glass Segment**	**Agrochemical Segment**	**Other operations segment**	**Corporate functions - reconciliatory item**	**Eliminations (consolidation adjustments)**	**TOTAL**
			Agro-Silicon Division					
Tangible fixed assets	1,467,188	605,689	83,494	52,587	328	7,933	-	2,217,219
Intangible assets	115,589	53,908	2,446	2,274	546	6,358	-	181,121
- goodwill	*48,991*	*15,119*	*39*	-	-	-	-	*64,149*
Shares in associates	4,655	-	-	-	-	-	-	4,655
Inventories	105,505	152,607	34,551	43,426	-	-	(498)	335,591
Trade receivables	276,571	182,970	49,496	32,958	24,773	-	(22,929)	543,839
Assets classified as held for sale included in previous periods under segment assets.	-	-	821	-	44,210	-	-	45,031
Other assets held for sale	-	-	-	-	-	11,986	-	11,986
Other assets	-	-	-	-	-	727,063	-	727,063
Total assets	**1,969,508**	**995,174**	**170,808**	**131,245**	**69,857**	**753,340**	**(23,427)**	**4,066,505**
Trade liabilities	295,723	241,364	39,537	28,439	8,919	-	(25,202)	588,780
Liabilities classified as held for sale included in previous periods under segment liabilities	-	-	-	-	31,879	-	-	31,879
Other liabilities held for sale	-	-	-	-	-	1,192	-	1,192
Other liabilities	-	-	-	-	-	2,136,564	-	2,136,564
Total liabilities	**295,723**	**241,364**	**39,537**	**28,439**	**40,798**	**2,137,756**	**(25,202)**	**2,758,415**

31.12.2010 *PLN '000*	**Soda Segment - Soda Division**	**Organic Segment - Organic Division**	**Silicates and Glass Segment**	**Agrochemical Segment**	**Other operations segment**	**Corporate functions - reconciliatory item**	**Eliminations (consolidation adjustments)**	**TOTAL**
			Agro-Silicon Division					
Tangible fixed assets	1,361,629	564,909	81,355	44,717	1,626	7,265	2,039	2,063,540
Intangible assets	98,083	46,642	1,723	2,040	1,351	6,660	-	156,499
- goodwill	*36,740*	*14,494*	*39*	-	-	-	-	*51,273*
Shares in associates	4,344	-	-	-	-	-	-	4,344
Inventories	90,489	143,400	26,198	31,701	6,874	-	(1,429)	297,233
Trade receivables	237,350	191,750	33,997	28,935	50,880	-	(33,759)	509,153
Assets classified as held for sale included in previous periods under segment assets.	-	502	821	210,128	1,382	-	-	212,833
Other assets held for sale	-	-	-	-	-	44,987	-	44,987
Other assets	-	-	-	-	-	640,427	-	640,427
Total assets	**1,791,895**	**947,203**	**144,094**	**317,521**	**62,113**	**699,339**	**(33,149)**	**3,929,016**
Trade liabilities	292,297	237,373	14,028	32,840	43,590	-	(32,599)	582,893
Liabilities classified as held for sale included in previous periods under segment liabilities	-	-	-	16,697	-	-	-	16,697
Other liabilities held for sale	-	-	-	-	-	4,857	-	4,857
Other liabilities	-	-	-	-	-	2,474,099	-	2,474,099
Total liabilities	**292,297**	**237,373**	**14,028**	**49,537**	**43,590**	**2,478,956**	**(32,599)**	**3,078,546**

31.12.2011 *PLN '000*	**Soda Segment - Soda Division**	**Organic Segment - Organic Division**	**Silicates and Glass Segment** **Agro-Silicon Division**	**Agrochemical Segment**	*including: discontinued operations*	**Other operations segment**	*including: discontinued operations*	**Corporate functions - reconciliatory item**	**Eliminations (consolidation adjustments)**	**TOTAL**
Recognised impairment losses	4,364	9,686	1,121	5,058	2,162	502	496	-	(163)	21,064
Reversed impairment losses	11,815	4,161	47	459	5	732	721	-	2	17,937
Recognised impairment losses (not attributable to segments), including:	-	-	-	-	-	-	-	22,914	-	22,914
- discontinued operations	-	-	-	-	-	-	-	*102*	-	*102*
Reversed recognised impairment losses (not attributable to segments), including:	-	-	-	-	-	-	-	9,830	-	9,830
- discontinued operations	-	-	-	-	-	-	-	*13*	-	*13*
Revenue on interest attributable to segments	941	1,602	226	303	206	162	108		(781)	2,453
Interest recognised under Corporate Functions, including:	-	-	-	-	-	-	-	8,906		8,906
- discontinued operations	-	-	-	-	-	-	-	-	-	-
Cost of interest attributable to segments	4,564	4,174	21	27	16	963	583		(779)	8,970
Cost of interest recognised under Corporate Functions, including:	-	-	-	-	-	-	-	98,075		98,075
- discontinued operations	-	-	-	-	-	-	-	-	-	-

31.12.2010 *PLN '000*	**Soda Segment - Soda Division**	**Organic Segment - Organic Division**	**Silicates and Glass Segment**	**Agrochemical Segment**	*including: discontinued operations*	**Other operations segment**	*including: discontinued operations*	**Corporate functions - reconciliatory item**	**Eliminations consolidation adjustments)**	**TOTAL**
			Agro-Silicon Division							
Recognised impairment losses	8,834	6,603	102	5,794	*4,081*	536	498	-	(38)	21,831
Reversed impairment losses	8,214	4,837	1,150	5,104	*4,216*	15,320	965	-	3	34,628
Recognised impairment losses (not attributable to segments), including:	-	-	-	-	-	-	-	7,466	-	7,466
- discontinued operations	-	-	-	-	-	-	-	*167*	-	*167*
Reversed recognised impairment losses (not attributable to segments), including:	-	-	-	-	-	-	-	1,206	-	1,206
- discontinued operations	-	-	-	-	-	-	-	-	-	-
Revenue on interest attributable to segments	688	1,808	241	458	-	220	200	-	(356)	3,059
Interest recognised under Corporate Functions, including:	-	-	-	-	-	-	-	3,046	-	3,046
- discontinued operations	-	-	-	-	-	-	-	-	-	-
Cost of interest attributable to segments	5,851	4,217	159	35	*32*	216	206	-	(356)	10,122
Cost of interest recognised under Corporate Functions, including:	-	-	-	-	-	-	-	130,184	-	130,184
- discontinued operations	-	-	-	-	-	-	-	-	-	-

Sales revenues by business segment

PLN '000	2011	2010	change	change %	% share in total revenue 2011	% share in total revenue 2010
Soda Segment — Soda Division, including:	**1,681,430**	**1,458,187**	**223,244**	**15.3%**	**40.3%**	**36.8%**
Dense soda ash	968,764	840,244	128,520	15.3%	23.2%	21.2%
Light soda ash	313,147	259,189	53,958	20.8%	7.5%	6.5%
Salt	147,016	142,361	4,655	3.3%	3.5%	3.6%
Baking soda	108,245	96,259	11,986	12.5%	2.6%	2.4%
Calcium chloride	34,124	34,837	(713)	(2.0%)	0.8%	0.9%
Organic Segment - Organic Division, including:	**1,548,487**	**1,496,946**	**51,541**	**3.4%**	**37.1%**	**37.8%**
TDI	426,975	528,186	(101,211)	(19.2%)	10.2%	13.3%
Resins	469,262	372,475	96,787	26.0%	11.2%	9.4%
Polyurethane foams	208,159	192,401	15,758	8.2%	5.0%	4.9%
Plant protection chemicals	129,123	108,888	20,235	18.6%	3.1%	2.7%
Plastics	64,975	88,600	(23,625)	(26.7%)	1.6%	2.2%
ECH	89,722	68,081	21,641	31.8%	2.1%	1.7%
Agrochemical segment Agro-Silicon Division, including:	**378,753**	**500,375**	**(121,622)**	**(24.3%)**	**9.1%**	**12.6%**
Fertilizers	158,939	265,420	(106,481)	(40.1%)	3.8%	6.7%
Phosphorus compounds	148,538	88,325	60,213	68.2%	3.6%	2.2%
Chromium compounds	16,402	19,101	(2,699)	(14.1%)	0.4%	0.5%
Silicates and Glass Segment — Agro-Silicon Division, including:	**315,452**	**290,610**	**24,842**	**8.5%**	**7.6%**	**7.3%**
Sulphur	150,561	116,277	34,284	29.5%	3.6%	2.9%
Glass blocks and packaging	87,900	94,296	(6,396)	(6.8%)	2.1%	2.4%
Sodium silicate in lumps	52,007	50,515	1,492	3.0%	1.2%	1.3%
Sodium water glass	17,157	18,509	(1,352)	(7.3%)	0.4%	0.5%
Other operations segment	**250,364**	**214,198**	**36,166**	**16.9%**	**5.9%**	**5.4%**
TOTAL, including:	**4,174,486**	**3,960,316**	**214,170**	**5.4%**	**100.0%**	**100.0%**
Discontinued operations	***182,105***	***261,160***	*(79,055)*	*(30.3%)*	*4.4%*	*6.6%*

INFORMATION ON GEOGRAPHICAL AREAS

31.12.2011 *PLN '000*	**Poland**	**European Union**	**Other European countries**	**Africa**	**Asia**	**Other regions**	**TOTAL**
Sales revenues	1,547,299	1,824,268	286,731	184,064	258,320	73,804	**4,174,486**

31.12.2011 *PLN '000*	**Poland**	**European Union**	**Other European countries**	**Africa**	**Asia**	**Other regions**	**TOTAL**
Non-current assets other than financial instruments	1,864,278	741,102	-	-	328	-	2,605,708
Deferred tax assets	13,490	10,500	-	-	499	-	24,489
Other assets	712,103	575,363	50,172	34,931	52,813	10,926	1,436,308
Total assets	**2,589,871**	**1,326,965**	**50,172**	**34,931**	**53,640**	**10,926**	**4,066,505**

31.12.2010 *PLN '000*	**Poland**	**European Union**	**Other European countries**	**Africa**	**Asia**	**Other regions**	**TOTAL**
Sales revenues	1,684 181	1,572 934	121,076	164,372	304,248	113,505	**3,960 316**

31.12.2010 *PLN '000*	**Poland**	**European Union**	**Other European countries**	**Africa**	**Asia**	**Other regions**	**TOTAL**
Non-current assets other than financial instruments	1,145,526	834,274	-	-	747	-	1,980,547
Deferred tax assets	9,368	-	-	-	433	-	9,801
Other assets	1,473,386	356,568	44,892	3,757	53,060	7,005	1,938,668
Total assets	**2,628,280**	**1,190,842**	**44,892**	**3,757**	**54,240**	**7,005**	**3,929,016**

5 Sales revenues

SALES REVENUES	31.12.2011	31.12.2010
Revenues from sales of products and services	**3,648,181**	**3,504,646**
- products	3,582,743	3,425,408
- services	65,438	79,238
Revenues from sales of goods and materials	**526,305**	**455,670**
- goods	500,567	426,122
- materials	25,738	29,548
Net sales of products, goods and materials	**4,174,486**	**3,960,316**
including discontinued operations	*182,105*	*261,160*

6 Cost of sales

COST OF SALES	31.12.2011	31.12.2010
Cost of manufacture of products and services sold	3,058,767	3,025,927
Value of sold goods and materials	553,260	374,095
Release of write-downs on inventories	(6,549)	(12,570)
Creation of write-downs on inventories	8,329	8,151
Cost of sales	**3,613,807**	**3,395,603**
including discontinued operations	*126,530*	*171,076*

7 Revenue and costs other than sales revenue and cost of sales

PLN '000	31.12.2011	31.12.2010
Selling costs	276,019	277,629
General and administrative expenses	213,319	231,049
TOTAL	**489,338**	**508,678**
including discontinued operations	*42,537*	*85,051*

PLN '000

OTHER OPERATING REVENUES	31.12.2011	31.12.2010
Subsidies	3,678	3,098
Rents/lease payments, including connected with refinancing of other benefits related to rental/lease	5,462	4,592
Profit from disposal of non-financial non-current assets	2,215	12,080
Release of write-downs on receivables	3,568	6,678
Release of write-downs on tangible fixed assets and intangible assets	7,099	1,038
Release of write-down on investment property	-	14,351
Release of provisions on employee benefits	1,074	1,097
Release of other provisions	6,987	12,260
Profit on sales of emission allowances	8,635	19,737
Penalty fees and compensations received	3,603	3,461
Revenues from liquidating current and fixed assets	525	1,913
Evaluation of sale-and-lease-back liabilities	-	23,214
Result from construction contract	38,967	33,184
Other charge return	2,182	20,276
Decomitted and recorded liabilities	16,294	100
Other services	6,514	7,688
Other	10,219	8,552
TOTAL	**117,022**	**173,319**
including discontinued operations	*3,938*	*12,234*

7 Revenue and costs other than sales revenue and cost of sales (continued)

Subsidies
Subsidies recognised under deferred income as at December 31st, 2011 amounted to PLN 71,265 thousand (compared to PLN 43,077 thousand as at December 31st, 2010).

The amount of subsidies recognised in the income statement in the reporting period is PLN 3,678 thousand (PLN 3,098 thousand in the comparable period). Subsidies are settled over time proportionately to the depreciation of works.

Ciech Group companies receive subsidies on research and development works, purchase of tangible fixed assets and on adaptation of performed investment project to environmental requirements. Subsidies are mainly awarded to the Ciech Group companies by the European Regional Development Fund.

The most important item in the subsidies is the subsidy for the project: "Creation of an innovative MCPA and MCPP-P manufacturing system" received by Z.Ch. „Organika – Sarzyna" S.A. in the amount of PLN 39 997 thousand, including:

- 85% of the funding in the form of payments from the European Regional Development Fund,
- 15% of the funding in the form of the target - an agreement concluded with the Polish Agency for Enterprise Development.

Construction contract
Soda Deutschland Ciech Group, pursuant to IAS 11 "Construction Contracts", attributes revenues and costs connected with contracts concerning voids desalination to particular periods in which works were conducted.

The methods used to determine the stage of completion of contracts:

- **For Project 1** - The state of completion of the contract is determined by comparing physically carried out works with the works under the contract.
- **For Project 2** - The contract includes the sale of mining rights and land and preparation of four gas voids (S113 to S116). The progress of the contract is determined as a proportion of contract costs incurred for work performed to date in relation to the estimated, total cost of the contract.

Revenues recognised in the income statement for 2011 have been defined as discount value of sales revenues planned to be obtained multiplied by the percentage amount of conducted works arising from the contract in the settlement period.

The result pertaining to the construction contract recognised as other revenues (less a cost connected with an appropriate project) for a given period amounted to:

- For Project 1 - PLN 1,064 thousand (EUR 257 thousand)
- For Project 2 - PLN 37,903 thousand (EUR 9,155 thousand)

In the comparable period these costs amounted to:

- For Project 1 - PLN 7,276 thousand (EUR 1,817 thousand)
- For Project 2 - PLN 25,908 thousand (EUR 6,470 thousand)

The receivables pertaining to the construction contract recognised under assets amounted to:

- For Project 1 - PLN 4,024 thousand (EUR 911 thousand)
- For Project 2 - PLN 71,477 thousand (EUR 16,183 thousand)

In the comparable period these costs amounted to:

- For Project 1 - PLN 6,812 thousand (EUR 1,720 thousand)
- For Project 2 - PLN 32,514 thousand (EUR 8,210 thousand)

The sum of advanced payment received on account of realised contracts amounted to PLN 30,697 thousand (PLN 22,170 thousand in the comparable period)
The total sum of incurred costs and recognised profits (decreased by loss) on account of realised agreements for the period when the said contracts remained in force amounted to PLN 122,460 thousand (PLN 75,098 thousand in the comparable period).

7 Revenue and costs other than sales revenue and cost of sales (continued)

PLN '000

OTHER OPERATING EXPENSES	31.12.2011	31.12.2010
Costs pertaining to investment property	2,903	4,791
Creation of write-downs on receivables	9,528	7,906
Creation of write-downs on tangible fixed assets and intangible assets	2,711	5,782
Creation of provisions on employee benefits	6,898	8,644
Creation of other provisions	4,508	11,633
Costs of liquidated tangible fixed assets	3,865	6,196
Cost of liquidated materials	641	652
Amortisation/depreciation	1,123	1,266
Costs related to unused assets and production capacity	13,138	11,298
Costs of removing effects of force majeure events	1,576	1,041
Force majeure events	5,324	1,547
Penalties and compensation paid	2,921	1,745
Costs related to past activities	3,313	1,977
Settlement of the cost of energy purchase for previous years	-	4,004
Other charges	1,649	3,150
Costs of investment withdrawal	248	72
Receivables write-off	908	691
Other	8,394	10,106
TOTAL	**69,648**	**82,501**
including discontinued operations	*4,972*	*7,037*

PLN '000

NET FINANCIAL REVENUES/COSTS	31.12.2011	31.12.2010
Total interest	11,360	6,105
Interest on receivables	2,589	3,059
Interest on loans granted	42	70
Interest on bank deposits and accounts	8,589	1,399
Other interest	140	1,577
Profit on balance sheet evaluation of derivatives	8,032	52,750
Profit on disposal of financial assets	-	106,555
Dividends and share in profit	626	596
Surplus of positive f/x differences	5,722	-
Profit on receivables sold	307	-
Release of write-downs on non-current investments and investments in associates evaluated under the equity method	170	334
Release of other write-downs	2,549	872
Decrease of provisions on discount change	4,703	683
Previously owned interest evaluated at fair value	-	2,046
Other	21	385
FINANCIAL COSTS	**33,490**	**170,326**
Total interest	107,045	140,306
Interest on trade liabilities	8,970	10,123
Interest on loans taken	-	600
Interest on loans	65,213	97,566
Interest on bonds	17,614	16,306
Interest on lease agreements	1,482	1,442
Other interest	13,766	14,269
Surplus of negative f/x differences	-	66,291
Loss on disposal of financial assets	904	-
Loss on receivables sold	-	64
Creation of write-downs on non-current investments and investments in associates evaluated under the equity method	2,158	842
Creation of other write-downs	3,701	2,174

NET FINANCIAL REVENUES/COSTS	31.12.2011	31.12.2010
Factoring commissions	3,683	1,354
Bank fees and commissions	12,352	19,377
Provisions created	681	3,212
Increase of provisions on discount change	4,213	10,843
Costs due to discounting liabilities	1,800	2,359
Loss on derivatives	4,877	6,399
Costs due to sureties and guarantees	1,211	1,284
Other	996	1,585
FINANCIAL COSTS	**143,621**	**256,090**
NET FINANCIAL REVENUES/COSTS	**(110,131)**	**(85,764)**
including discontinued operations	*(10,147)*	*(10,906)*

PLN '000

COSTS BY TYPE	31.12.2011	31.12.2010
Amortisation/depreciation	220,816	236,334
Consumption of materials and energy	2,361,554	2,235,903
Employee benefits	440,224	455,017
External services	523,246	480,608
*including discontinued operations**	*100,019*	*255,094*

** does not include consolidation adjustments*

PLN '000

EMPLOYEE BENEFITS	31.12.2011	31.12.2010
Remuneration	350,183	361,518
Social insurance and other benefits	84,311	86,916
Service anniversary awards and retirement severance pays	4,474	2,644
Other	1,256	3,939
TOTAL	**440,224**	**455,017**
including discontinued operations	*16,164*	*34,399*

Research and development costs

The total outlays on research and development, recognised as costs of the period since they did not meet the capitalisation criteria, amounted to PLN 2,612 thousand (in comparable period PLN 6,075 thousand).

8 Income tax

The main components of tax burden include:

PLN '000

The main components of tax burden (tax revenue)	31.12.2011	31.12.2010
Current income tax	2,568	22,105
Income tax for the reporting period, including:	3,021	21,720
Adjustment of tax for previous years	(453)	385
Deferred tax	(7,153)	10,040
Creation/reversal of temporary difference	6,232	361
Recognition of tax losses not recognized in previous years	(21,843)	(2,783)
Recognition of temporary differences not recognized in previous years	(1,486)	-
Write-down/ reversal of previous write-downs of deferred tax assets	9,944	12,462
Income tax recognised in income statement	**(4,586)**	**32,145**

PLN '000

INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME	31.12.2011	31.12.2010
Revaluation of available-for-sale financial assets	-	(2,242)
Cash flow hedging	1,799	5,699
Other	-	(1)
TOTAL	**1,799**	**3,456**

8 Tax (continued)

Reconciliation of income tax calculated against gross financial result before tax according to the statutory tax rate and income tax calculated against the Group's effective tax rate for the period presented in the financial statements is as follows:

EFFECTIVE TAX RATE	31.12.2011		31.12.2010	
	%	PLN '000.	%	PLN '000.
Profit (loss) before taxes		**8,268**		**54,479**
Current tax recognised in income statement	**30%**	**2,567**	**41%**	**22,105**
Tax based on effective tax rate	**19%**	**1,639**	**19%**	**10,351**
Difference resulting from adoption of tax rates effective in other legal tax regulations*	13%	1,104	%	(148)
Non-tax deductible costs	1,032%	89,019	202%	109,934
Tax deductible costs not recognised in profit before tax	(287%)	(24,740)	(71%)	(38,576)
Taxable revenues not recognised in profit before tax	4%	311	3%	1,609
Non-taxable revenues	(700%)	(60,389)	(117%)	(63,531)
Tax free incomes	42%	3,608	19%	10,569
Use of tax losses	(154%)	(13,254)	(1%)	(383)
Consolidation adjustments	282%	24,372	(7%)	(3,583)
Tax loss for the current period	(214%)	(18,460)	(9%)	(4,975)
Income tax for previous years recognised in the income statement	(7%)	(643)	2%	838
Deferred tax recognised in income statement	**(83%)**	**(7,153)**	**18%**	**10,040**
Deferred tax provision - change in temporary differences	345%	29,747	7%	4,054
Deferred tax asset - change in temporary differences (without tax losses)	(147%)	(12,697)	45%	24,597
Deferred tax asset - creation of an asset from the current tax loss	(256%)	(22,120)	(53%)	(28,700)
Deferred tax asset - creation of an asset from previous tax losses	(253%)	(21,842)	(5%)	(2,783)
Deferred tax asset - change in the asset due to the use of tax losses, from which the asset was recognised in the previous periods	114%	9,815	1%	410
Creation/release of a write-down of assets from temporary differences (without tax losses)	(51%)	(4,371)	3%	1,758
Creation/release of a write-down of assets from tax losses	166%	14,315	20%	10,704
Effective tax rate	**(53%)**	**(4,586)**	**59%**	**32,145**

*** In 2011, income tax of DALTRADE PLC (28%), POLSIN PRIVATE LIMITED (17%), S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. (16%), Soda Deutschland Ciech Group (28.25%) amounted to PLN 22,944 thousand (in 2010, income tax for POLSIN PRIVATE LIMITED, DALTRADE PLC, S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. amounted to PLN 8,264 thousand).*

Deferred income tax

Deferred income tax results from the following items:

PLN '000

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX PROVISION	31.12.2011			31.12.2010		
	asset	provision	net value	asset	provision	net value
Tangible fixed assets	4,203	165,529	(161,326)	3,964	151,069	(147,105)
Intangible assets	4	4,503	(4,499)	-	5,588	(5,588)
Right of perpetual usufruct of land	-	5,544	(5,544)	-	5,631	(5,631)
Investment property	-	189	(189)	273	232	41
Financial assets	57	2,269	(2,212)	60	2,333	(2,273)
Inventories	1,941	81	1,860	1,570	25	1,545
Trade and other receivables	1,549	30,209	(28,660)	2,770	13,056	(10,286)
Provisions for employment benefits	12,468	(278)	12,746	7,111	-	7,111
Other provisions	15,728	-	15,728	15,254	-	15,254
Tax losses deductible in subsequent periods	81,672	-	81,672	45,810	-	45,810
FX differences	4,274	12,126	(7,852)	2,912	6,087	(3,175)

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX PROVISION	31.12.2011			31.12.2010		
	asset	provision	net value	asset	provision	net value
Liabilities	32,810	1,489	31,321	23,486	13	23,473
Other	40	2,151	(2,111)	100	360	(260)
Deferred tax assets/provision	**154,746**	**223,812**	**(69,066)**	**103,310**	**184,394**	**(81,084)**
Compensation of deferred tax assets/ provisions	(104,797)	(104,797)	-	(77,993)	(77,993)	-
Write-down on asset	25,460	-	25,460	15,516	-	15,516
Deferred tax assets/provision recognised in balance sheet	**24,489**	**119,015**	**(94,526)**	**9,801**	**106,401**	**(96,600)**

PLN '000

CHANGE OF TEMPORARY DIFFERENCES IN THE PERIOD	As at 01.01.2011	Change of temporary differences recognised in income statement	Change of temporary differences recognised in other comprehensive income	FX differences	Transfer from/to assets held for sale	As at 12.31.2011
Tangible fixed assets	(641,027)	(30,011)	-	(34,722)	-	(705,759)
Intangible assets	(25,655)	5,523	-	(715)	-	(20,847)
Right of perpetual usufruct of land	(29,637)	459	-	-	-	(29,178)
Investment property	216	(1,211)	-	-	-	(995)
Financial assets	(11,909)	340	-	(13)	-	(11,582)
Inventories	8,136	1,769	-	-	(46)	9,859
Trade and other receivables	(36,543)	(62,927)	-	(6,785)	(4,621)	(110,876)
Provisions for employee benefits	37,427	28,818	-	114	(163)	66,195
Other provisions	65,734	(958)	-	3,267	(95)	67,948
Tax losses deductible in subsequent periods	231,549	183,917	-	7,905	-	423,371
FX differences	(16,705)	(34,095)	9,468	-	-	(41,332)
Liabilities	98,572	15,114	-	8,194	(2,510)	119,369
Other	(948)	(9,602)	-	(103)	-	(10,653)
TOTAL	**(320,789)**	**97,135**	**9,468**	**(22,858)**	**(7,435)**	**(244,479)**

PLN '000

CHANGE OF TEMPORARY DIFFERENCES IN THE PERIOD	As at 01.01.2010	Change of temporary differences recognised in income statement	Change of temporary differences recognised in other comprehensive income	FX differences	Transfer from/to assets held for sale	As at 31.12.2010
Tangible fixed assets	(627,665)	(47,518)	-	12,530	21,626	(641,027)
Intangible assets	(44,931)	18,856	-	421	-	(25,655)
Right of perpetual usufruct of land	(31,676)	2,039	-	-	-	(29,637)
Investment property	13,518	(13,302)	-	-	-	216
Financial assets	(483)	369	(11,801)	5	-	(11,909)
Inventories	21,195	(1,240)	-	-	(11,819)	8,136
Trade and other receivables	(24,731)	(12,686)	-	1,060	(186)	(36,543)
Provisions for employee benefits	35,473	2,466	-	(69)	(443)	37,427
Other provisions	81,793	(1,327)	-	(904)	(13,828)	65,734
Tax losses deductible in subsequent periods	73,357	158,728	-	(479)	(56)	231,549
FX differences	83,600	(130,299)	29,994	-	-	(16,705)
Liabilities	65,148	35,104	-	(1,328)	(352)	98,572
Other	(2,194)	1,236	-	10	-	(948)

CHANGE OF TEMPORARY DIFFERENCES IN THE PERIOD	As at 01.01.2010	Change of temporary differences recognised in income statement	Change of temporary differences recognised in other comprehensive income	FX differences	Transfer from/to assets held for sale	As at 31.12.2010
TOTAL	**(357,595)**	**12,425**	**18,193**	**11,246**	**(5,058)**	**(320,789)**

Dividend payout to shareholders by the Ciech Group has no effect on the deferred income tax.

Ciech Group companies which created a deferred tax asset on account of tax loss, based on tax budgets, expect a tax income within 5 years (7 years for US Govora S.A.) of the balance sheet day which will guarantee the realisation of the total of the deferred tax asset.

9 Discontinued activities and assets and liabilities classified as held for sale

Discontinued operations

The accounting principles applied to preparation of income statement for discontinued operations are the same as the Group's accounting policy. The results of discontinued operations include:

- Results of units sold in 2011 for the period of participation in the Group in 2011 - FOSFORY Group, Daltrade Ltd., as well as the consolidated results for the sale of these entities. The table below presents the result on sales related to discontinued operations:

PLN '000	FOSFORY Group	Daltrade Ltd.	TOTAL
Sales revenues	106,740	89	106,829
Consolidated cost	102,195	671	102,866
Gross profit	4,545	(582)	3,963
Income tax	(16,312)	633	(15,679)
Net consolidated result	**(11,766)**	**(51)**	**(11,715)**

- Results of companies to be sold – POLFA Sp. z o.o., Cheman S.A., Ciech Finance Sp. z o.o.
- Results of the company over which the Group lost its control – Zachem UCR Sp. z o.o.
- Eliminations of results on transactions between consolidated entities in the Ciech Group, and reported in discontinued operations.

Reporting adjustment was made also in the statements for 2010 (comparable data).

Assets and liabilities classified as held for sale

As at 31 December 2011 the Ciech Group under "Assets classified as held for sale" and "Liabilities directly associated with assets classified as held for sale" the assets and liabilities of Polfa Sp. z o.o., Ciech Finance Sp. z o.o. and Cheman SA. were presented. This presentation results from the conclusion by CIECH S.A. of the following contracts:

- On July 15th, 2011 CIECH S.A. signed a contract for sale of 3,820 shares representing 100% of the share capital of POLFA sp. z o.o.
- On December 19th, 2011 CIECH S.A. signed a Conditional Agreement on Sale of shares in CIECH FINANCE Sp. z o.o. and a Conditional Preliminary Agreement on sale of shares in CHEMAN S.A. The Subject of the agreement is the sale of 4,000 shares in Ciech Finance Sp. z o.o., which constitutes 100% of the share capital, and the sale of 10,000 shares in CHEMAN S.A., which constitutes 0.53% of share capital of this company.

Additionally, in the item "Assets classified as held for sale" the following assets were recognised:

9 Discontinued activities and assets and liabilities classified as held for sale (continued)

- VITROSILICON Spółka Akcyjna disclosed fixed assets amounting to PLN 821 thousand, including:
  - land – PLN 368 thousand,
  - buildings and structures – PLN 132 thousand,
  - machinery and equipment - PLN 321 thousand.

- CIECH - POLSIN Pte. Ltd. disclosed land with a building situated on it amounting to PLN 475 thousand.

The company is at the stage of preliminary negotiations with the buyer. These assets are categorised in the "other" segment.

The following list presents the main items of assets and liabilities held for sale:

PLN '000

ASSETS CLASSIFIED AS HELD FOR SALE	31.12.2011	31.12.2010
Tangible fixed assets	3,138	124,635
Intangible assets	701	357
Long-term receivables	2	-
Investment property	-	1,832
Right of perpetual usufruct	61	626
Long-term investments	205	-
Deferred tax assets	780	-
Inventories	8,059	25,877
Income tax receivables	48	1,726
Trade and other receivables	34,040	71,450
Cash and cash equivalents	9,983	31,317
TOTAL	**57,017**	**257,820**

PLN '000

LIABILITIES CLASSIFIED AS HELD FOR SALE	31.12.2011	31.12.2010
Other non-current liabilities	-	56
Long-term provisions for employee benefits	167	241
Other long-term reserves	-	565
Deferred tax provisions	-	664
Trade and other liabilities	32,710	19,516
Short-term provisions for employee benefits	28	251
Other current provisions	166	261
TOTAL	**33,071**	**21,554**

Items in the cash flow statement related to discontinued operations are as follows

PLN '000

CONSOLIDATED CASH FLOW STATEMENT - DISCONTINUED OPERATIONS	31.12.2011	31.12.2010
Net cash from operating activities	893	23,533
Net cash from investment activities	1,962	(11,840)
Net cash from financial activities	(3,099)	11,379
Total net cash flows	**10,171**	**23,072**
Opening balance of cash	56	8,245
Cash at the end of the period	**9,983**	**31,317**

10 Earnings per share

Basic earnings per share are calculated through dividing net profit for the financial year attributed to ordinary shareholders of the parent entity by weighted average number of issued ordinary shares existing during the financial year.
Diluted earnings per share are calculated through dividing net profit for the financial year attributed to ordinary shareholders of the parent entity by weighted average number of issued ordinary shares existing during the financial year and weighted average number of ordinary shares issued upon the exchange of dilutive potential ordinary shares for ordinary shares.

The table below presents data concerning profit and shares, constituting the basis for calculating basic and diluted earnings per share:

	31.12.2011	**31.12.2010**
	PLN '000	PLN '000
Net profit (loss) on continued operations attributed to the controlling shareholders	(1,317)	27,037
Net profit (loss) on discontinued operations attributed to the shareholders of the parent	2,823	(2,693)
Net profit (loss) attributed to the controlling shareholders, applied to calculate basic earnings per share	1,506	24,344
Net profit (loss) attributed to the controlling shareholders, applied to calculate diluted earnings per share	1,506	24,344
		pcs.
Weighted average number of issued ordinary shares, applied to calculate basic and diluted earnings per share	47,070,649	28,000,000

On March 14th, 2011, the District Court for the capital city of Warsaw in Warsaw, 13th Economic Division of the National Court Register registered the raise of Company's share capital by way of issuance of 23,000,000 ordinary bearer shares Series D with face value of PLN 5 each. The above shares were introduced on the stock exchange base market of the WSE on March 30th, 2011.

On July 27th, 2011 CIECH S.A. executed with the State Treasury of the Republic of Poland an agreement pursuant to which the State Treasury acquired E series ordinary bearer shares in the increased share capital of CIECH S.A., with a nominal value of PLN 5 each. The subscription rights of the New Issue Shares were excluded. As at the date of this report the share capital amounts to PLN 263,500,965. The total number of votes resulting from all issued shares of the Company, after the share capital raise registration, is 52,699,909 and the share capital is divided into 52,699,909 Company shares with a nominal value of PLN 5 (five zloty) each, including:

- ✓ 20,816 ordinary bearer shares Series "A",
- ✓ 19,775,200 ordinary bearer shares Series "B",
- ✓ 8,203,984 ordinary bearer shares Series "C",
- ✓ 23,000,000 ordinary bearer shares Series "D",
- ✓ 1,699,909 ordinary bearer shares Series "E".

11 Dividend payout and proposed dividend payout

The Management Board of CIECH S.A. is not planning any dividend payout from profit generated by in 2011. In the Loan Agreement dated February 10th, 2011, CIECH S.A. undertook to refrain from declaring and paying out dividends until the net debt ratio (total consolidated net debt to consolidated EBITDA, measured for the Ciech Group, excluding Soda Deutschland Ciech Group) specified in the Loan Agreement is achieved. The payout of the dividend with the current level of the net debt ratio would be a violation of the provisions of the Loan Agreement.

Considering the net loss incurred in 2010, CIECH S.A. did not pay any dividend in 2011. By the resolution of June 30th, 2011 the Annual General Meeting of CIECH S.A. decided to allocate cover the loss from the Company's supplementary capital.

12 Tangible fixed assets

PLN '000

MOVEMENTS IN TANGIBLE ASSETS 01.01.-31.12.2011	Land	Buildings, offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	Tangible fixed assets under construction	TOTAL tangible fixed assets
Gross value of tangible fixed assets at the beginning of period	**77,343**	**879,240**	**1,832,467**	**126,570**	**44,490**	**139,708**	**3,099,818**
Acquisition	-	1,055	9,791	1,342	2,594	291,347	**306,129**
Reclassification	-	38,481	136,258	6,052	1,590	(197,553)	**(15,172)**
Capitalised external financing costs	-	-	2	-	-	12,900	**12,902**
Transfer from/to assets held for sale	70	(2,713)	(2,511)	(2,517)	(885)	(945)	**(9,501)**
FX differences	8,569	18,525	68,074	1,205	924	1,020	**98,317**
Sales	(161)	(2,546)	(17,329)	(6,047)	(794)	-	**(26,877)**
Liquidation	-	(2,073)	(10,539)	(251)	(269)	(2,440)	**(15,572)**
Change in the Group structure	-	(4,872)	(85)	(119)	(322)	(5)	**(5,403)**
Other increases/decreases	(160)	(473)	(66)	216	-	(314)	**(797)**
Gross value of tangible fixed assets at the end of period	**85,660**	**924,623**	**2,016,062**	**126,452**	**47,328**	**243,719**	**3,443,844**
Accumulated amortisation (depreciation) at the beginning of period	**5,148**	**257,625**	**628,783**	**71,718**	**25,571**	**-**	**988,845**
Amortisation for the period (due to)	**2,426**	**46,723**	**133,781**	**4,375**	**4,533**	**-**	**191,839**
Depreciation charge	1,718	47,899	139,540	9,326	5,851	-	**204,334**
Reclassification	-	92	(575)	-	1	-	**(482)**
Transfer from/to assets held for sale	-	(572)	(2,289)	(1,520)	(777)	-	**(5,158)**
FX differences	708	2,101	15,531	649	474	-	**19,463**
Change in the Group structure	-	(534)	(80)	(101)	(134)	-	**(849)**
Sales	-	(1,064)	(12,469)	(3,749)	(692)	-	**(17,974)**
Liquidation	-	(1,091)	(5,866)	(215)	(191)	-	**(7,363)**
Other increases/decreases	-	(107)	(10)	(15)	-	-	**(132)**
Accumulated depreciation at the end of period	**7,575**	**304,349**	**762,564**	**76,092**	**30,104**	**-**	**1,180,684**
Impairment losses at the beginning of the period	**1,892**	**17,256**	**25,659**	**125**	**60**	**2,440**	**47,433**
Establishment	-	694	1,846	-	-	171	**2,711**
Reversal	-	(51)	(311)	(13)	-	-	**(375)**
FX differences	202	418	384	-	-	-	**1,004**
Sales	-	(20)	-	-	-	-	**(20)**
Liquidation	-	(115)	(1,791)	-	(12)	(2,440)	**(4,358)**
Change in the Group structure	-	(453)	-	-	-	-	**(453)**
Impairment losses at the end of the period	**2,094**	**17,729**	**25,787**	**112**	**48**	**171**	**45,941**
Net value of tangible fixed assets at the beginning of period	**70,303**	**604,358**	**1,178,025**	**54,728**	**18,859**	**137,268**	**2,063,540**
Net value of tangible fixed assets at the end of period	**75,991**	**602,545**	**1,227,711**	**50,248**	**17,176**	**243,548**	**2,217,219**

12 Tangible fixed assets (continued)

PLN '000

MOVEMENTS IN TANGIBLE ASSETS 31.12.2010	Land	Buildings, offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	Tangible fixed assets under construction	TOTAL tangible fixed assets
Gross value of tangible fixed assets at the beginning of period	**81,740**	**969,868**	**1,791,480**	**138,371**	**46,298**	**173,772**	**3,201,529**
Acquisition	108	2,882	5,930	3,402	2,197	177,796	**192,317**
Reclassification	-	33,097	152,465	2,318	1,285	(209,343)	**(20,178)**
Capitalised external financing costs	-	67	708	-	-	7,911	**8,686**
Transfer from/to assets held for sale	(1,442)	(114,031)	(76,801)	(8,679)	(3,956)	(9,849)	**(214,758)**
FX differences	(2,996)	(6,648)	(23,201)	(529)	(284)	(482)	**(34,141)**
Sales	(67)	(2,449)	(1,643)	(7,054)	(471)	-	**(11,685)**
Liquidation	-	(3,568)	(16,384)	(1,260)	(577)	-	**(21,789)**
Other increases/decreases	-	21	(87)	-	(1)	(96)	**(163)**
Gross value of tangible fixed assets at the end of period	**77,343**	**879,240**	**1,832,467**	**126,570**	**44,490**	**139,708**	**3,099,818**
Accumulated amortisation (depreciation) at the beginning of period	**33**	**255,699**	**537,109**	**71,437**	**22,260**	**-**	**886,537**
Amortisation for the period (due to)	**5,116**	**1,927**	**91,673**	**281**	**3,311**	**-**	**102,308**
Depreciation charge	1,662	53,446	146,840	11,365	6,508	-	**219,820**
Reclassification	3,512	(3,590)	(2,800)	-	36	-	**(2,842)**
Transfer from/to assets held for sale	-	(45,460)	(36,716)	(5,562)	(2,292)	-	**(90,030)**
FX differences	(58)	(668)	(3,897)	(233)	(112)	-	**(4,969)**
Sales	-	(91)	(1,459)	(4,419)	(368)	-	**(6,336)**
Liquidation	-	(1,706)	(9,253)	(423)	(447)	-	**(11,829)**
Other increases/decreases	-	(4)	(1,042)	(448)	(13)	-	**(1,506)**
Accumulated depreciation at the end of period	**5,148**	**257,625**	**628,783**	**71,718**	**25,571**	**-**	**988,845**
Impairment losses at the beginning of the period	**1,986**	**18,904**	**25,984**	**124**	**60**	**2,257**	**49,316**
Establishment	-	580	581	13	-	604	**1,778**
Reversal	-	(677)	(178)	-	-	(183)	**(1,038)**
Transfer from/to assets held for sale	-	(689)	-	-	-	-	**(689)**
FX differences	(94)	(213)	(185)	-	-	-	**(493)**
Sales	-	-	(12)	-	-	-	**(12)**
Liquidation	-	(1,069)	(531)	(12)	-	-	**(1,612)**
Utilization	-	-	-	-	-	(238)	**(238)**
Other increases/decreases	-	421	-	-	-	-	**421**
Impairment losses at the end of the period	**1,892**	**17,256**	**25,659**	**125**	**60**	**2,440**	**47,433**
Net value of tangible fixed assets at the beginning of period	**79,721**	**695,265**	**1,228,386**	**66,811**	**23,978**	**171,515**	**2,265,676**
Net value of tangible fixed assets at the end of period	**70,303**	**604,358**	**1,178,025**	**54,728**	**18,859**	**137,268**	**2,063,540**

12 Tangible fixed assets (continued)

Both in 2011 and in the comparable year the capitalisation rate applied to determine the amount of external financing costs to be capitalised was 9%.

Depreciation of tangible fixed assets was disclosed in the following items of the consolidated income statement:

PLN '000

TANGIBLE FIXED ASSET DEPRECIATION CHARGES	31.12.2011	31.12.2010
Cost of sales	193,605	209,246
Selling costs and general and administrative costs	9,241	9,840
Other operating expenses	1,488	734
TOTAL	**204,334**	**219,820**
including discontinued operations	*740*	*13,726*

Ownership structure of tangible fixed assets:

PLN '000

BALANCE SHEET FIXED ASSETS (OWNERSHIP STRUCTURE)	31.12.2011	31.12.2010
Own	2,176,027	2,024,365
Used based on rental, tenancy, lease and other agreements:	41,192	39,175
Financial lease	*41,192*	*39,036*
Other	-	*139*
TOTAL	**2,217,219**	**2,063,540**

The net carrying value of particular groups of tangible fixed assets used pursuant to financial lease agreements:

PLN '000

TANGIBLE FIXED ASSETS USED PURSUANT TO FINANCIAL LEASE AGREEMENTS	31.12.2011	31.12.2010
Machinery and equipment	35,282	32,180
Means of transport	5,910	6,841
Other	-	15
TOTAL	**41,192**	**39,036**

In the presented period, the Ciech Group received compensation due to impairment of tangible fixed assets from third parties amounting to PLN 1,322 thousand (in comparable period PLN 2,216 thousand).

In the current period, changes in book estimates had no material influence and it is expected that they will not exert significant influence in future periods. Expenditure on tangible fixed assets under construction incurred in the Ciech Group in 2011 was mainly related to the realisation of the following investment projects:

SODA MĄTWY Group	*PLN '000*
Modernization of CKTI boilers	28,847
Establishment of the combustion gas desulphurisation system	25,438
Z.Ch. "Organika-Sarzyna" S.A.	
MCPA facility 6000 tons p.a.	6,206
MCPA production building construction, along with the basic installation	5,473
ZACHEM Group	
Construction of a system and implementation of an innovative technology of producing ECH out of glycerine	37,613
Chloride complex	6,764

The value of tangible fixed assets constituting a hedge on liabilities on loans and borrowings amounted to PLN 2,007,460 thousand.

12 Tangible fixed assets (continued)

The amount of liabilities arising from concluded agreements for the acquisition of tangible fixed assets in 2011 was PLN 94,491 thousand (in comparable period – PLN 63,080 thousand)

PLN '000

TANGIBLE FIXED ASSETS IN OFF-BALANCE SHEET RECORD	31.12.2011	31.12.2010
Used based on rental, tenancy and other agreements, including:	**60,648**	**60,791**
Land in perpetual usufruct	55,001	55,698
Operating lease agreement	4,444	4,213
Tenancy agreement	1,203	880

13 Right of perpetual usufruct of land

The table below presents the value of the right of perpetual usufruct obtained by the Ciech Group against payment.

PLN '000

RIGHT OF PERPETUAL USUFRUCT OF LAND	31.12.2011	31.12.2010
Gross value at the beginning of period	**141,059**	**142,650**
Acquisition	-	20
Sales	(2,118)	(633)
Change in the Group structure	(1,720)	-
Transfer from/to assets held for sale	417	(978)
Gross value at the end of period	**137,638**	**141,059**
Amortisation at the beginning of the period	**6,878**	**5,348**
Amortisation for the period	1,716	1,813
Sales	(119)	(27)
Transfer from/to assets held for sale	(9)	(256)
Other	(319)	-
Amortisation at the end of the period	**8,147**	**6,878**
Impairment losses at the end of the period	**-**	**-**
Net value as at the beginning of period	**134,181**	**137,302**
Net value as at the end of period	**129,491**	**134,181**

The right of perpetual usufruct of land acquired through administrative allocation satisfies the criteria for operating lease pursuant to IAS 17 "Leases" and is not recognised in the books but under off-balance sheet items.

14 Intangible assets

PLN '000

CHANGES TO INTANGIBLE ASSETS (GROUPED BY TYPE) **01.01.-31.12.2011**	Development costs	Goodwill	Licences, patents, permits etc. obtained, including:	*Computer software*	Intangible assets in realisation	Other intangible assets	**TOTAL**
Gross value of intangible assets at the beginning of period	**13,111**	**410,626**	**93,830**	***43,618***	**11,234**	**87,698**	**616,500**
Acquisition	-	-	1,371	*1,289*	16,834	293	18,498
Reclassification	3,145	-	2,179	*1,439*	(8,060)	57	(2,679)
Transfer from/to assets held for sale	-	-	(7,903)	*(7,503)*	-	(838)	(8,741)
FX differences	-	20,951	174	*113*	-	9,538	30,663
PUT option measurement	-	757	-	-	-	-	757
Sales	-	-	(436)	*(436)*	-	-	(436)
Liquidation	-	-	(978)	*(942)*	-	(1)	(979)
Change in the Group structure	-	7,514	-	-	-	-	7,514
Other increases/decreases	-	(132)	-	-	(65)	-	(197)
Gross value of intangible assets at the end of period	**16,256**	**439,717**	**88,237**	***37,578***	**19,943**	**96,747**	**660,900**
Accumulated amortisation at the beginning of the period	8,901	-	58,027	*34,072*	-	16,571	**83,499**
Amortisation for the period (due to)	**1,929**	**-**	**158**	***(4,916)***	**-**	**6,673**	**8,760**
Amortisation charge	1,929	-	8,264	*3,038*	-	5,496	15,689
Transfer from/to assets held for sale	-	-	(7,212)	*(7,082)*	-	(838)	(8,050)
FX differences	-	-	83	*68*	-	2,015	2,098
Sales	-	-	(193)	*(193)*	-	-	(193)
Liquidation	-	-	(783)	*(747)*	-	(1)	(784)
Accumulated amortisation at the end of period	**10,830**	**-**	**58,186**	***29,156***	**-**	**23,243**	**92,259**
Impairment losses at the beginning of the period	**-**	**359,354**	**-**	**-**	**-**	**17,148**	**376,502**
Reversal	-	-	-	-	-	(6,724)	(6,724)
FX differences	-	16,214	-	-	-	1,527	17,741
Impairment losses at the end of the period	**-**	**375,568**	**-**	**-**	**-**	**11,952**	**387,520**
Net value of intangible assets at the beginning of period	**4,210**	**51,273**	**35,803**	***9,546***	**11,234**	**53,979**	**156,499**
Net value of intangible assets at the end of period	**5,426**	**64,149**	**30,052**	***8,422***	**19,943**	**61,552**	**181,121**

14 Intangible assets (continued)

PLN '000

CHANGES TO INTANGIBLE ASSETS (GROUPED BY TYPE) **01.01.-31.12.2010**	Development costs	Goodwill	Licences, patents, permits etc. obtained, including:	*Computer software*	Intangible assets in realisation	Other intangible assets	**TOTAL**
Gross value of intangible assets at the beginning of period	**13,041**	**437,420**	**98,718**	***50,431***	**2,599**	**88,065**	**639,843**
Acquisition	-	-	2,368	*1,269*	11,640	1,491	15,499
Reclassification	70	-	1,532	*591*	(2,956)	250	(1,104)
Transfer from/to assets held for sale	-	-	(7,505)	*(7,505)*	-	(1)	(7,506)
FX differences	-	(27,096)	(58)	*(40)*	-	(3,090)	(30,245)
Liquidation	-	-	(1,223)	*(1,127)*	-	-	(1,223)
PUT option measurement	-	800	-	-	-	-	800
Other increases/decreases	-	(498)	(1)	*(1)*	(49)	983	435
Gross value of intangible assets at the end of period	**13,111**	**410,626**	**93,830**	***43,618***	**11,234**	**87,698**	**616,500**
Accumulated amortisation at the beginning of the period	6,864	-	55,593	*36,490*	-	11,879	**74,337**
Amortisation for the period (due to)	**2,037**	**-**	**2,434**	***(2,419)***	**-**	**4,691**	**9,162**
Amortisation charge	2,037	-	8,706	*3,751*	-	5,095	15,838
Reclassification	-	-	(15)	*(15)*	-	-	(15)
Transfer from/to assets held for sale	-	-	(7,148)	*(7,148)*	-	(1)	(7,149)
FX differences	-	-	(27)	*(21)*	-	(416)	(443)
Liquidation	-	-	(968)	*(872)*	-	-	(968)
Other increases/decreases	-	-	1,886	*1,886*	-	13	1,899
Accumulated amortisation at the end of period	**8,901**	**-**	**58,027**	***34,072***	**-**	**16,571**	**83,499**
Impairment losses at the beginning of the period	**-**	**385,078**	**1,887**	***1,887***	**-**	**13,680**	**400,645**
Establishment	-	-	-	-	-	4,004	4,004
FX differences	-	(25,724)	-	-	-	(537)	(26,260)
Utilization	-	-	(1,887)	*(1,887)*	-	-	(1,887)
Other increases/decreases	-	-	-	-	-	-	-
Impairment losses at the end of the period	**-**	**359,354**	**-**	**-**	**-**	**17,148**	**376,502**
Net value of intangible assets at the beginning of period	**6,177**	**52,343**	**41,237**	***12,053***	**2,599**	**62,505**	**164,862**
Net value of intangible assets at the end of period	**4,210**	**51,273**	**35,803**	***9,546***	**11,234**	**53,979**	**156,499**

14 Intangible assets (continued)

The largest item is goodwill recognised at the Ciech Group tier and at lower-tier group - Soda Deutschland Ciech - of total value of PLN 64,149 thousand.

An important item in “other” intangible assets of the Soda Deutschland Group is the client base evaluated at PLN 20,217 thousand. The valuation was executed in relation to the biggest clients of the production company, Sodawerk Stassfurt, a member of the Soda Deutschland Ciech Group – identified based on an analysis of data for 2005-2007. The basis of valuation is formed by 25 customers who have a stable and long-term relationship with the company and will still be clients of Sodawerk Stassfurt in the future. These are the relationships with the clients who are to a large extent dependant on Sodawerk Stassfurt as their main, or second supplier of raw materials. The most significant clients of Sodawerk Stassfurt would not be able to satisfy their demand for soda in the open market because of insufficient supply. In addition, dependence of many of the measured clients of Sodawerk Stassfurt is associated with the existence of a logistics system developed between them.

Other intangible assets of the Ciech Group include mainly IT systems (the most significant is the Oracle system), licences and patents, other software, own development works and other intangible assets. All items of intangible assets belong to the Ciech Group.

Amortisation of intangible assets was disclosed in the following items of the consolidated income statement:

PLN ‘000

AMORTISATION CHARGES ON INTANGIBLE ASSETS	**31.12.2011**	**31.12.2010**
Cost of sales	8,600	8,806
Selling costs and general and administrative costs	4,978	4,986
Other operating expenses	2,111	2,046
TOTAL	**15,689**	**15,838**
including discontinued operations	*129*	*1,086*

The value of intangible assets constituting a hedge on liabilities on loans and borrowings amounted to PLN 57,388 thousand.
The amount of liabilities arising from concluded agreements for the acquisition of tangible fixed assets in 2011 was PLN 7,565 thousand.
In the presented periods, the Ciech Group did not revalue intangible assets. In the current period, changes in book estimates had no material influence and it is expected that they will not exert significant influence in future periods.

Apart from goodwill, the Ciech Group does not hold other intangible assets with unspecified useful life.

Additional information about the goodwill is presented in section 15 of these statements.

Research and development
Research and development works carried out by the Ciech Group are aimed at increasing economic potential; they mainly refer to 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.

14 Intangible assets (continued)

PLN '000	
Internally generated intangible assets for the period 01.01.-31.12.2011	
Gross value as at 01.01.2011	41,897
Expenditure incurred	2,669
Other increases	2,735
Gross value as at 31.12.2011	**41,831**
Amortisation - as at the beginning of period	18,632
Amortisation for the period	4,179
Amortisation as at the end of period	**22,811**
Impairment losses at the beginning of period	-
Net value as at 31.12.2011	**19,020**

PLN '000	
Internally generated intangible assets for the period 01.01.-31.12.2010	
Gross value as at 01.01.2010	39,590
Expenditure incurred	2,865
Write-off of intangible assets	558
Gross value as at 31.12.2010	**41,897**
Amortisation - as at the beginning of period	14,177
Amortisation for the period	4,455
Amortisation as at the end of period	**18,632**
Net value as at 31.12.2010	**23,265**

15 Goodwill impairment testing

When compiling the consolidated financial statements of the Ciech Group, the goodwill recognised in the consolidated financial statements of a subsidiary Z.Ch. "Organika-Sarzyna" and Soda Deutschland Ciech Group was tested for impairment. Use value calculated based on the models in effect in the Capital Group was applied as recoverable value. Use value was calculated based on five-year plans compiled by the lower-tier Company/Capital Group. Financial projections included investments connected with the company's going concern status. Neither the Soda Deutschland Ciech Group nor Z.Ch. Z.Ch. "Organika-Sarzyna" S.A. experienced an impairment of goodwill in 2011. The average weighted cost of equity adopted for goodwill testing amounted to: for Z. Ch. "Organika-Sarzyna" S.A. from 11.2-11.5% and 11.2% for the residual period (test for 2011), and for the Soda Deutschland Ciech Group - 7.2% (tests for 2011). The applied growth rate for the residual period was 1.5% for the Soda Deutschland Ciech Group and 3.5% for other Ciech Group Companies.

Goodwill recognised in the consolidated financial statements for 2011 amounted to PLN 64,149 thousand and changed for the following reasons:

- In 2011, there was an increase in goodwill recognised in the statement at the lower tier group, the Soda Deutschland Ciech Group which resulted from the merger of a company consolidated in the Soda Deutschland Ciech Group - Sodawerk Stassfurt with Sodachem Handels GmbH, which was not previously consolidated. The goodwill that was created as a result of this merger amounted to PLN 7,514 thousand.
- In 2011, there was an increase in goodwill recognised in the statement at the lower tier group, the Soda Deutschland Ciech Group, by PLN 4,737 thousand, which resulted from a change in the EUR exchange rate in 2011.
- Pursuant to the adopted policy, changes in the value of liabilities pertaining to put options issued for the shares in Z. Ch. "Organika-Sarzyna" S.A., except for discount reversal, are treated as an adjustment of the acquisition price and adjust goodwill recognised in the consolidated financial statements upon initial recognition, i.e. December 31st, 2006. For this reason, in 2011 the company's goodwill was adjusted by PLN 132 thousand.

Moreover, in 2011 PUT options were partially realised. The difference between the amount of liabilities recognised in the financial statements and the actual amount paid increased goodwill by PLN 757 thousand.

15 Goodwill impairment testing (continued)

Goodwill recognised in the consolidated financial statements for 2010 amounted to PLN 51,273 thousand and changed for the following reasons:

- In 2010, there was a decrease in goodwill recognised in the statement at the lower tier group, the Soda Deutschland Ciech Group, by PLN 1,372 thousand, which resulted from a change in the EUR exchange rate in 2010.
- Pursuant to the adopted policy, changes in the value of liabilities pertaining to PUT options issued for the shares in Z. Ch. "Organika-Sarzyna" S.A., except for discount reversal, are treated as an adjustment of the acquisition price and adjust goodwill recognised in the consolidated financial statements upon initial recognition, i.e. December 31st, 2006. For this reason, in 2010 the company's goodwill was adjusted by PLN 498 thousand.

Moreover, in 2010 PUT options were partially realised. The difference between the amount of liabilities recognised in the financial statements and the actual amount paid increased goodwill by PLN 800 thousand.

16 Investment property

PLN '000

INVESTMENT PROPERTY	31.12.2011	31.12.2010
Gross value at the beginning of period	**12,085**	**34,906**
Sales	(1,735)	(19,864)
Liquidation	(430)	-
Reclassification	(230)	26
Transfer from/to assets held for sale	2,970	(2,970)
FX differences	29	(13)
Other increases/decreases	27	-
Gross value at the end of period	**12,716**	**12,085**
Depreciation at the beginning of the period	**4,653**	**10,157**
Annual depreciation charge	372	422
Sales	(434)	(4,773)
Transfer from/to assets held for sale	1,050	(1,142)
FX differences	6	(2)
Other increases/decreases	(91)	(9)
Depreciation at the end of the period	**5,556**	**4,653**
Impairment losses at the beginning of the period	**1,512**	**15,815**
Sales	(1,100)	-
Reclassification	-	48
Reversal	(336)	(14,351)
Impairment losses at the end of the period	**76**	**1,512**
Net value as at the beginning of period	**5,920**	**8,934**
Net value as at the end of period	**7,084**	**5,920**

Item "Investment real 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 following investment property is present in the Ciech Group as at December 31st, 2011:

- **CIECH S.A.** - As at December 31st, 2011, the investment property item for CIECH S.A. included and with investment, related to the construction of a residential and office complex, located in Warsaw in Krasińskiego, corner with Powązkowska Street. The fair value of the owned investment property according to the appraisal report dated May 31st, 2011 is PLN 26,200 thousand.
- **Zakłady Chemiczne „Alwernia" S.A. -** Manufacturing, storage and office buildings located in the area of Zakłady Chemiczne "Alwernia" S.A. in Alwernia, previously used by the company for its own needs, currently rented.
- **SODA MĄTWY Group** - Buildings acquired by Soda Polska CIECH Sp. z o.o. as a result of a merger with the company Soda Med Sp. z o.o. These are buildings leased for medical outpatient clinics, nursing and treatment rooms as well as private doctor's and dentist's offices. In 2011 part of the investment real property was sold (clinic building) – sale price PLN 900 thousand.

16 Investment property (continued)

- **Z. Ch. „Organika-Sarzyna" S.A. -** 40 buildings and structures located in the area of Z.Ch. Z.Ch. "Organika-Sarzyna" S.A., in the past used by the company for its own needs, currently leased to obtain profit due to revenues from lease payments.
- **S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. -** Employee hotel both for the employees of S.C. Uzinele Sodice Govora - Ciech Chemical Group S.A. and third parties. Letting for employees is on market conditions. As at December 31st, 2011, the fair value of investment real property in the Ciech Group's companies amounted to PLN 7,084 thousand. Due to the fact that the overall value of investment properties in the Ciech Group is irrelevant in relation to the total value of assets of the Group, no valuation to the fair value is done as at the balance sheet date, except for real estate held by CIECH S.A. The costs of valuation would exceed the benefits from obtaining such information.

In connection with signing the consortium loan agreement and establishment of hedges on Ciech Group companies' assets, they have a limited right to dispose of their investment property, including a sale prohibition.

PLN '000	**01.01.-31.12.2011**	**01.01.-31.12.2010**
Revenues from investment property rental	2,621	2,442
Operating costs related to investment real property generating rental revenues in a given period	1,911	2,249
Other operating costs related to investment real property not generating rental revenues in a given period	992	2,542

17 Long-term receivables

PLN '000

LONG-TERM RECEIVABLES	**31.12.2011**	**31.12.2010**
Receivables on voids	71,477	32,514
Other	750	7
Net non-current receivables	**72,227**	**32,521**
Write-down on receivables	-	-
Gross non-current receivables	**72,227**	**32,521**

18 Investments in associates and jointly-controlled entities measured under the equity method

The following table presents values of investments in associates and jointly-controlled entities measured under the equity method:

PLN '000

INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES	**31.12.2011**	**31.12.2010**
Investments in associates and jointly-controlled entities	4,655	4,344
Share in net profit of subsidiaries valued under the equity method	46	(6,610)

Other investments in associates

Kaverngesellschaft Stassfurt GmbH

CIECH S.A. holds 50% indirect share in Kaverngesellschaft Stassfurt GmbH. It is a jointly-controlled company, measured under the equity method at the lower-tier group level - Soda Deutschland Ciech Group (50% direct share in Kaverngesellschaft Stassfurt GmbH).

The table below presents abridged information regarding investments in Kaverngesellschaft Stassfurt GmbH:

PLN '000	**31.12.2011**	**31.12.2010**
Share in the capital	**50%**	**50%**
Fixed assets	1,721	2,024
Current assets	2,376	2,433
Equity	1,155	2,334

PLN '000	**31.12.2011**	**31.12.2010**
Non-current liabilities	1,182	167
Current liabilities	1,760	1,956
Sales revenues	4,413	5,232
Profit before tax	372	1,702
Income tax	(110)	(494)
Net result	262	1,208

The company is not listed on the stock exchange, which is why there is no published fair value of these investments. Balance sheet dates and reporting periods of associated companies are identical as the Group's.

Zachem UCR
On September 27th, 2011, ZACHEM S.A. signed an agreement on the sale of 6,495 shares in ZACHEM UCR Sp. z o.o. in favour of a Consortium composed of the following companies: PETRO MECHANIKA S.A., PETRO Re Mont Sp. z o.o., PETROELTECH S.A. The abovementioned agreement is implemented in two stages:

1st stage – sale of 4,869 shares, which which constitute 74.97 % of the share capital. The payment for the shares will be made within 7 days (November 28th, 2011) from the submission to the Buyer by ZACHEM S.A. of the documents confirming:
- consent of the Lenders and Creditors for the release of shares from all collaterals, burdens and limitations established by the Seller in relation with the existing Loan Agreement and the Agreement Between Creditors or change of applicable financial and registered pledges on Shares concluded by the Seller in relation with the existing Loan Agreement of the new Loan Agreement, pursuant to which the Seller will no longer be a pledgor due to these pledges.
- removal of registered pledges set by the seller on the shares in respect of the existing Loan Agreement and the New Loan Agreement from the register of pledges or removal of the Seller from the register of pledges as a pledgor for registered pledges on the shares established by the Seller in connection with the existing Loan Agreement and the new Loan Agreement,

The ownership of shares was transferred to the Buyer on November 28th, 2011, i.e. upon the payment of the entire sale price.
2nd stage - sale of 1,626 (25.03%) shares, no later than by September 30th, 2013, the payment for the shares will be made on the same conditions as in the 1st stage.

With relation to the abovementioned, as at the balance sheet date on December 31st, 2011 25.03% of shares in Zachem UCR Sp. z o.o. is measured using the equity method.

The table below presents abridged information regarding investments in Zachem UCR Sp. z o.o.:

PLN '000	**31.12.2011**
Share in the capital	**25.03%**
Fixed assets	7,333
Current assets	9,922
Equity	4,139
Non-current liabilities	2,554
Current liabilities	10,562
Sales revenues	38,041
Profit before tax	442
Income tax	(58)
Net result	384

19 Other long-term investments

PLN '000

NON-CURRENT FINANCIAL ASSETS	31.12.2011	31.12.2010
Shares	23,128	33,645
Bank deposits	17,700	15,874
Other	87	74
TOTAL	**40,915**	**49,593**

Long-term bank deposits are presented as a financial bond amounting to EUR 4,000 thousand that constitutes a hedge on the guarantee granted by Bank Pekao S.A. to the benefit of S.C. CET Govora S.A. The guarantee was established on the demand of CIECH S.A. on January 23rd, 2007, pursuant to an agreement on awarding a guarantee, to hedge the performance of an obligation made by US Govora S.A. and CIECH S.A.

PLN '000

CHANGE OF WRITE-DOWNS ON LONG-TERM ASSETS	31.12.2011	31.12.2010
Opening balance	**2,785**	**3,420**
Created	2,158	77
Reversed/released	(170)	(334)
Used	(1,348)	(304)
Other	1	(74)
Closing balance	**3,426**	**2,785**

20 Inventory

PLN '000

INVENTORY	31.12.2011	31.12.2010
Materials	160,939	131,450
Semi-finished products and work in progress	27,513	26,145
Finished products	128,519	127,688
Goods	18,620	11,950
TOTAL	**335,591**	**297,233**

PLN '000

CHANGE OF INVENTORY WRITE-DOWNS	31.12.2011	31.12.2010
Opening balance	**10,468**	**20,313**
Created	8,213	8,151
Reversed/released	(6,513)	(12,570)
Utilization	(1,288)	(4,799)
FX differences	321	(243)
Other	(134)	(383)
Closing balance	**11,067**	**10,468**

The Ciech Group creates write-downs on inventory in conjunction with impairment due to the damage and for slow moving inventory. Write-downs on inventory are also created for inventory whose value exceeds the net selling price. Their reversal occurs as a result of the use or sales of inventory in the course of business activity, while their use was the result of inventory liquidation.

21 Current receivables

PLN '000

TRADE AND OTHER RECEIVABLES	31.12.2011	31.12.2010
Trade receivables	543,839	509,153
- up to 12 months	543,591	503,003
- over 12 months	-	5,198
- prepayments on inventory	248	952
Prepayments for fixed assets	18,820	5,515
Escrow receivables	16,877	17,924
Receivables on voids	4,024	6,977
Public and legal receivables (excluding income tax)	147,541	115,998
Receivables from sales of emission allowances	-	10,373
Certificates of origin of the red energy	21,028	8,420
Receivables from sales of tangible fixed assets	7,129	2,425
Receivables from custodial activities	11,833	28,677
Insurance receivables	4,012	4,438
Receivables from external services	9,404	2,742
Factoring receivables	38,676	13,110
Other receivables	17,403	5,660
NET TRADE AND OTHER RECEIVABLES	**840,586**	**731,412**
Write-downs on trade receivables, including	58,176	73,795
- write-down created in the current reporting period	7,448	9,837
Write-downs on other current receivables, including	9,209	12,018
- write-down created in the current reporting period	1,662	282
GROSS TRADE AND OTHER RECEIVABLES	**907,971**	**817,225**

PLN '000

CHANGE OF WRITE-DOWNS ON CURRENT RECEIVABLES	31.12.2011	31.12.2010
Opening balance	**85,813**	**95,446**
Establishment	9,110	10,119
Reversal	(3,638)	(7,550)
Utilization	(14,634)	(3,852)
Transfer from/to assets held for sale	(10,555)	(7,891)
FX differences	1,276	(334)
Other increases/decreases	13	(125)
Closing balance	**67,385**	**85,813**

Write-downs on current receivables were created for negotiated, disputed, interest, past due and doubtful receivables and for receivables from companies in bankruptcy. Their reversal occurred as a result of receivables payment and their use was the result of writing-off the receivables due to ineffective enforcement and bankruptcy of companies on whose receivables the write-downs were created.

PLN '000

PAST DUE TRADE RECEIVABLES, INCLUDING OUTSTANDING RECEIVABLES	31.12.2011	31.12.2010
Up to 1 month	61,255	57,363
Between 1 and 3 months	16,407	17,789
3 to 6 months	7,650	5,721
6 months to 1 year	5,720	4,263
Above 1 year	46,622	63,534
Total (gross) past due trade receivables	**137,654**	**148,670**
Write-downs on past due trade receivables	50,732	69,500
Total (net) past due trade receivables	**86,922**	**79,170**

21 Current receivables (continued)

PLN '000

DISPUTED AND PAST DUE RECEIVABLES (CURRENT AND NON-CURRENT)	31.12.2011	31.12.2010
(Gross) disputed receivables by title:	**6,910**	**1,127**
Trade receivables including:	6,910	1,127
Receivables not recognised as "Receivables claimed at court"	6,910	1,127
Receivables not subject to write-downs	4,967	-
Other	1,943	-
(Gross) past due receivables by title:	**60,809**	**68,081**
Trade receivables including:	60,806	68,078
Receivables not subject to write-downs	41,309	54,555
Other	19,497	13,523
Other, including:	**3**	**3**
Receivables not subject to write-downs	3	3
TOTAL	**67,719**	**69,208**

The terms of transactions with related entities have been presented in section 39.1 of Notes to the consolidated financial statements.
Commercial contracts concluded by the Ciech Group include different 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.

22 Short-term investments

PLN '000

SHORT-TERM INVESTMENTS	31.12.2011	31.12.2010
Borrowings granted	500	503
Shares	1,005	30
Total (net) current financial assets	**1,505**	**533**
Write-downs on current financial assets	1,767	1,750
Total (gross) current financial assets	**3,272**	**2,283**

PLN '000

CHANGE OF WRITE-DOWNS ON CURRENT INVESTMENTS	31.12.2011	31.12.2010
Opening balance	**1,750**	**2,992**
Establishment	1,934	-
Reversal	(1,917)	-
Utilization	-	(1,242)
Closing balance	**1,767**	**1,750**

23 Cash and cash equivalents

PLN '000

CASH AND CASH EQUIVALENTS	31.12.2011	31.12.2010
Bank accounts	85,095	129,144
Short-term deposits	57,416	47,535
Cash in hand	352	358
Other cash	2,942	40
Cash and cash equivalents – value in the balance sheet	**145,805**	**177,077**
Overdraft facility	6,744	-

CASH AND CASH EQUIVALENTS	31.12.2011	31.12.2010
Cash reclassified to non-current assets held for sale	9,983	31,317
Cash and cash equivalents – value in the cash flow statement	**149,044**	**208,394**

As at December 31st, 2011 cash with the carrying value of PLN 17,667 thousand (PLN 15,841 thousand in 2010) were limited due to the financial bond amounting to EUR 4,000 thousand that constitutes a hedge on the guarantee granted by Bank Pekao S.A. to the benefit of S.C. CET Govora S.A. The guarantee was established on the demand of CIECH S.A. on January 23rd, 2007, pursuant to an agreement on awarding a guarantee, to hedge the performance of an obligation made by US Govora S.A. and CIECH S.A. This bond is disclosed as a long-term deposit.

24 Capitals

As at the date of this report, the carrying amount of the share capital of the parent, CIECH S.A. amounted to PLN 287,614 thousand and included the capital from the issued shares and the adjustment due to hyperinflation. As at the date of adopting the IFRS, i.e. January 1st, 2004, the share capital of the Company was recalculated due to hyperinflation between 1989 and 1996. Hyperinflation adjustment of PLN 24,114 thousand decreased the value of retained profits.

The total number of votes resulting from all issued shares of the Company, after the share capital raise registration, 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.

The share capital as at December 31st, 2011 and December 31st, 2010 included the following series of shares:

SHARE CAPITAL	31.12.2011	31.12.2010
	pcs.	pcs.
Ordinary bearer A series shares of the face value of PLN 5 each	20,816	20,816
Ordinary bearer B series shares of the face value of PLN 5 each	19,775,200	19,775,200
Ordinary bearer C series shares of the face value of PLN 5 each	8,203,984	8,203,984
Ordinary bearer D series shares of the face value of PLN 5 each	23,000,000	-
Ordinary bearer E series shares of the face value of PLN 5 each	1,699,909	-
TOTAL	**52,699 909**	**28,000,000**

The shares of all series are ordinary shares and are not accompanied by any additional rights, privileges or restrictions as to dividend distribution or capital return.

ORDINARY SHARES – ISSUED AND FULLY PAID-UP	pcs.	PLN '000.
As at December 31st, 2011	52,699 909	287,614
As at December 31st, 2010	28,000,000	164,115

Share premium

Share premium resulted from the surplus achieved upon the issue of C, D and E series shares above their face value.

Other reserve capitals

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

PLN '000

OTHER RESERVE CAPITALS BY PURPOSE	31.12.2011	31.12.2010
Commercial risk fund	3,330	3,330
Fund for purchasing soda companies	15,200	15,200
Development funds	60,169	60,169
Consolidation adjustments	(1,602)	(1,602)
Other	1,424	1,424
Other reserve capitals - total	**78,521**	**78,521**

24 Capitals (continued)

Cash flow hedge
Cash flow hedge contains valuation and settlement of hedge instruments to which the requirement of cash flow hedge accounting requirements apply.

Net currency translation differences (investments in foreign companies)
The balance of this item of equity represents f/x differences from the valuation of receivables from borrowings recognised as net investment in a foreign entity.

Currency translation differences (foreign companies)
The balance of this capital item is adjusted by f/x differences resulting from recalculation of financial statements of foreign subsidiaries, i.e. CIECH - POLSIN PRIVATE LIMITED, S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A., Soda Deutschland Ciech Group, DALTRADE PLC.

Non-controlling interest
S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. recorded negative equity as at December 31st, 2011. Profit and loss as well as any comprehensive income components are attributable to capital of owners of the parent and to non-controlling interest even if this attribution results in a negative value of non-controlling assets.

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

On February 10th, 2011 the Ciech Group entered into a loan agreement with the consortium of commercial banks and EBRD in order to improve the term structure of the debt (extension of loan maturity dates). The signed loan agreement will expire in March 2016.

The Group's equity structure covers its debts, including loans and bonds disclosed in the notes 25 and 30, cash and cash equivalents and equity attributable to controlling shareholders, including shares issued, reserve capitals and retained profit, disclosed in the note 24.

24 Capitals(continued)

Tax effect of every component of Other Comprehensive Income of the Ciech Group

	01.01.-31.12.2011			01.01.-31.12.2010		
PLN '000	**Before tax**	**Tax**	**Net after tax**	**Before tax**	**Tax**	**Net after tax**
Currency translation differences (foreign companies)	(16,056)	-	(16,056)	9,673	-	9,673
Revaluation of available-for-sale financial assets	-	-	-	6,111	(2,242)	3,869
Cash flow hedging	(9,471)	1,799	(7,672)	(21,826)	5,699	(16,127)
Net currency translation differences (investments in foreign companies)	31,955	-	31,955	(10,353)	-	(10,353)
Other components of other comprehensive income	(1)	-	(1)	(169)	(1)	(170)
Other net comprehensive income	**6,427**	**1,799**	**8,226**	**(16,564)**	**3,456**	**(13,108)**

Income tax and reclassification adjustments in other comprehensive income

Other gross comprehensive income *PLN '000*	change in the period	**01.01-31.12.2011**	change in the period	**01.01-31.12.2010**
Currency translation differences (foreign companies)		**(16,056)**		**9,673**
- measurement for the current period	(16,056)		9,673	
Revaluation of available-for-sale financial assets		**-**		**6,111**
- measurement at fair value in the period	-		6,111	
Net currency translation differences (investments in foreign companies)		**31,955**		**(10,353)**
- change resulting from the change in exchange rate in the period	31,955		(10,353)	
Cash flow hedging		**(9,471)**		**(21,826)**
- measurement at fair value in the period	(5,065)		17,823	
- reclassification adjustment of profit/loss presented in the income statement	(4,406)		(39,649)	
Other	**(1)**	**(1)**	**(169)**	**(169)**
Income tax attributable to other components of other comprehensive income		**1,799**		**3,456**
- for the current period	962		(5,629)	
- reclassification adjustment to the income statement	837		9,085	
Other net comprehensive income		**8,226**		**(13,108)**

25 Non-current liabilities

PLN '000

NON-CURRENT LIABILITIES	31.12.2011	31.12.2010
Liabilities on credits, loans and other debt instruments	**190,916**	**495,343**
Liabilities due to loans and borrowings	190,916	195,407
Issue of debt securities	-	299,936
Other non-current liabilities	**257,803**	**231,196**
Liabilities due to assignment of claims	29,647	33,170
Financial lease liabilities	11,594	17,541
Subsidies	44,514	41,606
Liabilities due to PUT options	8,834	7,921
Liabilities due to derivatives	4,876	-
Sale and lease back liabilities	158,105	128,734
Other financial liabilities	233	-
Other	-	2,224
TOTAL	**448,719**	**726,539**

PLN '000

NON-CURRENT LIABILITIES WITH THE REMAINING REPAYMENT PERIOD CALCULATED FROM THE BALANCE SHEET DATE	31.12.2011	31.12.2010
Between 1 and 3 years	387,308	240,857
Between 3 and 5 years	25,948	456,108
Over 5 years	35,463	29,574
TOTAL	**448,719**	**726,539**

LOANS *(PLN '000)* **Type and amount of interest**	**Total 31.12.2011**	**between 1 and 2 years**	**between 2 and 5 years**	**over 5 years**
Alwernia S.A.				
Agencja Rozwoju Przemysłu S.A., WIBOR 3M+ margin	**8,824**	1,176	3,528	4,120
Soda Deutschland Ciech Group				
Commerzbank, EURIBOR 3M + bank margin	**10,768**	10,768	-	-
Commerzbank, EURIBOR 3M + bank margin	**70,337**	28,572	41,765	-
Commerzbank, EURIBOR 3M + bank margin	**100,987**	-	100,987	-
TOTAL	**190,916**	**40,516**	**146,280**	**4,120**

LOANS *(PLN '000)* **Type and amount of interest**	**Total 31.12.2010**	**between 1 and 2 years**	**over 2 years to 5 years**	**over 5 years**
ZACHEM Group				
WIOŚ borrowing, 0.7 rediscount rate in effect on the date of signing or on the first day of the year	**410**	410	-	-
Soda Deutschland Ciech Group				
Commerzbank, EURIBOR 3M + bank margin	**104,346**	31,476	72,870	-
Commerzbank, EURIBOR 3M + bank margin	**90,651**	-	90,651	-
TOTAL	**195,407**	**31,886**	**163,521**	**-**

26 Information about loan agreements

- **Information about the ratios included in loan agreements**

No loan agreement was called to maturity and there were no deadlines of repaying capital or interest due to financial liabilities recognised in the balance sheet were violated in the period covered by this statement. According to Company's calculations, the required interest coverage ratio specified in the Loan Agreement was not achieved (total consolidated net debt to consolidated EBITDA measured for the Ciech Group, excluding Soda Deutschland Ciech Group) as at December 31st, 2011. The ratio level calculated by the Company was 4.0 compared to the level required in the Loan Agreement - 3.4. On February 16th, 2012 CIECH S.A. applied to the lenders for the annulment of the requirement to achieve the level of the ratio as at December 31st, 2011.
Pursuant to a letter dated March 15th, 2011, the Lenders waived the right to claim agreement violation resulting from the violation of financial ratio on condition that the Net Financial Leverage ratio in the Calculation Period ending December 31st, 2011 will be lower than 4.2.
This waiver of the right to claim the agreement violation involves the payment by CIECH S.A. of fees payable to the Lenders.

Debt financing of the Group

Debt financing of the Group is guaranteed by:

- loans provided to CIECH S.A. and S.C. US Govora – Ciech Chemical Group S.A. pursuant to consortium loan agreement dated February 10th, 2011 (as at December 31st, 2011 — the outstanding debt of PLN 716 million),
- bonds issued by CIECH S.A. (as at December 31st, 2011 — the outstanding debt of PLN 300 million)
- loans provided to Soda Deutschland Ciech GmbH under a loan agreement with Commerzbank AG (as December 31st, 2011 – debt of approx. EUR 51 million).

Consortium loan agreement dated February 10th, 2011

On February 10th, 2011, CIECH S.A., being the borrower, entered into a loan agreement ("Loan Agreement") with its subsidiaries, being guarantors, (Janikowskie Zakłady Sodowe Janikosoda S.A., Inowrocławskie Zakłady Chemiczne Soda Mątwy S.A., Soda Polska Ciech sp. z o.o., Alwernia S.A., Cheman S.A., Z. Ch. "Organika Sarzyna" S.A., POLFA sp. z o.o., VITROSILICON S.A., Transclean sp. z o.o. and ZACHEM S.A.(the "companies")) and Bank DnB Nord Polska S.A., Bank Handlowy w Warszawie S.A. ("Loan Agent"), Bank Millennium S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., ING Bank Śląski S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. (jointly referred to as "Commercial Banks"). On February 15th, 2011, the European Bank for Reconstruction and Development (EBRD) acceded the Loan Agreement. S.C. Govora – Ciech Chemical Group S.A. ("Govora") also joined the agreement as a guarantor and borrower.

Loans granted

The following loans were released pursuant to the Loan Agreement:

1. a dual currency refinance fixed-term loan in PLN and EUR in a total amount of PLN 696 million, granted by the Commercial Banks ("Fixed-term Loan") in order to refinance debt following from the loan agreement of April 26th, 2010, whereby 25% of the amount of the Fixed-term Loan was used in EUR; the loan was disbursed on September 29th, 2011.
2. a multi currency revolving (renewable) loan (also available in the form of guarantees and letters of credit) of a total amount of PLN 100 million granted by Commercial Banks ("Renewable Loan"); the loan was disbursed on September 29th, 2011.
3. an additional guarantee line amounting to EUR 9.6 million granted to the benefit of S.C. CET Govora S.A. by Bank Polska Kasa Opieki S.A. ("Additional Guarantee Line Pekao"),
4. a fixed-term investment loan in EUR on an equivalent of PLN 300 million granted by the EBRD ("Investment Loan") in order to finance and refinance capital expenditure of the Ciech Group within an investment programme, subject to a required own contribution of at least 40% of financed or refinanced capital expenditure borne since the day of signing the loan agreement. The Investment Loan will be available for release between September 1st, 2012 and November 30th, 2012.

The interest rate applicable for the loans is variable, based on WIBOR / EURIBOR plus margin; the margin is different for loans in PLN and EUR, it is variable over time and depends on the ratio of net debt to operating result plus depreciation (EBITDA).

Conditions precedent

The Investment Loan will be made available upon obtaining a positive opinion of a technical advisor regarding the executed investments, in particular confirming the stage of completion of the modernisation of Elektrociepłownia Janikowo in accordance with the adopted investment schedule and upon the fulfilment of other conditions specified in the Loan Agreement.

26 Information about loan agreements (continued)

Loan repayment conditions

Main terms of loan repayment:

- amortisation of the loans in the amount specified in a schedule to the Loan Agreement for the period from 30 December 2011 until 31 March 2016,
- obligatory early repayment of loans is required under the following circumstances:
  - change of control – in the total amount of the loans granted if (a) the State Treasury ceases to be the shareholder of at least 10,270,800 shares in CIECH S.A. and shares subscribed for as part of the rights issue, (b) any third party other than the State Treasury becomes the majority shareholder of CIECH S.A. and holds at least 50% of the issued share capital of CIECH S.A., or (c) any third party other than the State Treasury or a group of persons acting in concert gains control over CIECH S.A., provided that the change of control at the consent of the majority of the syndicated banks specified in the agreement or upon the fulfilment of additional conditions, including the level of net debt ratio to the operational results increased by the amortisation (EBITDA) does not result in the obligation of the mandatory prepayment of the loans;
  - increase of the share capital – the prepayment of the loans in the amount of proceeds obtained from the public offering or another increase of the share capital of CIECH S.A. or specified in the agreement of the Ciech Group Material Members (i.e. guarantors, selected Ciech Group companies and Ciech Group companies with the value of net assets exceeding PLN 25 million), provided that after the fulfilment of the additional conditions, including the level of net debt ratio to the operational results increased by the amortisation (EBITDA), the increase of the share capital and proceeds obtained thereunder do not result in the obligation of the mandatory prepayment of the loans;
  - excess cash flow - if any quarterly financial statements of CIECH S.A. (starting with the quarterly financial statements for the period ending on December 31st, 2013) demonstrate that the average of cash balances at the end of each quarter in the calendar year exceeds the thresholds provided for in the Loan Agreement for each period – the prepayment of the loans in the amount of such excess cash flow;
  - sale of assets of Zakłady Chemiczne Alwernia S.A. and Vitrosilicon S.A. or sale of shares in these companies – allocation of the aggregate amount of net proceeds from the sales in a given quarter to the prepayment of the loans (subject to specific exceptions indicated in the Loan Agreement);
  - material proceeds under any insurance policy for any loss or damage to its assets or business, to the extent such amounts are not used to replace or repair the assets (subject to specific exceptions indicated in the Loan Agreement);
  - illegality on the part of the Commercial Banks or EBRD;
  - proceeds from future financing replacing the existing financing with bonds issued by CIECH S.A. in December 2007 with the value of PLN 300 million, in the amount not exceeding the value of the bonds as at the date of signing of the Loan Agreement – the Loan Agreement allows (a) for the bonds to be redeemed without obtaining additional financing; and (b) if additional refinancing of bonds is obtained the Loan Agreement stipulates prepayment of the loans in the amount equal to the amount of the refinanced indebtedness under the bonds;
  - proceeds from the financing replacing the loans obtained under bilateral loan agreements entered into between CIECH S.A. and the following banks: Credit Agricole Corporate and Investment Bank S.A. Branch in Poland, BNP Paribas S.A., Branch in Poland and Fortis Bank S.A.– the Loan Agreement allows (a) repayment of the financing under the bilateral loan agreements, (b) accession of the above banks to the Loan Agreement or (c) obtaining refinancing from other banks and prepayment of the loans made available under the Loan Agreement in the aggregate amount equal to the total amount of the refinancing;
- final repayment date for Fixed-term Loan and Revolving Loan and Investment Loan - March 31st, 2016; final repayment date for the Pekao Ancillary Guarantee Loan –December 31st, 2014
- EBRD is entitled to suspend or withhold payments of the Investment Loan if the EBRD's Board of Directors decides to suspend or amend the rules of Poland's access to EBRD's resources in accordance with the provisions of international agreements establishing EBRD.

26 Information about loan agreements (continued)

Security of the repayment of the loans:
The loans granted under the Loan Agreement will be secured by:

- mortgages established on the Companies' and CIECH S.A.'s real property,
- registered and financial pledges over shares in the Companies and over shares in Soda Deutschland Ciech GmbH held by CIECH S.A.,
- registered pledges over movables and property rights of the Companies and CIECH S.A.
- financial pledges over bank accounts of the Companies and CIECH S.A.:
- assignments of rights under insurance policies issued in relation to the assets that are the subject of the security interests and conditional assignments of rights under intragroup loans or another type of credit instruments which will be used to distribute funds under the loans to the Companies and material commercial contracts of the Companies and CIECH S.A.
- sureties granted by the Companies and CIECH S.A.,
- statements on the submission to execution by the Companies and Ciech S.A.,
- power of attorney to access the Companies' and CIECH S.A.'s bank accounts,

Other material terms of the Loan Agreement:
On the basis of the Loan Agreement, CIECH S.A. and the Companies undertook furthermore, in particular that they:

- will keep the levels of the financial indices specified in the Loan Agreement, measured for the Ciech Group without the Soda Deutschland Ciech Group, tested quarterly: (i) net leverage ratio (consolidated total net debt to consolidated EBITDA); (ii) gearing ratio (consolidated total debt under chosen loans and bonds to the amount of the share capital of CIECH S.A.); (iii) debt service cover ratio (iv) guarantor cover ratio (value of the turnover and gross assets of the loan guarantors in relation to the turnover and gross assets of the Ciech Group without the Soda Deutschland Ciech Group) and (v) the minimum level of cash;
- will not establish new securities except for the permitted securities specified in the agreement,
- will not dispose of their assets, except for the disposals specified in the agreement (including the sale of a specified catalogue of assets designated for sale and disposals provided for in the investment programme of the Group),
- will not announce or pay dividend, except for the companies in which CIECH S.A. holds minimum 75% of direct or indirect control and Alwernia S.A.,
- will not assume financial indebtedness or grant borrowings, loans, guarantees and sureties in cases other than those permitted in the Loan Agreement,
- will make capital expenditures to the extent permitted by the Loan Agreement and investment programme of the Group;
- will not enter into a derivative transaction, except for the transactions permitted as part of the policy to secure financial risks accepted by the syndicate banks;
- if circumstances specified in the Loan Agreement occur - will establish registered pledges over particular movables of the Companies and CIECH S.A. with the value exceeding PLN 5 million.

27 The total limit of sureties granted to Banks Organisers and Medium-Exposure Banks, as at December 31st, 2011

Beneficiary's (company's) name	Amount of loans covered by surety	Granted surety limit	Surety period	Financial terms, including surety fee due to the company	Principal	Nature of relations between CIECH S.A. and the company which granted the surety
CIECH S.A.						
Bank Consortium: Banks Organisers of the loan: Bank Handlowy S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., ING Bank Śląski S.A., Bank Millennium S.A., Bank DNB NORD POLSKA S.A. European Bank for Reconstruction and Development.	Amount of loans covered by sureties as at 31.12.2011: EUR 10.9 million	Surety limit under the loan agreement: PLN 1,315 million	Until total repayment of liabilities covered by sureties	Fixed % of the surplus of granted surety over the surety required to hedge the actual amount of financing	S.C.Uzinele Sodice Govora S.A.	-
POLFA Sp. z o.o.						
Loan **Bank Consortium**: Banks Organisers of the loan: Bank Handlowy S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., ING Bank Śląski S.A., Bank Millennium S.A., Bank DNB NORD POLSKA S.A. European Bank for Reconstruction and Development.	Amount of loans covered by sureties as at 31.12.2011: PLN 541 million and EUR 39.6 million	Surety limit under the loan agreement: PLN 1,315 million	Until total repayment of liabilities covered by sureties	Fixed % of the surplus of granted surety over the surety required to hedge the actual amount of financing	CIECH S.A., S.C.Uzinele Sodice Govora S.A.	subsidiary
JANIKOSODA S. A.						
Loan **Bank Consortium**: Banks Organisers of the loan: Bank Handlowy S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., ING Bank Śląski S.A., Bank Millennium S.A., Bank DNB NORD POLSKA S.A. European Bank for Reconstruction and Development.	Amount of loans covered by sureties as at 31.12.2011: PLN 541 million and EUR 39.6 million	Surety limit under the loan agreement: PLN 1,315 million	Until total repayment of liabilities covered by sureties	-	CIECH S.A., S.C.Uzinele Sodice Govora S.A.	subsidiary
SODA MĄTWY S.A.						

Beneficiary's (company's) name	Amount of loans covered by surety	Granted surety limit	Surety period	Financial terms, including surety fee due to the company	Principal	Nature of relations between CIECH S.A. and the company which granted the surety
Loan **Bank Consortium**: Banks Organisers of the loan: Bank Handlowy S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., ING Bank Śląski S.A., Bank Millennium S.A., Bank DNB NORD POLSKA S.A. European Bank for Reconstruction and Development.	Amount of loans covered by sureties as at 31.12.2011: PLN 541 million and EUR 39.6 million	Surety limit under the loan agreement: PLN 1,315 million	Until total repayment of liabilities covered by sureties	-	CIECH S.A., S.C.Uzinele Sodice Govora S.A.	subsidiary
Soda Polska Ciech Sp. z o.o.						
Loan **Bank Consortium**: Banks Organisers of the loan: Bank Handlowy S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., ING Bank Śląski S.A., Bank Millennium S.A., Bank DNB NORD POLSKA S.A. European Bank for Reconstruction and Development.	Amount of loans covered by sureties as at 31.12.2011: PLN 541 million and EUR 39.6 million	Surety limit under the loan agreement: PLN 1,315 million	Until total repayment of liabilities covered by sureties	Fixed % of the surplus of granted surety over the surety required to hedge the actual amount of financing	CIECH S.A., S.C.Uzinele Sodice Govora S.A.	subsidiary
TRANSCLEAN Sp. z o.o.						
Loan **Bank Consortium**: Banks Organisers of the loan: Bank Handlowy S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., ING Bank Śląski S.A., Bank Millennium S.A., Bank DNB NORD POLSKA S.A. European Bank for Reconstruction and Development.	Amount of loans covered by sureties as at 31.12.2011: PLN 541 million and EUR 39.6 million	Surety limit under the loan agreement: PLN 1,315 million	Until total repayment of liabilities covered by sureties	Fixed % of the surplus of granted surety over the surety required to hedge the actual amount of financing	CIECH S.A., S.C.Uzinele Sodice Govora S.A.	subsidiary
Alwernia S.A.						
Loan **Bank Consortium**: Banks Organisers of the loan: Bank Handlowy S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., ING Bank Śląski S.A., Bank Millennium S.A., Bank DNB NORD POLSKA S.A. European Bank for Reconstruction and Development.	Amount of loans covered by sureties as at 31.12.2011: PLN 541 million and EUR 39.6 million	PLN 31.5 million.	Until total repayment of liabilities covered by sureties	Fixed % of the surplus of granted surety over the surety required to hedge the actual amount of financing	CIECH S.A., S.C.Uzinele Sodice Govora S.A.	subsidiary
Z.Ch. "Organika-Sarzyna" S.A.						

Beneficiary's (company's) name	Amount of loans covered by surety	Granted surety limit	Surety period	Financial terms, including surety fee due to the company	Principal	Nature of relations between CIECH S.A. and the company which granted the surety
Loan **Bank Consortium**: Banks Organisers of the loan: Bank Handlowy S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., ING Bank Śląski S.A., Bank Millennium S.A., Bank DNB NORD POLSKA S.A. European Bank for Reconstruction and Development.	Amount of loans covered by sureties as at 31.12.2011: PLN 541 million and EUR 39.6 million	PLN 300 million.	Until total repayment of liabilities covered by sureties	Fixed % of the surplus of granted surety over the surety required to hedge the actual amount of financing	CIECH S.A., S.C.Uzinele Sodice Govora S.A.	subsidiary
VITROSILICON S.A.						
Loan **Bank Consortium**: Banks Organisers of the loan: Bank Handlowy S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., ING Bank Śląski S.A., Bank Millennium S.A., Bank DNB NORD POLSKA S.A. European Bank for Reconstruction and Development.	Amount of loans covered by sureties as at 31.12.2011: PLN 541 million and EUR 39.6 million	Surety limit under the loan agreement: PLN 1,315 million	Until total repayment of liabilities covered by sureties	Fixed % of the surplus of granted surety over the surety required to hedge the actual amount of financing	CIECH S.A., S.C.Uzinele Sodice Govora S.A.	subsidiary
ZACHEM S.A.						
Loan **Bank Consortium**: Banks Organisers of the loan: Bank Handlowy S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., ING Bank Śląski S.A., Bank Millennium S.A., Bank DNB NORD POLSKA S.A. European Bank for Reconstruction and Development.	Amount of loans covered by sureties as at 31.12.2011: PLN 541 million and EUR 39.6 million	Surety limit under the loan agreement: PLN 1,315 million	Until total repayment of liabilities covered by sureties	Fixed % of the surplus of granted surety over the surety required to hedge the actual amount of financing	CIECH S.A., S.C.Uzinele Sodice Govora S.A.	subsidiary
Cheman S.A.						
Loan **Bank Consortium**: Banks Organisers of the loan: Bank Handlowy S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., ING Bank Śląski S.A., Bank Millennium S.A., Bank DNB NORD POLSKA S.A. European Bank for Reconstruction and Development.	Amount of loans covered by sureties as at 31.12.2011: PLN 541 million and EUR 39.6 million	Surety limit under the loan agreement: PLN 1,315 million	Until total repayment of liabilities covered by sureties	Fixed % of the surplus of granted surety over the surety required to hedge the actual amount of financing	CIECH S.A., S.C.Uzinele Sodice Govora S.A.	subsidiary

28 Employee benefits

PROVISIONS FOR EMPLOYEE BENEFITS	NON-CURRENT				CURRENT			
	31.12.2011		31.12.2010		31.12.2011		31.12.2010	
PLN '000	Provision for retirement benefits and service anniversary awards and disability severance pays	Other non-current provisions on employee benefits	Provision for retirement benefits and service anniversary awards and disability severance pays	Other non-current provisions on employee benefits	Provision for retirement benefits and service anniversary awards and disability severance pays	Other non-current provisions on employee benefits	Provision for retirement benefits and service anniversary awards and disability severance pays	Other non-current provisions on employee benefits
Opening balance	**65,112**	**1,279**	**62,640**	**1,615**	**9,029**	**935**	**8,934**	**-**
Establishment	3,136	-	3,374	913	3,762	257	4,459	83
Reclassification from/to long-term/short-term provisions	(1,384)	(302)	(1,698)	(861)	1,384	302	1,697	861
Change of discount rate	437	-	1,962	-	1,247	-	2,501	-
Transfer from/to assets held for sale	(171)	-	(241)	-	(59)	-	(13)	(238)
FX differences	533	127	(196)	(55)	-	84	-	(9)
Change in the Group structure	(2,246)	-	-	-	(99)	-	-	-
Use (payment of benefits)	(332)	-	(385)	(332)	(7,486)	(762)	(7,773)	-
Release	(774)	-	(352)	-	(210)	(83)	(748)	(27)
Other changes	(2,252)	-	7	-	-	3	(28)	266
Closing balance	**62,059**	**1,104**	**65,112**	**1,279**	**7,568**	**736**	**9,029**	**935**

Provisions for employee benefits include provisions for service anniversary awards and retirement benefits. Employee benefits are measured on the basis of actuarial valuations. Annual financial discount rate at the level of 5.77% was applied in order to calculate the current value of future liabilities due to employee benefits. The applied discount rate is established in the face value. At the same time, future inflation in the amount of 2.5% per annum was taken into account. The estimated nominal growth rate of remunerations is 3% in 2012-2015 and 4.5% in the following years.

Staff turnover is established based on historic data, adjusted for employment restructuring plans. The Ciech Group offers no employee share programmes, retirement pensions and other benefits after termination of employment. Information about employee benefits for the key managerial personnel was included in section 39.4 of Notes to the consolidated financial statements of the Ciech Group.

29 Provisions

PLN '000

CHANGE IN THE BALANCE OF OTHER LONG-TERM PROVISIONS 31.12.2011	Provision for restructuring	Provision for environmental protection	TOTAL
Opening balance	**335**	**61,667**	**62,002**
Establishment	-	1,984	1,984
Reclassification from/to long-term/short-term provisions	(335)	(5,417)	(5,752)
Change of discount rate	-	(3,514)	(3,514)
FX differences	-	2,439	2,439
Release	-	(4,492)	(4,492)
Closing balance	**-**	**52,666**	**52,666**

PLN '000

CHANGE IN THE BALANCE OF OTHER LONG-TERM PROVISIONS 31.12.2010	Provision for restructuring	Provision for compensation	Provision for liabilities	Provision for environmental protection	TOTAL
Opening balance	**-**	**454**	**1,416**	**70,746**	**72,616**
Establishment	335	-	-	778	1,113
Reclassification from/to long-term/short-term provisions	-	-	-	(8,934)	(8,934)
Change of discount rate	-	-	-	4,203	4,203
Transfer from/to assets held for sale	-	(300)	-	(265)	(565)
FX differences	-	-	28	(779)	(751)
Use (payment of benefits)	-	(154)	-	-	(154)
Release	-	-	(1,445)	(4,083)	(5,528)
Closing balance	**335**	**-**	**-**	**61,667**	**62,002**

29 Provisions (continued)

PLN '000

CHANGE IN THE BALANCE OF OTHER SHORT-TERM PROVISIONS 31.12.2011	Restructuring provision	Provision for compensation	Provision for liabilities	Provision for environmental protection	Provision for bonuses	Provision for costs of fixed assets liquidation	Provision for expected losses	Other provisions
Opening balance	**1,685**	**7,217**	**3,579**	**7,838**	**199**	**177**	**855**	**-**
Establishment	14	276	1,253	666	774	-	224	-
Reclassification from/to long-term/short-term provisions	335	-	-	5,417	-	-	-	-
Change of discount rate	-	-	-	1,340	-	-	-	-
Transfer from/to assets held for sale	-	-	(166)	-	-	-	-	-
FX differences	-	-	319	-	-	-	54	-
Use (payment of benefits)	(1,268)	-	(874)	(8,110)	(319)	(177)	(894)	(58)
Release	(356)	(1525)	(93)	(521)	-	-	-	-
Other	-	-	(2)	-	-	-	-	58
Closing balance	**410**	**5,968**	**4,016**	**6,630**	**654**	**-**	**239**	**-**

PLN '000

CHANGE IN THE BALANCE OF OTHER SHORT-TERM PROVISIONS 31.12.2010	Restructuring provision	Provision for compensation	Provision for liabilities	Provision for environmental protection	Provision for bonuses	Provision for costs of fixed assets liquidation	Provision for expected losses
Opening balance	**949**	**4,915**	**6,162**	**9,690**	**260**	**637**	**-**
Establishment	1,719	3,444	4,461	2,938	304	-	865
Reclassification from/to long-term/short-term provisions	-	-	-	8,935	66	-	-
Change of discount rate	-	-	-	1,331	-	-	-
Transfer from/to assets held for sale	-	-	(42)	(153)	(66)	-	-
FX differences	-	-	(205)	-	-	-	(9)
Use (payment of benefits)	(983)	-	(5,115)	(11,074)	(284)	(460)	-
Release	-	(1,142)	(1,692)	(3,817)	(81)	-	-
Other	-	-	11	(12)	-	-	-
Closing balance	**1,685**	**7,217**	**3,579**	**7,838**	**199**	**177**	**856**

29 Provisions (continued)

The largest provisions item of the Ciech Group is **provisions for environmental protection**, which include the following issues:

- **provision for the costs of land recultivation** was recognised in the statement of the SODA MĄTWY Group; it was calculated based on planned outlays until 2040 in accordance with the anticipated inflation ratio: 2.5%, adjusted by the discount ratio, calculated as the average of the ratio at the beginning and end of every annual period. The expenditure arising therefrom will amount to between PLN 600 thousand and PLN 1,700 thousand until 2042. The amount of the respective provision recognised in the statement amounts to PLN 9,201 thousand, whereby the short-term provision amounts to PLN 1,562 thousand.
- **provision for cleaning of infiltrates** in Alwernia S.A. in the amount of PLN 9,541 thousand (provision also takes into account the costs of cleaning waters from underneath the heap). The provision was created for 36 years and is settled gradually in the amount of incurred expenses.
- **provision for heap recultivation** in Alwernia S.A. in the amount of PLN 2,023 thousand. The provision was created for the costs of landfill site in accordance with the integrated permit valid until April 30th, 2017, and for the costs of closing the site, calculated based on a preliminary cost estimate. The landfill site is to be closed in 2017.
- **provision for environment recultivation** in ZACHEM S.A. calculated as the discounted value of future expenditure connected with repairing damages caused to the natural environment – date of economic benefits inflow – until 2016. The provision amounts to PLN 6,885 thousand.
- **provision for recultivation of land** in S.C S.C.Uzinele Sodice Govora – Ciech Chemical Group S.A. recognises a provision for area recultivation in the amount of PLN 765 thousand (RON 748 thousand)
- **costs of landfill recultivation** in Z.Ch. "Organika-Sarzyna" S.A. in the amount of PLN 945 thousand were calculated based on the tender cost estimate of recultivation works; it is a non-current provision. Tank recultivation is planned for 2013 and 2014, discounted by a 2.5% inflation ratio.
- **costs of water and soil recultivation** in Z.Ch. "Organika Sarzyna" S.A. in the amount of PLN 8,380 thousand include a current provision of PLN 2,178 thousand, and long-term provision of PLN 6,202 thousand. The provisions were estimated based on a real and financial project, including a schedule of works for the years 2008-2015, of expenses to be incurred, discounted by a 2.5% inflation ratio.
- at the end of 2011, **Soda Deutschland Ciech Group** recognised a provision for environmental protection amounting to PLN 21,554 thousand (EUR 4,880 thousand) including:
    - ✓ mine reclamation activities in the limestone,
    - ✓ reclamation of rainwater ponds in Unseburg,
    - ✓ remains of the old limestone outcrops.

Furthermore, as at December 31st, 2011, CIECH S.A. recognised an important item in provisions for compensation amounting to PLN 5,968 thousand.
The amount of PLN 3,698 thousand is connected with a potential claim (main amount plus interest liabilities and costs of court proceedings) pertaining to court cases described in section 33.1 of these financial statements.
This item also includes the provision of PLN 2,000 thousand for the charge for missing the deadline for the construction of building on the real estate at ul. Powązkowska, specified in the notarial deed concerning the transfer of the land into a perpetual usufruct.

The ZACHEM Group recognised a provision for restructuring calculated as discounted value of future expenditure connected with voluntary redundancy – term of economic benefits inflow – until 2012. The provision amounts to PLN 410 thousand.

Provisions for court proceedings of the entire Ciech Group have been presented in sections 33.1 and 33.2 of this consolidated financial statements. The amount of provisions is an estimated value and may be subject to change during actual realisation.

30 Current liabilities

PLN '000

CURRENT LIABILITIES DUE TO LOANS, BORROWINGS AND OTHER DEBT INSTRUMENTS	31.12.2011	31.12.2010
Liabilities due to loans and borrowings	716,828	1,118,540
Issue of debt securities (bonds)	300,835	682
TOTAL	**1,017,663**	**1,119,222**

30 Current liabilities (continued)

The terms of transactions with related entities have been presented in section 39.1 of Notes to the consolidated financial statements. Trade liabilities are not charged with interest. Commercial contracts concluded by the Ciech Group include different 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.

PLN '000

CURRENT TRADE AND OTHER LIABILITIES	31.12.2011	31.12.2010
Trade receivables	588,780	582,893
Up to 12 months	530,838	533,854
Above 12 months	53,544	45,469
Down payments received for supplies	4,398	3,570
Public and legal liabilities (excluding income tax)	37,477	38,330
Liabilities due to purchase of tangible fixed assets	88,328	63,744
Liabilities due to PUT options	4,120	33,399
Escrow liabilities	17,323	18,324
Liabilities due to derivatives.	6,493	10,558
Liabilities towards employees	13,856	13,148
Lease liabilities	12,586	10,317
Liabilities due to assignment of claims	9,285	8,316
Payroll liabilities	10,255	14,964
Provision for holiday pay	5,533	6,085
Tax and charges liabilities	4,161	5,770
Consumption of materials and energy	46,128	31,720
Subsidies liabilities	26,751	1,471
External services liabilities	1,754	2,411
Environmental usage liabilities	11,847	11,583
Water and sewage liabilities	4,929	23,247
Greenhouse gasses emission allowance liabilities	17,857	-
National management due to the deposit	2,265	4,050
Factoring liabilities	31,820	-
Other liabilities	27,675	28,445
TOTAL	**969,223**	**908,775**

31 Financial lease

The Ciech Group uses tangible fixed assets (mainly means of transport and plant and equipment) pursuant to financial lease agreements. The agreements include the option to return, extend the agreement or to buy all or part of the equipment after the lease period. In 2011, the balance sheet value of leased tangible fixed assets amounted to PLN 41,192 thousand. No contingent liabilities due to lease charges occurred. Lease agreements do not contain any restrictions as to dividends, additional indebtedness or additional lease agreements.

The face value and the current value of minimum lease charges are as follows:

PLN '000

31.12.2011	Face value of minimum lease charges	Future financial costs due to financial lease	Current value of minimum lease charges
Up to 1 year	13,819	1,233	12,586
Between 1 and 5 years	12,264	670	11,594
TOTAL	**26,083**	**1,903**	**24,180**

31 Financial lease (continued)

PLN '000

31.12.2010	Face value of minimum lease charges	Future financial costs due to financial lease	Current value of minimum lease charges
Up to 1 year	11,091	774	10,317
Between 1 and 5 years	18,030	490	17,541
TOTAL	**29,121**	**1,263**	**27,858**

No sublease agreements occurred in the Ciech Group. None of the Ciech Group's companies is a lessor.

Finance sale and lease back
Additionally, in the financial statements of the Soda Deutschland Ciech Group, the power heating plant was treated by the company as an asset being the subject of financial sale-and-lease-back. The power heating plant was sold by the Soda Deutschland Group to VASA Kraftwerke Pool and then acquired under a lease agreement. In the said relationship, the Soda Deutschland Group is the lessee of the power heating plant and VASA Kraftwerke Pool GmbH is the lessor. Therefore, the value represented by the power heating plant was recognised in the balance sheet of the Soda Deutschland Ciech Group. The value of repurchase amounts to PLN 156,280 thousand as at December 31st, 2011.

CIECH S.A. uses tangible fixed assets – IT equipment – under sale and lease back agreement. The agreements includes the option to return, extend the agreement or to buy all or part of the equipment after the lease period. As at December 31st, 2011, the balance sheet value of leased tangible fixed assets amounted to PLN 2,943 thousand.

32 Operating lease

The largest item being a subject of operating leasing in the Ciech Group, in accordance with assumed accounting principles, is the right to the perpetual usufruct of land obtained by way of administrative allocation. Furthermore, the Soda Deutschland Group recognises a long-term sewage system lease agreement effective until 2095 under operating lease. Group companies also recognise low-value tangible fixed assets, e.g. cars. Operating lease is 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 redeem the leased assets. No conditions of 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 conjunction with land revaluation.

Total amounts of future minimum lease charges are presented in the table below:

PLN '000

OPERATING LEASE LIABILITIES AS AT DECEMBER	31.12.2011	31.12.2010
Up to 1 year	12,222	5,151
Between 1 and 5 years	37,914	6,942
Over 5 years	71,020	100,399
TOTAL	**121,156**	**112,492**

Contingent lease charges recognised as the costs of the period amounted to PLN 1,992 thousand (PLN 1,805 thousand in the comparable period). No sublease agreements occurred in the Ciech Group. None of the Ciech Group's companies is a lessor.

33 Disputed liabilities and claims – details

33.1 Court and arbitration liabilities of CIECH S.A.

Action by Enapharm
In June 2004, the Liquidator for Enapharm in Algeria filed a claim, which now amounts to USD 222 thousand. (equivalent of PLN 759 thousand), as damages concerning deliveries of expired medications by CIECH S.A. between 1985 and 1991. In the plaintiff's opinion, CIECH S.A. failed to replace the medications unsold by the customer. In June 2007, an opinion of the court expert was delivered to CIECH S.A., notifying an increase in value of the medications subject to the complaint to USD 372 thousand (equivalent of PLN 1,271 thousand). In November 2007, the Algerian court announced the judgement in favour of CIECH S.A., in which it rejected the existing expert's report, declaring infringement of laws applicable to civil proceedings. At the same time, the court ordered a new expert opinion to be prepared and appointed a new expert, recommending that a representative of the defendant attends the next examination. In September 2009, Enapharm filed a motion for resumption of proceedings and rejection of the latest expert witness's opinion. On November 2nd, 2010 a new expert was appointed who did not undertake any actions. The representative informed CIECH S.A. on February 10th, 2012 that the new expert cannot be appointed due to the death of the previous expert (i.e. the one appointed on November 2nd, 2010). The case is pending before the Algerian Court. CIECH S.A. is represented by a local attorney, supervised by a reputable Paris law office. The case is pending.
Provision in the amount of PLN 759 thousand was created in CIECH S.A. for the above liabilities.

CIECH S.A. claims (domestic and foreign)

Claims submitted to court or arbitration proceedings
CIECH S.A. is currently conducting cases against its trade and other debtors for a total of PLN 10 thousand. The Company created a write-down in the full amount.

Claim of Polska Żegluga Morska
On December 31st, 2009, CIECH S.A. received a claim of Polska Żegluga Morska p.p. and Polstream Shipping Company Limited against CIECH S.A. for compensation amounting to USD 583 thousand, i.e. in accordance with the average currency exchange rate table of the Polish National Bank no. 240/A/NBP/2009 of December 9th 2009 - PLN 1,630 thousand. The claim was based on art. 160 § 3 of the naval code and refers to a compensation allegedly due to the plaintiff on account of CIECH S.A.'s non performance of the entirety of the charter agreement of October 15th, 2007 regarding transport of phosphates to Morocco. The case is pending before the Court of Arbitration at the International Chamber of Commerce in Warsaw. A contingent liability amounting to PLN 1,992 thousand was created on account of this claim.

Claim of AVAS
In 2009, AVAS (National Privatisation Agency in Romania) accused CIECH S.A. of non-performance of its information obligations under the Agreement for the Purchase of Shares in S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. (the Privatisation Agreement) and charged CIECH S.A. with contractual penalties. AVAS filed a petition against Ciech S.A. in the said case. Salans – the legal representative of CIECH S.A. – estimated the probability of accepting AVAS' s charges by a court of first instance (two appeal instances are not taken into account at this stage):

- For CIECH S.A.'s failure to fulfil its information obligations under paragraph 13.2.1 of the Privatisation Agreement with regard to claims incurring potential penalties in USD (USD 376 thousand + USD 10 thousand = USD 386 thousand) – medium to high probability;
- For non-performance of information obligations arising from section 13.11 of the Privatisation Agreement by CIECH S.A. with regard to charges threatened with a penalty of RON 1,669,334.23 – low or medium probability;
- For non-performance of information obligations arising from section 15.4 of the Privatisation Agreement by CIECH S.A. with regard to charges threatened with a penalty of RON 1,669,334.23 – after the wording of the claim was changed, medium probability;

At the beginning of October 2010, CIECH S.A. received a decision of the first instance court of October 1st, 2010 on the dismissal of all aforementioned claims of AVAS, declaring them as null and void.

As expected, AVAS appealed against this verdict of the first instance court to a court of appeals, second instance. This was done within the deadline, i.e. within 15 days from the date of receiving a statement of reasons issued by the court of first instance (March 2nd, 2011).
On September 8th, 2011 the first trial was held before the Court of Appeal and in the first week of October 2011, the second instance Court dismissed the AVAS' appeal entirely, upholding the decision of the first instance.
AVAS referred the case to the supreme court (third instance) in November 2011. The first trial before the supreme court will be held no sooner than at the end of the first quarter of 2012.

33 Disputed liabilities and claims – details (continued)
33.1 Court and arbitration liabilities of CIECH S.A. (continued)

Provision in the amount of PLN 1,319 thousand was created in CIECH S.A. for the above liabilities and contingent liabilities amounting to PLN 3,415 thousand were disclosed.

Claims for bankruptcy proceedings
A total of PLN 6,467 thousand is being claimed in domestic bankruptcy proceedings. The forecasts as for the bankruptcy proceedings are unfavourable due to the fact that the claims of CIECH S.A. are not preferential. The Company has created a write-down for all pending proceedings.

Claims due to enforcement and conciliatory proceedings
CIECH S.A. is claiming PLN 9,460 thousand from domestic debtors. The forecasts as for these proceedings vary depending on the debtor's assets. The Company has created a 100% write-down for the aforesaid receivables.

Foreign bankruptcy and enforcement proceedings
For foreign bankruptcy proceedings, CIECH S.A. allocated claims in the amount of USD 315 thousand (equivalent of PLN 1,076 thousand) and EUR 799.5 thousand (in total equivalent of PLN 3,531 thousand), and the amount of PLN 181 thousand, whereof the largest portion includes the following bankruptcy proceedings:

- Chemapol – Prague (PLN 1,187 thousand);
- Euroftal N.V. Belgium (PLN 922 thousand).

A claim of EUR 27 thousand (equivalent of PLN 119 thousand) is pending in a foreign enforcement proceeding, while a settlement proceeding was requested with regard to a receivable in the aggregate amount of EUR 457 thousand (equivalent to PLN 2,018 thousand), whereof the largest portion includes the settlement proceedings with EQUUS SPOL S.R.O. for the amount of EUR 443 thousand (equivalent to PLN 1,957 thousand).
In connection with CIECH S.A. entering into agreements with Euler Hermes and Coface regarding debt recovery services, files of foreign cases were handed to the aforesaid companies. However, both companies refused to accept the order although all debts from foreign cases were submitted by CIECH S.A. on time. Consequently, the Company is conducting those cases on their own account.

Other cases with CIECH S.A.'s participation
On October 15th, 2010, CIECH S.A. received a subpoena to appear in a hearing conducted by the President of the Commercial Court in Rennes (France). The subpoena was also sent to Zakłady Chemiczne Siarkopol in Tarnobrzeg. The subpoena is linked to a claim filed by Citis (a company with registered office in Colombes - France) and its insurer which were sued by two French manufacturers of animal food products. An expert witness appointed in the course of proceedings performed a number of evaluations in order to finally estimate the amount of damage borne by the French manufacturers, the supplier's liability and the compliance of French manufacturers with European and French food production procedures. According to the expert's opinion dated November 14th, 2011, the claim was estimated to the amount of about EUR 584 thousand (equivalent to PLN 2,579 thousand). CIECH S.A. sold oiled ground sulphur to Citis in 2009, the product was manufactured by Zakłady Chemiczne Siarkopol in Tarnobrzeg. Pursuant to Article 331 of the French code of civil proceedings, CIECH S.A. has the status of defendant sued by Citis, and with regards to the French food products manufacturers CIECH S.A. has the third party status. CIECH S.A. appointed a legal representative in France for the purpose of litigation. The insurer of CIECH S.A. also acceded to the case.

On December 15th, 2011, CIECH S.A. received a letter from Zakłady Azotowe "Puławy" S.A. ("ZAP") entitled: "Notice of breach of assurances (Notice of damage)," referring to the assurances that have been submitted by CIECH S.A. in the Conditional Agreement concerning the sale of shares in Gdańskie Zakłady Nawozów Fosforowych "Fosfory" Sp. z o.o. ("GZNF") concluded in December 16th, 2010 by CIECH S.A. and ZAP. The letter concerns an alleged breach of assurances by CIECH SA, which would result from irregularities in the conduct of the accounts and financial statements of Agrochem Sp. of o.o. based in Człuchów ("Agrochem") subsidiary of GZNF (all shares in GZNF were sold by CIECH S.A. to ZAP on April 27th, 2011). The letter does not include source material indicating only the general titles and amounts that in total, allowing for the updates sent by ZAP in February 2012, give the amount of the alleged claim of PLN 19 560 thousand (originally PLN 20,297 thousand).
After an exchange of letters between CIECH S.A. and ZAP, in a letter dated February 15th, 2012, ZAP informed that the verification of financial and accounting and tax records in Agrochem was still in progress and the letter of December 15th, 2011 Was intended to meet the deadline specified in the Conditional Agreement regarding the sale of shares for the notification of the damage. ZAP did not submit any supporting documents to the Company proving the alleged irregularities. Therefore it is impossible to analyse the alleged claims, and thus respond to the factual allegations and, consequently, the validity of the claims raised by ZAP. It must be also stressed that the financial statements of Agrochem for

33 Disputed liabilities and claims – details (continued)
33.1 Court and arbitration liabilities of CIECH S.A. (continued)

2010 was audited by the approved auditor who did not report any observations of irregularities in the conduct of the accounts and in the financial statements.
Given the above, as well as the fact that the Legal Office running the case has estimated the probability of resolving the case in favour of ZAP as low, this claim has been presented in the financial statements for 2011 by CIECH S.A. as a contingent liability (section 33.4 of the Notes to the financial statements).

Anti-dumping proceedings
Ciech SA reported its participation in accordance with the procedures of the EU, in the anti-dumping proceedings initiated by the European Commission on yellow phosphorus, imported from Kazakhstan to the EU. Case no. AD 583 (OJC 369/07 17.12.2011).

Claims regarding the property located in Warsaw at Powązkowska 46/50

1. Case is currently pending before the Local Government Appeals Court in Warsaw, Case File No. KOX/1596/Po/09.
By virtue of the letter of December 22nd, 2008 (file no. ZM.ZNO.722240-IV.3212/08/GL), the President of the Capital City of Warsaw cancelled the former annual charge paid by CIECH S.A. for the perpetual usufruct of land located in Warsaw at ul. Powązkowska 46/50, being the property of the State Treasury, marked as plot no. 41, precinct 7-02-09, and determined a new charge as of January 1st, 2009 amounting to PLN 590 thousand.
In conjunction with the aforesaid new charge, on January 28th, 2009, CIECH S.A. lodged a motion to the Local Government Appeals Court in Warsaw for declaring invalid the updated annual charge for the perpetual usufruct of land.
In the course of the above proceedings, CIECH S.A. requested an analysis of the appraisal study, being the basis for the increase of the charge for the perpetual usufruct of the plot. In March 2010, the representative of CIECH S.A. upheld the motion of October 2009 for proceedings suspension until the proceedings held in the Regional Court in Warsaw, 25th Civil Division under case file no. XXV C 1388/09 is completed.
On May 4th, 2010 the motion for proceedings suspension was refiled and, additionally, an Opinion of the Arbitration Commission at the Polish Federation of Valuers' Associations was added to the case file, the subject matter of the opinion was the appraisal study being the base for amendment of the perpetual usufruct charge. The aforementioned appraisal study was given a negative evaluation.
On December 22nd, 2011, the Legal Office representing the case was delivered a decision of the Local Government Appeals Court in Warsaw dated November 15th, 2011, in which the abovementioned termination of the current annual fee (currently having no definite amount in view the matters described in paragraph. 2) has been considered ineffective, making the position that the errors disclosed in the opinion of the Arbitration Commission deprive the legal consequences of this action. This decision is favourable to CIECH SA
On December 28th, 2011 the President of the Capital City of Warsaw lodged an appeal from this decision, addressed to the court.

2. 2. The case is currently being heard by the Regional Court in Warsaw, 25th Civil Division under Case File No. XXV C 1388/09 (file number for the case heard by the Local Government Appeals Court: Kox/584/Po/04).
The case is currently being heard by the Regional Court in Warsaw, 25th Civil Division under Case File No. XXV C 1388/09 (file number for the case heard by the Local Government Appeals Court: Kox/584/Po/04). By virtue of a letter of December 17th, 2003, delivered to CIECH S.A. on January 6th, 2004, the President of the Capital City of Warsaw cancelled as of December 31st, 2003 the previous charge for the perpetual usufruct of land located in Warsaw at ul. Powązkowska 46/50, being the property of the State Treasury, marked as plot no. 41, precinct 7-02-09. The new charge as of January 1st, 2004 amounted to PLN 500 thousand (previously PLN 26 thousand). As a result of an appeal lodged by CIECH S.A., the Local Government Appeals Court in Warsaw, pursuant to the decision of January 9th, 2009 (file no. KOX/584/Po/04), declared that CIECH S.A., being a perpetual lessee of the plot no. 41, is obliged to pay an annual charge amounting to PLN 409 thousand starting from January 1st, 2005. On January 29th, 2009, CIECH S.A. appealed against the aforesaid decision via the Local Government Appeals Court in Warsaw to the Regional Court in Warsaw, 25th Civil Division.

A court decision of March 10th, 2010 allowed evidence from expert witness's opinion regarding property evaluation. At the beginning of May 2010, the Regional Court delivered an appraisal study of the aforementioned plot prepared in the course of court proceedings, CIECH S.A. accepted the study without reservations. During a hearing on December 3rd, 2010, the court accepted a motion of Ciech S.A. that the appraisal study be evaluated by the Arbitration Committee at the Polish Federation of Valuers' Associations.
An opinion of June 20th, 2011 issued by the Arbitration Commission of the Polish Federation of Valuers was included in the case files, in which it was stated that the assessment drawn up during the proceedings correctly specifies the value of the property as at January 1st, 2005. A hearing in the above case was held on September 23rd, 2011 during which the Court accepted the motion of September 20th, 2011

33 Disputed liabilities and claims – details (continued)
33.1 Court and arbitration liabilities of CIECH S.A. (continued)

of the Lawyer's Office running the case to include the current user of the plot No. 41 in the proceedings - MARVIPOL S.A. The hearing was adjourned without scheduling another hearing and the new term will be scheduled automatically after the completion of tasks related to summoning the above company and presenting by the Lawyer's Office running the case specific questions to the authors of the above opinion dated June 20th, 2011.
On December 5th, 2011 the Legal Office running the case submitted a list of precise questions to the authors of the abovementioned opinion of the Arbitration Commission, which should be included in the further proceedings. Additionally, on January 5th, 2012, the Legal Office running the case was delivered a letter from the current user of the plot No. 41 in the proceedings - MARVIPOL S.A. dated October 5th, 2011, requesting to be admitted to the case as an intervene party. So far, Law Office handling the case has not been notified of the appointment of the the next hearing date in the pending court proceedings.
Due to the aforedescribed proceedings (in connection with perpetual usufruct charges on the plot in Powązkowska Street), CIECH S.A. created a provision amounting to PLN 1,890 thousand.

33.2 Court liabilities of subsidiaries

Soda Polska Ciech Sp. z o.o.
No claims were advanced against Soda Polska CIECH Sp. z o.o which might significantly affect its activity and the total amount of liabilities claimed by creditors amounts to PLN 500 thousand. No material claims (liabilities) have been filed against any company belonging to the Soda Polska CIECH Sp. z o.o. that could affect its business. In December 2011 an administrative proceedings was initiated by Kujawsko-Pomorski Wojewódzki Inspektorat Ochrony Środowiska w Bydgoszczy (Provincial Environmental Protection Inspectorate) concerning the stoppage of operation of OP-140 steam power boiler no. 4 and 5 at Soda Polska CIECH sp. z o.o., the combined heat and power plant of the JANIKOSODA production facility in Janikowo. The Company has taken appropriate steps for removal of the breach.
Proceedings are also pending against the company brought by the employee to recognize the termination of employment to be void or damages in the amount of PLN 15 thousand.
The amount of debts (including payment for goods) claimed in different proceedings is PLN 26,725 thousand, including Soda Polska claiming a debt totalling at PLN 820 thousand, in the course of numerous bankruptcy proceedings. The amount of receivables claimed in enforcement proceedings is PLN 25,853 thousand, including the largest item - PLN 25,514 thousand - the claimed receivable of PHU "STARTER" B. Lepiarz.
The total amount of receivables claimed in court proceedings by TRANSODA Sp. z o.o. is PLN 15 thousand of which the company seeks receivables from its debtors in a court and enforcement proceedings amounting to PLN 7 thousand and in a bankruptcy proceeding the amount of PLN 8 thousand.
Soda Polska Ciech Sp. z o.o. acquired the liabilities from PHU „STARTER" B. Lepiarz from JANIKOSODA S.A. and SODA MĄTWY S.A. However, the disclosure proceedings before the District Court in Częstochowa did not disclose any assets. The enforcement officer informed about the ineffectiveness of enforcement due to considerable debt and inability to satisfy the creditor's demands.
Soda Polska Ciech Sp. z o.o has created a write-down for all pending proceedings.

SODA MĄTWY S.A. and JANIKOSODA S.A.
On December 14th, 2011 a law firm Beiten Burkhardt, representing Gothear Finanzholding AG (Buyer) which acquired in 2010 shares in Polskie Towarzystwo Ubezpieczeniowe S.A. belonging to the Inowrocławskie Zakłady Chemiczne SODA MĄTWY SA and Janikowskie Zakłady Sodowe JANIKOSODA SA (seller) delivered a notification of the violation of the Share Purchase Agreement. The main accusation towards the Sellers is not providing full information to the Buyer, which would allow him for a proper evaluation of operations and financial, actuarial and legal position of PTU. In the notification sent to the buyer did not submit claims for payment, but merely pointed out that as a result of underestimation of the technical provisions it might have suffered damage for which the Seller (JANIKOSODA SA and MĄTWY SODA) are liable to the total amount of PLN 24,981 thousand. The buyer has declared the will to settle the case amicably.
In response, the law firm handling the case (legal advisor to the Sellers in the sale of shares in PTU) acting on behalf of the Sellers, on January 31st, 2012 sent to the Buyer a letter, completely rejecting the Seller's charges.
Given the above and the opinion of legal advisers appointed in this case who pointed out low probability of winning the case by the Buyer, JANIKOSODA SA and SODA MĄTWY S.A. recognize the claim as unfounded. In the statements as at December 31st, 2011 no adjustments were made on this account in the form of additional provisions or additional off-balance sheet commitments.

33 Disputed liabilities and claims – details (continued)
33.2 Court liabilities of subsidiaries (continued)

"VITROSILICON" Spółka Akcyjna
No claims (liabilities) have been filed against the company, which might affect its commercial activity. The company is claiming a total of PLN 628 thousand from trade debtors, including the largest claim pursued through enforcement proceedings for PLN 434 thousand and through bankruptcy proceedings for PLN 151 thousand. "VITROSILICON" Spółka Akcyjna has created a write-down for all pending proceedings.

ALWERNIA S.A.
No claims (liabilities) have been lodged against Alwernia S.A. which might significantly affect its business activity. An action by the employee is pending against the Company for reinstatement. A case initiated by the Starostwo Chrzanów is pending against the company concerning the settlement of a land and mortgage register. Ciech SA reported its participation in accordance with the procedures of the EU, in the anti-dumping proceedings initiated by the European Commission on yellow phosphorus, imported from Kazakhstan. Joint claims against E.M.D. Polska sp. z o.o. as a guarantor and EMD PL sp. z o.o. as the original debtor for the total amount of PLN 1,750 thousand are secured with a mortgage and a registered pledge to the amount of PLN 1,500 thousand. A title for part of the claim in the amount of PLN 250 thousand has been obtained. Currently, the execution of the property will be initiated under writ of execution. No write-down has been created for the abovementioned claim.
"Alwernia" S.A. is claiming a total of PLN 674 thousand due to trade receivables in court actions and enforcement proceedings. A total of PLN 1,694 thousand is claimed in bankruptcy proceedings. "Alwernia" S.A. has created a write-down for all legal claims taking into account the collaterals held.

CHEMAN S.A.
No claims (liabilities) have been lodged against Cheman S.A. which might significantly affect its business activity. Cheman S.A. filed court cases against several dozens of trade debtors for a total of PLN 4,656 thousand, including PLN 1,802 thousand claimed in court and enforcement proceedings. Receivables amounting to PLN 980 thousand were lodged to the bankruptcy proceedings. Cheman S.A. has created a write-down for all pending proceedings.

CIECH FINANCE Sp. z o.o.
No claims (liabilities) have been lodged against Cheman S.A. which might significantly affect its business activity. There is a case pending against the Company for the amount of PLN 100 thousand for the return of a deposit of two times the payment made for the acquisition of the property. Provision in the amount of PLN 120 thousand was created in CIECH S.A. for the above liabilities.

POLFA Sp. z o.o.
No claims (liabilities) have been lodged against the company POLFA Sp. z o. o. which might affect its business activity. The company is claiming a total of USD 650 thousand (equivalent of PLN 2,221 thousand) and EUR 842 thousand from trade debtors for unpaid deliveries of goods. The claims asserted in bankruptcy proceedings amount to EUR 283 thousand (equivalent to PLN 1,250 thousand).

Z. Ch. "ORGANIKA-SARZYNA" Spółka Akcyjna
No material claims (liabilities) have been lodged against Z.Ch. Organika – Sarzyna S.A. which might affect its business activity. There are two employee cases pending against the company for the total amount of PLN 54 thousand. Z.Ch. "Organika-Sarzyna" S.A. is claiming an amount of PLN 1,537 thousand from a number of domestic companies in bankruptcy, settlement and enforcement proceedings of which the most significant portion are claims for trade and other receivables in the total amount of PLN 543 thousand. The amount claimed in enforcement proceedings is PLN 736 thousand and in bankruptcy and settlement proceedings PLN 258 thousand. The company has created a write-down for all pending proceedings.

ZACHEM Group
No claims (liabilities) have been lodged against the ZACHEM Group which might affect its business activity. There is a case pending against ZACHEM S.A. in the amount of PLN 1,896 thousand for the payment of the outstanding remuneration for the execution of an agreement and several cases filed by employees of the company for the total amount of PLN 48 thousand. Furthermore, private persons filed against the Company a claim for payment of PLN 21 thousand on account of non-contractual usage of property (prescriptive easement of land). The ZACHEM Group's claims pending in business lawsuits, bankruptcy, enforcement, administrative and other proceedings total PLN 7,083 thousand, the largest claim being PLN 3,906 thousand in bankruptcy proceedings.

33 Disputed liabilities and claims – details (continued)
33.2 Court liabilities of subsidiaries (continued)

The amount of PLN 1,180 thousand is being vindicated in executory. The Group created a write-down for all pending proceedings in the amount of PLN 7,083 thousand.

TRANSCLEAN Sp. z o.o.
There were no significant claims (liabilities) filed against TRANSCLEAN Sp. z o.o. which might affect its business activity. The company filed court claims against several dozen of trade debtors for a total of PLN 25 thousand claimed in court and enforcement proceedings. TRANSCLEAN Sp. z o.o. created a write-down for the aforementioned liabilities.

Soda Deutschland Ciech Group
No claims (liabilities) have been lodged against the Soda Deutschland Group which might affect its business activity. One claim was filed against the Company by VASA Kraftwerke-Pool GmbH&Co. for the payment of EUR 4,165 thousand (equivalent of PLN 18,396 thousand) due to the unpaid electricity bills from 2008. On 24 March 2011 the District Court of first instance in Magdeburg ordered SWS KG to pay outstanding principal and interest for 2008, from which SWS has appealed to the court of second instance.
Regardless of the pending litigation the parties have negotiated the terms of repayment of liabilities, which amount to a total of about EUR 14,000 thousand (equivalent to PLN 61,835 thousand) net for the years 2008-2010 and for the first half of 2011. As a result of these negotiations SWS paid to VASA EUR 4,000 thousand (equivalent to PLN 17,667 thousand). Another EUR 3,000 thousand (equivalent to PLN 13,250 thousand) will be paid by May 2nd, 2012. In exchange for the approval of the abovementioned amounts and terms VASA approved the reduction of energy liabilities of SWS by EUR 7,000 thousand.
Moreover, an employee claim is pending, lodged by a former Member of the Management Board of Sodachem for unlawful termination of work agreement. The claimant demands a compensation in the amount of EUR 1,400 thousand (equivalent of PLN 6,184 thousand) plus interest.
As a result of a case won by SWS in the labour court, the maximum amount being the subject of the dispute was reduced by half and now amounts to EUR 708 thousand (PLN 3,127 thousand).
Provision in the amount of EUR 365 thousand (PLN 1,612 thousand) was created for the above liabilities.

S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A.
No claims have been lodged against S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. which might affect its business activity. There are 9 proceedings pending against the company including 4 employee claims which have no substantial impact on the Company's business activities.
S.C. Uzinele Sodice Govora - Ciech Chemical Group S.A. is claiming a total of RON 245 thousand (equivalent of PLN 251 thousand) from various debtors in 31 business lawsuits whereas in 17 enforcement proceedings the company is claiming total amount of RON 245 thousand (equivalent to PLN 251 thousand).
The remaining claims refer to amounts litigated from multiple debtors for the total amount of RON 2,389 thousand (PLN 2,443 thousand) of which the largest proceeding amounts to RON 1,268 thousand (equivalent to PLN 1,297 thousand) and refers to penalty charged by Wody Rumuńskie for using water without extending the subscription and two proceeding for the total amount of USD 350 thousand (PLN 1,196 thousand) for the refund of trade receivables. Additionally there are cases initiated by the Company against one of the former directors of the Company for the total amount of RON 2,037 thousand (PLN 2,066 thousand).
S.C. Uzinele Sodice Govora - Ciech Chemical Group S.A. filed a motion to the Court of Appeals in Bucharest for annulment of the Decision no. 75/26.02.2010 issued by ANAF (Tax Administration Authority) after an audit performed in USG. The total amount is RON 7,969 thousand (equivalent of PLN 8,149 thousand) which constitutes the VAT paid after the ANAF audit + accrued interest. Currently the amount is RON 7,115 thousand (equivalent of PLN 7,276 thousand). From the remaining amount of RON 854 thousand (equivalent of PLN 873 thousand) the recovered amount is RON 424 thousand (PLN 434 thousand), while the amount of RON 429 thousand (PLN 439 thousand) is still outstanding. The case is pending.
S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. created a provision for the aforementioned liabilities (excluding the tax paid) amounting to RON 3,578 thousand (PLN 3,659 thousand)

Exchange rates used in calculations:
USD 1= PLN 3.4174
EUR 1 = PLN 4.4168
RON 1 = PLN 1.0226

33 Disputed liabilities and claims – details (continued)
33.3 Investment liabilities

CIECH S.A. has the following tasks and obligations arising from share purchase agreements:

a) Z.Ch. "Organika-Sarzyna" S.A. and ZACHEM S.A.

No.	Item	Z.Ch. "Organika-Sarzyna" S.A.	ZACHEM S.A.
1	Investment liabilities	Company's implementation of Guaranteed Investments totalling PLN 130,000 thousand within 7* years from the date of purchase. **As at December 31st, 2011, guaranteed investments for the amount of PLN 130,000 were realised.**	Company's implementation of Guaranteed Investments totalling PLN 176,120 thousand within 8* years from the date of purchase. **Realization of the Guaranteed Investments in ZACHEM S.A. as at 31.12.2011 – in accordance with the Purchaser's Interim Statement, amounted to PLN 157,128.4 thousand.**
2	Contractual penalties due to failure to realise Guaranteed Investments	Payment for the benefit of the Seller of a penalty amounting to 50% of the difference between the required and realised amount of increases made in the Company within 7 years from the date of purchase. In the case of failure to satisfy the Restricting Condition (1 in the amount of: At least 107% of non-current assets – Ciech S.A. shall be obliged to pay a penalty of PLN 150 thousand At least 100% but not more than 107% - CIECH S.A. will be obliged to pay a penalty of 20% of the difference between the value corresponding to 110% of the Company's non-current assets and the value of constant capitals at the end of a given reporting period. If the value of constant capitals is less than 100% of non-current assets, CIECH S.A. will be obliged to pay a penalty amounting to the sum of the following values: 100% difference between the value of long-term capital and the value corresponding to 100% of non-current assets at the end of a given reporting period, and 20% of the difference between the value corresponding to 110% of the Company's non-current assets at the end of a given reporting period and the value of long-term capital at the end of a given financial year.	Payment for the benefit of the Seller of a penalty amounting to 50% of the difference between the required and realised amount of increases made in the Company within 8 years from the date of purchase.
3	Contractual penalties due to non-fulfilment of the obligation to maintain the Company's Core Activity	Payment for the benefit of the Seller of a penalty amounting to 50% of the Company's sales revenues for 2005 but not more than 50% of the purchase price.	Payment for the benefit of the Seller of a penalty amounting to 50% of the Company's sales revenues for 2005 but not more than 100% of the purchase price.
4	Contractual penalties due to performing prohibited decrease of the Company's share capital and redemption of shares	Payment for the benefit of the Seller of a penalty amounting to 100% of the share capital decrease or, in the case of share redemption, of the remuneration paid to shareholders in conjunction with the redemption.	Payment for the benefit of the Seller of a penalty amounting to 100% of the share capital decrease or, in the case of share redemption, of the remuneration paid to shareholders in conjunction with the redemption.

5	Contractual penalties due to performing prohibited disposal or encumbrance of shares	Payment for the benefit of the Seller of a penalty amounting to 100% of the product of the number of sold or encumbered shares and the share price.	Payment for the benefit of the Seller of a penalty amounting to 100% of the product of the number of sold or encumbered shares and the share price.
6	Contractual penalties due to performing prohibited division or merger of the Company	Payment for the benefit of the Seller of a penalty equal to the purchase price.	Payment for the benefit of the Seller of a penalty equal to the purchase price.

33 Disputed liabilities and claims – details (continued)

33.3 Investment liabilities (continued)

7	Contractual penalties due to non-fulfilment of the obligation to retain profit in the Company	Payment for the benefit of the Seller of a penalty amounting to 80% of the dividend paid out by the Company.	Payment for the benefit of the Seller of a penalty equal to the dividend paid out by the Company to shareholders other than the Seller.
8	Liability for violating the State Treasury's right to appoint one person as a member of the Company's Supervisory Board	Payment for the benefit of the Seller of a penalty being the product of PLN 30 thousand and the number of days for which the Company's Articles of Association did not include a specific rights of the State Treasury.	Payment for the benefit of the Seller of a penalty being the product of PLN 30 thousand and the number of days for which the Company's Articles of Association did not include a specific rights of the State Treasury.
9	Liability for non-compliance with the obligation to provide the Purchaser's Report	Payment of a penalty of: PLN 1 thousand for every day of delay up to 14 days, PLN 50 thousand for every day of delay exceeding 14 days	Payment of a penalty of PLN 30 thousand for every day of delay

On October 11th, 2010 CIECH S.A. and Nafta Polska S.A. during liquidation signed annexes to the agreement regarding the sale of ZACHEM S.A. shares and to the agreement regarding the sale of Z.CH. "Organika-Sarzyna" S.A. shares of March 29th, 2006. The key provisions of the annex to the agreement regarding the sales of ZACHEM S.A. shares extend the realisation period for guaranteed investments by three years for three investment tasks, i.e. electrolysis conversion, implementation of new ECH technology, increase of TDI production capacity to 90 thousand tons p.a. The annex to the sales agreement regarding Z.Ch. Organika-Sarzyna S.A. shares extends the realisation period for guaranteed investments by two years for one investment task, i.e. the construction of a production installation of the active substance MCPA with accompanying infrastructure.

[1)] Restricting Condition:

ZACHEM S.A.

The agreement contains "a restricting condition". The restricting condition is calculated as the ratio of long-term capital to non-current assets on the basis of the Separate Financial Statements, prepared according to PAS. On June 30th, 2011, the ratio level be equal to the Initial Value increased by 50 percentage points was reached. Pursuant to the Agreement (Annex no. 3 dated January 10th, 2011) the level of the Ratio as at December 31st, 2011 was not tested and the Company's obligation to maintain the Ratio level will not apply. The report on the execution of the ratio was submitted to the Office of MSP Toruń (legal successor of Nafta Polska S.A.) within the required deadline by August 28th, 2011.

Z.Ch. "Organika - Sarzyna" S.A.

At the same time, the Company had to fulfil the condition of maintaining the liabilities' structure in "Organika Sarzyna" S.A. on such level that the value of long-term capital (equity/ own funds, non-current provisions and liabilities with maturity over one year) constitutes at least 110% of non-current assets as defined in the Accounting Act (with the exception of the right of the perpetual usufruct of land gained by virtue of a law or by way of an administrative decision). At the end of 2011 this condition was fulfilled.

33 Disputed liabilities and claims – details (continued)
33.3 Investment liabilities (continued)

Purchase of employee shares – ZACHEM S.A.

Additionally, pursuant to § 13 of Appendix 14 to the agreement concerning the acquisition of 80% shares in Zachem S.A., CIECH S.A. obliged to repurchase shares distributed free of charge to individuals authorised in accordance with Art. 36 of the Act dated August 30th, 1996 on Commercialisation and Privatisation of Public Enterprises. The motion for share repurchase could be lodged within 60 days from the second, third and fourth anniversary of the acquisition of shares in Zachem S.A. by CIECH S.A. Authorised individuals held not more than 2,220,000 shares in Zachem S.A. The guaranteed share repurchase price amounted to 75% of the price provided in the agreement concerning the acquisition of 80% of the shares in Zachem S.A.
On April 15th, 2011 the final 4th stage of employee shares repurchase was completed in ZACHEM S.A., CIECH S.A. purchased 239,316 shares, which constitutes 2.021% of Company shares, for PLN 1.2 million. The obligation to purchase employee shares was fulfilled.

Purchase of employee shares – Z. CH. "Organika-Sarzyna" S.A.

Additionally, pursuant to Chapter X of Appendix 13 to the agreement concerning the acquisition of 80% shares in Sarzyna S.A., CIECH S.A. obliged to repurchase shares distributed free of charge to individuals authorised in accordance with Art. 36 of the Act dated August 30th, 1996 on Commercialisation and Privatisation of Public Enterprises. The request for share repurchase may be lodged after the expiry of statutory restrictions between April 1st and April 30th every year. Authorised individuals held not more than 1,273,500 shares in Sarzyna S.A. The guaranteed share repurchase price amounts to:

- after April 30th, 2008 – PLN 20 per share,
- after April 30th, 2009 – PLN 23 per share,
- after April 30th, 2010 – PLN 26 per share,
- after April 30th, 2011 – PLN 29 per share,

and will amount to:

- after April 30th, 2012 – PLN 32 per share,
- after April 30th, 2013 – PLN 35 per share.

On June 17th, 2011, CIECH S.A. completed the first stage of the acquisition process of (employee) shares in Z.Ch. Organika-Sarzyna S.A. and acquired 36,435 ordinary registered shares Series "A" (constituting 0.429% of the Company's shares) for a total of PLN 1.1 million.

The offer to purchase the remaining shares of ZACHEM S.A. and the offer to purchase the remaining shares of Z.Ch. "Organika- Sarzyna" S.A.

"Organika Sarzyna" S.A., on December 20th, 2006, the Company placed to the State Treasury an irrevocable offer to purchase the remaining shares of ZACHEM S.A. and an irrevocable offer to purchase the remaining shares of Z.Ch. "Organika Sarzyna" S.A., which were later amended by agreements between the Company and the State Treasury of January 5th, 2010, December 28th, 2011 and May 26th, 2011.
In the agreement dated May 26th, 2011, the parties decided that the State Treasury will acquire E series ordinary bearer shares in the increased share capital of CIECH S.A. issued by CIECH S.A. with a nominal value of PLN 5 each by way of a private subscription pursuant to art. 431 § 2 item 1) of the Commercial Companies Code and will pay for the New Issue Shares with a contribution in kind in the form of:

- 571,826 ordinary bearer shares with a nominal value of PLN 2.30 each, with the total nominal value of PLN 1,315,199.80, representing 25.01% of the share capital of Zakłady Chemiczne "Alwernia" Spółka Akcyjna, having its registered office in Alwernia ("Alwernia Shares");
- 762,224 ordinary registered shares with a nominal value of PLN 10.00 each, with the total nominal value of PLN 7,622,240.00, representing 5.15% of the share capital of Zakłady Chemiczne "ZACHEM" Spółka Akcyjna, having its registered office in Bydgoszcz ("Zachem Shares");
- 429,388 ordinary registered shares with a nominal value of PLN 10.00 each, with the total nominal value of PLN 4,293,880.00, representing 5.06 % of the share capital of Z. Ch. „Organika-Sarzyna" S.A. in Nowa Sarzyna ("Organika -Sarzyna Shares"");

At the same time, pursuant to the Agreement the State Treasury undertook that:

- by the date the increase in the share capital of CIECH S.A. by the issue of New Issue Shares is registered by a registry court or
- by December 31st, 2011, whichever occurs earlier,

the State Treasury will not accept, including unconditionally, conditionally or with a reservation of the deadline, an irrevocable offer to purchase shares in ZACHEM S.A. or an irrevocable offer to purchase shares in Z. Ch. "Organika-Sarzyna" S.A., based on which CIECH S.A. made, in 2006, the offer to the State Treasury for buying from the State Treasury of these shares on conditions indicated in these offers. The share capital raise was registered in the National Court Register on August 10th, 2011.

33 Disputed liabilities and claims – details (continued)
33.3 Investment liabilities (continued)

In order to perform the obligations under the agreement, on July 27th, 2011 the Company and the State Treasury of the Republic of Poland (“State Treasury”) entered into the Agreement for the Acquisition of Shares and Transfer of a Contribution in Kind (“Agreement”). Pursuant to the Agreement:

- The State Treasury has acquired 1,699,909 series E ordinary bearer shares in the increased share capital of CIECH S.A., with a nominal value of PLN 5 each, with a total nominal value of PLN 8,499,545. The issue price was PLN 26.06 for one share;

- The State Treasury has transferred onto CIECH, as a contribution in kind covering series E shares, and CIECH has acquired:
  - Alwernia S.A. 571,826 series A ordinary bearer shares with a nominal value of PLN 2.30 each, with the total nominal value of PLN 1,315,199.80, representing 25.01% of the share capital of the Company.
    Alwernia SA, having its registered office in Alwernia ("Alwernia Shares”) and

  - 762,224 series A ordinary registered shares with a nominal value of PLN 10.00 each, with the total nominal value of PLN 7,622,240.00, representing 5.15% of the share capital of Zakłady Chemiczne "ZACHEM" Spółka Akcyjna, having its registered office in Bydgoszcz ("Zachem Shares"); and

  - Alwernia S.A. 429,388 series A ordinary registered shares with a nominal value of PLN 10.00 each, with the total nominal value of PLN 1,315,199.80, representing 5.06% of the share capital of the Company.
    Z. Ch. “Organika-Sarzyna" S.A., having its registered office in Nowa Sarzyna ("Organika-Sarzyna Shares").

The total value of Alwernia Shares, Zachem Shares and Organika-Sarzyna Shares accounts for PLN 44,299,635.84.
As a result, the obligation to purchase from the State Treasury the remaining shares in ZCh Zachem S.A. and ZCh Organika-Sarzyna S.A. has been fulfilled.

By March 30th, 2011 CIECH S.A. will submit a final Report of the Buyer from the fulfilment of all conditions resulting from the Agreement Regarding the Sale of Shares in Zakłady Chemiczne Organika-Sarzyna S.A.

b) S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A.

No.	Obligation arising under the US Govora share purchase agreement	Penalty for non-performance
1	Obligation not to suggest, support or decide about any changes in the subject of activity described in the Statute. There is a possibility to supplement the subject of activity.	10% of share purchase price
2	Obligation to obtain min. 70% of annual turnover from the Company’s business included in the subject of its activity on the date of signing the agreement.	5% of unrealised difference in turnover up to the level of 70%
3	Obligation to maintain posts held by existing employees for 5 years from the date of transferring share ownership.	5% of share purchase price
4	Obligation not to make decisions about mergers, divisions, liquidation, dissolution, voluntary liquidation, legal reorganisation and/or bankruptcy.	10% of share purchase price
5	Obligation to convince USG not to sell assets under annex 1.12 without AVAS’ written consent.	market value of asset sold
6	Obligation to protect, promote and not to sell USG’s brand names, trademarks, service marks, patents and licenses.	10% of share purchase price
7	Obligation to inform AVAS about any changes in the registered office, name, division or merger of CIECH S.A.	10% of share purchase price
8	Obligation not to dispose of all or some of the acquired shares until fulfilling all obligations under the agreement without the seller’s written consent.	Cancellation of agreement
9	Obligation to obtain AVAS’s written consent for the assignment of the privatisation agreement.	Cancellation of agreement
10	Obligation not to use the acquired USG’s shares as a guarantee of other own liabilities until realising all obligations under the agreement.	Cancellation of agreement

Moreover, CIECH S.A. obliged to execute investment liabilities from own means amounting to USD 2.5 million (in the opinion of the Company the liability was fulfilled but as at the balance sheet date was not confirmed by AVAS

- National Privatisation Agency in Romania) and to provide free of charge production know-how, technological methods (save for licenses), marketing data, selling market access, qualification methods, design methods (save for licenses), human resources methods, IT systems methods, economic and financial methods, etc. to the extent set out in the Romanian legal regulations.

33 Disputed liabilities and claims – details (continued)

33.4 Guarantees and sureties, and other off-balance sheet assets and liabilities

The table below presents off-balance sheet items, including guarantees and sureties granted by the Ciech Group to other entities (from outside the Ciech Group). The description of sureties and guarantees granted to related entities (within the Ciech Group) has been included in the table "Sureties and guarantees granted".

OFF-BALANCE SHEET ITEMS *PLN '000*	**31.12.2011**	**31.12.2010**
1. Contingent assets	**663**	**-**
- other off-balance sheet receivables	663	-
2. Contingent liabilities	**105,122**	**99,071**
- guarantees and sureties granted	36,320	39,952
- other off-balance sheet liabilities	42,493	36,046
- other	26,309	23,073

As at December 31st, 2011, the contingent assets amounted to PLN 663 thousand. This is the amount to which the Company Z. Ch. "Organika-Sarzyna" SA may supplement the resulting incomplete promissory note to the company implementing for the Company as a performance bonds.

The amount of contingent liabilities as at December 31st, 2011 was PLN 105,122 thousand, which signifies an increase by PLN 6,051 thousand in relation to the balance as at December 31st, 2010.

Change of contingent liabilities in comparison with the state as at December 31st, 2010 results mainly from:

- expiry of a contingent liability in CIECH S.A. of PLN 17,253 thousand due to non-achievement of the ratio required under the agreement for the purchase of ZACHEM S.A.'s shares,
- changing EUR exchange rate applied by Soda Deutschland Ciech to calculate, among others, the recognised a potential provision for recultivation of ponds, which will be created in case it is required by the waste management regulations,
- expiry of the guarantee granted by ZACHEM SA to Spółka Wodna Kapuściska for an amount of PLN 3,632 thousand in connection with the repayment of the loan,
- change in the RON exchange rate in S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. for the conditional liability towards CET Govora,
- Alwernia SA's obligations for the purchase of property, plant and equipment and intangible assets amounting to PLN 648 thousand,
- calculation of the possible environmental penalty in the estimated amount of PLN 3,900 thousand in Soda Mątwy Group due to a failure of boilers. At the balance sheet date and the date of the report no dimensional decision was received. If the decision is obtained, the penalty will be offset against future investment,
- contingent liability of PLN 19,560 thousand in connection with a claim filed by ZA Puławy resulting from an alleged violation of provisions of the agreement regarding the sale of shares in GZNF Fosfory. GZNF "FOSFORY" Sp. z o.o.

34 Information about agreements concluded with the entity authorised to audit the Ciech Group's consolidated financial statement

The entity authorised to audit financial statements for the period from January 1st, 2011 to December 31st, 2011 was KPMG Audyt Sp. z o.o. with its registered office in Warsaw.
On June 27th, 2011, an agreement on examination of semi-annual and audit of annual financial statements was signed with KPMG Audyt Sp. z o.o.

KPMG Audyt Sp. z o.o. is also an auditor of the biggest consolidated subsidiaries of CIECH S.A., i.e.

- ZACHEM Group,
- Soda Mątwy Group,
- Soda Deutschland Ciech Group,
- S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A.
- Z.Ch. "Organika – Sarzyna" S.A.,
- VITROSILICON Spółka Akcyjna,
- Alwernia S.A.
- Ciech Pianki Sp. z o.o.

The entity authorised to audit financial statements for the period from January 1st, 2010 to December 31st, 2010 was Deloitte Audyt Sp. z o.o. with its registered office in Warsaw.

34 Information about agreements concluded with the entity authorised to audit the Ciech Group's consolidated financial statement (continued)

PLN '000	Parent entity CIECH S.A.		Subsidiaries of the Ciech Group subject to consolidation	
	2011	**2010**	**2011**	**2010**
Audit of the annual financial statements	147	220	723	1,360
Other auditing services, including the examination of the financial statements	124	154	519	686
Tax advisory services	-	-	12	128
Other services	-	313	9	79

35 Objectives and principles in financial risk management

The aim of financial risk management policy is to indicate areas requiring risk analysis, to present means to identify and measure it, to establish 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 risk, including:
  - currency risk,
  - interest rate risk,
  - raw material and product price risk.

While fulfilling its main goals, the Group aims to avoid excessive market risk. This aim 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 portfolio effect resulting from the variety of conducted business activity. Risk effects are materialised in the cash flow statement, balance sheet and the statement of Ciech Group's results.

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

Interest rate risk
The Group finances its activity mainly through interest bearing debt, including loans and bonds, corresponding expenditure borne by the Group is dependent on the reference rate and margin (in case of the loan agreement of February 10th, 2011 and the agreement regarding the loan granted to Soda Deutschland by Commerzbank AG, margin dependent on financial result). Therefore, the Group is exposed to risk of change of financial costs due to changing interest on existing debt. This may result in increased financial costs and, consequently, deteriorate the Ciech Group's financial result.

IRS instrument hedges interest payments based on a variable interest rate due on account of the loan agreement between Soda Deutschland and Commerzbank AG.

The table below presents the consolidated balance sheet items exposed to interest rate risk:

PLN '000	**31.12.2011** **Total carrying value**	**31.12.2010** **Total carrying value**
Fixed interest rate instruments	**(11,369)**	**(10,558)**
Financial assets	-	-
Financial liabilities	(11,369)	(10,558)
Floating interest rate instruments	**(1,093,198)**	**(1,475,911)**
Financial assets	146,305	193,453
Financial liabilities	1,239,503	1,669,364

The table below shows the effects of a change in the interest rate by 100 base points over the floating interest rate instruments disclosed in the balance sheet.

35 Objectives and principles in financial risk management(continued)

PLN '000	Income statement		Equity*	
	increase by 100 bp	**decrease by 100 bp**	**increase by 100 bp**	**decrease by 100 bp**
31.12.2011			-	-
Floating interest rate instruments	(10,932)	10,932	-	-
Interest rate swap transactions	(114)	114	**-**	**-**
Exposure of net cash flows (net)	***(11,046)***	***11,046***	-	-
31.12.2010				
Floating interest rate instruments	(16,958)	16,958	-	-
Interest rate swap transactions	(106)	106	-	-
Exposure of net cash flows (net)	**(17,064)**	**17,064**	**-**	**-**

** The influence of the financial result on equity is not taken into account.*

Currency risk

Currency risk is an intrinsic component of running commercial activity denominated in foreign currencies. Due to the nature of conducted import and export operations, the Ciech Group is subject to currency exposure connected with considerable advantage of export activity over import activity. Sources of currency risk which threatened companies within the Group in 2011 included: purchase of raw materials, product sale, loans and borrowings raised 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. Soda Deutschland was excluded from the analysis since its functional currency is EUR, all reported operating cash flows of this company are performed in this currency.

The tables below present the maximum exposure of financial instruments to currency risk denominated in foreign currencies:

PLN '000	31.12.2011	
	EUR, including:	**USD, including:**
Trade receivables	175,480	83,935
Trade liabilities	125,947	56,716
Liabilities due to loans and borrowings	365,225	19,084
Net value	**(315,692)**	**8,135**

PLN '000	31.12.2010	
	EUR, including:	**USD, including:**
Trade receivables	169,433	58,461
Trade liabilities	219,969	57,678
Liabilities due to loans and borrowings	293,112	1,482
Value of derivatives (delta equivalent)	10,558	-
Net value	**(354 207)**	**(700)**

35 Objectives and principles in financial risk management(continued)

The table below presents the estimated currency exposure of the Ciech Group in Euro as at December 31st, 2011 due to financial instruments and future net operating revenues (excluding SDC figures):

Exposure to currency risk in EURO	(EUR '000)
Assets	
Borrowings granted sensitive to FX rate changes	85,800
Trade and other receivables	30,067
Bank deposits	4,000
Liabilities	
Trade and other liabilities	(12,584)
Liabilities due to loans and borrowings	(39,589)
Future net sales planned	
Forecasted future net result* in EUR (12 months)	**193,730**
Forecasted future net result* in EUR – other companies of the CIECH Group (12 months)	**11,309**
Total result	**272,733**

* net result = operating revenues in EUR – operating costs in EUR

The table contains an analysis of the sensitivity of individual balance-sheet items to FX rate changes as at December 31st, 2011

Analysis of sensitivity to FX rate changes	(PLN '000)*	Impact on Income statement	Impact from 1.01.2012 to 31.12.2012
F/x balance-sheet items (excluding borrowings)	(181)	(181)	
Borrowings granted sensitive to FX rate changes	858	858	
Forecasted future net result in EUR	2,050		2,050
Total impact	**N/A**	**677**	**2,050**

** for FX rate increase of EUR/PLN rate by 1 grosz (1/100 PLN)*

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 connected with 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, falling prices are usually a symptom of 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 negative influence on the activity related to trading in chemical raw materials by the Ciech Group.

In most segments of the Ciech Group's activity goods are not subject to significant price fluctuations. Nevertheless, the organic segment is exposed to price risk. This correlated with the condition of global economy, current demand and supply situation of final customers, the level of prices of basic raw materials and energy. The Ciech Group reduces price risk through regulating price policy, concluding agreements with suppliers anticipating collaterals and insurance of supplies and containing a proper price formula.

Loan risk

Loan risk means a threat that the borrower will not fulfil obligations stipulated in the agreement and expose the lender to financial loss.

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

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

35 Objectives and principles in financial risk management(continued)

The Ciech Group is exposed to credit risk connected with the credit rating of customers being parties to product and goods sales transactions. This risk is limited through applying internal procedures of determining credit limits for recipients and managing trade receivables (the Group applies collaterals such as letters of credit, bank guarantees, mortgages, insurance and non-recourse factoring). Customers' credit rating 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. Loan risk assessment for customers is performed prior to concluding an agreement and cyclically at subsequent supplies of goods, in accordance with the binding procedures. The risk of the receivables portfolio is assessed weekly. On selected markets, where more risky terms of payment 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 transaction with high-rating banks which have a stable market position.

The table below presents the maximum exposure of financial assets to credit risk as at the balance sheet date.

PLN '000	**31.12.2011**	**31.12.2010**
Cash and cash equivalents	145,805	177,077
Assets available for sale	1,553	1,608
Loans and receivables	544,339	509,656
TOTAL	**691,697**	**688,340**

The table below presents the maximum exposure of trade receivables and granted borrowings to credit risk as at the balance sheet date by business and geographical segments.

PLN '000	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2010**
	Trade receivables	**Trade receivables**	**Borrowings granted**	**Borrowings granted**
Poland	192,877	227,126	500	503
European Union	234,293	176,077	-	-
Other European countries	35,873	46,446	-	-
Africa	34,979	3,951	-	-
Asia	35,841	48,296	-	-
Other regions	9,976	7,258	-	-
TOTAL	**543,839**	**509,153**	**500**	**503**

PLN '000	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2010**
	Trade receivables	**Trade receivables**	**Borrowings granted**	**Borrowings granted**
Soda Segment	251,092	203,084	-	-
Organic Segment	189,319	198,900	-	-
Agrochemical segment	26,251	22,424	-	-
Segment silicates and Glass	51,592	33,971	-	-
Other activity	25,585	50,774	500	503
TOTAL	**543,839**	**509,153**	**500**	**503**

35 Objectives and principles in financial risk management(continued)

The table below presents trade receivables by maturity date.

PLN '000	31.12.2011 Total gross value of receivables	Impairment loss
Not overdue	464,361	7,443
Up to 1 month	61,255	617
1 to 3 months	16,407	335
3 to 6 months	7,650	1,073
6 months to 1 year	5,720	2,795
Over 1 year	46,622	45,912
TOTAL	**602,015**	**58,176**

PLN '000	31.12.2010 Total gross value of receivables	Impairment loss
Not overdue	432,501	3,863
Up to 1 month	57,362	120
1 to 3 months	17,785	256
3 to 6 months	5,721	1,067
6 months to 1 year	4,264	3,239
Over 1 year	63,538	63,474
TOTAL	**581,171**	**72,018**

As at the balance sheet date, granted borrowings were not covered by write-downs.

According to the Ciech Group's companies, assets that are not overdue or written down are of high credit quality. The value of other financial assets exposed to credit risk is similar to their carrying value.

Liquidity risk

The Ciech Group is exposed to risk connected with maintaining liquidity due to the considerable share of short-term external financing (overdraft facilities and working capital facilities), 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 obligations stipulated in the loan agreements.

The following measures are applied to reduce liquidity risk:

- current monitoring of liquidity of the Ciech Group's companies,
- monitoring and optimization 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 loan agreements provisions, including maintenance of current and forecasted financial ratios stipulated in loan agreements,
- seeking other sources of funding - issuance of Offered Shares.

In order to reduce the external financing risk, in 2011, the Group continued the process of refinancing and consolidation and in February 2011, it entered into a consortium loan agreement with financing banks, the provisions of this agreement have been detailed in section 26 of Notes to the consolidated financial statements of the Ciech Group for 2011.

35 Objectives and principles in financial risk management(continued)

Liquidity risk

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

31.12.2011 *PLN '000*	*Effective interest rate*	Carrying value	Contractual cash flows	Less than 6 months	6-12 months	1-3 years	3-5 years	Over 5 years
Financial liabilities measured at the fair value through the income statement:		**11,369**	**11,369**	**3,401**	**3,092**	**4,876**	**-**	**-**
- derivatives with negative value		11,369	11,369	3,401	3,092	4,876	-	-
Other financial liabilities:		**1,878,286**	**1,878,286**	**1,234,522**	**366,287**	**254,442**	**18,916**	**4,120**
- trade liabilities		588,780	588,780	535,237	-	36,980	16,563	-
- loans and borrowings	*6.76%*	914,888	914,888	657,253	66,319	184,444	2,353	4,120
- bonds		300,835	300,835	867	299,968	-	-	-
- assignment of debt		42,363	42,363	9,345	-	33,018	-	-
- factoring		31,820	31,820	31,820	-	-	-	-
Financial lease liabilities	***8.85%***	**24,180**	**24,877**	3,699	9,473	10,361	1,344	-
Total financial liabilities		**1,913,835**	**1,914,533**	**1,241,542**	**378,852**	**269,679**	**20,260**	**4,120**

31.12.2010 *PLN '000*	*Effective interest rate*	Carrying value	Contractual cash flows	Less than 6 months	6-12 months	1-3 years	3-5 years	Over 5 years
Financial liabilities measured at the fair value through the income statement:		**10,558**	**10,558**	**3,101**	**2,871**	**2,210**	**2,376**	**-**
- derivatives with negative value		10,558	10,558	3,101	2,871	2,210	2,376	-
Other financial liabilities:		**2,266,867**	**2,264,711**	**793,945**	**897,322**	**435,274**	**138,170**	**-**
- trade liabilities		582,893	589,056	537,478	6,084	38,014	-	-
- loans and borrowings	*7.24%*	1,313,947	1,328,673	247,406	882,858	67,719	130,690	-
- bonds		300,618	300,618	682	-	299,936	-	-
- assignment of debt		41,486	46,364	8,379	8,380	29,605	-	-
Financial lease liabilities	***8.30%***	**27,858**	**30,180**	5,851	5,838	18,102	389	-
Total financial liabilities		**2,277,361**	**2,305,448**	**802,896**	**906,031**	**457,170**	**139,352**	**-**

35 Objectives and principles in financial risk management(continued)

Detailed information concerning revenues and costs pertaining to financial instruments, recognised in the income statement, has been presented in section 7 of the Notes to the consolidated financial statements of the Ciech Group for 2011.

Risk management principles

CIECH S.A. actively manages operational and financial risk, striving to reduce the fluctuation of cash flows and maximise the Company's goodwill.

CIECH S.A.'s policy assumes natural hedging of imports and exports and hedging of up to 70% of net exposure to currency risk.

Cash management

CIECH S.A. cooperates with service providers (banks) of high credibility and with vast experience in the cash management area. Allocation of financial resources in the Group companies is carried out through the use of intra-loans.

36 Financial instruments

The main financial instruments disclosed in the balance sheet of the Ciech Group as at December 31st, 2011 include:

- **Financial assets:**
  - short-term deposits,
  - cash,
  - stock and shares in entities other than associates,
  - trade receivables.

- **Financial liabilities:**
  - bank loans,
  - trade liabilities
  - finance lease agreements,
  - liabilities due to derivatives.

36 Financial instruments(continued)

Carrying value

		Categories of financial instruments									
31.12.2011 *PLN '000*	*Note*	**Cash**	**Financial assets available for sale**	**Investments kept until maturity date**	**Financial assets measured at fair value through the income statement**	**Loans and receivables**	**Financial liabilities measured at the fair value through the income statement**	**Financial liabilities measured at amortised cost**	**Financial liabilities excluded from IAS 39**	**Hedging instruments**	**Total**
Categories of financial instruments											
Cash and cash equivalents	*23*	145,805	-	-	-	17,700	-	-	-	-	**163,505**
Shares		-	1,553	-	-	-	-	-	-	-	**1,553**
Trade receivables	*21*	-	-	-	-	543,839	-	-	-	-	**543,839**
Borrowings granted	*22*	-	-	-	-	500	-	-	-	-	**500**
Other financial assets	*19*	-	-	-	-	38,676	-	-	-	-	**36,676**
Trade liabilities	*30*	-	-	-	-	-	-	588,780	-	-	**588,780**
Loans and borrowings	*25.30*	-	-	-	-	-	-	914,488	-	-	**914,488**
Debt securities - issued bonds	*25.30*	-	-	-	-	-	-	300,835	-	-	**300,835**
Other financial liabilities		-	-	-	-	-	-	38,993	31,820	-	**70,813**
Financial lease liabilities	*31*	-	-	-	-	-	-	-	24,180	-	**24,180**
Derivatives recognised under financial liabilities set as hedging instruments	*25.30*	-	-	-	-	-	11,369	-	-	-	**11,369**

Selected trade receivables in Ciech Group are subject to factoring. This is a factoring with the assumption of insolvency risk *del credere*, whereby the factor takes full responsibility to the Company for the fact that the debtor meets the obligation imposed by the Company..
For one of the factors there is the right to further assign the acquired claims, but only after obtaining prior written approval of the Company (to be valid). As formulated in the context of the agreement, the Company maintains the control of the asset. As a consequence it is not derecognised.

36 Financial instruments(continued)

		Categories of financial instruments									
31.12.2010 *PLN '000*	*Note*	**Cash**	**Financial assets available for sale**	**Investments kept until maturity date**	**Financial assets measured at fair value through the income statement**	**Loans and receivables**	**Financial liabilities measured at the fair value through the income statement**	**Financial liabilities measured at amortised cost**	**Financial liabilities excluded from IAS 39**	**Hedging instruments**	**Total**
Categories of financial instruments											
Cash and cash equivalents	*23*	177,077	-	-	-	15,874	-	-	-	-	**192,951**
Shares		-	1,608	-	-	-	-	-	-	-	**1,608**
Trade receivables	*21*	-	-	-	-	509,153	-	-	-	-	**509,153**
Borrowings granted	*22*	-	-	-	-	503	-	-	-	-	**503**
Other financial assets	*19*	-	-	-	-	28,984	-	-	-	-	**28,984**
Trade liabilities	*30*	-	-	-	-	-	-	582,893	-	-	**582,893**
Loans and borrowings	*25.30*	-	-	-	-	-	-	1,313,947	-	-	**1,313,947**
Debt securities - issued bonds	*25.30*	-	-	-	-	-	-	300,618	-	-	**300,618**
Other financial liabilities		-	-	-	-	-	-	41,486	-	-	**41,486**
Financial lease liabilities	*31*	-	-	-	-	-	-	-	27,858	-	**27,858**
Derivatives recognised under financial liabilities set as hedging instruments	*25.30*	-	-	-	-	-	10,558	-	-	-	**10,558**

36 Financial instruments(continued)

Fair value

The table below presents the fair value of financial instruments.

	Carrying value	Fair value	Carrying value	Fair value
PLN '000	**2011**		**2010**	
Cash	145,805	145,805	177,077	177,077
Listed stocks and shares	-	-	-	-
Not listed stocks and shares*	1,553	-	1,608	-
Borrowings granted	500	500	503	503
Trade receivables	543,839	543,839	509,153	509,153
Factoring	38,676	38,676	13,110	13,110
Other financial assets	-	-	15,874	16,130
Assets by category	**730,373**	**728,820**	**717,325**	**715,973**
Loans and borrowings	914,488	914,488	1,313,948	1,313,948
Debt securities	300,835	300,835	300,618	300,618
Trade liabilities	588,780	588,780	582,893	582,893
Liabilities due to evaluation of derivatives.	11,369	11,369	10,558	10,558
Financial lease liabilities	24,180	24,180	27,858	27,858
Assignment of debt	38,993	38,993	41,550	41,550
Factoring	31,820	31,820	-	-
Financial liabilities	**1,910,464**	**1,910,464**	**2,277,425**	**2,277,425**

**The value of stocks and shares not listed on active markets, classified under financial assets available for sale, have been recognised in the statement at purchase price less impairment write-offs since, in the opinion of Ciech Group, it is impossible to perform a credible evaluation and establish the fair value of those assets.*

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

- fair value of 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 recognized in the balance sheet at amortized cost, for which no active market exists, was established as the present value of the value of future cash flows, discounted at market interest rate.

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

36 Financial instruments(continued)

01.01.-31.12.2011 *PLN '000*	*Note*	**Cash**	**Financial assets available for sale**	**Assets held until maturity**	**Financial liabilities measured at the fair value through the income statement**	**Loans and receivables**	**Financial liabilities measured at amortised cost**	**Financial liabilities due to factoring and liabilities excluded from IAS 39**	**Hedging instruments**	**Total financial instruments**
Interest revenues/costs, including revenues/costs calculated by using the effective interest rate method	*7*	8,589	-	-	-	2,620	(117,981)	(5,165)	-	(119,938)
Foreign exchange profit/loss	*7*	-	-	-	-	-	5,050	672	-	5,722
Creation of write-downs	*7*	-	-	-	-	(11,294)	-	-	-	(11,294)
Reversal of write-downs	*7*	-	-	-	-	4,200	-	-	-	4,200
Revenues/ costs on account of evaluation and usage of derivatives	*7*	-	-	-	3,155	-	-	-	-	3,155
Profit/ (loss) on the disposal of financial instruments	*7*	-	(904)	-	-	307	-	-	-	(597)
Total net profit/(loss)		**8,589**	**(904)**	**-**	**3,155**	**(4,167)**	**(112,932)**	**(4,493)**	**-**	**(110,751)**

01.01.-31.12.2010 *PLN '000*	*Note*	**Cash**	**Financial assets available for sale**	**Assets held until maturity**	**Financial liabilities measured at the fair value through the income statement**	**Loans and receivables**	**Financial liabilities measured at amortised cost**	**Financial liabilities due to factoring and liabilities excluded from IAS 39**	**Hedging instruments**	**Total financial instruments**
Interest revenues/costs, including revenues/costs calculated by using the effective interest rate method	7	1,399	-	-	-	4,726	(158,326)	(2,796)	-	(154,996)
Foreign exchange profit/loss	7	-	-	-	-	-	(65,814)	(477)	-	(66,291)
Creation of write-downs	7	-	-	-	-	(10,080)	-	-	-	(10,080)
Reversal of write-downs	7	-	-	-	-	7,550	-	-	-	7,550
Revenue/ costs on account of evaluation of non-current liabilities	7	-	-	-	-	-	-	23,214	-	-
Revenues/ costs on account of evaluation and usage of derivatives	7	-	-	-	46,351	-	-	-	-	46,351
Profit/ (loss) on the disposal of financial instruments	7	-	106,555	-	-	-	-	-	-	106,555
Total net profit/(loss)		**1,399**	**106,555**	**-**	**46,351**	**2,196**	**(224 140)**	**19,941**	**-**	**(70,911)**

36 Financial instruments(continued)

Fair value hierarchy

The following table present information on financial instruments measured at fair value, grouped according to a three tier hierarchy:

- **Tier 1** - fair value based on market listing, stock exchange prices (unadjusted), offered for identical assets or liabilities on active markets
- **Tier 2** - the Ciech Group measures derivatives to the fair value by using measurement models for financial instruments and applying generally available interest rates, currency exchange rates, etc.
- **Tier 3** - fair value established on the basis of various evaluation techniques which are not based on observable market data.

PLN '000	**31.12.2011**			**31.12.2010**		
	Tier 1	**Tier 2**	**Tier 3**	**Tier 1**	**Tier 2**	**Tier 3**
Financial assets						
Shares listed on stock exchange	-	-	-	-	-	-
Shares not listed on stock exchange	-	-	-	-	-	-
Hedging instruments	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**
Financial liabilities	-	-	-	-	-	-
Hedging instruments	-	11,369	-	-	10,558	-
Total	-	**11,369**	-	-	**10,558**	-

The Ciech Group is unable to provide a credible evaluation of the fair value of owned stocks and shares in companies which are not listed on active markets, classified as financial assets available for sale with carrying value as at December 31st, 2011 of PLN 1,553 thousand (PLN 1,608 thousand as at December 31st, 2010). Consequently, they are recognised in the statement of financial position at purchase price less impairment write-offs.

Below is the summary of securities held by the Ciech Group:

Shares (other than those evaluated by the equity method): *PLN '000*	**31.12.2011**	**31.12.2010**
Listed on the stock exchange	-	-
Not listed on the stock exchange	1,553	1,608
Total securities	**1,553**	**1,608**

37 Derivatives

The table below presents financial instruments held for trading.

PLN '000	Fair value of instruments with maturity date:					Fair value	
31.12.2011	**Up to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**	**Assets**	**Liabilities**
Interest rate instruments							
IRS transactions	1,700	4,792	4,876	-	11,369	-	11,369
Total derivatives	**1,700**	**4,792**	**4,876**	**-**	**11,369**	**-**	**11,369**
31.12.2010							
Interest rate instruments							
IRS transactions	1,552	4,420	4,586	-	10,558	-	10,558
Total derivatives	**1,552**	**4,420**	**4,586**	**-**	**10,558**	**-**	**10,558**

The total value of unsettled transactions as at December 31st, 2011 amounts to PLN -11,369 thousand. This amount includes: This amount includes: the entire evaluation of instruments which hedge the interest rate risk.
As at the reporting date, CIECH S.A. is not party to any active derivatives which would hedge currency risk.

List of open derivatives in the Ciech Group as at December 31st, 2011
Type of risk: Interest rate risk

Transaction parameters:	**Interest Rate SWAP – hedge on account of interest rate risk**
Nominal value (as at the balance sheet date)	50,000,000 EUR
Other parameters	Amount received: 1M EURIBOR (variable rate) Amount paid: fixed rate of 3.515%.
Hedged item:	Interest on the bank loan granted to SDC Group by Commerzbank AG
Transaction date	2009-10-29
Maturity date	2014-09-30
Achieved result recognised in income statement (PLN '000) in the period	(4,877)
Transaction measurement (as at the balance sheet date)	(11,369)
Recognised in capital	-
Hedge accounting	No

38 Financial instruments assigned for hedge accounting

In October 2008, the Management Board of CIECH S.A. approved the Financial Risk Management Policy. At the same time, the Company started the process of restructuring option structures, concluded in August 2008, hedging future revenues from sales denominated or indexed to the EUR rate.

As a result of the restructuring process in February and August 2009, option structures were converted into a derivative transaction, covering put options purchased and call options issued, resulting in synthetic currency forwards.

The following instruments were designated to be used in hedge accounting:

- Synthetic currency forwards - relation closed as at December 31st, 2011
- CIECH S.A.'s liabilities against CET Govora in Romania
- Investment loan taken in EUR by VITROSILICON Spółka Akcyjna - relation closed as at December 31st, 2011
- Overdraft facility granted to Uzinele Sodice Govora and CIECH S.A. - relation closed as at December 31st, 2011
- Financial lease granted to S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A.,
- CIECH S.A.'s financial liabilities against Jochen Ohm - relation closed as at December 31st, 2011
- Interest rate swaps concluded by Soda Deutschland Ciech Group to secure investment loans granted to the Group. - relation closed as at December 31st, 2011

38 Financial instruments assigned for hedge accounting (continued)

The table below presents a summary of specific groups assigned for hedge accounting:

Hedged risk	Type of hedge	Hedged item	Hedging instrument
Interest rate risk	Cash flow hedging	Future cash flows due to interest payments	Interest rate swap (IRS)
Currency risk EUR/PLN	Cash flow hedging	Future cash flows due to realisation of revenues from sales denominated or indexed to the EUR rate	- Liabilities due to loans denominated in EUR - Other financial instruments as liabilities denominated in EUR - A series of synthetic forwards created through the identification among the option structures described in the table above of instruments being a combination of put options purchased (plain vanilla) and call options issued (plain vanilla) of the same face value and identical strike rates on specific dates

38 Financial instruments assigned for hedge accounting(continued)

Detailed information concerning instruments assigned for hedge accounting is provided in the table below:

No. of relation	FINANCIAL INSTRUMENTS					TRANSACTION DETAILS		CASH FLOW HEDGING					
	Swap transactions	Loan taken	Other financial liabilities	Face value of f/x options (-) issued: (+) purchased as at 31.12.2011		Transactions assigned for hedge accounting	Fair value as at the reporting date	Nature of hedged risk	Cash flow occurrence		Amount recognised in equity (after income tax)	Amount derecognised in equity and recognised in income statement (after income tax)	Inefficiency recognised in income statement
				put	call				Forecast period of cash flow occurrence	Expected date of impact on the financial result			
	EUR '000						*PLN '000.*				*PLN '000.*		
4			9,591			CIECH S.A. Financial liability in EUR	(42,396)	Currency risk (PLN/EUR)	until 09.01.2015	until 09.01.2015	(7,154)	(709)	-
8			614			S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. Financial lease in EUR	(2,366)	Currency risk (PLN/EUR)	until 16.04.2013	until 16.04.2013	(323)	(110)	-
9			363			S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. Financial lease in EUR	(1,605)	Currency risk (PLN/EUR)	until 16.02.2013	until 16.02.2013	(271)	(148)	-
10			252			S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. Financial lease in EUR	(1,112)	Currency risk (PLN/EUR)	until 16.10.2013	until 16.10.2013	(188)	(63)	-

No. of relation	FINANCIAL INSTRUMENTS					TRANSACTION DETAILS		CASH FLOW HEDGING						
	Swap transactions	Loan taken	Other financial liabilities	Face value of f/x options (-) issued: (+) purchased as at 31.12.2011		Transactions assigned for hedge accounting	Fair value as at the reporting date	Nature of hedged risk	Cash flow occurrence		Amount recognised in equity (after income tax)	Amount derecognised in equity and recognised in income statement (after income tax)	Inefficiency recognised in income statement
				put	call				Forecast period of cash flow occurrence	Expected date of impact on the financial result			
	EUR '000						*PLN '000.*				*PLN '000.*		
11			235			S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. Financial lease in EUR	(1,038)	Currency risk (PLN/EUR)	until 16.12.2012	until 16.12.2012	(175)	(111)	-
15	21,250					Soda Deutschland Ciech Group IRS, change of fixed interest rate into variable interest rate	Cancelled relation	Interest rate risk	29.10.2009	until 29.07.2011	-	(1,054)	-
16	16,250					Soda Deutschland Ciech Group IRS, change of fixed interest rate into variable interest rate	Cancelled relation	Interest rate risk	29.10.2009	until 31.03.2011	-	(352)	-
21-23, 28, 31, 32, 35, 38, 41, 44						CIECH S.A. synthetic forward – EUR sales	Cancelled relation	Currency risk (PLN/EUR)	until 19.05.2011	until 19.05.2011	-	6,194	-
										Total	**(8,111)**	**3,647**	**-**

38 Financial instruments assigned for hedge accounting (continued)

The aim of the Group when taking the decision concerning the implementation of the principles of cash flow hedging was to limit the influence of changes to the fair value of derivatives on the income statement through reflecting their hedging nature in financial statements.

The result of the measurement of effective derivative transactions assigned for hedge accounting is entered under equity into the income statement upon the execution of the hedged item and its influence on the income statement. The result of the measurement of the aforesaid effective derivative transactions is recognised under the same item where the hedged item influences the income statement, i.e. revenues from sales (in relation to synthetic forwards concluded).

In the reporting period, there was no instance of a failure to realise a future transaction subject to cash flow hedging. Other relations (not listed in the table above) were released and settled in the previous reporting period in connection with a new hedged position.
The relationships no. 15 and 16 were released as a result of IRS restructuring. The relations described in sections 21-44 were closed due to restructuring of option structures.

The revenues from sales assigned for hedge accounting are described as highly probable. Their occurrence is anticipated in the Group's Financial Plan. These are also transactions with regular customers of the Group's companies, which make their potential occurrence probable.
The influence of cash flow hedging in the effective part was presented in the statement of changes in equity of the Ciech Group.

39 Transactions with related entities

39.1 Transactions with related entities in total

Transactions between the parent CIECH S.A. and its subsidiaries subject to consolidation were eliminated during consolidation and have not been recognised in this Note. Transactions between the parent and its subsidiaries were presented in the separate financial statements of CIECH S.A.

Detailed information about transactions between the Ciech Group and other related entities have been presented below:

39 Transactions with related entities in total (continued)
39.1 Transactions with related entities in totalTransactions with related entities in total

Transactions between consolidated entities and other related entities

PLN '000		Revenues from sales of products and services	Revenues from sales of goods and materials	Other operating revenues	Financial revenues	Acquisition of products, and materials	Acquisition of services	Other operating costs	Financial costs	Receivables, loans granted, etc.	Write-downs on receivables and loans, including:	*Created in the current reporting period*	Liabilities, loans received, etc.
Unconsolidated associates	**2011**	3,427	38,543	55	262	645	4,087	155	912	4,746	155	*155*	848
	2010	4,091	38,094	-	1,011	965	16,318	-	1,092	4,784	9	*17*	1,470
Unconsolidated subsidiaries	**2011**	1,800	32,833	834	754	2,060	14,199	-	813	4,692	-	-	5,580
	2010	2,019	28,100	793	181	2,173	11,364	-	1,170	5,231	-	-	5,842

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 settled in cash or by compensation. Receivables from related entities have not been covered by any guarantees granted or received. Information about revaluation write-downs on receivables from related entities has been presented in section 21 of the Notes to the consolidated financial statements.

In 2011 (and in comparable period) there were only typical transactions between the companies of the Ciech Group, connected with current activity of the parent CIECH S.A. and its subsidiaries.

39 Transactions with related entities in total (continued)

39.2 Significant transactions entered into by Companies or subsidiaries with related entities on other than market conditions

In 2011, there were no significant transactions with related entities in the Ciech Group on other than market conditions.

39.3 Transaction with State Treasury Companies

As at December 31st, 2011, the State Treasury held a significant share and was able to control CIECH S.A.
Owing to the State Treasury supervision over CIECH S.A. State Treasury Companies (as listed by the Ministry of Treasury) fulfil the definition of related entities.
In connection with earlier adoption of amendments to IAS 24, the Company's Management Board has assumed that costs of collecting such information exceed the potential benefits to be gained by the users of these consolidated financial statements and the funds involved in transactions with State Treasury Companies do not have a significant impact on this report.

39.4 Transactions concluded by key managerial staff

Key managerial staff is formed of persons who are authorised to and responsible for direct planning, managing and controlling the activities of the parent.

Remuneration of the Management Board of CIECH S.A.
The following table presents the amount of remuneration and additional benefits paid to particular Members of the Management Board (in office in 2011) by CIECH S.A. and subsidiaries in 2011.

PLN '000

31.12.2011	Base remuneration	Semi-annual bonus*, project bonus, profit bonus	Redundancy severance pay	Non-competition	Remuneration due to membership in Supervisory Boards and due to other functions performed in the Ciech Group's companies	Total
Andrzej Bąbaś	**480**	**361**	-	-	**396**	**1,237**
Ryszard Kunicki	**948**	**778**	-	-	**332**	**2,058**
Artur Osuchowski	**612**	**401**	-	-	**328**	**1,341**
Rafał Rybkowski	**480**	**361**	**-**	**-**	**273**	**1,114**
Robert Bednarski	-	-	-	306	-	306
Marcin Dobrzański	-	59	-	180	-	239
TOTAL	**2,520**	**1,960**	**-**	**486**	**1,329**	**6,295**

* semi-annual bonus amounting up to 100% of six-month remuneration in the amount determined by the Supervisory Board was applicable for the members of the Management Board in 2010, the bonus for H2 2010 was paid in 2011

PLN '000

31.12.2010	Base remuneration	Semi-annual bonus	Redundancy severance pay	Non-competition	Remuneration due to membership in Supervisory Boards and due to other functions performed in the Ciech Group's companies	Total
Andrzej Bąbaś	**260**	**-**	-	-	**73**	**333**
Ryszard Kunicki	**948**	**616**	-	-	**372**	**1,936**
Artur Osuchowski	**612**	**367**	-	-	**250**	**1,229**
Rafał Rybkowski	**256**	**-**	**-**	**-**	**58**	**314**
Robert Bednarski	368	306	306	306	84	1,370
Marcin Dobrzański	399	306	180	90	142	1,117
TOTAL	**2,843**	**1,595**	**486**	**396**	**978**	**6,299**

39 Transactions concluded by key managerial staff(continued)

39.4 Transactions concluded by key managerial staff (continued) Transactions concluded by key managerial staff

Members of the Management Board are employed based on employment contracts. In accordance with the binding Resolution of the Supervisory Board of CIECH S.A., the Members of the Management Board are entitled to:

- monthly remuneration determined in individual employment contracts;
- semi-annual bonus amounting up to 100% of six-month remuneration in the amount determined by the Supervisory Board;
- annual bonus determined in individual employment contracts.

Remuneration of the Supervisory Board of CIECH S.A.

PLN '000

First name and surname	Remuneration received from CIECH S.A. for 2011	Remuneration received from CIECH S.A. for 2010
Ewa Sibrecht-Ośka	129	123
Przemysław Cieszyński	108	54
Krzysztof Salwach	86	82
Jacek Goszczyński	86	92
Arkadiusz Grabalski	86	44
Grzegorz Kłoczko	-	39
Waldemar Maj	86	44
Marzena Okła-Anuszewska	-	39
Sławomir Stelmasiak	86	82
TOTAL	**667**	**598**

Members of the Supervisory Board, pursuant to a resolution of the Extraordinary General Meeting, 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 average monthly remuneration in the sector of enterprises, including profit distribution in the month preceding the calculation.

40 Events occurring after the balance-sheet date

- On January 19th, 2012, the Extraordinary General Meeting of CIECH S.A. dismissed the following Members of the CIECH S.A. Supervisory Board:
  - ✓ Jacek Goszczyński,
  - ✓ Krzysztof Salwach.

  Moreover, on January 19th, 2012, the Extraordinary General Meeting of CIECH S.A. appointed the following Members of the CIECH S.A. Supervisory Board:
  - ✓ Dariusz Krawczyk,
  - ✓ Mariusz Obszyński.
- The Extraordinary General Meeting of Shareholders of CIECH S.A. was convened for April 26th, 2012, during which, in accordance with the agenda, a decisions will be made on the approval of the new composition of the Supervisory Board of CIECH S.A.
- Based on the initial results of the analysis, on February 21st, 2012, the Management Board of CIECH S.A. decided to undertake further actions aiming at finding the optimal method of the merger of companies: JANIKOSODA S.A. with its registered seat in Janikowo and SODA MĄTWY S.A. with its registered office in Inowrocław with CIECH S.A. By the time the analytical operations are completed, the process of merger of the companies, executed in accordance with the previously adopted Plan, is temporarily suspended.

41 Information about significant events from previous years, recognised in the financial statements for the financial years

No other events concerning the previous years and recognised in the financial statements for the business year occurred in the presented period.

42 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 presented period.

43 Reconciliation of equity presented in the previously published statements with the currently presented financials as comparable data

Deferred income tax reserve adjustment in S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. - the company created a deferred income tax provision due to a temporary difference resulting from the revaluation of tangible fixed assets. The need to recognize deferred tax results from the changes in the Romanian tax regulations in 2009, which is why this provision has been introduced, as an adjustment to opening balance of 2010.

PLN '000	**31.12.2009 presented in the Consolidated Annual Report of the Ciech Group for 2010**	Deferred tax provisions adjustment	**31.12.2009 currently presented as the opening balance sheet for comparable data**
Share capital	164,115	-	164,115
Share premium	151,328	-	151,328
Cash flow hedge	15,688	-	15,688
Financial asset revaluation reserve	(3,458)	-	(3,458)
Other reserve capitals	78,521	-	78,521
Net currency translation differences (investments in foreign companies)	(10,206)	-	(10,206)
Currency translation differences (foreign companies)	(57,536)	420	(57,116)
Retained earnings	478,123	(7,670)	470,453
Equity attributable to shareholders of the parent	**816,575**	**(7,250)**	**809,325**
Non-controlling interest	37,232	**-**	37,232
Total equity	**853,807**	**(7,250)**	**846,557**
Net profit (loss) including:	**(99,166)**	(7,250)	**(106,416)**
Net profit/loss attributable to shareholders of the parent	(92,255)	(7,250)	*(99,505)*
Net profit/loss attributable to minority shareholders	(6,911)	-	*(6,911)*
Earnings (loss) per share (in PLN):			
Basic	*(3.29)*	(0.26)	*(3.55)*
Diluted	*(3.29)*	(0.26)	*(3.55)*
Deferred income tax provision	**107,761**	**7,250**	**115,011**

Statement of the Management Board

These consolidated financial statements of the Ciech Group were approved by the Management Board of the Company in its registered office on March 19th, 2012.

Warsaw, March 19th, 2012

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Ryszard Kunicki – President of the Management Board of CIECH Spółka Akcyjna

…….
Andrzej Bąbaś - Member of the Management Board of CIECH Spółka Akcyjna

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Artur Osuchowski – Member of the Management Board of CIECH Spółka Akcyjna

……..
Rafał Rybkowski – Member of the Management Board of CIECH Spółka Akcyjna

……..
Katarzyna Rybacka – Chief Accountant of CIECH Spółka Akcyjna