GENERAL INFORMATION:

Management Board
Ludwik Klinkosz
Stefan Rojewski
Jerzy Golis

Supervisory Board
Magdalena Bąkowska
Krystyna Dziworska
Maksymilian Klank
Marek Konopczyński
Dariusz Krajowski – Kukiel
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Letter from the President of the Ciech S.A. Management Board

Dear Sirs,

The year 2005, marked itself in the history of Ciech, as a year of extremely crucial events.
Upon a debut on the Warsaw Stock Exchange on 10 February, Ciech S.A. became a public company, which defined the Company's new development perspectives. As a formality, I would like to remind you that the relevant decision of the shareholders was made in May 2004 already.

Another event is related to the Company's history. In October 2005, we celebrated 60 years of the Company's operation on the market. We are proud to have a possibility of working for the company whose rich experience mirrors the history of the country's economy. We have managed to adjust the former Foreign Trade Centre to diametrically new conditions of management, since we were able to make use of the experience gained during our many years' operation on international markets. Therefore, we can now compete with the top companies on the European market.

Last year, the organisational changes introduced on a large scale began to bear fruit. The structures of Ciech S.A. and Grupa Chemiczna CIECH (*CIECH Chemical Group*) became established. They function in a way that allows for the increase of their value. Thanks to the stock exchange, the market value of the Company is undergoing constant verification, which has a positive influence on the management and employee teams. Compared to the original offer, the price of Ciech S.A. shares have more than doubled during the year. We fulfil obligations related to acquisition, included in the Prospectus. Cash entrusted to us by the shareholders is used for good purposes. In order to increase additionally the level of security of the owners, we have introduced a business risk management system.

Dear Sirs, We present the 2005 report, however, in our opinion, we cannot ignore a crucial fact that in March 2006 we signed purchase agreements for two large companies composing the so-called Great Chemical Synthesis: Zakłady Chemiczne Zachem S.A. (*Zachem S.A. Chemical Enterprise*) and Zakłady Chemiczne Organika-Sarzyna S.A. (*Organika-Sarzyna S.A. Chemical Enterprise*), that will constitute the basis of Dywizja Organika (*Organika Division*). Consequently, the Company's income will go up by approx. 60%.

The enumeration of these facts is justified, since we are consequently implementing the strategy aimed at strengthening our position as a leader with relation to selected product groups. It refers in particular to soda ash, soda-like products, and salt. Inclusion of new companies to form Grupa Chemiczna CIECH will enable to gain the position of a leader with relation to numerous organic chemistry products. Ciech is one of the leading European companies in the field.

A systematic growth of the value of the Group embracing several dozen companies has been appreciated by the shareholders. I suppose that we have not disappointed our business partners either. We have met the financial forecasts for 2005, which is confirmed by the detailed financials included in the documents that we submit for your review. It was a good year for Ciech S.A. and its affiliates. We have established strong foundations for the Company's growth.

I am convinced of further dynamic development of Grupa Chemiczna CIECH, and that its success will be a source of satisfaction to its present and future customers and shareholders.

SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA	Thousands PLN		Thousands EUR	
	2005	2004	2005	2004
Net income from sales	2 209 545	2 314 916	549 187	512 354
Operating profit (loss)	143 555	155 179	35 681	34 345
Profit (loss) before taxation	143 001	117 229	35 543	25 946
Total net profit (loss)	117 853	92 340	29 293	20 437
Net profit (loss) of shareholders of the parent company	111 584	84 376	27 734	18 675
Net profit (loss) of minority shareholders	6 269	7 964	1 558	1 763
Net operating cash flows	113 363	106 751	28 177	23 627
Net cash flows from investing activities	(117 430)	(85 422)	(29 187)	(18 906)
Net cash flows from financial activities	67 847	(16 155)	16 864	(3 576)
Total net cash flows	63 780	5 174	15 854	1 145
Total assets	1 635 132	1 533 235	423 631	375 885
Long-term liabilities	109 998	110 967	28 498	27 204
Short-term liabilities	506 003	664 284	131 096	162 855
Total equity	1 019 131	757 984	264 037	185 826
Equity attributable to shareholders of the parent	969 641	654 878	251 215	160 549
Minority interest	49 490	103 106	12 822	25 277
Share capital	164 115	123 096	42 519	30 178
Earnings (loss) per ordinary share (in PLN/EUR)	4.16	4.62	1.03	1.02

CONTENTS:

a. CIECH GROUP MANAGEMENT REPORT 2005

i.Ciech Group Overview

The Ciech Group is a group of domestic and foreign manufacturing, distribution, and trade companies operating in the chemical industry. At December 31, 2005, it comprised 36 business entities, including:

Ciech SA – parent company

31 subsidiaries, including:

- 24 domestic subsidiaries
- 7 foreign subsidiaries

3 domestic associates

1 foreign associate

Ciech SA has a total of 36 business entities, including direct subsidiaries and associates with Ciech SA acting as the parent company, and indirect subsidiaries and associates with Ciech SA's subsidiaries and associates acting as their parent entities.

When preparing the consolidated financial statement for 2005, the following companies were subject to consolidation:

full consolidation method:

1. Ciech SA – parent company
2. Przedsiębiorstwo Chemiczne Cheman SA
3. Vitrosilicon SA
4. Ciech Polfa Sp. z o.o.
5. Polsin Pte. Ltd.
6. Daltrade Plc

equity method:

7. Przedsiębiorstwo Transportowo-Usługowe TRANSCLEAN Sp. z o.o.

The consolidated financial statement includes also four lower-tier capital groups:

1. The Petrochemia-Blachownia Group, including:
   - Petrochemia-Blachownia SA – the parent company
   - Bl-Trans Sp. z o.o.
2. The Fosfory Group, including:
   - Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o. – parent company
   - Agrochem Sp. z o.o. Dobre Miasto
   - Agrochem Sp. z o.o. Człuchów
3. Soda Mątwy Group, including:
   - Inowrocławskie Zakłady Chemiczne Soda Mątwy SA – parent company
   - Elektrociepłownie Kujawskie Sp. z o.o.
   - Transoda Sp. z o.o.
   - Polskie Towarzystwo Ubezpieczeniowe SA (accounted for by the equity method)

4. The Janikosoda SA Group, including:
   - Janikowskie Zakłady Sodowe Janikosoda SA – the parent company
   - Polskie Towarzystwo Ubezpieczeniowe SA (accounted for by the equity method)

5. The Alwernia Group, including:
   - Zakłady Chemiczne Alwernia SA – parent company
   - Alwernia Chrom Sp. z o.o.

The Parent does not have any branches (permanent establishments).

The Ciech Group operations consist in manufacture and sales of its own products, plus trading in goods. The trading activity is mainly conducted through Ciech SA plus its domestic and foreign trade subsidiaries, and the manufacturing activity is conducted through Ciech SA's manufacturing subsidiaries. The Ciech Group sells chemicals in the Polish market, and is a major contributor to Poland's foreign trade by handling imports and exports of chemical industry products. The core goods sold by the Group on the Polish market included the following: soda ash, ethylbenzene, fertilisers, hollow glass blocks and glass packaging, salt, liquid fuels, sodium tripolyphosphate, plastics, plant protectants, and various specialised chemicals. The Group's key export goods included, soda ash, isocyanates (TDI), sulphur, epichlorohydrin, PVC, mineral fertilisers, salt, calcium chloride, and liquid fuels. The Group's largest markets are the European Union countries.

As at 31.12.2005, the composition of Ciech SA's Management Board was as follows:

Ludwik Klinkosz	President of the Management Board
Jerzy Golis	Board Member
Stefan Rojewski	Board Member

The Parent's Proxy is Mr Kazimierz Przełomski.

At the day of the consolidated statement publication, the composition of the Ciech SA Supervisory Board was as follows:

Edmund Pietrzak – President of the Supervisory Board
Maksymilian Klank – Vice-President of the Supervisory Board
Krystyna Dziworska – Secretary to the Supervisory Board
Magdalena Bąkowska – Member of the Supervisory Board
Wiesław Piosik – Member of the Supervisory Board
Maciej Rudnicki – Member of the Supervisory Board
Zbigniew Markowski – Member of the Supervisory Board
Marek Konopczyński – Member of the Supervisory Board
Dariusz Krajowski-Kukiel – Member of the Supervisory Board

ii.Major Achievements of the Ciech Group in 2005

Ciech SA

On May 19, 2004 the Extraordinary General Meeting of Shareholders adopted a resolution to increase the share capital to 140 001 000 PLN as a result of issue of 8 203 984 series C shares with a par value of 5 PLN each. On February 16, 2005, the above-mentioned increase was registered with the District Court for the capital city of Warsaw.

On February 10, 2005, the Company made a debut on the Warsaw Stock Exchange. In, all 28 000 000 ordinary shares of Ciech SA were introduced for trading, with a par value of 5 PLN each. The issue price of 1 share was 24 PLN. At the end of 2005, the price increased to 38 PLN, thus recording 60% growth.

On October 6, 2005, the Company signed the sales agreement concerning 100% of shares of its subsidiary, Petrochemia-Blachownia S.A., focused on benzene and ethylbenzene manufacturing, with the Hungarian concern BorsodChem Rt. Following the approval of the Office of Competition and Consumer Protection, the Company concluded the agreement on January 10, 2006.

On October 18, 2005, the State Treasury exercised the put option for Ciech SA with regard to owned shares of the Soda Companies. The transaction involved 399 567 shares in Janikosoda S.A., accounting for 8.94% of the share capital and worth 17.69 million PLN and 622 761 shares in Soda Mątwy S.A., accounting for 8.4% of the

share capital and worth 16 million PLN. Now, Ciech SA holds 99.26% shares in Janikosoda S.A. and 99.77% shares in Soda Mątwy S.A.

The Company took part in a bid for purchase of majority blocks of shares in ZCh Zachem and ZCh Organika Sarzyna. For both companies Nafta Polska S.A. has granted Ciech SA the exclusive right to continue negotiations concerning purchase of 80% of their shares. In March 2006, the Company signed sale and purchase agreements whose enforcement is conditioned by the consent of the President of the Polish Office of Competition and Consumer Protection (UOKiK) given to the purchasing party.

By way of the Agreement of 29 December 2005, Ciech SA acquired from "Provimi-Rolimpex" S.A. a block of 5 400 shares of its own subsidiary, GZNF Fosfory, accounting for 9.32% of the share capital, for 6 500 000 PLN. Now, Ciech SA holds 89.04% shares of the GZNF Fosfory's stock.

Zakłady Chemiczne Alwernia SA

In Q4 2005, the Company completed the construction of the feed phosphate system in Alwernia.

GZNF Fosfory Sp. z o.o.

In GZNF Fosfory, the construction of the feed phosphate system is in progress in 2005, the assembly of basic technological equipment was completed. For 2006, the Company plans to implement regular manufacturing of feed phosphates (DCP). As part of this task, the Company plans to spend additional 500 000 PLN on optimising the relevant technological solutions. Total expenditure on the feed phosphate systems in both companies amounted to 11 368 000 PLN.

The Company concluded a four-year cooperation agreement with Zakłady Chemiczne Alwernia SA with regard to forwarding and cargo handling services concerning phosphoric acid at the reloading terminal of GZNF

In order to extend the Fosfory Group by the entities of a profile similar to "Agrochem" Sp. z o.o. in Człuchów, the company purchased warehouse facilities in Gronowo Elbląskie was purchased; the purchase will consolidate the Company's market position in the Żuławy region.

The Company signed with Ciech SA a five-year agreement concerning handling, storage and forwarding of heavy soda via the warehousing and storage terminal of GZNF Fosfory Sp. z o.o.

IZCh Soda Mątwy SA

The monohydrate system, which will allow manufacturing of heavy soda of the monohydrate type, is currently under construction in Soda Mątwy SA. The project is planned to be completed by the end of Q1 2007. The estimated cost of construction of the monohydrate system is about 47.2 million PLN. Implementation of the project will enable the Ciech Group to strengthen its position among main customers interested in the product. In August 2005, the Company concluded a long-term loan agreement with CitiBank Handlowy concerning the amount of 40 million PLN for financing the works related to the investment project.

Vitrosilicon SA

The hollow glass block production section in Vitrosilicon S.A., a subsidiary in Iłowa, is being modernised. The subsidiary is introducing the ecological manufacturing technology as regards hollow glass blocks. The modernisation works will be finished in May 2006, and will enable to double the annual output of 3.5 million to 7 million blocks. The aggregate investment value as regards the hollow glass block section will reach 25 000 000 PLN.

iii. Financial Performance

In 2005, the Ciech Group recorded the net profit of 117 853 000 PLN, a balance-sheet total of 1 635 132 000 PLN, and a net increase in cash by 63 780 000 PLN. The tables below present selected financial data and the basic financial ratios for 2005 and 2004.

Table 1.Selected financial data
Thousands PLN

	2005	2004	2005/2004 dynamics
Net sales income	**2 209 545**	**2 314 916**	(4.6%)
Cost of sales	(1 676 585)	(1 767 996)	(5.2%)
Gross profit on sales	**532 960**	**546 920**	(2.6%)
Selling costs	(221 678)	(215 118)	3.0%
General administrative expense	(167 114)	(159 844)	4.5%
Other operating income / costs	(613)	(16 779)	96..3%
Operating profit	**143 555**	**155 179**	(7.5%)
Financial income / costs	(3 926)	(36 781)	89.3%
Share in profit of subordinates accounted for by the equity method	3 372	(1 169)	-
Income tax	(25 148)	(24 889)	1.0%
Net profit	**117 853**	**92 340**	27.6%
Net profit attributable to minority shareholders	6 269	7 964	(21.3%)
Net profit attributable to shareholders of the parent company	**111 584**	**84 376**	32.2%
EBITDA	235 778	239 543	(1.6%)

	31.12.2005	31.12.2004	2005/2004 dynamics
Value of assets			
Fixed assets	817 821	828 979	(1%)
Current assets, including:	817 311	704 256	16%
- reserves	*132 450*	*130 278*	2%
- trade and other receivables	*493 591*	*525 903*	(6%)
- cash and cash equivalents	*101 216*	*36 106*	180%
Parent's equity	**969 641**	**654 878**	**48%**
Minority interests	49 490	103 106	(52%)
Equity	**1 019 131**	**757 984**	**34%**
Long-term liabilities	109 998	110 967	(1%)
Short-term liabilities	506 003	664 284	(24%)

	2005	2004	2005/2004 dynamics
Net earnings per share	4..16	4.62	(10%)
Net profit margin	5..05%	3.64%	39%
EBIT%	6.50%	6.70%	(3%)
EBITDA %	10..67%	10.35%	3%
Current ratio	1..62	1.06	52%
Quick ratio	1..35	0.86	57%
Total debt ratio	37..67%	50.56%	(25%)
Equity to assets ratio	62%	49%	26%

Source: Ciech SA

Calculation principles:
net earnings per share – net earnings per ordinary shareholders of the parent company / weighted average of ordinary shares in a given period (according to the definition in IAS 33 "Earnings per Share");
net profit margin – net earnings of shareholders of the parent company for a given period / net income from sales of products, services, goods and materials for a given period;
EBIT% –operating profit for a given period / net income from sales of products, services, goods and materials for a given period;
EBITDA% – (operating profit + amortisation for a given period) / net income from sales of products, services, goods and materials for 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 reserves at the end of the period / current liabilities at the end of the period;
debt ratio – short and long-term liabilities at the end of period / total assets at the end of period;
equity to assets ratio – total equity at the end of the period / total assets at the end of the period

Sales Income

The Group's net consolidated sales income for 2005 amounted to 2 209 545 000 PLN and were lower by 4.6% than the sales income achieved in 2004. The 2005 drop in sales income was due to certain changes in payment arrangements as regard exports of TDI (organic segment). In 2004 TDI were sold mainly for own account, while in the current year, on a commission basis. Another major contributor to the drop in income was lower sales of Petrochemia Blachownia's products due to unfavourable market prices (petrochemical segment). It should be noted that 2004 was a special period in terms of the strong demand for chemical products, and especially agrochemical products (the EU pre-accession effect), and good EUR/PLN exchange rates (the average EURO/PLN exchange rate in 2004 was 4.53, whereas the average EUR/PLN exchange rate this year was 4.02). 2005 income was positively influenced by growth in prices of certain chemical products, compared to the corresponding period of 2004, especially noticeable in the soda industry.

The domestic market continues to have the largest share in the Group's sales of goods and products, while the European Union is the main export market. The geographical proximity and lack of trade barriers make EU countries natural export markets for the Ciech Group. The Group's domestic income in 2005 was 1 200 913 000 PLN, accounting for 54% of the Group’s total income, and the income from EU markets was 708 788 000 PLN, accounting for 32% of the Group's total income. A significant share of the Ciech Group's sales income in 2005 (85%) was generated by five main business segments: the soda segment, the agrochemical segment, the petrochemical segment, inorganic chemicals and organic chemicals.

2005 income by business segment was as follows:

Fig. 1. Sales income breakdown

Source: Ciech SA

Soda Segment
In 2005, the soda segment generated 34% of the Group's total sales income. The parent, Ciech SA plays a key role in the trading operations, managing the sales of the products manufactured by the subsidiaries: Soda Mątwy SA and Janikosoda S.A. Soda ash is the basic product of the segment, accounting for 74% of the segment sales. The companies of the Group are the only soda manufacturers in Poland. Compared to 2004, the segment sales remained at a similar level.

Agrochemical Segment
The agrochemical segment accounted for 16% of the Group's sales income in 2005. The agrochemical segment is the business of the parent company, Ciech SA, which exports fertilisers and imports base stock for fertiliser manufacturing, and of the subsidiary Fosfory Sp. z o.o., which manufactures fertilisers and sells them on the domestic market. The key income-generating products here are fertilisers, which account for over 85% of the segment's income. The sales increase in the segment, compared to 2004, results from Ciech SA increasing their fertiliser exports following acquisition of additional stock from Polish suppliers, and increasing their imports of base stock for fertiliser manufacturing.

Petrochemical Segment
In 2005, the petrochemical segment generated 13% of the Group's total sales income. The key product was benzene, accounting for 59% of the petrochemical segment income. The main entities operating here are Ciech SA and Petrochemia Blachownia SA, and, to a limited extent Cheman SA. The lower segment income resulted from the reduced output of Petrochemia Blachownia, which temporarily limited its ethylbenzene volumes to mitigate the effects of unfavourable selling prices, and Ciech SA's gradual withdrawal from the liquid fuel market.

Inorganic Segment
In 2005, the inorganic segment generated 12% of the Group's total sales income. The main manufacturer in the segment is the subsidiary Alwernia SA, which manufactures phosphorus and chromium compounds. The company uses the agency services of Ciech SA to import base stock and export some of its products. The main product in the segment is sodium tripolyphosphate, generating 34% of the segment total income and sulphur, generating 19% of the segment income. Compared to 2004, the segment sales decreased. The situation resulted from unfavourable price relationships as regards the key product in the segment.

Organic Segment
In 2005, the organic segment generated 9% of the Group's total sales income. The key player in this segment is Ciech SA, which renders exports agency services, usually on a commission basis. Main products include plastics, accounting for 26% of the segment income, and caprolactam, accounting for 24% of the segment income. Other major contributors to the segment income are epichlorohydrin and isocyanates (TDI), which account for 20% of the total segment income; in 2005, Ciech SA, exported these products on a commission basis. The year-on-year drop in the segment's sales was due to certain changes in payment arrangements (switch to commission sales in 2005).

Segment of Silicates and Glass Products
In 2005, the segment of silicates and glass products generated 5% of the Group's total sales income. The main manufacturer in this segment is the subsidiary Vitrosilicon SA, which manufactures silicates, hollow glass blocks, and glass holders. Vitrosilicon SA is the only manufacturer of hollow glass blocks in Poland. Major contributors to the segment income in 2005 were hollow glass blocks and glass holders, which accounted for approx. 54% of the segment income, and sodium silicate accounting for 37% of the segment income. Silicates are mainly sold for export, usually via Ciech SA. The year-on-year growth of sales resulted from an increase in sales of all product groups in the segment, brought about by good market growth and higher demand.

The figure below shows the Group's sales income by leading products.

Figure 2. Sales income breakdown by leading products

Source: Ciech SA

Gross Sales Profit

The consolidated gross sales profit for 2005 amounted to 532 960 000 PLN and was lower by 2.6% than the profit earned in 2004. The gross profit on sales in 2005 was mainly affected by: (a) disadvantageous trends on the FX market (average EUR/PLN exchange rate in 2005 was 4.02 while it was 4.53 in the comparable period of 2004); (b) unfavourable price relationships of the Group's main petrochemical products (low ICIS pricing of benzene and ethylbenzene); and (c) an increase in the prices of base stock for manufacturing (of ethylene in particular). The increase in base-stock prices was compensated by reducing the base-stock consumption per unit and the increase in the soda-product prices at the beginning of 2005.

Operating Profit (EBIT)

In 2005, the operating profit amounted to 143 555 000 PLN. This means a year-on-year decrease of approximately 8%. The operating profit was affected by the gross profit on sales and higher figures of selling costs and general administrative expense (compared to 2004, in the total amount of 13 830 000 PLN). On the other hand, EBIT was positively influenced by operational excellence programmes aimed at reducing the use of base stock for manufacturing and cutting expenditure as well as the positive balance of other operating income and expense. The increase of other operating income resulted from write-offs of the excess of interest in the acquired net assets over the cost of acquisition (18 932 000 PLN) originating from acquisition of additional shares in the consolidated subsidiaries.

Net Result

The consolidated net profit for 2005 was 117 853 000 PLN. The net profit attributable to the shareholders of the Parent amounted to 111 584 000 PLN. The net profit margin was 5.1% (3.6% in the previous year). The share of minority shareholders in the net profit amounted to 6 269 000 PLN. As in the previous year, the core business was the main source of profit (gross sales profit less cost of sales and general administrative expense). The increase in the financial income ensued, above all, from the sale of Ciech SA's shares by the Group companies in a public offering (the profit on the transaction was 17 815 000 PLN). The net result was adversely affected by the loss of the subsidiary, Cheman SA (9.8 million PLN).

The table below shows the key business operations shaping the net result, and the comparable data concerning 2004.

Table 2. Financial performance by type of business operations (thousands PLN)

	2005	2004	2005/2004 dynamics
1. Operating profit	143 555	155 179	(7.5%)
2. Net financial income / costs	(3 926)	(36 781)	89.3%
3. Share in the net profit of subordinates accounted for by the equity method	3 372	(1 169)	-
4. Income tax	(25 148)	(24 889)	1.0%
5. Net profit (1+2+3-4)	**117 853**	**92 340**	**27.6%**
6. Profit attributable to minority shareholders	6 269	7 964	**(21.3%)**
7. Profit attributable to shareholders of the parent (5-6)	**111 584**	**84 376**	**32.2%**

Source: Ciech SA

Balance Sheet

Equity

Consolidated equity of the Group as at December 31, 2005 amounted to 1 019 131 000 PLN, including equity of the parent company of 969 641 000 PLN, and it was higher compared to the previous year by 261 147 000 PLN. A major contributor to increased equity was the acquisition of funds from the issue of shares in the amount of 192 347 000 PLN and the net profit made by shareholders of the parent company for 2005 amounting to 111 584 000 PLN. The increase in shareholders' equity was also a result of purchase from minority shareholders in Q4 2005 their shares in subsidiaries: Soda Mątwy SA, Janikosoda SA, Fosfory Sp. z o.o. and (directly and indirectly) Vitrosilicon SA.

Fixed Assets

As at December 31, 2005, the Group's fixed assets amounted to 817 821 000 PLN, and constituted approx. 50% of the balance sheet total. Their year-on-year share decreased by about 4 pp. The main contributor to the decrease of fixed assets was recognition of the Petrochemia Blachownia Group as a non-current asset held for sale, in accordance with IFRS 5. Consequently, the Group's fixed assets decreased by 50 507 000 PLN, which was translated directly into the increase of current assets. Above all, the fixed assets consisted of, property, plant, and equipment, which accounted for about 86% of the total fixed assets.

Current Assets

As at December 31, 2005, the Group's current assets amounted to 817 311 000 PLN, and constituted 50% of the total assets. Current assets comprised mainly: (a) trade and other receivables – 60% of current assets; (b) reserves – 16% of current assets; and (c) cash and cash equivalents – 12%. Compared to the balance as at 31.12.2004, current assets increased by 16%, owing to additions in: (a) cash and cash equivalents (by 65 110 000 PLN) and presentation of the Petrochemia Blachownia Group's assets as a non-current asset held for sale. The increase in the level of cash ensued mainly from income earned on the issue of shares in February 2005. The increase in inventories resulted mainly from the import of a larger batch of phosphorus stock to take advantage of the temporary price cuts and the good dollar exchange rates (Fosfory, Alwernia).

Consolidated Liabilities

The total short and long-term liabilities of the Ciech Group as at December 31, 2005 reached 616 001 000 PLN, which is approx. 21% less than on December 31, 2004. Long-term liabilities accounted for 18% of the total liabilities. In comparison to December 31, 2004 the long-term liabilities decreased by approx. 1%. Short-term liabilities decreased by 158 281 000 PLN compared to December 31, 2004, owing mainly to bank loan repayments. Bank debt accounted for 27%, and trade and other liabilities accounted for 62% of the total short-term liabilities.

Consolidated Debt

Net debt as at December 31, 2005 (comprising bank loans, borrowings, and other financial liabilities net of cash) amounted to 85 255 000 PLN (260 873 000 PLN last year). Such considerable reduction in net debt resulted from repayment of loans, and a simultaneous increase in cash (mainly with income earned on the public issue of shares). Also for this reason, the Group's debt ratio (calculated as the ratio of net debt to the balance sheet total) decreased from 17% to 5.2% in comparison to December 31, 2004.

The financial leverage (the ratio of net debt to the sum of net debt and total equity) was equal to 7.7% as at December 31, 2005. In the previous year, the ratio was 25.6%.

The current ratio, calculated as the quotient of total current assets and total short-term liabilities, amounted to 1.62, showing a significant improvement in liquidity compared to the same period of the previous year, when that ratio stood at 1.06.

As at December 31, 2005, the equity to fixed assets ratio (total equity, long-term liabilities and provisions) amounted to 138%, with 105% in a comparable period.

Cash Flows

The net cash flow in 2005 amounted to 63 780 000 PLN. Net cash from operating activity amounted to 113 363 000 PLN. Operating profit before changes in working capital and reserves amounted to 208 163 000 PLN. Major contributors to the decrease of operating profit were (a) profit/loss on investment activities due to recognition of write-offs of the excess of interest in the acquired net assets over the cost of acquisition (-27 996 000 PLN); and (b) decrease in liabilities (-72 848 000 PLN). The balance of inflows and outflows from investment activity was a negative figure, and amounted to 117 430 000 PLN. The most important expenditure in 2005 included expenses on fixed assets in the manufacturing companies, and expenses connected with the deposit activity of Ciech SA after obtaining the funds from the issue of shares. The investment income consisted predominantly of funds obtained from the sale of Ciech SA's treasury shares by the Ciech Group's companies as well as money earned on Ciech SA's deposits. The main sources of growth in cash were the cash flows from financing activities, the balance of which was 67 847 000 PLN. The inflows came mainly from the issue of shares; a large part of these inflows was allocated to repayment of current loans.

Cash, as disclosed in the cash flow statement at the end of December 2005 totalled 93 595 000 PLN and exceeded cash disclosed in the consolidated balance sheet by 5 355 000 PLN. The difference arose from holding the Petrochemia Blachownia Group for sale and lower overdraft facilities (12 976 000 PLN in total).

iv. Seasonal or Cyclical Patterns in the Operations of the Ciech Group

The Ciech Group's level of income and financial performance depends, largely, on the general standing of the economy. Level of sales in individual quarters is marked by considerable evenness over the year. Some relevant contributors include:

- stable sales structure
- large share of product supply from the Company's own manufacturing companies
- insignificant share of finished-product sales to end customers, and the resulting low sensitivity to changes in demand
- large share of loyal customers in the total turnover (high customer loyalty rates)
- diversification of business activities (export, import and domestic sales) and markets

The seasonality resulting from the periodic demand and supply fluctuations have little impact on the general sales trends. Goods especially prone to seasonality include, fertilisers, base stock for manufacturing of fertilisers and plant protectants. In general, it may be estimated that seasonality influences about 15% of the total sales. Seasonality and cyclicality play a relatively small role in the overall sales trends, as they overlap with other factors, which considerably modify strength and direction of such changes. Key factors include:

- impact of global prices and price cycles
- exchange rate fluctuations
- delays and rescheduling of large deliveries
- subcontractors' manufacturing schedules
- downtime maintenance and operating breaks at manufacturing plants
- higher capacities of the Company's own manufacturing companies

The trading activity of the Ciech Group involves chemicals that are raw materials. The raw-material markets are characterised by high cyclicality, prompted by trade fluctuations in the world economy.

With regard to chemicals which are manufactured by the Group and which are dominating items in the turnover of Ciech SA, that is soda ash, soda-derived products, and mixed and phosphoric fertilisers, the differences in market prices are slight (up to several percent year). Changes in prices of soda ash are mainly connected with annual contracts, whose terms and conditions are usually determined at the end of the calendar year and are binding from the start of the following year.

The market cyclicality affects most heavily the prices of oil-derivative products, such as, benzene, toluene, and ethylbenzene. The differences in the prices of these products range from 50% to over 100% over several years (3-5-year periods). The prices of many chemicals belonging to this group increased in 2004. During the first half of 2005, their market prices stabilised at a lower level in comparison to the record prices in 2004. However, due to the substantial increase in prices of crude oil in Q3 of this year, the prices of oil-derived products increased again. Still, it was plastics, which were the most heavily affected..

v. Commentary on the Differences between the Actual Financial Result and Previously Published Forecasts

In its Current Report 5/2005 of January 17, 2005, the Management Board of Ciech SA published a forecast of the Ciech Group's consolidated profit for 2005. The projected consolidated sales income was 2 200 million PLN, and the consolidated net profit of the Ciech Group was 104 million PLN.

The forecast for 2005 was met as regards sales income: the actual sales income was 2 210 million PLN. The net profit, as disclosed in the annual report amounted to 117 853 000 PLN. Improved performance stems form better operating profit and adjustments related to completed measurement of fixed assets to their fair value. The description of adjustments concerning revaluation of fixed assets in the Group was included in the interim consolidated financial statement of the Ciech Group for Q1 2006 in Section 27, as published on May 15, 2006.

vi. Financial Performance Drivers of the Ciech Group

In 2005, one of the key macroeconomic drivers that continued to boost the Ciech Group's operations was Poland's new membership in the European Union, which rallied the domestic market and chemicals exports and facilitated the trade exchange between Poland and the EU (e.g. no customs clearance).

<u>Positive factors</u>

- Continuing prosperity of the European glass-making industry (main consumer of soda ash)
- Soda ash price increased, compared to the previous year
- Boom in the construction industry, which is an indirect consumer of many chemical products
- Continuing prosperity in the artificial fertiliser industry: growth in production and export volumes plus higher prices
- Considerable drop in the coke prices compared to the record prices in the previous year (coke is an important ingredient in manufacturing of soda ash).

Negative factors

- Increase in value of the Polish currency in 2005 (particularly towards EURO), adversely affecting the profitability of exports of Ciech SA
- Lower dynamics as regards manufacturing and sales in the national chemical industry as a whole (slight increase in comparison with the high baseline i.e. very good results in the previous year)
- Substantial growth in crude oil prices, which had a negative impact on the overall economic situation
- Decrease in market prices of ethylbenzene, which has been manufactured so far by the Ciech Group

vii. The Use of Funds Coming from the Issue of Shares by the Issuer

The Ciech SA Prospectus was made public on January 6, 2005; on February 10, Ciech SA made its debut on the Warsaw Stock Exchange (GPW). In the Prospectus, the Issuer accounted for an aim of issue, describing its investment programme including a number of projects with the total outlays of 500-600 million PLN to be made in 2005 and 2006. To finance its own investment plan, Ciech SA is going to use the funds coming from the issue of shares, own funds and external financing with long-term investment loans.

- Agrochemical Segment. The construction of the feed phosphate system in Alwernia SA subsidiary has been completed. In GZNF Fosfory SA subsidiary, the construction of the system is in progress. The stage of basic investment works has been completed. At the end of 2005, total outlays on the systems in both companies amounted to 11 368 000 PLN.
  By way of the Agreement of 29 December 2005, Ciech SA acquired from “Provimi-Rolimpex” S.A. a block of 5 400 shares of its own subsidiary, GZNF Fosfory SA, accounting for 9.32% of the share capital, for 6 500 000 PLN. Now, Ciech SA holds 89.04% shares of the GZNF Fosfory SA’s stock.

- Segment of Silicates and Glass Products. The hollow glass block production section in Vitrosilicon S.A., a subsidiary in Iłowa is being modernised. The subsidiary is introducing the ecological manufacturing technology as regards hollow glass blocks. The modernisation works will be finished in May 2006, and will enable to double the annual output of 3.5 million to 7 million blocks. The aggregate investment value as regards the hollow glass section will reach 25 000 000 PLN.

  As part of further development of the glass package manufacturing by Vitrosilicon S.A., the Company initiated the purchase procedure of Huta Szkła Pobiedziska (*Pobiedziska Glass-Works*) with a view to use its property for manufacturing of glass holders for memorial candles and non-standard jars. Vitrosilicon is going to sign the property purchase agreement with regard to Huta Szkła Pobiedziska in May 2006. Then, it plans to invest in the acquired assets in order to reorganise the plant’s manufacturing profile. The total investment value (property acquisition plus capital expenditure) is estimated at 25 000 000 PLN.

- Petrochemical Segment. On October 6, 2005, the Company signed the sales agreement concerning 100% of shares of its subsidiary, Petrochemia-Blachownia S.A., focused on benzene and ethylbenzene manufacturing, with the Hungarian concern BorsodChem Rt. Following the approval of the Office of Competition and Consumer Protection (UOKiK), the Company concluded the agreement on January 10, 2006. The funds allocated to investment in this segment have been transferred to the organic segment.

- Organic Segment. The Company took part in a bid for purchase of majority blocks of shares in ZCh Zachem SA and ZCh Organika Sarzyna SA. On March 29, 2006 Ciech concluded the purchase agreement with Nafta Polska concerning 80% of shares in Zch Zachem SA for 68 500 000 PLN and ZCh Organika Sarzyna SA for 244 500 000 PLN. What is more, Ciech undertook to invest 176 100 000 PLN in Zachem and 130 000 000 PLN in Sarzyna over a 5-year period.

- Soda Segment. The construction of the monohydrate system has been started in Soda Mątwy SA. The system will enable production of heavy "monohydrate" soda, which displays improved physical properties than the soda currently produced in the Company, and which meets market expectations reported by the customers buying this product. Implementation of the project will enable the Ciech Group to strengthen its position among main customers interested in the product. The project is planned to be completed by the end of Q1 2007. The estimated cost of the construction of the monohydrate system is about 47 200 000 PLN.

  Now, the Company is marketing evaporated salt under its own brand “Sól Kujawska.” It is to reach the end-customer by changing the manner of distribution and promoting an own, distinctive brand. As a result, the Group’s profit margin on evaporated salt should increase.

On October 18, 2005, the State Treasury exercised the put option for Ciech SA with regard to owned shares of the Soda Companies. The transaction involved 399 567 shares in Janikosoda S.A., accounting for 8.94% of the share capital and worth 17.69 million PLN and 622 761 shares in Soda Mątwy S.A., accounting for 8.4% of the share capital and worth 16 million PLN. Now, Ciech SA holds 99.26% shares in Janikosoda S.A. and 99.77% shares in Soda Mątwy S.A.

Funds obtained from the issue amounted to 192 million PLN. The Ciech Group disposes of own funds to implement its investment plans. In need, its creditworthiness will allow the Company to take long-term investment loans.

viii. Main Products, Goods and Services

See Annex 1 for details.

ix. Changes in the Markets

See Annex 2 for details.

x. Changes in Suppliers of Manufacturing Materials, Goods and Services

See Annex 3 for details.

xi. Information on the Contracts Material to the Ciech Group's Operations (including contracts between shareholders, insurance agreements, and co-operation agreements)

On January 17, 2005, Janikowskie Zakłady Sodowe SA signed an agreement with Przedsiębiorstwo Obrotu Energią EGW in Katowice concerning supplies of blast-furnace coke. The agreement will be valid between 1 January 2005 and 31 December 2010. The expected contract value in 2005 is 48 million PLN. In the case of failure to accept or deliver the quantities of coke ordered in a given month (as specified in the buyer's order from the preceding month), each party is entitled to contractual awards of 2% of value of non-accepted or undelivered merchandise. Coke prices for the agreed quarter can be changed only when the price list concerning coking coal is changed. The parties undertake that by 20.12.2005, they will enter into negotiations to specify possibilities and terms for implementation of the agreement in 2006-2010, and that they conclude a relevant annex concerning such arrangements as of 31.12.2005. Przedsiębiorstwo Obrotu Energią EGW is the sole coke supplier for Janikosoda SA in 2005. As part of the agency agreement, Ciech SA takes over the above agreement from Janikosody SA.

On January 18, 2005, Ciech SA concluded contracts with **Thermphos Trading GmbH and z Yunphos International Trading Co. Ltd. The contracts regulate deliveries of yellow phosphorous for the Company's subsidiary, Zakłady Chemiczne Alwernia SA.** The contracts provide for regular deliveries of yellow phosphorus, being the base stock for phosphoric products of ZCh Alwernia SA for local and export sales. The contract totals 40 billion USD (124 348 000 PLN).

On January 19, 2005, Ciech SA signed an annex to a 25-year framework agreement valid from 30.10.1998 to 30.10.2023r, as concluded between the Company's subsidiary, Janikowskie Zakłady Sodowe Janikosoda SA and Inowrocławskie Kopalnie Soli "Solino" SA. The annex, which is valid from 01.01.2005 to 31.12.205, provides for the takeover by Ciech SA of all Janikosoda SA's rights and obligations under the aforementioned agreement concerning deliveries for Janikosoda SA of raw brine and sales of vacuum evaporated salt to IKS "Solino**." Specific agreements for purchase and sales of brine and salt were signed in January 2005.**

On January 24, 2005, Ciech SA effected a multi-year agreement between its subsidiaries, Elektrociepłownie Kujawskie Sp. z o. o., at ul. Fabryczna 4, 88-100 Inowrocław and Kompania Węglowa S.A. in Katowice at ul. Powstańców 30a regulating **power coal deliveries to Elektrociepłownie Kujawskie.** The agreement is valid from January 1, 2005 to December 31, 2007. **The prices will be renegotiated every year by means of an annex prior to commencement of deliveries, on the basis of the applicable power coal pricelist.** The contract value amounts to approx. 112 million PLN.

On February 11, 2005 Ciech SA signed a two-year agreement (effective until December 31, 2006) with CTL Logistics SA concerning rail transport of different materials, especially fine coal for Elektrociepłownie Kujawskie Sp. z o.o., Ciech S.A.'s subsidiary. The discounts have been settled for the entire term of the agreement, yet they may change due to the increase in the table of fares of PKP (Polish National Railway), starting from January 1, 2006. The estimated value of the agreement is 63 000 000 PLN.

On March 10, 2005, Ciech SA concluded a multi-year sales agreement concerning evaporated salt with Petro Carbo Chem Rokita SA. The agreement is effective until December 31, 2009. **The expected aggregate value of the agreement is 62 000 000 PLN.**

Ciech SA has also concluded a sales agreement concerning wet evaporated salt with SPOLANA AS Neratovice, a manufacturer of PVC and a member of the Czech fuel concern, Unipetrol. The expected value of the agreement during its term (from January 1, 2005 to December 31, 2006) is 37 500 000 PLN. Pursuant to the agreement, Ciech SA guarantees continuity of evaporated salt supply in a 14-day delivery cycle.

Ciech SA concluded a global contract with Pilkington Plc, England, for the sale of 54 000 tons of heavy soda ash to Pilkington's factories located in Poland, Finland and Sweden. The Polish recipient will be Pilkington Polska Sp. z o.o., Sandomierz. The value of the deliveries is ca. 21 800 000 PLN. The Finnish recipient will be Pilkington Lahden Lasitehdas Oy. The transaction will be conducted through Ciech SA's subordinate Suomen Unipol Oy, buying the soda ash for its own account. The value of the deliveries is ca. 1 400 000 EUR. The Swedish recipient will be Pilkington Floatglas AB, Halmstad. The

value of the deliveries is ca. 1 400 000 EUR. **The total value of the global contract will reach approximately 33 443 000 PLN.**

Ciech SA signed the charter-shipping agreements with the Polish Steamship Company (PŻM).

Shipping of 200 000 tons of phosphorites from Morocco; the agreement will remain in effect until the end of 2005; value: 3 200 000 EUR

Shipping of ca. 310 000 tons of sulphur to Morocco; the agreement will remain in effect until the end of 2005; value: approx. 8 200 000 USD.

The total value of both agreements is ca. 39 666 000 PLN

On May 6, 2005, Ciech SA signed a contract with Kemira Oy, Finland, for the purchase and deliveries of phosphoric acid as a raw material for Zakłady Chemiczne Alwernia SA (subsidiary). The expected contract value is 7 000 000 USD. The total value of the agreement in thousands PLN: 22 400.

On October 6, 2005, in Budapest, an agreement was signed with BorsodChem Rt. concerning sale of the entire stake in Ciech SA's subsidiary Petrochemia Blachownia S.A. in Kędzierzyn Koźle, which specialises in benzene and ethylene production. The agreement results from the long-term development strategy of the Ciech Chemical Group, which assumes focusing on products belonging to the core product portfolio of the Group. They include products of soda, phosphorus, silicate and glass segments. On January 10, 2006, the above transaction was closed following the approval of the President of Polish Office for Competition and Consumer Protection (UOKiK)..

On December 7, 2005 the notaries deed of sale was signed concerning Ciech SA's selling the property with a filling station of 4 500 square meters located in Dąbrowa. The purchaser was the General Directorate for National Roads and Motorways (GDDKiA) of Warsaw. The sale is a part of Ciech SA's strategy to withdraw from the retail market of liquid fuels.. The net transaction amount is 6 800 000 PLN.

xii. Transactions with Affiliates

For the description of transactions between affiliates, see Section 31.5 of the additional information and explanatory notes to the consolidated statement of the Group.

xiii. Borrowings, Loan Agreements, Sureties and Guarantees

For details, see Section 28.3 of the additional information and explanatory notes to the consolidated statement of the Ciech Group.

xiv. Major Research and Development Achievements of the Ciech Group

- **Development and Production Launch of Fodder Phosphates Containing 10 to 15 % of Sludge II from Concentration of Extractive Phosphoric Acid Solutions (EKF) at Alwernia SA**

  The laboratories developed formulas for winning fodder phosphates containing 10 to 15 % of sludge, the by-product of sodium tripolyphosphate production from extractive phosphoric acid. It was proved that the resulting mono- and dicalcium fodder phosphates comply with all applicable requirements, both in terms of their composition, and of the impurities content. The Company has implemented the method for manufacturing dicalcium fodder phosphate involving the 15-20% phosphorus and of monocalcium fodder phosphate involving 10-15% P from sludge.

- **Development of a Method for Re-pulping Post-Neutralisation Sludge From Sodium Tripolyphosphate Production on the Basis of Extractive Phosphoric Acid at Alwernia SA.**

  The laboratories developed a formula for obtaining sodium phosphates from post-neutralisation sludge and from concentration, to reduce P2O5 and sodium losses in manufacturing of sodium tripolyphosphate on the basis of extractive phosphoric acid. The tests were also carried out in a semi-technical scale, showing the potential for washing ca. 25 - 30 % of P2O5 and 30 - 35 % of sodium iodine. Implementation of so-called re-pulping was proved highly profitable, and will be launched on a commercial scale. The ultimate result will be P2O5 loss reduction from the current 18 % to approx. 12 %.

- **Development and Implementation of Liquid Norge Nitre Manufacturing Method at Alwernia SA**

  The laboratories developed a method for manufacturing liquid Norge nitre on the basis of nitric acid, a by-product of the "NITRON" SA's technology, and hydrated lime. Tests were also conducted on a commercial scale to obtain liquid nitrogenous fertiliser, which meets all EC requirements for fertilisers in accordance with the Regulation 2003/2003 of the European Parliament and Council of 13 October 2003 relating to fertilisers.

- **Development and Implementation of Liquid Nitre Manufacturing Method at Alwernia SA.**

The laboratories developed a method for manufacturing nitre on the basis of potassium carbonate and post-nitrate nitric acid. They have also developed manufacturing technologies for sodium nitrate and magnesium nitrate. Production of the above compounds is to be launched in 2006.

- **Development and Implementation of the NMgS and NPK Fertiliser Manufacturing Method at Alwernia SA.**

Acting in liaison with Instytut Nawozów Sztucznych (*Fertiliser Research Institute*) in Puławy, the Company developed and tested in a semi-technical scale, manufacturing methods of: NMgS fertiliser based on urea, post-magnesium mud and sulphuric acid as well as NPK fertiliser based on ammonium sulphate, post-neutralisation sludge and potassium chloride.

- **Monitoring of Underground and Surface Waters at Janikosoda SA**

The works included:

permanent monitoring: measurement at chosen piezometres, wells and ditches
periodical monitoring: within drainage barrier areas
continuation of the AKWEDUKT database

The research has shown stable salinity of underground waters. A downward trend is observed in the western and northern region. On the contrary, in the eastern region, we record increased salinity of both underground waters and soil. This area will focus the research and operation activities in the years to come.

- **Soil Quality Tests within the Reclaimed Settling Ponds at Janikosoda SA**

In 2005, the Company did also some research into composting of plant mass originating from reclaimed settling ponds (involving post-sodium lime). The chemical composition of plants growing on the reclaimed land does not differ much from the composition of plants growing on the natural land. The resulting compost is used as a supplying fertiliser for plants growing in ponds.

- **Research work into the settling ponds and adjacent areas at Janikosoda SA**

In 2005, the Company carried out:

Partial field tests of pond embankments in pond No. 23 (stability)
Waste mass tests as regards structure and composition; assessment of settlement as regards the landfill surface and stability of its embankments: ponds Nos. 18a and 18b

The research confirmed satisfactory condition of internal embankments and external storages of agricultural limestone, ash storages and landfills..

- **Research Works into the Settling Ponds and Adjacent Areas at Soda Mątwy SA**

Since 2005, the Company has been carrying out its R&D works via the R&D Department of the Ciech Soda Division. The R&D activity has been separated from the structure of the Soda Companies: the Company concluded "The Cooperation Agreement on R&D Services related to Technological Processes, Apparatus and Production Systems and Products for Inowrocławskie Zakłady Chemiczne Soda Mątwy S.A." The 2005 R&D works in the Ciech Group were aimed at post-production waste management and defining the possibility for marketing a new product; some of the works were anticipating future investments too.

The 2005 research focused on: research into reclamation methods of scarps of settling ponds; research into modification of water and waste management; back fitting of the baking soda manufacturing process; optimizing of the calcium chloride manufacturing process; research into limiting the use and emission of ammonia; research into the use of process and waste heat; management of centrifugal reflux to stabilise operation of the filtration centre; research into the possibility of launching the production of sodium percarbonate and other products, namely "Sulfagór-R"; research into product quality improvement, especially precipitated chalk; back fitting of the evacuation of under burnt residue within the Lime Kiln System; research into improvement of the soda process efficiency.

- **Launching of the Production of the Ecological Inorganic Binder of the Next Generation to Be Used in Founding of Ferroalloys and Non-Ferrous Alloys at Vitrosilicon SA**

The Company is also launching the manufacturing of sodium water glass based on the products owned, modified by organic additives. The new binder will be used in iron and steel foundries, and partially, in non-ferrous alloy foundries which produce sand castings. It will be recommended for mould manufacturing, and to a large degree, for manufacturing of cores for different types of castings. Positive results obtained in application of pre-production batches in industrial foundries confirm that modified water glass can be fully used in founding of non-ferrous metals.

- **Development of Lithium Silicate Manufacturing at Vitrosilicon SA**

Vitrosilicon SA continues its undertakings aimed at development of new methods of lithium silicate manufacturing. The relevant research works are well under way, and their results hold promise of a patent.

The resulting sodium and potassium water glass modified by lithium has been applied in the covered electrode manufacturing industry, which requires high ionisation of arc welding. The industrial application

tests are positive.

- **Research into Manufacturing of the Phosphoric and Magnesite Fertiliser at Fosfory Sp. z o.o.**

In 2005, the Company carried out laboratory research aimed at development of the manufacturing technology as regards a new product: a phosphorite and magnesite mineral fertiliser with sulphur (PMgS).
Base stock for the fertiliser in question will include:

- phosphorite
- magnesite
- sulphuric acid

The research findings were positive.

- **Development of New IT Systems and Solutions at Ciech SA**

The parent company, Ciech SA has developed a general concept of IT security and an electronic signature plus the concept of the common system platform to support business processes.

xv. Information on Natural Environment Protection Issues

In 2005, the Ciech Group manufacturing plants continued in their manufacturing business in accordance with the existing laws and specific administrative decisions. The Company's business embraces the environmental policy aimed at minimising negative environmental impact of its manufacturing activity. All manufacturing companies hold quality management certificates ISO 9001:2000; most of them (except Boruta – Kolor Sp. z o.o. and GZNF Fosfory Sp. z o.o.) posses environmental management certificates ISO 14001:1996 too. Two companies in the Ciech Group, namely Petrochemia Blachownia SA and Vitrosilicon SA can also produce OHSAS 18001:1999, that is the work safety management certificate. As certificate holders, these entities are subject to periodical audits by certification authorities. The audits confirm compliance with relevant quality and environmental standards as well as standard-specified management principles. All manufacturing companies within the Ciech Group strive to reduce their environmental impact by regular technology and equipment upgrades and adjusting their operation to the EU requirements. The most important of their recent efforts is application for integrated licences.. Most of the companies have already applied for integrated licenses at competent authorities and is currently awaiting their decision. Zakłady Chemiczne Alwernia SA, Petrochemia Blachownia SA and Vitrosilicon S.A. have completed the process successfully and received a favourable decision on integrated licenses. Moreover, the manufacturing companies have initiated investigation into possible consequences related to implementation of the REACH Regulation.

Implementation of the REACH system (Registration, Evaluation and Authorisation of Chemicals)

REACH (Registration Evaluation and Authorisation of Chemicals) is an acronym for the chemical control and supervision system to be implemented in the EU Member States in 2008.

Its regulatory framework will be the Regulation of the European Parliament and of the Council concerning Registration, Evaluation, Authorisation and Restriction of Chemicals which is to replace over 40 existing laws and introduce a uniform system for registration and evaluation of chemicals which are marketed in EU in volumes exceeding 1 ton a year. It is estimated that there are over 100 000 chemical products on the European market now, most of which have never been tested as for their long-term effect on humans and environment.

Each substance marketed within the Community in volume exceeding 1 ton will require registration in the European Chemical Agency, which will be established for REACH-related tasks. If a registering party does not dispose of all required information on the substance, they will be obliged to carry out its toxicological, ecotoxicological and physicochemical tests. It is estimated that within 11 years it will be necessary to register approx. 30 000 substances and test approx. 5 000 ones.

Marketed substances will undergo environmental risk testing by both industry and competent authorities of the Member States.

Marketing or use of certain substances will require authorisation by the European Commission. The procedure shall include the following substances:

CMR substances (Carcinogenic, Mutagenic or Toxic to reproduction)
PBT substances (Persistent, Bioaccumulative and Toxic)
vPvB substances (very Persistent and very Bioaccumulative)
Persistent Organic Pollutants (POP)

Some dangerous substances and preparations may be subject to manufacturing, use and/or trade limits. The list of substances subject to limits will be given in the relevant Annex to the Regulation.

For the chemical industry, implementation of the REACH Regulation entails financial expenditure, varying among different manufacturers, depending on product characteristics and possible testing requirements. Maximum cost

of basic tests for one substance (i.e. it's physicochemical, toxicological and ecotoxicological properties) will fluctuate around 40 000 PLN for substances marketed in volumes up to 10 tons and even 1 000 000 PLN for substances marketed in large quantities (100 – 1000 tons).

According to the European Commission's estimates, the REACH implementation cost for European manufacturers of chemicals may exceed 5 billion EURO within 10 years. For Poland, the cost may even reach 600 million PLN.

The Ciech Group has already taken appropriate steps with a view to implementation of the new system. Acting in liaison with the Industrial Chemistry Research Institute, the Group compiles preliminary cost analyses for products of each of the manufacturing companies and Ciech SA itself, which will be bound by the Regulation as an importer of substances from outside of the European Union.

Works on the draft Regulation of the European Commission concerning REACH are currently monitored by the Risk Committee of the Ciech Group.

xvi. Investing Activity

16.1.1.1.1 Investments in 2005

Total capital expenditure at the Ciech Group in 2005 amounted to 122 356 000 PLN.

Total capital expenditure at Alwernia SA in 2005 amounted to 6 994 000 PLN.
The following projects were carried out:

- Development of the phosphate manufacturing system based on EKF (extractive phosphoric acid)
- Launch of production of liquid and crystalline Norge nitre
- Fodder phosphate production system
- Modernisation of the phosphorus storage facilities
- Launch of by-product-based fertiliser production
- Upgrade of the dust extraction centre
- Implementation of the IT system to laboratories and equipment upgrade

Total capital expenditure of the Blachownia Group in 2005 amounted to 11 900 000 PLN, of which ca. 30% was spent on purchase of the parcel which had been previously leased form Ciech SA) with buildings (more precisely, the right of perpetual usufruct). The parcel is a vital part in the benzol processing system. Other expenditure concerned the construction of the extractive distillation system and the R2 tank aimed at the increase of storage capacities.

Total capital expenditure at the Fosfory Group SA in 2005 amounted to 15 702 000 PLN.
The following projects were carried out:

- Construction of the feed phosphate system
- Upgrade of the "Nabrzeże Chemików" quay
- Construction of the phosphoric acid terminal
- Upgrade of the sulphuric acid system
- Modernisation of the fertiliser system – Switch to the waste-free fertiliser manufacturing
- Pneumatic transport of ground phosphate rock was replaced with mechanical transport
- Modernisation of the manufacturing assets at Agrochem Sp. z o.o. in Człuchów and Agrochem Sp. z o.o. in Dobre Miasto
- Expansion of the IT system

Total capital expenditure at Janikosoda SA in 2005 amounted to 30 526 000 PLN.
In 2005, the following were put into operation:

- Installation of two process gas compressors
- A new heavy soda ash screening system
- A modernised system of loading heavy soda ash to cisterns
- Permanent monitoring of chimney emissions
- Elimination of cooling and rain water dump into Pakoskie Lake
- Modernisation of lime-kilns
- Modernisation of the steam turbine and steam boilers
- Modernisation of the soda flow within calcining furnaces: dust collecting system

Total capital expenditure at the Soda Mątwy Group SA in 2005 amounted to 40 814 000 PLN.
The following projects were carried out:

- monohydrate soda production

boosted production of baking soda
modernisation of wiring and power networks at the plant
automation and modernisation of the boiler house
modernisation of carbonating towers
modernisation of FCH lime-kilns
modernisation of the calcium chloride packaging centre
purchase and implementation of the new version of ERP system
modernisation of RH-DS apparatus
soda loading and shipment: replacement of the soda packaging process line
modernisation of AKP systems
modernisation of TBS turbo compressors
modernisation of calcium chloride apparatus and facilities
modernisation of AERZENER compressor
modernisation of a railway engine and cars and a thermal junction
purchase and installation of a new Atlas Copco compressor
implementation of the IT system

Total capital expenditure at Vitrosilicon SA in 2005 amounted to 12 079 000 PLN.
The following projects were carried out:

modernisation of the hollow glass block section; the Company effected an advanced payment for supply of the hollow glass block manufacturing process line by Walter
development of the sodium water glass manufacturing section: purchase of the chemical method reactor with a filtration system
development of the warehouse facilities for finished goods (including purchase of a parcel for development)
modernisation of the potassium silicate furnace at Żary plant.

As for the parent Ciech SA, the investment projects in 2005 concerned mainly streamlining of IT services provided for the Company, with the most important element being implementation of the common business platform for the Soda Division of CIECH. The total outlays amounted to 1 301 000 PLN.

Total capital expenditure at Cheman SA in 2005 amounted to 3 040 000 PLN.

development of the water demineralisation station
compilation of a part of the documentation concerning adaptation of a warehouse in Luboń for storage, packaging and customising of hydrazine hydrate
implementation of the IT system

16.1.1.1.2 Investment Plans for the Next 12 Months

For 2006, the Ciech Group has planned the investment of 203 275 000 PLN; with Ciech SA's capital expenditure and outlays, for the construction of production systems in subsidiaries being the main item.

The 2006 plans at Alwernia SA (in the total amount of 3 300 000 PLN) include:

introduction of extractive phosphoric acid into manufacturing of phosphoric salts for food
adaptation and development of an idle system for post-magnesium mud disposal
modernisation of the automation on the thermal phosphoric acid system
adding trays to EFK V=500 tanks
modernisation of factory buildings
purchase of two fork lifts
purchase of laboratory apparatus and modernisation of laboratory equipment
upgrade of hardware and licenses

The Fosfory Group's plans include:

Feed phosphate production systems: optimisation of the existing solutions
Modernisation of the "Nabrzeże Chemików" quay to allow service of ships carrying liquid cargo
Construction of the Phosphoric Acid Terminal: construction of the new terminal; adaptation of the existing tanks of phosphoric acid; construction of the phosphoric acid displacement station into cisterns
Modernisation of the sulphuric acid system. Polish accession to the European Union requires that the Sulphuric Acid Production Plant (Wytwórnia Kwasu Siarkowego) should meet BAT standards and requirements for sulphuric acid manufacture. Moreover, the Company plans to expand its warehouse facilities for sulphuric acid
Modernisation of the fertiliser system to make it capable to produce new types of mixed fertilisers at zero or minimum waste. The fertilisers will be enriched with lime, sodium and sulphur
Pneumatic transport of ground phosphate rock replaced with mechanical transport. Manufacturing of the

compressed air for transport of ground phosphate rock at the manufacturing sections is very energy consuming. Transport of ground phosphate rock using compressed air results in dust emissions in spite of filtrating apparatus
Expansion of networks of regional distribution centres
Modernisation of manufacturing assets of Agrochem Sp. z o.o. in Człuchów and Agrochem Sp. z o.o. in Dobre Miasto
Development of the IT system

Total capital expenditure plans amount to 19 000 000 PLN.

The most important investment tasks whose aim is to increase efficiency of manufacturing processes to be implemented at Janikosoda SA over the next 12 months include:

modernisation of the stock preparation system for lime kilns (hard coal)
limestone crusher system
modernisation of boilers Nos. 1, 2, 3
purchase and installation of the turbine set (10 MW) plus modernisation of the switching station
modernisation of distillation columns, calcining furnace and lime kilns
modernisation of measurement systems and control at the carbonisation centre
expansion of salt warehousing facilities
modernisation of CKTI 65 boilers Nos. 1, 2 and 3 and OP-140 boilers Nos. 4 and 5
modernisation of construction facilities and technical apparatus in EC
purchase of machines and equipment

Total capital expenditure in 2006 is estimated at 48.7 million PLN.

The 2006 investment plans amount to 66 342 000 PLN. Investment plans at the Soda Mątwy Group will concern:

implementation of the monohydrate soda production system
ORACLE project – Development of the Business Process Integration Platform
intensifying of the baking-soda production
modernisation of AKP systems
modernisation of apparatus and instruments in the Calcium Chloride System
modernisation of TBS turbo compressors
modernisation of the calcium chloride packaging centre
modernisation of the IT system
purchase and exchange of pumps for handling lye, sludge, liquid and acid
modernisation of the lighting system for the raw soda system
modernisation of the cable network at the Engine House
modernisation of the automation of the boiler house
modernisation of cars and railway sub grades

Investment efforts will be focused on development first, and then on modernisation/reconstruction and IT-related tasks. The top priority investment project will be the construction of the heavy monohydrate soda production system to be completed by the end of 2006. The project will be financed predominantly from a long-term investment loan. Another priority will be continuation of the ORACLE project (Development of the Business Process Integration Platform).

Vitrosilicon S.A. investment plans for the next 12 month total 59 889 000 PLN. The projects will include:

further modernisation of the glass block production section
purchase of Huta Szkła Pobiedziska's property
development of the product warehouse facilities
replacement of the N/N 0.4kV switching station
construction of a chimney for the hollow glass block production section
modernisation of the computer network; purchase of hardware and software

Over the next 12 months, the parent company, Ciech SA will invest mainly in IT services provided for the Company. The total project amount will be 5 600 000 PLN and the specific projects will include:

Streamlining of IT solutions
Development of a support solution for budgeting and automation of the financial consolidation
Creation of the corporate knowledge base and the Intranet network for the Ciech Group
Preparation of the security monitoring system plus IT security audit

For 2006, Cheman SA plans the following investment of the total amount of 444 000 PLN:

Repairs of the warehouse buildings

repairs and development of office premises in Gdańsk
construction of the protective tank for unloading of rail tankers in Luboń
construction of the adjustable and removable loading platform plus repair works at the warehouse in

Inowrocław
overhaul of the office space in the Warsaw warehouse

General investment projects:
construction of the packaging process line for loose materials; no location
purchase of a tank for rape oil; no location
preparing documentation and adaptive reuse works to allow storage and warehousing of hydrazine hydrate in Luboń

xvii. Changes in Organisation Relationships within the Ciech Group

As for organisational changes within the Ciech Group in 2005, they involved the following areas:

Acquisitions

Jantrans-Janikowo Sp. z o.o. and Transoda Sp. z o.o.
By way of a decision of the District Court in Bydgoszcz as of March 10, 2006, the merger of Transoda Sp. z o.o. with its registered office in w Inowrocław, as the acquiring company, and Jantrans-Janikowo Sp. z o.o. with its registered office in Janikowo, as the company being acquired, was registered. Following the merger, the share capital of Transoda Sp. z o.o. amounts to 27 652 500 PLN, divided into 55 305 shares of 500 PLN each. The share capital is divided between:

- 35 797 shares for Soda-Mątwy SA, constituting 64.73% of the total share capital
- 19 508 shares for Janikosoda SA, constituting 35.27% of the total share capital

Investments:

Cheman SA
By way of a decision of the Court of Registration in Warsaw, on February 9 2005, changes in the Company's share capital were registered. These changes resulted from resolutions of NWZA Cheman SA (*Extraordinary General Meeting of Shareholders*) of December 9, 2004 on a decrease of share capital by decreasing par value of all the Company's shares (from 10 PLN to 9 PLN per share) and on an increase of share capital by issuing shares of H series, wholly subscribed to and paid for in cash by Ciech S.A. The excess of the difference between the issue price and the nominal price was allocated to replenish the Company's share premium against the losses brought forward. The increased share capital amounts to 16 774 776 PLN.
As part of further capital restructuring of the Company, on December 29, 2005 NWZ Cheman S.A. adopted a resolution to increase share capital by issuing 17 000 shares of a par value 9 PLN per share at the issue price of 50 PLN per share. The difference between the issue and nominal price should replenish the Company's share premium. The issue was to raise funds for acquisition of the rights to the integrated computer system. The share capital increase was registered in the National Court Register (KRS) as of March 15, 2006.

Vitrosilicon SA
On June 6 2005, the buyout from minor shareholders of Vitrosilicon SA was completed. As a result, Ciech SA became a holder of 2 171 065 shares, constituting 60.4% of the Company's share capital. The remaining shareholders (IZCh SODA-Mątwy SA and JZS Janikosoda S.A.) hold the blocks of 712 240 shares each, both constituting 19.8% of the share capital. The decision on compulsory buyout of shares from shareholders with the interest lower than 5% of the share capital was made by the General Meeting of Shareholders of Vitrosilicon SA in line with Art. 418 of the Code of Commercial Companies on April 29, 2004. Negotiated purchase terms were finally approved by the Ciech SA Management Board by way of the Resolution of 14 January 2005.

Soda Companies – Janikosoda SA and Soda Mątwy SA
As part of the concentration process with regard to shares/stocks of the strategic companies, the Company endeavoured to purchase from the State Treasury, shares of these soda companies where Ciech SA is a majority shareholder. The talks ended up on October 18, 2005 with the conclusion of the following agreements:

Purchase agreement with regard to 622 761 shares of Soda Mątwy S.A. for 4 944 722.34 USD, constituting 8.40% of the share stock, resulting in Ciech SA's ownership of 7 399 161 shares, constituting 99.77% of the share capital

Purchase agreement with regard to 399 567 shares of Janikosoda SA for 5 466 076.56 USD, constituting 8.94% of the share capital. The transaction has made Ciech SA a holder of 4 434 448 shares, constituting 99.26% of the share capital

Ciech Finance Sp. z o.o.
With a view to concentrate and streamline current divestment processes involving redundant financial assets, on December 1, 2005 a special purpose company under the name of Ciech Finance Sp. z o.o. was established. The company will be responsible for management of divestment processes. The Company's share capital amounts to 50 000 PLN and is divided into 100 shares of 500 PLN each. All shares in the share capital were subscribed to by Ciech SA. On December 16, 2005, the Company was entered into the Register of Entrepreneurs under the number of 0000246747.

GZNF Fosfory Sp. z o.o.
On December 29, 2005, Ciech SA signed the purchase agreement with regard to shares of Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o. and purchased from Provimi-Rolimpex SA a block of 5400 shares, constituting 9.32% of the Company's share capital. Now, Ciech SA holds 89.04% interest in GZNF Fosfory Sp. z o.o. The Company's products belong to the core portfolio of the Ciech Group.

Divestments:

Zach-Ciech Sp. z o.o.
Attempts to withdraw capital from Zach-Ciech Sp. z o.o. due to lack of interest in the Company's shares, even by its main shareholder, have failed. Among the reasons, one could mention bad financial and economic situation, which has been lasting for 3 years, and no re-organisation programme, which could hold promise for the Company's improvement. On March 11, 2005, the Extraordinary General Meeting of Shareholders adopted a resolution No. 3/2005 to dissolve Zach-Ciech Sp. z o.o. and initiate its liquidation proceedings. On January 24, 2006, the District Court in Katowice accepted the bankruptcy motion filed by the company's creditors.

Petrochemia Blachownia SA
To advance the accepted strategic directions, which assume focusing on the core portfolio products from soda, phosphorus, silicate and glass segments, Ciech SA concluded an agreement with BorsodChem Rt. The agreement, signed on October 6, 2005 provided for sales of 100% shares in Petrochemia-Blachownia SA (which specialises in benzene and ethylbenzene manufacturing). The agreement entered into force in January 2006, following the approval of the Office of Competition and Consumer Protection (UOKiK).

InChem Sp. z o.o.
Due to a decrease of the share capital as of October 21, 2005, Ciech SA became a sole shareholder in InChem Sp. z o.o. Decrease of the share capital results from redemption of shares owned by Organika Sp. z o.o. accounting for 50% of the Company's share capital. The shareholder requested to withdraw from the Company by the voluntary redemption scheme.

Alwernia Chrom Sp. z o.o.
In January 2006, the Sales Agreement concerning shares of Alwernia-Chrom Sp. z o.o. came into force. The agreement had been concluded between Alwernia SA and First Hungarian Natural Gas and Energy Trading and Service Provider Ltd. on December 8, 2005. The Company was 100% owned by ZCh Alwernia SA and was categorised as a short-term investment.

Ciech-Service Sp. z o.o.
Ciech SA has initiated withdrawing capital from the Company. On November 17, 2005, the Extraordinary General Meeting of Shareholders resolved to redeem 600 shares by the voluntary redemption scheme, upon consent of the shareholder, for consideration and by purchase by the Company. Voluntary redemption of shares necessitates a decrease of the share capital. It will become effective upon registration of changes in the share capital by the Court of Registration. On December 2, 2005, the Company Management announced its decision on redemption of shares and called the Company's creditors to raise any objections within 3 months. We anticipate that registration of the share capital decrease may take place at the end of May 2006.

xviii. Major Equity Investments and their Funding Methods

18.1.1.1 Equity Investments and Divestments in 2005 and their Funding Methods

In 2005, Ciech SA continued its investment and divestment activities started in the preceding year in accordance with the overall Ciech Group's development strategy, by consolidating its interest and organising the Group's structure with a view to equity investment plans.

- On March 11, 2005, the General Meeting of Zach-Ciech Sp. z o.o. adopted a resolution concerning the start of liquidation proceedings of the Company. On January 24, 2006, the District Court in Katowice accepted the bankruptcy motion filed by the company's creditors

- On June 6, 2005, Ciech SA, IZCh Soda Mątwy SA and JZS Janikosoda SA became holders of 100% of equity and votes in Vitrosilicon SA, because of compulsory buy-out of minority shareholders. The total transaction value was 64 800 PLN

- By way of the agreement of 16 June 2005, Ciech SA sold 100% of shares in Polcommerce Ltd with its registered office in Budapest to Ciech-Polfa Sp. z o.o. for the amount of 203 000 PLN. Polcommerce Ltd. is a company that operates mainly in the pharmaceutical sector. The transaction is a consequence of separating the pharmaceutical activity from the structures of Ciech SA, and its taking over by a separate company, Ciech Polfa Sp. z o.o. as well as transferring a part of the commercial network of Ciech SA connected with the pharmaceutical industry to Ciech Polfa Sp. z o.o.

- On July 8, 2005, the Company purchased 128 000 shares of ZCh Police SA at the issue price of 10.30 PLN per share

- On October 6, 2005, the Company signed the sales agreement concerning 100% of shares of its subsidiary, Petrochemia-Blachownia SA, focused on benzene and ethylbenzene manufacturing, with the Hungarian concern BorsodChem Rt. Following the approval of the Office of Competition and Consumer Protection (UOKiK), the Company concluded the agreement on January 10, 2006. The transaction amount totalled 104 000 000 PLN

- On October 18, 2005, the State Treasury exercised the put option for Ciech SA with regard to owned shares of the Soda Companies. The transaction involved 399 567 shares in Janikosoda SA, accounting for 8.94% of the share capital and worth 17.69 million PLN and 622 761 shares in Soda Mątwy S.A., accounting for 8.4% of the share capital and worth 16 million PLN. Now, Ciech SA holds 99.26% shares in Janikosoda SA and 99.77% shares in Soda Mątwy SA.

- By way of the Agreement of 29 December 2005, Ciech SA acquired from "Provimi-Rolimpex" SA a block of 5 400 shares of its own subsidiary, GZNF Fosfory, accounting for 9.32% of the share capital, for 6 500 000 PLN. At the moment, Ciech SA holds 89.04% shares of the GZNF Fosfory's stock

18.1.1.2 Equity Investment and Divestment Plans for the Next 12 Months

Investments and divestments planned for the next 12 months will be implemented according to the existing development strategy, which aims at increasing the Company's goodwill. Efforts are underway to conclude new equity investment projects and acquire new investment projects, both in Poland and abroad.

The aim is to take over domestic and foreign manufacturers of selected chemical products, thereby reinforcing the Ciech Group's standing in its current markets and providing opportunities for development of the Group's operations in other segments.

By implementing the projects for the next 12 months, Ciech SA intends:

to continue the process of investment analyses of soda manufacturing companies in CEE countries in order to consolidate the Soda Division

to continue the process of investment analyses of silicate manufacturing companies in CEE countries in order to develop the Inorganic Division

to finalise the purchase transaction of 80% shares of ZCh Zachem SA and ZCh Organika Sarzyna SA from Nafta Polska SA, which is conditioned by the approval of UOKiK (*Office of Competition and Consumer Protection*) and the consent given to Nafta Polska SA by the Council of the Minister of Treasury, acting as the General Meeting of Shareholders of Nafta Polska SA. On March 29, 2006, the Company concluded the purchase agreement with Nafta Polska concerning 80% of shares in Zch Zachem SA for 68 500 000 PLN and ZCh Organika Sarzyna SA for 244 500 000 PLN

xix. Information on Security Issues in Ciech SA

An increase of the share capital took place on February 16, 2005, in the amount of 41 020 000 PLN, which resulted from the issue of C series shares for a par value of 5 PLN each. No redemption of shares occurred in the period concerned.

On March 22, 2005, i.e. the pre-determined maturity date, Ciech SA redeemed its previously issued commercial notes of a par value of 15 000 000 PLN. In 2005, the Company did not issue any debt securities.

xx. Purchase of Treasury Shares by the Parent

In the fiscal year 2005, the Company did not purchase any treasury shares

xxi. Changes in the Basic Management Principles of the Company/Capital Group

In 2005, there were no material changes in the management principles of the Company and its Group.

xxii. Changes to the Managing and Supervisory Bodies in the Previous year

Until December 31, 2005, the composition of the Management Board of Ciech SA remained unchanged and comprised the following members:

- Ludwik Klinkosz – President of the Management Board
- Jerzy Golis – Member of the Management Board
- Stefan Rojewski – Member of the Management Board

Until June 29, 2005, the composition of the Supervisory Board of Ciech SA was as follows:

1. Mr Zygmunt Bosiakowski – President of the Supervisory Board
2. Mr Andrzej Buczak – Vice-President of the Supervisory Board
3. Ms Agnieszka Małocha – Secretary to the Supervisory Board
4. Mr Dariusz Krajowski-Kukiel – Member of the Supervisory Board
5. Mr Janusz Wiśniewski – Member of the Supervisory Board
6. Mr Olgierd Cieślik – Member of the Supervisory Board
7. Ms Bożena Dyjak – Member of the Supervisory Board
8. Mr Krzysztof Jasiński – Member of the Supervisory Board
9. Mr Edmund Kozak – Member of the Supervisory Board

On June 29, 2005, the Ordinary General Meeting of Shareholders of Ciech SA dismissed the following of the Ciech SA Supervisory Board Members:

1. Ms Bożena Dyjak
2. Mr Olgierd Cieślik
3. Mr Krzysztof Jasiński
4. Mr Edmund Kozak

The 3-year term of office to which the remaining Members of the Ciech SA Supervisory Board were elected, has expired. As of the date of the Ordinary General Meeting of Shareholders, all mandates of the Board's members expired.

In view of the foregoing, on June 29, 2005, the Ordinary General Meeting of Shareholders of Ciech SA elected the new Ciech SA Supervisory Board, 5th term, composed of:

1.	Edmund Pietrzak	President of the Supervisory Board
2.	Elżbieta Boniuszko	Vice-President of the Supervisory Board
3.	Edmund Kozak	Secretary to the Supervisory Board
4.	Zygmunt Bosiakowski	Member of the Supervisory Board
5.	Magdalena Bąkowska	Member of the Supervisory Board
6.	Andrzej Buczak	Member of the Supervisory Board
7.	Dariusz Krajowski-Kukiel	Member of the Supervisory Board
8.	Ireneusz Król	Member of the Supervisory Board

On July 21, 2005, the Supervisory Board elected Professor Edmund Pietrzak as President of the Board, and Ms

Elżbieta Boniuszko as Vice-President of the Board.

On February 17, 2006, the Extraordinary General Meeting of Shareholders of Ciech SA dismissed the following members of the Supervisory Board:

1. Ms Elżbieta Boniuszko – Vice-President of the Board
2. Mr Edmund Kozak – Secretary to the Board
3. Mr Zygmunt Bosiakowski
4. Mr Andrzej Buczak
5. Mr Ireneusz Król

At the same time, on February 17, 2006, the Extraordinary General Meeting of Shareholders of Ciech SA appointed the following Members of the Company's Supervisory Board:

1. Ms Krystyna Dziworska
2. Mr Maksymilian Klank
3. Mr Marek Konopczyński
4. Mr Maciej Rudnicki
5. Mr Wiesław Piosik
6. Mr Zbigniew Markowski

xxiii. Policies Governing the Appointment and Dismissal of the Management and the Management Staff's Powers, Especially the Right to Decide on Issue/Redemption of Shares

According to the Articles of Association of Ciech S.A., powers to appoint and dismiss members of the Management Board, including President of the Board, lie with the General Meeting of Shareholders. The Management staff's powers are specified in the Code of Commercial Companies and the Ciech SA's Articles of Association.
The management staff has no specific powers to decide on issue/redemption of shares.

xxiv. Information on Agreements between the Issuer and the Management Providing for Compensation in case of Resignation or Dismissal without Good Reasons or when Dismissal is caused by the Issuer's Incorporation by Acquisition

If a person is dismissed during the term of office without good reasons or in the case of resignation, the employment contract provides for a severance pay of three monthly remunerations.

The Non-Compete Agreement with the Management Board Members states that upon termination of employment, they are entitled for 12-month compensation of 80% of the average remuneration paid during 12 whole calendar months preceding the termination date.

xxv. Remunerations. Management Board and Supervisory Board

For information, see Section 31.6 of the additional information and explanatory notes to the consolidated financial statement of the Ciech Group.

xxvi. Total Number and a Par Value of the Company's Shares and Stakes in Affiliates Held by Members of the Managing and Supervisory Bodies

As it follows from statements submitted by members of the Company's Management and Supervisory Boards, the number of shares of Ciech SA owned by members of the managing and supervisory bodies as of 31 December 2005 is as follows:

Ludwik Klinkosz, President of Ciech SA holds 390 641 shares in the Company with a par value of 5 PLN each.
No other members of Ciech SA's Management Board or Supervisory Board hold any shares in the Company.

xxvii. Shareholders Empowered to Cast at least 5% of Votes at the General Meeting of Shareholders of Ciech S.A.

As the Company's Management Board, acting in a manner specified in Art. 69 of *the Act on Public Offering and Terms of Introducing Financial Instruments to Organised Trading and on Public Companies of 29 July 2005*, has found out, the following entities are empowered to cast at least 5% of votes at the Company's General Meetings of Shareholders:

- Kompania Węglowa SA – 10 270 800 shares equal to 36.68 % of Ciech SA's share capital; votes: 10 270 800, which constitutes 36.68% of the total number of votes at the General Meeting

  Franklin Templeton Investments, UK – 2 000 000 shares equal to 7.14% of Ciech SA's share capital; votes: 2 000 000, which constitutes 7.14% of the total number of votes at the General Meeting

  Otwarty Fundusz Emerytalny PZU 'Złota Jesień' – 1 712 732 shares equal to 6.12% of Ciech SA's share capital; votes: 1 712 732, which constitutes 6.12% of the total number of votes at the General Meeting

  Commercial Union Investment Management SA (CUIM) Poland – 1 504 961 shares equal to 5.37% of Ciech SA's share capital; votes: 1 504 961 which constitutes 5.37% of the total number of votes at the General Meeting

xxviii. Contracts that May Potentially Change the Proportion of Interest Held by the Current Shareholders and Bond Holders

Ciech SA has no information about contracts that may potentially change the proportion of interest held by the existing shareholders. No such agreements were concluded after the balance sheet date either.

xxix. Information on Holders of any Securities, which Give Special Rights of Control over the Issuer and their Description

There are no securities in Ciech SA, which give special rights of control over the issuer.

xxx. Information on All Limitations on Transfer of the Issuer Securities' Ownership and Limitations on the Use of the Voting Rights Originating from the Issuer's Shares

There are no limitations on transfer of securities' ownership in Ciech SA. There are no limitations on the use of the voting rights originating from Ciech SA's shares.

xxxi. Information on the Control System of the Employee Stock Plan

There is no employee stock plan in Ciech SA or any of the companies in the Ciech group.

xxxii. Information on Agreements concluded with the Entity Authorised to Audit the Consolidated Financial Statement of the Ciech Group

Agreements concluded in 2005

	Entity	Agreement Date	Content	Value
Petrochemia Blachownia SA				
1	Deloitte & Touche Audit Services Sp. z o. o.	30.06.2005	Review of the consolidation package for H1 2005	15 000 EUR + VAT + 10% cost refund
2	Deloitte Audyt Sp. z o.o.	25.11.2005	Audit of the financial statements: individual and consolidated one and the consolidation package for 2005	18 000 EUR + VAT + 10% cost refund

	Entity	Agreement Date	Content	Value
Alwernia SA				
1	Deloitte & Touche Audit Services Sp. z o.o.	28.10.2005	Audit of the individual and consolidated financial statement for 2004	18 000 EUR + VAT and additional expense: up to 10% of the total value
2	Deloitte & Touche Audit Services Sp. z o.o.	30.06.2005	Review of the consolidation package for H1 2005 prepared in accordance with IFRS and being the basis for accounts used in preparation of the "Auditor's Report on the Consolidated Financial Statement of the Ciech SA Capital Group"	17 000 EUR + VAT and additional expense: up to 10% of the total value; 70 EUR/man-hours if more than one adjustment, is to be made after the 2nd version
3	Deloitte Audyt Sp. z o.o.	25.11.2005	Audit of an individual and consolidated financial statement for 2005. Audit of the consolidated package for 2005 to be used in preparation of the "Auditor's Opinion and Report on the Consolidated Financial Statement of the Ciech Capital Group"	18 000 EUR + VAT and additional expense: up to 10% of the total value; 70 EUR/man-hours, if more than one adjustment is to be made after the 2nd version
Fosfory Sp. z o.o.				
1	Deloitte & Touche Audio Services Sp. z o. o.	30.06.2005	Review of the consolidation package for H1 2005 prepared in accordance with IFRS and being the basis for accounts used in preparation of the "Auditor's Report on the Consolidated Financial Statement of the Ciech SA Capital Group"	19 900 EUR + VAT + 70 EUR/man-hours, if more than one adjustment is to be made after the 2nd version + 10% of the total value against costs incurred by the contractor
2	Deloitte Audyt Sp. z o.o.	18.11.2005	Audit of financial statements and the consolidation package for 2005, including: - individual statement - consolidated statement of the capital group - consolidation package prepared in line with IFRS - selected procedures in subsidiaries	21 000 EUR + VAT + 70 EUR/man-hours, if more than one adjustment is to be made after the 2nd version + 10% of the total value against costs incurred by the contractor
Ciech SA				
1	Deloitte Audyt Sp. z o.o.	04.07.2005	Verification of appraisals and implementation of IAS/IFRS	123 000 EUR + VAT and 10% cost refund
2	Deloitte Audyt Sp. z o.o.	15.11.2005	Audit of financial statements and the consolidation package for 2005	39 500 EUR + VAT and 10% cost refund; 70 EUR/man-hours, if more than one adjustment is to be made after the 2nd version
3	Deloitte Audyt Sp. z o.o.	14.12.2005	Consultancy concerning the proposed purchase transaction of Zachem SA	70 000 EUR+ VAT and expenses.
4	Deloitte & Touche Audit Services Sp. z o.o.	30.06.2005	Review of the individual and consolidated financial statement for H1 2005	29 700 EUR + VAT and 10% cost refund; 70 EUR/man-hours, if more than one adjustment is to be made after the 2nd version
5	Deloitte & Touche Audit Services Sp. z o.o.	05.01.2005	Training on IFRS	6 100 EUR + VAT
6	Deloitte & Touche Audit Services Sp. z o.o.	24.01.2005	Advisory services concerning implementation of IFRS	4 500 EUR + VAT
7	KPMG Polska Audyt Sp. z o.o.	16.06.2004 annex 15.04.2005	Bookkeeping consultancy (IFRS standards)	62 000 EUR + VAT and cost refund
Soda Mątwy SA				
1	Deloitte & Touche Services Sp. z	30.06.2005	Review of the consolidation package	19 000 EUR + VAT and +10% net remuneration +VAT; 70 EUR/man-hours, if more than one adjustment is

	Entity	Agreement Date	Content	Value
	o.o.			to be made after the 2nd version
2	Deloitte Audyt Sp. z o.o.	25.11.2005	Audit of financial statements and the consolidation package for 2005	24 000 EUR + VAT + 10% net remuneration + VAT; additional hourly rates: 70 EUR/man-hours + VAT
Vitrosilicon SA				
1	Deloitte & Touche Services Sp. z o.o.	30.06.2005	Review of the consolidation package for H1 2005 prepared in line with IFRS	11 000 EUR + VAT and +10% of the total value to cover the contractor's costs; 70 EUR/man-hours, if more than one adjustment is to be made after the 2nd version
2	Deloitte Audyt Sp. z o.o.	30.09.2005	Audit of the financial statement and consolidation package for 2005 prepared in line with IFRS	12 000 EUR + VAT + 10% of the total value to cover the contractor's costs; 70 EUR/man-hours, if more than one adjustment is to be made after the 2nd version
3	Deloitte & Touche Audit Services Sp. z o.o.	5.08.2005	Tax advisory services: preparation of the written commentary as regards VAT and CIT; recommendations concerning minimisation of the tax risk	1 275 EUR + VAT
4	Deloitte Audyt Sp. z o.o.	12.05.2005	Services related to application for EU co-funding of the planned project: feasibility study; assistance in the application process, including preliminary analysis of the project brief considering formal requirements of the programme, preparation of the application and required documentation; services related to the use and settlement of funds during implementation and use of the investment project	11 600 EUR + VAT + 2.75 % of the total co-founding proposed by MGiP (Ministry of Economy)
Ciech Polfa Sp. z o.o.				
1	Deloitte & Touche Audit Services Sp. z o.o.	30.06.2005	Review of the consolidation package for H1 2005	5 500 EUR + VAT and 10% cost refund; 70 EUR/man-hours if more than one adjustment is to be made after the 2nd version
2	Deloitte Audyt Sp. z o.o.	18.11.2005	Audit of the financial statement and consolidation package for 2005	7 500 EUR + VAT and 10% cost refund; +70 EUR/man-hours, if more than one adjustment is to be made after the 2nd version
Janikosoda SA				
1	Deloitte & Touche Audit Services Sp. z o.o.	4.07.2005	Review of the consolidation package for H1 2005 prepared in line with IFRS	14 500 EUR + VAT and 10% cost refund; + 70 EUR/man-hours, if more than one adjustment is to be made after the 2nd version
2	Deloitte Audyt Sp. z o.o.	7.11.2005	Audit of the financial statement and consolidation package for 2005 prepared in line with IFRS	19 000 EUR + VAT and 10% cost refund; + 70 EUR/man-hours, if more than one adjustment is to be made after the 2nd version
Cheman SA				
1	Deloitte & Touche Audit Services Sp. z o.o.	30.06.2005	Review of the consolidation package for H1 2005	10 000 EUR + VAT and 10% cost refund; + 70 EUR/man-hours, if more than one adjustment is to be made after the 2nd version
2	Deloitte Audyt Sp. z o.o.	02.12.2005	Audit of the 2005 financial statement	13 000 EUR + VAT and 10% cost refund; + 70 EUR/man-hours if more than one adjustment is to be made after the 2nd version

Agreements concluded in 2004

No.	Entity	Agreement Date	Content	Value
Petrochemia Blachownia SA				
1	KPMG Polska Audyt Spółka z o.o.	27.07.2004	Review of the individual and consolidated financial statement for H1 2004	12 000 USD + VAT + 3 USD per one working hour of the team member
2	KPMG Polska Audyt Spółka z o.o.	28.10.2004	Audit of the consolidated group package for 2004	11 200 EUR + VAT + 3 USD per one working hour of the team member
3	Deloitte & Touche Audio Services Sp. z o.o.	29.10.2004	Audit of the individual and consolidated financial statement for 2004	18 000 EUR + VAT+ 10% refund of the contractor's costs
Alwernia SA				
1	KPMG Polska Audyt Spółka z o.o.	15.06.2004	Review of the consolidated financial statement for H1 2004	8 500 USD + VAT and additional expense
2	KPMG Polska Audyt Spółka z o.o.	15.06. 2004	Identification of basic accounting and presentation differences between the Company's principles and IFRS Assistance in evaluation of these differences Technical assistance in preparation of financial statements as at January 1, 2004	3 500 EUR + VAT and additional expense
3	KPMG Polska Audyt Spółka z o.o.	28.10.2004	Audit of the consolidated group package for H1 2004 prepared in line with Ciech SA's reporting policies	18 000 EUR + VAT and additional expense
4	KPMG Polska Audyt Spółka z o.o.	20.04.2004	Tax advisory services: appeals against decisions of the Tax Chamber to WSA (Voivodeship Administrative Court)	400 EUR + VAT, 10% of the litigation value in the case of a favourable ruling
Fosfory Sp. z o.o.				
1	KPMG Polska Audyt Sp. z o.o.	20.05.2004	Tax advisory services and bookkeeping consultancy: bookkeeping and tax consultancy activities (including arrangement of training seminars) whose character and subject are indispensable for the company to operate and develop in a legal way	Agreed lump sump remuneration, of which: - training seminars on preparation of the consolidation packages: 2 860 EUR + VAT - training seminars on the deferred tax issues and consolidation of financial statements: 2 540 EUR + VAT - for assistance in consolidation and preparation of the package for Ciech for the period not to be audited or reviewed by KPMG: 2 120 EUR + VAT - other consultancy: hourly rates of 70-280 EUR + VAT
2	KPMG Polska Audyt Sp. z o.o.	18.06.2004	Review of the consolidated financial statement for H1 2004	12 000 USD + VAT + 3 USD per one working hour of the team member (flat rate)

No.	Entity	Agreement Date	Content	Value
3	KPMG Polska Audyt Sp. z o.o.	18.06.2004	Bookkeeping consultancy: advisory services related to identification of differences between GZNF Fosfory's and their subsidiaries' accounting policies and IFRS	10 500 EUR + VAT + 2.50 EUR per one working hour of the team member (flat rate)
4	KPMG Polska Audyt Sp. z o.o.	29.10.2004	Audit of the consolidated group report for H1 2004 prepared in line with the Ciech Group's requirements	11 200 EUR + VAT + 3 EUR per one working hour of the team member (flat rate)
5	Deloitte & Touche Audio Services Sp. z o.o.	29.10.2004	Audit of the 2004 financial statement, including: - individual statement - consolidated statement of the capital group - selected procedures at subsidiaries with a view to audit the consolidated financial statement	21 000 EUR + VAT + 10% of the total value as a refund of the contractor's costs
Ciech SA				
1	Deloitte & Touche Audio Services Sp. z o.o.	01.10.2004	Audit of the 2004 financial statement	40 500 EUR + VAT + 10% cost refund
2	Deloitte & Touche Audio Services Sp. z o.o.	29.11.2004	Advisory services concerning implementation of IFRS	7 800 EUR + VAT + 100 EUR/h
3	KPMG Polska Audyt Sp. z o.o.	16.06.2004	Review of the statements for H1 2004	15 000 USD + VAT + 1 500 USD
4	KPMG Polska Audyt Sp. z o.o.	28.10.2004	Audit of the statements for H1 2004	23 300 EUR + VAT +1 500 EUR
5	KPMG Polska Audyt Sp. z o.o.	31.12.2003	Compliance of the Oracle Financials system with the Polish Accounting/VAT/CIT Acts	14 000 EUR + VAT + consultancy charged per hour
6	KPMG Polska Audyt Sp. z o.o.	16.06.2004 annex 15.04.2005	Bookkeeping consultancy (IFRS standards)	62 000 EUR + VAT + cost refund
7	KPMG Polska Audyt Sp. z o.o.	12.03.2004	Compilation of the Prospectus	28 000 EUR + VAT + meetings charged per hour
Soda Mątwy SA				
1.	KPMG Polska Audyt Sp. z o.o.	14.06.2004	Review of the consolidation package for H1 2004, as prepared for Ciech SA	15 000 EUR + VAT + 3 EUR per each working hour of KPMG's team member + VAT
2.	KPMG Polska Audyt Sp. z o.o.	14.10.2004	Audit of the consolidation package for H1 2004, as prepared for Ciech SA	14 000 EUR + VAT; 3 EUR per each working hour of KPMG's team member + VAT
3.	Deloitte & Touche Audit Services Sp. z o.o.	08.11.2004	Audit of the 2004 financial statement	24 000 EUR + VAT + 10% net remuneration + VAT
Vitrosilicon SA				
1	Deloitte & Touche Audit Services Sp. z o.o.	27.10.2004	Audit of the 2004 financial statement	12 000 EUR + VAT
Ciech Polfa Sp. z o.o.				
1	Deloitte & Touche Audit Services Sp.	25.10.2004	Audit of the 2004 financial statement	7 500 EUR + VAT and 10% cost refund

No.	Entity	Agreement Date	Content	Value
	z o.o.			
Janikosoda SA				
1	KPMG Polska Audyt Sp. z o.o.	2.06.2004	Bookkeeping consultancy: Identification of basic accounting and presentation differences between the principles applied by Janikosoda SA and IFRS	6 000 USD + VAT and refund of additional expense
2	KPMG Polska Audyt Sp. z o.o.	14.06.2004	Review of the financial statement for H1 2004	12 000 USD + VAT and refund of additional expense
3	KPMG Polska Audyt Sp. z o.o.	14.10.2004	Audit of the consolidated package for H1 2004 prepared in line with Ciech SA's reporting policies	11 000 EUR + VAT and refund of additional expense
4	Deloitte & Touche Audit Services Sp. z o.o.	2.11.2004	Audit of the 2004 financial statement	19 000 EUR + VAT and 10% cost refund

xxxiii. Financial Resource Management at the Ciech Group

The assessment of how the Group's financial resources are managed was based on the ratio analysis, including profitability ratios, liquidity ratios, asset turnover ratios, and debt ratios
It is the Group's key objective to maintain full liquidity. The Ciech Group has the full capacity to repay all its debt.
The decision-making procedures applied to purchases of both base stock, and auxiliary materials and services provide that the best possible financial terms should always be negotiated, with particular emphasis on the payment deadlines. The same rule applies to sales, where additional care is exercised to determine the partner's reliability, payment recoverability, and, where necessary, to apply debt recovery measures.

- Ciech Group's Profitability Assessment

In spite of the lower demand for chemicals, and an unfavourable situation on the FX market (strength of the Polish currency decreased export profitability), 2005 saw the sales income similar to the comparable period of 2004. The income was positively influenced by the year-on-year growth in prices of some chemicals, which was particularly noticeable in the soda industry. The year-on-year profitability slump was mainly caused by: (a) trends on the FX market, which were disadvantageous to exporters; and (b) increased prices of the Group's manufacturing base stock.

The tables below show the main figures concerning financial performance and profitability:

Table 3. Consolidated profitability ratios of the Ciech Group

Specification	2005	2004
Net sales income	2 209 545	2 314 916
Sales profit	532 960	546 920
Operating profit	143 555	155 179
Net profit	117 853	92 340
Return on sales	24.12%	23.63%
Return on operating activity (%)	6.5%	6.7%
Net return on sales (%)	5.3%	4.0%
Total return on assets (ROA in %)	7.2%	6.0%
Return on equity (ROE in %)	10.9%	11.1%

Source: Ciech SA

Calculation principles:
profitability ratios – the ratio of the relevant sales profit, operating profit, and net profit figures for the period concerned to the net income from sales of products, services, and materials;
Return on assets (ROA) – net profit / assets as of the end of the period;

Return on equity (ROE) – net profit attributable to shareholders of the parent / equity as of the end of the period.

- Ciech Capital Group's Liquidity Assessment

The Ciech Group's financial liquidity position in 2005 clearly improved, and the liquidity ratios exceeded the recommended safety standards. The most important reason for improvement of liquidity was the issue of shares. Due to the issue funds, the amount of short-term financial assets increased, while the level of short-term credit liabilities decreased. The key liquidity ratios are shown in the table below:

Table 4. Liquidity ratios in the Ciech Group

Specification	2005	2004
Current ratio	1.62	1.06
Quick ratio	1.35	0.86

Source: Ciech SA

Calculation principles:

current ratio – the ratio of the current assets to the total current liabilities at the end of the period; the current ratio reflects the company's ability to repay its current liabilities using its current assets.
quick ratio – the ratio of the current assets less reserves to the total current liabilities at the end of the period; the quick ratio reflects the company's ability to accumulate cash in a short time to finance its liabilities with a short due date.

- Working capital and turnover ratios in the Ciech Group

The demand for current assets at the end of 2005 amounted to 334 856 000, representing an increase of 39% in 12 months. The demand resulted primarily from: (a) disclosing fixed assets of Petrochemia Blachownia as assets held for sale (b) increase in inventories.

Table 5. Working capital of the Ciech Group (thousands PLN)

Specification	31.12.2005	31.12.2004
1. Current assets	817 311	704 256
2. Cash and other short-term investments	101 485	37 280
3. Adjusted current assets (1-2)	715 826	666 976
4. Short-term liabilities	506 003	664 284
5. Short-term loans and other financial liabilities	124 190	237 452
6. Adjusted short-term liabilities (4-5)	381 813	426 832
7. Working capital (1-4)	311 308	39 972
8. Working capital demand (3-6)	334 013	240 144
9. Net cash balance (7-8)	(22 705)	(200 172)

Source: Ciech SA

The high amounts of the Ciech Group's trade receivables and liabilities against the disclosed income are due to the fact that part of the parent company's trade operations consists in commission sales, including Ciech Polfa companies. The year-on-year extension of the cash conversion period in 2005 by 12 days resulted mainly from the increase in liabilities turnover ratio by 9 days. Extension of the ratio ensued from market changes in: (1) agrochemical segment (increased competitiveness due to extension of payment deadlines for domestic customers); (2) pharmaceutical segment (extension of payment deadlines for foreign customers); and (3) soda segment (adjustment to business conditions of large customers).

Table 6. Turnover cycles for the Ciech Group's main working capital items (days)

Specification	2005	2004
Inventory turnover	23	22
Trade receivables turnover	84	75
Trade liabilities turnover	62	64
Operating cycle	107	97
Cash conversion cycle	45	33

Source: Ciech SA

Calculation principles:
inventory turnover – the ratio of inventories at the end of a given period to the operating cost for the period, multiplied by the number of days in the period;
trade receivables turnover – the ratio of receivables against deliveries and services at the end of a given period to the net sales

income for the period, multiplied by the number of days in the period;
trade liabilities turnover – the ratio of liabilities against deliveries and services at the end of a given period to the operating expense in the period, multiplied by the number of days in the period;
operating cycle- total inventory turnover and trade receivables turnover
cash conversion cycle – the difference between the operating cycle and the turnover of liabilities against deliveries and services.

- Ciech Group's Debt Assessment

As at the end of 2005, the Ciech Group's debt was stable, and not as high as the year before. Total liabilities accounted for ca. 38% of the assets. A good equity to assets ratio makes it possible to increase the share of external financing resources in the Company's operations. Consequently, the Group will be able to carry out strategic tasks, especially new acquisitions.
The table below shows the key debt ratios.

Table 7. Debt ratios in the Ciech Group

Specification	2005	2004
Total debt ratio	37.67%	50.56%
Long-term debt ratio	6.73%	7.24%
Debt to equity ratio	60.44%	102.28%
Equity to assets ratio	62.33%	49.44%

Source: Ciech SA

Calculation principles:
total debt ratio – the ratio of long- and short-term liabilities to total assets; the ratio reflects the share of external financing sources in the Company's operations.
long-term debt ratio – the ratio of long-term liabilities to total assets; it reflects the share of long-term liabilities in the overall financing of operations.
debt to equity ratio – the ratio of total liabilities to equity.
equity to assets ratio – the ratio of equity to total assets; it reflects the share of equity in the financing of operations.

xxxiv. Predicted Financial Situation of the Ciech Group

The Ciech Group does not anticipate any substantial changes in its financial standing in the near future, but the actions taken in order to improve operating activity may lead to further improvement of the Company's financial situation in the long run. 2006 can possibly see some significant changes in the financing structure due to the Company's acquisition operations. It is expected that financing of equity investments will be fixed to make efficient use of funds obtained from the issue and optimise the Company's indebtedness.
The Group is fully capable to repay their debt.

xxxv. Assessment of the Possibility to Implement Investment Assumptions Compared to the Funds Held, Taking into Consideration Possible Changes in the Structure of Financing of Such Operations

Most of the planned capital expenditure will be financed with own resources from amortisation and the Group's profit.
In 2005, Soda Mątwy S.A. began to construct the monohydrate soda production system. The project will be financed mostly with a long-term earmarked loan from Bank Handlowy. The agreement provides for the amount of 40 000 000 PLN, the repayment period of 5.5 years and the last principal payment in January 2011.
In Vitrosilicon SA, investments projects will be financed from own resources (20%) and bank loan (80%). Change of the financing structure is conditioned upon the Company's obtaining of the Ministry of Economy's funds as part of the programme "Support for Enterprises Making New Investments." If received, the funds will be allocated for earlier loan repayment.

As for acquisitions, the Company is able to finance most of its expenditure with a long-term bank loan.

The Group is not planning to finance capital expenditure by means of issuing of debt securities.

xxxvi. Material Events that Impacted the Company's Operations and Profit in 2005 or Are Likely to Influence Them in Future

Continuing prosperity in the glass-making industry in CEE countries and the domestic construction industry,

which are important target markets for Ciech SA

Purchase by Ciech SA of the Polish chemical works Zachem SA and Organika Sarzyna SA whose privatisation by Nafta Polska will bring about significant changes to the domestic chemical market. Ciech SA takes part in this process

Tendency in price changes of coke, which is an important raw material for production of soda ash. These prices decreased significantly during 2005

Closing of the Solvay soda ash production plant in Austria, whose production capacity at the end of 2005 exceeded 150 000 tons a year, may improve the competitive position of other European suppliers, including Ciech SA

Equity investments of the Indian manufacturers of soda ash in European factories (Brunner Mond, UK acquired by TATA Chemicals Ltd. and Bega UPSOM Ocna Mures, Romania acquired by Gujarat Heavy Chemicals Ltd.) at the end of 2005. These acquisitions will change the balance of power in the European and world market of soda ash

Sale of 100% of shares of Ciech SA's subsidiary, Petrochemia-Blachownia SA in Kędzierzyn-Koźle, which specialises in manufacturing of benzene and ethylbenzene to the Hungarian concern, BorsodChem Rt

Changes with regard to the ownership structure of the petrochemical industry in Central and Eastern Europe (Orlen-Unipetrol) and launching in Q3 2005 of new domestic systems for production of plastics in Płock (Basell Orlen Polyolefins), which changed the situation on these markets

xxxvii. Growth Prospects for the Ciech Group

Prospects of development for Ciech SA are related to both the pace of implementation of the assumed development strategy of the Company and the Ciech Group, as well as external factors, which include:

- large potential for the growth in demand for chemicals in Poland (where their per capita use is slightly over 300 EURO and still remains approx. 4-times lower than in Western Europe)
- interest of the foreign capital in investments in the domestic chemical industry
- competitiveness of Polish chemical products on foreign markets, proved by high export dynamics

Ciech SA believes that the positive macroeconomic trends and the assumed parameters of key investment projects of the Group will be the driving force for achieving the critical strategic targets, including in particular higher operating profitability in the next 2-3 years.

Ciech SA's and the Ciech Group's short-term goal is to strengthen their current market position in their core business segments and key product sales. Ciech SA's range of products also includes many "mature" products (soda ash, evaporated salt, baking soda), with an established market standing and stable growth dynamics. Ciech SA's activity with respect to this product group will include:

- further reorganisation of base-stock purchases and product sales and logistics
- cutting in manufacturing costs by enhancing operational excellence
- employing market niches to develop the Group's core portfolio
- acquisition of cheap base-stock to reduce the cost per piece

With respect to products with higher growth dynamics (such as hollow glass blocks, glass holders for memorial candles, TDI and epoxy resins), Ciech SA is planning to increase its sales of these products and their market share.

Ciech SA's and the Ciech Group's long-term strategy will focus on:

- strengthening of the leading position in the core product markets
- vertical concentration of the manufacturing processes (from securing cheap base stock sources and concluding long-term agreements to reaching the end consumer, using its own distribution network where it is economically sound)
- manufacturing of ultimately processed products with prospective application markets

xxxviii. Internal and External Factors Significant to the Ciech Group's growth

External factors

Economic situation in Europe and worldwide

Ciech SA's commercial activities rely largely on chemical product exports, whose level and profitability depend on the global economic situation in Europe and worldwide. A global economic slump could affect the demand for raw materials in international markets, thus reducing the exports turnover of Ciech SA.

It is estimated that in 2006, global economy will grow at the existing pace of 4% a year (with the EURO zone's growth figure being 2%).

As for 2006, the European Chemical Industry Council (CEFIC) predicts slight and short lasting improvement of the chemical production dynamics in EU25 (to 2.3% from 1.9% in 2005).

Situation in the industries of the consumers of the Company's/Group's products in Poland
Ciech SA supplies most of its products to the following Polish industries: the chemical industry, the plastics industry and the glass manufacturing industry.
How these industries expand depends on the general economic situation in Poland. In 2005, the industrial output at fixed prices increased by a mere 4% (11.7% throughout 2004). Similarly, the dynamics of the chemical industry was 3.2% (9.8% in 2004) with regard to the manufacture of chemical products, and 9.1% (12.1% in 2004) with regard to the manufacture of rubber and plastics products.
Lower increase in GDP in Poland, which has been predicted to occur in 2005 (3.2%) in comparison with 5.3% in 2004, is reflected in lower dynamics of sales in the chemical sector. One should remember, however, that the situation results from the so-called high base: exceptionally good economic results in 2004, connected largely to the accession of Poland to the EU. On the other hand, recent economic analyses indicate that the economic growth in Poland will be quicker in 2006. (GDP forecasts at the level of 4.3-4.4).
Financial standing of the agricultural industry
Ciech SA derives a certain portion of their income from the agricultural sector, mainly from mineral fertilisers and plant protectants. Ciech SA estimates that the demand for mineral fertilisers in Poland should remain stable, with a growing significance of mixed fertilisers. The factors that will most likely benefit the demand for agrochemical products and consequently, the demand for the Ciech Group's products will be the efforts aimed at improving the condition and profitability of agricultural production, including production quotas and direct payments. The above should translate into an increase of Ciech SA's revenues. If no purchasing-power improvement is recorded in the agricultural sector, the demand for fertilisers and plant protectants will stagnate, as will the Ciech SA's income from agrochemical product sales.
Ownership transformations in the sector of Great Chemical Synthesis (Wielka Synteza Chemiczna (WSCh))
The process of privatising WSCh sector companies involves several important trade partners of Ciech SA. The change in ownership structure of these entities will probably lead to the change of terms and conditions of co-operation of these companies with Ciech SA. The restructuring may have negative impact on the Company in the case of entities in which Ciech SA will not acquire controlling interests. Ciech SA takes part in privatisation processes of ZCh Zachem and ZCh Organika Sarzyna according to the adopted development strategy of the Ciech Group, which assumes the achievement of the top position in the selected market segments, in order to decrease the risk of possible unfavourable ownership changes in the WSCh sector.
Situation in the raw material market
A major portion of Ciech SA's turnover is generated from imports of chemical raw materials to Poland. The raw-material markets are characterised by high cyclicality, prompted by fluctuations in the world economy. On the one hand, the growing prices of raw materials force the trading agents to lower their mark-ups and decrease customers' demand. Declining prices, on the other hand, are usually a sign of weakening demand and the onset of an economic slump. If the stable growth rate and steady prices of chemical raw materials continue, this will benefit Ciech SA's imports of chemical raw materials. Large fluctuations in demand and prices caused either by high economic growth rate, or by an economic stagnation, will adversely affect Ciech SA's trade in chemical raw materials.
Draft EU law on registration and evaluation of chemicals (REACH system)
Ciech SA currently monitors works on the draft Regulation concerning REACH. Efforts were undertaken to prepare a preliminary effect analysis with regard to the system implementation in Ciech SA and its subsidiaries. Relevant works are underway.

On November 17, 2005, the European Parliament in the first reading adopted the draft Regulation concerning REACH, introducing to it several hundred amendments. The chemical industry must yet wait for the second reading in the European Parliament, which may spell another year or two spent struggling for provisions that are more favourable.

Sea freight rates
2005 saw a considerable decrease in sea fright rights which influence the Company's trade in raw materials and fertilisers (in 2004 the rates increased by several dozen to several hundred per cent). It should improve Ciech SA's competitive edge in terms of trade using sea transport.

PLN/EURO exchange rates
The majority of Ciech SA's export sales are settled in EURO. A strong EURO means higher profitability of exports, both for Ciech SA and other chemical industry players in Poland. It also increases Ciech SA's trade volumes with other manufacturers. As a result, EUR/PLN exchange rate affects Ciech S.A.'s return on sales. If the Polish zloty becomes stronger against EURO, profitability of exports will probably decline, and Ciech SA's export volumes will decrease.
Commodity markets material to the Company's operations

TDI – Global manufacturing of TDI records the annual growth of 5%. Similar growth is forecasted for 2006. The main reason for the increase is growth of the Chinese economy and continuous expansion of the product's range

of applications. The end of 2005 saw a jump in prices. Despite strong market pressure on prices to lower, we expect them to stabilise.

Sulphur – for a long time the sulphur market has remained stable. Yet, in 2005, its prices soared. As for 2006, we do not expect the prices to rise further. On the contrary, we expect their slight decrease. Ciech has already concluded the agreements, which guarantee stability of supplies and markets in 2006.

Epoxy resins – we expect further increase in demand in 2006. The related economic situation in Poland and Europe is good and the prices are high. There is a possibility to increase export volumes, if some necessary investment is made at the supplier's premises.

Epichlorohydrin – it is actually feasible to increase epichlorohydrin exports. Yet, the increase is conditioned by updating of installations at the manufacturer's premises, which will lower manufacturing costs. Ciech is currently negotiating with customers for whom it would be a sole supplier.

Fertilisers and plant protectants – Poland's accession to the European Union increased the demand for fertilisers and plant protectants during the 2004/2005 season. As for the 2005/2006 season, we expect the prices and demand to stabilise at a new, higher level. The existing situation triggers off high demand for base stock for fertilisers imported by Ciech. The increase in demand affected in particular the phosphoric acid market, both local and global (continuing consumption growth in China). At the same time, the demand for potassium stabilised due to lower demand in South America.

Caustic soda – noticeable growth is observed. The forecasts show a stable, yet slight increase in the annual demand in both Western and Eastern Europe, 1.8-2% and 2.7-2.9% respectively. For the last 2 years, the prices have increased significantly. Warehouse inventories have decreased due to the increased demand combined with insignificant increase in chlorine manufacturing. Last year's limited volume of goods (due to technological changes in Anwil's manufacturing process) has limited Ciech SA's own sales. At the same time, Ciech saw customer churn due to the increased activity of competitors. Now, it can be a barrier to re-enter the market.

PVC – we observe gradual consolidation of PVC manufacturers and stable growth in the global demand of 4-6% a year. We also expect to see the demand increase in eastern markets (mainly Russia and Ukraine). We also see strengthening of Anwil's position in the European market due to updating of the PVC manufacturing complex. In the near future, we expect a revival of trade and the growth in investment in the construction industry. Consequently, the use of PVC will grow too.

Sodium silicate – its market is mature, similarly to other industries, which use sodium silicate as a raw material. The recession in the industries using sodium silicate has been stopped; the detergent industry, being the top consumer of sodium silicate, has stabilised. A great opportunity for sodium silicate manufacturers will be a new application: precipitated silica used as a substitute of soot in tyre manufacturing, as an agent in quick-drying cements, in compounds and in the paper industry, where it can replace much more expensive titanium dioxide. In Europe, we expect higher demand for precipitated silica at an annual level of 2-2.5%. Over the next few years, precipitated silica is expected to be used on a larger scale in Poland too (18% growth). We also expect further investment in the tyre industry in the CEE countries.

Internal factors

Feasibility of technology investments such as: construction of a monohydrate system, construction of the second assembly line for hollow glass blocks, development of a countrywide distribution system for evaporated salt.
The purpose of the technology investments planned at the Ciech Group is to enhance the quality and properties of its products (the monohydrate project), increase the production capacity for high-yield products (hollow glass blocks), and introduce new products with potential for becoming the market leaders (feed phosphates). The evaporated salt project is aimed at introducing the Ciech Group to evaporated salt distribution market as well as creation of its own product brand. Completion of the salt project will also result in increased opportunities of salt packaging and customising, thanks to equity or fixed-asset investments. Ciech SA expects that its technology investments will enable the Company to maintain its leading position in the Polish soda ash market, boost sales and profitability of hollow glass blocks, reinforce its standing in the agrochemical sector, and achieve a leading position in the evaporated salt retail market. Achievement of the project targets should bring about an increase in net income and return on sales. Failure to carry through the technology investments might lead to a gradual decline in the Ciech Group's position in the markets concerned and a lack of improvement in return on sales.

Effective internal consolidation of the soda segment
The consolidation of the soda division will consist in: (i) acquiring 100% of shares in both soda companies by purchase of the remaining shares from minor shareholders, (ii) continued cost streamlining. The internal consolidation and implementation of operational excellence projects will enable further cuts of the costs per piece in manufacturing of soda ash, leading to an increase in the Ciech Group's competitive edge in the soda segment. In October 2005, Ciech SA became a holder of almost 100% interest in the soda companies (99.26% in JZS Janikosoda and 99.77% in IZCh Soda Mątwy SA). Once the purchase is concluded in full, the Company will analyse in details feasibility and advisability of a merger of the soda companies in a single structure.

Growth strategy advancement opportunities, with a focus on new division building
As part of its growth strategy, the Ciech Group plans to build three new divisions (complementary to the existing soda division) to handle three key areas of the Group's chemical business: a phosphorus division, organic division and inorganic division. From early 2006, Ciech SA has been organising the Organic Division. Once the purchase of ZCh Zachem SA and ZCh Organika Sarzyna SA is completed, the division will be fully operational under the same name. Acquisitions are expected to be completed by the end of June 2006. Completion of Ciech SA's equity investments should bring about a considerable growth of income and financial results in the Ciech Group.

Quality and continuity of the management staff and employees
The market position of the Ciech Group's products is largely owed to the high level of expertise of its top and middle management. The Group's HR policy guarantees stability and career and growth opportunities to its staff. Some efforts have been taken to update remuneration and motivation tools and systems. The Company embarked on new solutions to regulate collective employment issues. In the first place, the Company developed assumptions of the Management by Objectives system (MBO); now it is implementing the concept. Once successfully completed, it will be of key importance to motivate Ciech SA's employees, thus contributing to the Company's development.

xxxix. Material risk factors and threats, and degree of the Group's exposure

Risk of reversal of the positive economic growth rate trends in Poland
Ciech SA's business is connected with many segments of the broadly understood chemical industry that are directly correlated with the general economic situation. Now, Polish economic growth in terms of GDP equals several percent a year. In spite of the fact that long-term forecasts indicate that the high economic growth will remain stable, the risk of a temporary economic slump in Poland cannot be ruled out (for instance due to slow growth of internal demand and the export slump). The chemical sector may suffer indirect consequences of a possible downturn in the economy. A weaker demand for chemical products may impact Ciech SA's revenues, and impair its financial performance.

Risk of economic stagnation in Europe and worldwide
Ciech SA's business relies largely on chemical product exports, whose level and profitability depend on the global economic situation in Europe and worldwide. A global downturn in the world economy can possibly affect the export trade volumes in foreign markets, thus reducing the sales income in the individual segments of Ciech SA's operations.

Increase of competition in the soda segment
The main products of the Ciech Group include soda products manufactured in subsidiaries: JZS Janikosoda SA and IZCh Soda Mątwy S.A. The processes of concentration of production, which can be more and more often observed in Europe, contribute to the increase of competition from big, over-regional chemical corporations that manufacture soda ash. Ciech SA is going to participate in these processes by acquisitions of new entities.

Foreign exchange risk
Approximately a half of Ciech SA's income comes from exports, mainly denominated in EUR. Low EUR/PLN exchange rate decreases profitability of the product sales in foreign markets. Moreover, low EUR/PLN exchange rate does not favour export sales by Ciech SA's trade partners, which can translate into a decrease in the Company's turnover. The export denominated in USD is of much lower importance for the results of the Company. The exchange rate of USD has no impact on the Company's profit, because it is naturally hedged by a similar volume of import denominated in USD. The Company constantly monitors its foreign exchange risk, and hedges large transactions denominated in foreign currencies with the use of forward transactions.

xl. Anticipated development of the Group

The Ciech Group's strategy aims at maximisation of the Group's goodwill by creating a strong chemical concern of a regional character, focused on some specific market segments, namely on products which offer high added value, considerable potential for market growth and complementary nature.

Once the strategic vision is fulfilled, the Group will be transformed into a chemical concern composed of separate divisions handling the key areas of the chemical sector. Each division will manage a specific product portfolio with parameters, which will provide the Group with an income of approximately 1 billion EUR a year, and EBITDA of more than 12%.

Growth strategy advancement will involve the following:
- increasing the added value in the soda sector by means of further internal consolidation of the soda sector, technology investments and possible acquisitions
- working toward a leading position in the Polish markets of phosphoric fertilisers and products, as well as mixed fertilisers, by expanding the phosphorus division through fixed-asset investments in GZNF Fosfory Sp.

z o.o. and equity investments in the phosphoric fertiliser industry
- expanding the Organic Division and increasing the Ciech Group's role in creating a value chain for organic products through equity investments in ZCh Zachem and ZCh Organika Sarzyna SA
- expanding the inorganic division through fixed-asset investments in Vitrosilicon SA subsidiary to increase its manufacturing capacity and through equity investments in the chemical industry manufacturers

Ultimately, the Ciech Group's operations will comprise almost exclusively the manufacture of and trade in the products of the so-called "core portfolio," meeting the predefined added-value requirements. The process of reorganising the portfolio will be carried out on two levels: one the one hand, the share of non-core products and goods in the Ciech Group's portfolio will be gradually decreasing, and, on the other hand, the portfolio will be enriched with attractive non-Group products. At the same time, the Ciech Group's members will be making their own investments to increase the volumes of core-product manufacturing (organic growth).

While gradually abandoning the non-core portfolio, Ciech SA will be making divestments from selected manufacturing and commercial companies in the Group. The divestments are necessary, first, to be able to focus on the core business (core portfolio), and, second, to gain funds to finance the planned acquisitions and investments. Ciech SA's trade in non-core low-yield products will also be gradually reduced.

b. ANNEXES

Annex 1
Main Products, Goods or Services

Ciech SA

	01.01.2005-31.12.2005		
Product, product group, good or service	Quantity in thousands of tons/ items	Net sales in thousands PLN	Percentage share
Soda ash	1 103	587 838	37
Aromatic hydrocarbons	59	158 800	10
Fertilisers	174	126 329	8
Salt	332	99 935	6
PVC	23	68 551	4
Yellow phosphorus	7	51 040	3
Phosphorites	264	49 047	3
Silicates	74	42 692	3
Other		404 660	26
Total		**1 588 892**	**100**

	01.01.2004-31.12.2004		
Product, product group, good or service	Quantity in thousands of tons/ items	Net sales in thousands PLN	Percentage share
Soda ash	772	371 968	25.3
Benzene and ethylbenzene	58	168 179	11.4
Coal	612	81 182	5.5
Phosporic fertilisers	101	69 684	4.7
Salt	417	69 151	4.7
PVC	20	67 973	4..6
Yellow phosphorus	12	62 901	4.3
Phosphorites	300	58 697	4.0
TDI	7	45 616	3.1
Liquid fuels	10	44 488	3.0
Ethanol	16	41 700	2.8
Sodium silicates	64	37 315	2.5
Potassium salts	57	32 527	2.2
Baking soda	39	27 684	1.9
Phosphorus compounds	12	23 788	1.6
Calcium chloride	33	21 652	1.5
Other		187 519	12.8
Agency fee for sulphur sales		23 746	1.6
Agency fee for TDI sales		6 244	0.4
Agency fee for EPI sales		1 946	0.1
Agency fee for other sales		15 845	1.1
Other services		10 203	0.7
Total		**1 470 007**	**100**

Source: CIECH SA

Alwernia Group

01.01.2005 - 31.12.2005			
Product, product group, good or service	Quantity in thousands of tons/ items	Net sales in thousands PLN	Percentage share
Sodium tripolyphosphate	34	84 624	51
Phosphoric acid	13	27 211	17
Iron-Chromium-Aluminium alloy	6	12 231	7
Other		40488	25
Total		**164 554**	**100**

01.01.2004 -31.12.2004			
Product/product group	Quantity in thousands of tons/ items	Net sales in thousands PLN	Percentage share
Phosphoric acid	19	30 265	15
Sodium tripolyphosphate	41	94 352	49
Sodium pyrophosphate	5	12 698	7
Iron-Chromium-Aluminium alloy	6	10 347	5
Other		47 000	24
Total		**194 662**	**100**

Petrochemia Blachownia Group

01.01.2005 -31.12.2005			
Product, product group, good or service	Quantity in thousands of tons/ items	Net sales in thousands PLN	Percentage share
Ethylbenzene	47	126 739	52
Benzene	26	65 755	27
Toluene	9	18 069	7
Ethanol	8 087	14 799	6
Other		19 601	8
Total		**244 963**	**100**

01.01.2004 -31.12.2004			
Product/product group	Quantity in thousands of tons/ items	Net sales in thousands PLN	Percentage share
Ethylbenzene	55	160 687	54
Benzene	28	79 096	27
Toluene	11	20 817	7
Ethanol	7 924	16 950	6
Other		18 639	6
Total		**296 189**	**100**

Fosfory Group

01.01.2005 -31.12.2005			
Product, product group, good or service	Quantity in thousands of tons/ items	Net sales in thousands PLN	Percentage share
Superphosphates	77	47 930	22
NPKMg fertilisers	63	38 682	17
Agrafoska fertilisers	41	34 613	16
Amofoska fertilisers	55	36 071	16
Other		65 193	29
TOTAL		**222 489**	**100**

Product/product group	01.01.2004 -31.12.2004 Quantity in thousands of tons/ items	Net sales in thousands PLN	Percentage share
Superphosphates	80	52 426	22
Agrafoska fertilisers	38	31 869	14
Amofoska fertilisers	48	30 825	13
NPKMg fertilisers	79	44 482	19
Other		73 415	32
Total		**233 017**	**100**

Janikosoda SA

Product, product group, good or service	01.01.2005 -31.12.2005 Quantity in thousands of tons/ items	Net sales in thousands PLN	Percentage share
Soda ash	573	265 542	77
Wet evaporated salt	332	29 584	9
Dry evaporated salt	236	30 996	9
Other		16 839	5
Total		**345 964**	**100**

Product/product group	01.01.2004 -31.12.2004 Quantity in thousands of tons/ items	Net sales in thousands PLN	Percentage share
Soda ash	584	270 872	71
Wet evaporated salt	342	42 952	11
Dry evaporated salt	221	46 971	12
Other		18 889	6
Total		**379 684**	**100**

Soda Mątwy Group

Product, product group, good or service	01.01.2005 - 31.12.2005 Quantity in thousands of tons/ items	Net sales in thousands PLN	Percentage share
soda ash	535	243 998	52
baking soda	63	38 300	8
calcium chloride	46	23 776	5
other	-	163 109	35
Total		**469 183**	**100**

Product/product group	01.01.2004 -31.12.2004 Quantity in thousands of tons/ items	Net sales in thousands PLN	Percentage share
soda ash	541	246 013	54
baking soda	62	43 660	10
calcium chloride	44	25 027	6
other		136 632	30
Total		**451 332**	**100**

Vitrosilicon SA

Product, product group, good or service	01.01.2005 - 31.12.2005 Quantity in thousands of tons/ items	Net sales in thousands PLN	Percentage share
Glass holders	23	37 658	36
Sodium silicate	56	28 069	27
Hollow glass blocks	7	17 470	17
Sodium water glass	30	12 602	12
Other		8 811	8
Total		**104 610**	**100**

Product/product group	01.01.2004 -31.12.2004 Quantity in thousands of tons/ items	Net sales in thousands PLN	Percentage share
Hollow glass blocks	3	15 620	16
Glass holders	61	34 436	35
Sodium water glass	24	9 520	10
Sodium silicate	51	27 554	28
Other		10 110	11
Total		**97 240**	**100**

Cheman SA

Product group, good	01.01.2005 - 31.12.2005 Quantity in thousands of tons/ items	Net sales in thousands PLN	Percentage share
Fuels	6	33 602	21
Soda products	41	28 900	18
Plastics	4	17 655	11
Basic chemicals	14	15 165	10
Domestic detergents	4	12 582	8
Solvents	4	11 349	7
Food and feed additives	4	10 956	7
Petroleum chemistry and chipboards	3	9 831	6
Glass and ceramics	3	7 449	5
Other		9 804	7
Total		**157 293**	**100**

Product/product group	01.01.2004 -31.12.2004 Quantity in thousands of tons/ items	Net sales in thousands PLN	Percentage share
Soda products	46	31 196	19
Fuels	10	27 912	17
Inorganic solid chemicals	8.7	19 703	12
Domestic detergents	5	18 061	11
Food and feed additives	4	21 345	13
Acids, lyes and other liquid chemicals	12	11 493	7
Solvents	3	8 210	5
Oils	2	8 210	5
Other total		17 926	11
Total		**164 056**	**100**

Ciech Polfa Sp. z o. o.

01.01.2005 – 31.12.2005			
Product, product group, good or service	Quantity in thousands of tons/ items	Net sales in thousands PLN	Percentage share
Ready-made medicines		33 156	60
Pharmaceutical substances		16 312	29
Packaging		5 047	9
Other		1 070	2
Total		**55 585**	**100**

01.01.2004 -31.12.2004			
Product/product group	Quantity in thousands of tons/ items	Net sales in thousands PLN	Percentage share
Commission fee for sales of chemicals		14 251	38
Commission fee for sales of substances		194	-
Sales of medicines for own account		16 117	24
Sales of substances for own account		17 515	26
Sales of packaging to the pharmaceutical industry		7 132	11
Other sales		553	1
Total		**55 762**	**100**

Annex 2
Changes in the Markets

Major customers of Ciech SA (thousands PLN)

Customer	01.01.2005 - 31.12.2005		Affiliation with Ciech S.A.
	Net sales in thousands PLN	Percentage share	
Dwory SA	129 674	8	none
ZCh Alwernia SA	101 763	6	Subsidiary
GZNF Fosfory Sp. z o.o.	64 155	4	Subsidiary
FERTICHIM N.V.	58 195	4	none
Petrochemia Blachownia SA	54 263	3	Subsidiary
Owens-Illinois Polska SA	50 275	3	none
Siarkopol SA in Grzybów	47 625	3	none
INTERORE SA	45 716	3	none
Cheman SA	32 849	2	Subsidiary
LANDHANDEL	31 741	2	none
Suomen Unipol Oy	25 734	2	none
Other	946 902	60	none
Total	**1 588 892**	**100**	

Alwernia Group's customers accounting for more than 10% of the sales (thousands PLN)

Customer	01.01.2005 - 31.12.2005		Affiliation with Ciech SA
	Net sales	Percentage share	
Ciech SA	17 413	11	Parent company
Reckit Benckiser	17 889	11	none
Other	129 252	78	none
Total	**164 554**	**100**	

Petrochemia Blachownia Group's customers accounting for more than 10% of the sales (thousands PLN)

Customer	01.01.05 -31.12.05		Affiliation with Ciech S.A.
	Net sales	Percentage share	
Ciech SA	190 856	78	Parent company
Other	54 107	22	none
Total	**244 963**	**100**	

Fosfory Group's customers accounting for more than 10% of the sales (thousands PLN)

Customer	01.01.2005 - 31.12.2005		Affiliation with Ciech SA
	Net sales	Percentage share	
Agrolok Sp. z o.o.	28 136	13	none
Kazgod Sp. z o.o.	22 533	10	none
Other	171 820	77	none
Total	**222 489**	**100**	

Janikosoda SA's customers accounting for more than 10% of the sales (thousands PLN)

Customer	01.01.05 -31.12.05		Affiliation with Ciech S.A.
	Net sales	Percentage share	
Ciech SA	334 329	97	Parent company
Other	11 635	3	none
Total	**345 964**	**100**	

Soda Mątwy Group's customers accounting for more than 10% of the sales (thousands PLN)

Customer	01.01.2005 - 31.12.2005		Affiliation with Ciech SA
	Net sales	Percentage share	
Ciech SA	320 827	68	Parent company
Janikosoda SA	121 380	26	Subsidiary
Other	26 976	6	none
Total	**469 183**	**100**	

Vitrosilicon SA's customers accounting for more than 10% of the sales (thousands PLN)

Customer	01.01.2005 - 31.12.2005		Affiliation with Ciech SA
	Net sales	Percentage share	
Ciech SA	36 223	35	Parent company
Other	68 387	65	none
Total	**104 610**	**100**	

Ciech-Polfa Sp. z o.o.'s customers accounting for more than 10% of the sales (thousands PLN)

Customer	01.01.2005 – 31.12.2005		Affiliation with Ciech
	Net sales	Percentage share	
Polfa Pabianice	12 594	23	none
Other	42 991	77	none
Total	**55 585**	**100**	

Markets

Ciech SA (thousands PLN) in 2005

	01.01.2005-31.12.2005	
Net sales in thousands PLN	Goods	Products and services
Poland	908 277	11 792
Exports	601 655	67 168
- European Union	581 105	67 168
- Other Europe	16 267	-
- Africa	1 001	-
- Asia	1 547	-
- Other	1 735	-

Alwernia Group

	01.01.2005-31.12.2005	
Net sales in thousands PLN	Goods and materials	Products and services
Poland	5 462	82 457
Exports	2 079	74 556
- European Union	2 048	44 679
- Other Europe	31	26 379
- Africa	-	860
- Other	-	2 638

Petrochemia Blachownia Group

	01.01.2005 - 31.12.2005	
Net sales in thousands PLN	Goods and materials	Products and services
Poland	1 882	200 713
Exports	3 401	38 967
- European Union	3 401	38 967
- Other Europe		

Fosfory Group

	01.01.2005 - 31.12.2005	
Net sales in thousands PLN	Goods and materials	Products and services
Poland	30 529	187 929
Exports:	7	4 024
- European Union	7	4 024

Janikosoda SA

	01.01.2005 -31.12.2005	
Net sales in thousands PLN	Goods and materials	Products and services
Poland	409	345 555

Grupa Soda Mątwy

	01.01.2005 - 31.12.2005	
Net sales in thousands PLN	Goods and materials	Products and services
Poland	1 147	467 546
Exports:	-	490
- European Union		490

Vitrosilicon SA

Net sales in thousands PLN	01.01.2005 - 31.12.2005 Goods and materials	Products and services
Poland	2 180	95 325
Exports:	144	6 961
- European Union	144	5 836
- Other Europe		1 067
- Asia		58

Cheman SA

Net sales in thousands PLN	01.01.2005 – 31.12.2005 Goods and materials	Products and services
Poland	155.758	673
Exports:	853	9
- European Union	390	9
- Other Europe	463	-

Ciech Polfa Sp. z o.o.

Net sales in thousands PLN	01.01.2005 - 31.12.2005 Goods and materials	Products and services
Poland	14.767	1.040
Exports:	25.386	14.392
- European Union	7.242	3.363
- Other Europe	14.839	8.351
- Africa	-	10
- Asia	2.864	2.626
- Other	440	41

Annex 3
Changes in Suppliers of Manufacturing Materials, Goods and Services.

Ciech SA's suppliers accounting for more than 10% of the total supplies (thousands PLN)

Supplier	01.01.2005 - 31.12.2005 Net purchase value	Percentage share	Affiliation with Ciech SA
Soda Mątwy SA	312 016	23	Subsidiary
Janikosoda SA	334 810	25	Subsidiary
Petrochemia Blachownia SA	148 149	11	Subsidiary
Other	551 212	41	none
Total	**1 346 187**	**100**	

Alwernia Group's suppliers accounting for more than 10% of the total supplies (thousands PLN)

Supplier	01.01.2005 - 31.12.2005 Net purchase value	Percentage share	Affiliation with Ciech SA
Ciech SA	101 084	71	Parent company
Other	42 249	29	none
Total	**143 333**	**100**	

Petrochemia-Blachownia Group's suppliers accounting for more than 10% of the total supplies (thousands PLN)

Supplier	01.01.2005 - 31.12.2005		Affiliation with Ciech SA
	Net purchase value	Percentage share	
Ciech SA	65 786	23	Parent company
Zakłady Koksownicze Zdzieszowice Sp. z o.o.	48 393	17	none
Total	**114 179**	**40**	

Fosfory Group's suppliers accounting for more than 10% of the total supplies (thousands PLN)

Supplier	01.01.2005 - 31.12.2005		Affiliation with Ciech SA
	Net purchase value	Percentage share	
Ciech SA	62 484	40	Parent company
Other	93 450	60	none
Total	**155 934**	**100**	

Janikosoda SA's suppliers accounting for more than 10% of the total supplies (thousands PLN)

Specification	01.01.2005 -31.12.2005		Affiliation with Ciech SA
	Net purchase value	Percentage share	
Elektrociepłownie Kujawskie Sp. z o.o.	119 263	50	Indirect subsidiary
Other suppliers	121 278	50	
Total	**240 541**	**100**	

Vitrosilicon SA's suppliers accounting for more than 10% of the total supplies (thousands PLN)

Supplier	01.01.2005 - 31.12.2005		Affiliation with Ciech SA
	Net purchase value	Percentage share	
Ciech S.A.	18 336	21	Parent company
PGNIG	12 754	15	none
Other	56 572	64	none
Total	**87 662**	**100**	

Cheman SA's suppliers accounting for more than 10% of the total supplies (thousands PLN)

Supplier	01.01.2005 – 31.12.2005		Affiliation with Ciech SA
	Net purchase value	Percentage share	
Ciech SA	25 665	19	Parent company
Other	108 927	81	none
Total	**134 592**	**100**	

Ciech Polfa Sp. z o.o.'s suppliers accounting for more than 10% of the total supplies (thousands PLN)

Supplier	01.01.2005 – 31.12.2005		Affiliation with Ciech SA
	Net purchase value	Percentage share	
POLFA KUTNO SA	4 098	12	none
JELFA SA	3 441	10	none
Other	25 452	78	none
Total	**32 991**	**100**	

a. CONSOLIDATED FINANCIAL STATEMENT OF THE CIECH GROUP FOR 2005

Consolidated Profit and Loss Account between the periods for 1 January and 31 December 2005

	Note	01.01-31.12.2005			01.01-31.12.2004		
in thousands of PLN		Continued operations	Discontinued operations	TOTAL	Continued operations	Discontinued operations	TOTAL
Net income from sales		**2 107 588**	**101 957**	**2 209 545**	**2 169 638**	**145 278**	**2 314 916**
Cost of sales		(1 584 522)	(92 063)	**(1 676 585)**	**(1 670 623)**	**(97 373)**	(1 767 996)
Gross profit/loss on sales		**523 066**	**9 894**	**532 960**	**499 015**	**47 905**	**546 920**
Other operating income		51 006	1 435	52 441	49 672	704	50 376
Selling costs		(216 907)	(4 771)	(221 678)	(210 497)	(4 621)	(215 118)
General administrative expenses		(157 095)	(10 019)	(167 114)	(148 597)	(11 247)	(159 844)
Other operating expenses		(50 538)	(2 516)	(53 054)	(62 190)	(4 965)	(67 155)
Operating profit/loss		**149 532**	**(5 977)**	**143 555**	**127 403**	**27 776**	**155 179**
Financial income		31 365	3 394	34 759	16 191	551	16 742
Financial costs		(37 894)	(791)	(38 685)	(52 117)	(1 406)	(53 523)
Net financial income / costs		**(6 529)**	**2 603**	**(3 926)**	**(35 926)**	**(855)**	**(36 781)**
Participation in the net profits of subsidiaries accounted for using the equity method		3 372	-	3 372	(1 169)	-	(1 169)
Profit/loss before tax		**146 375**	**(3 374)**	**143 001**	**90 308**	**26 921**	**117 229**
Income tax		(24 595)	(553)	(25 148)	(19 339)	(5 550)	(24 889)
Net profit / loss		**121 780**	**(3 927)**	**117 853**	**70 969**	**21 371**	**92 340**
Sales profit/loss relative to discontinued operations		-	-	-	-	-	-
Net profit for the financial year		**121 780**	**(3 927)**	**117 853**	**70 969**	**21 371**	**92 340**
:							
Net profit/loss of shareholders of the parent company		115 469	(3 885)	111 584	63 011	21 365	84 376
Net profit/loss of minority shareholders		6 311	(42)	6 269	7 958	6	7 964
Earnings per share (in PLN):							
Basic		4.30	(0.14)	4.16	3..45	1.17	4.62
Diluted		4.15	(0.14)	4.01	2..38	0.81	3.19

This consolidated profit and loss account should be viewed solely in conjunction with additional information and explanatory notes, which constitute an integral part of the consolidated financial statement.

Consolidated Balance as at 31 December 2005

In thousands of PLN

ASSETS	31.12.2005	31.12.2004
Fixed assets		
Property, plant and equipment (PPE)	704 458	725 068
Perpetual usufruct rights	733	2 099
Intangible assets:	21 588	15 630
- goodwill	39	6
Investment property	15 552	19 549
Long-term receivables	166	85
Investments in associates and jointly controlled entities accounted for using the equity method	39 431	32 190
Other long-term investments	25 752	32 179
Deferred tax assets	10 141	2 179
Total fixed assets	**817 821**	**828 979**
Current assets		
Inventories	132 450	130 278
Short-term investments	269	1 174
Income tax receivables	5 324	8 073
Trade and other receivables	493 591	525 903
Cash and cash equivalents	101 216	36 106
Non-current assets held for sale	84 461	2 722
Total current assets	**817 311**	**704 256**
Total assets	**1635 132**	**1533 235**

LIABILITIES	31.12.2005	31.12.2004
Equity		
Share capital	164 115	123 096
Treasury shares	-	(18 805)
Share premium reserve	151 328	-
Equity components relative to non-current assets held for sale	-	-
Revaluation reserve	3 543	-
Other reserve capital	78 683	84 633
Exchange differences on translation of subsidiaries	(248)	(1 067)
Retained earnings	572 220	467 021
Equity attributable to shareholders of the parent	**969 641**	**654 878**
Minority interest	49 490	103 106
Total equity	**1019 131**	**757 984**
Liabilities		
Borrowings and other debt instruments	49 305	51 942
Employee benefits	25 821	24 097
Provisions (other long-term)	21 609	22 645
Deferred tax provision	13 263	12 283
Total long-term liabilities	**109 998**	**110 967**
Overdraft facility	12 976	7 585
Borrowings and other debt instruments	124 190	237 452
Trade and other liabilities	314 329	392 425
Income tax payable	995	301
Provisions (short-term employee-benefit provisions and other provisions)	30 659	26 521
Liabilities arising from non-current assets held for sale	22 854	-
Total short-term liabilities	**506 003**	**664 284**
Total payables	**616 001**	**775 251**
Total liabilities	**1635 132**	**1533 235**

This consolidated balance sheet should be viewed solely in conjunction with additional information and explanatory notes, which constitute an integral part of the consolidated financial statement.

Statement of Changes in Consolidated Equity between the Periods of 1 January to 31 December 2005

in thousands of PLN	Share capital	Treasury shares	Share premium reserve	Equity components relative to non-current assets held for sale	Revaluation reserve	Other reserve capital	Exchange differences on translation of subsidiaries	Retained earnings	**Equity attributable to shareholders of the parent**	Minority interest	**Total equity**
Equity as at 01.01.2005 (beginning of the period):											
Reported previously	**123 096**	**(18 805)**	**-**	**-**	**-**	**84 633**	**(1 067)**	**467 021**	**654 878**	**103 106**	**757 984**
Changes in accounting principles	-	-	-	-	-	-	-	-	-	-	-
Corrections of fundamental errors	-	-	-	-	-	-	-	-	-	-	-
Equity (restated) as at 01.01.2005:	**123 096**	**(18 805)**	**-**	**-**	**-**	**84 633**	**(1 067)**	**467 021**	**654 878**	**103 106**	**757 984**
Exchange differences on translating foreign operations	-	-	-	-	-	-	819	-	819	414	1 233
Net profit (loss)	-	-	-	-	-	-	-	111 584	111 584	6 269	117 853
Payment of dividend to shareholders	-	-	-	-	-	-	-	(8 400)	(8 400)	(1 488)	(9 888)
Issue of share capital	41 019	-	151 328	-	-	-	-	-	192 347		192 347
Changes in the Group's composition due to purchase of interests in soda companies	-	-	-	-	-	-	-	-	-	(58 832)	(58 832)
Disposal of treasury shares	-	18 805	-	-	-	(3 966)	-		14 839	-	14 839
Transfer of the reserve capital to retained earnings	-	-	-	-	-	(2 210)	-	2 210	-	-	-
Other adjustments	-	-	-	-	3 543	226	-	(195)	3 574	21	3 595
Equity as at 31.12.2005 (end of the period):	**164 115**	**-**	**151 328**	**-**	**3 543**	**78 683**	**(248)**	**572 220**	**969 641**	**49 490**	**1 019 131**

Statement of Changes in Consolidated Equity between the Periods of 1 January to 31 December 2004

in thousands of PLN	Share capital	Treasury shares	Share premium reserve	Equity components relative to non-current assets held for sale	Revaluation reserve	Other reserve capital	Exchange differences on translation of subsidiaries	Retained earnings	**Equity attributable to shareholders of the parent**	Minority interest	**Total equity**
Equity as at 01.01.04 (beginning of the period):											
Reported previously	**123 096**	**(14 684)**	**-**	**-**	**-**	**84 633**	**3 495**	**383 294**	**579 834**	**100 496**	**680 330**
Changes in accounting principles	-	-	-	-	-	-	-	-	-	-	-
Corrections of fundamental errors	-	-	-	-	-	-	-	-	-	-	-
Equity (restated) as at 01.01.04:	**123 096**	**(14 684)**	**-**	**-**	**-**	**84 633**	**3 495**	**383 294**	**579 834**	**100 496**	**680 330**
Exchange differences on translating foreign operations	-	-	-	-	-	-	(4 562)	-	(4 562)	(2 611)	(7 173)
Net profit (loss)	-	-	-	-	-	-	-	84 376	84 376	7 964	92 340
Payment of dividend to shareholders	-	-	-	-	-	-	-	(916)	(916)	(2 331)	(3 247)
Changes in the Capital Group's composition	-	-	-	-	-	-	-	1 247	1 247	-	1 247
Purchase of treasury shares	-	(4 121)	-	-	-	-	-	-	(4 121)	-	(4 121)
Other adjustments	-	-	-	-	-	-	-	(980)	(980)	(412)	(1 392)
Equity as at 31.12.2004 (end of the period):	**123 096**	**(18 805)**	**-**	**-**	**-**	**84 633**	**(1 067)**	**467 021**	**654 878**	**103 106**	**757 984**

This statement of changes in equity should be viewed solely in conjunction with additional information and explanatory notes, which constitutes an integral part of the consolidated financial statement.

Consolidated Cash Flow Statement between the Periods of 1 January and 31 December 2005

in thousands of PLN	**01.01-31.12.2005**	**01.01-31.12.2004**
Operating cash flows		
Net profit (loss) for the period	**117 853**	**92 340**
Adjustments for:		
Depreciation	92 223	84 364
Recognition / reversal of write-downs	7 478	(357)

in thousands of PLN	**01.01-31.12.2005**	**01.01-31.12.2004**
Profit/loss on foreign exchange differences	(4 298)	(4 220)
Investment property revaluations	(4 371)	-
Profit / loss on investment activity	(28 808)	3 315
Profit / loss on sales of fixed assets	(4 795)	174
Dividends and interest	11 105	21 914
Input income tax	25 148	24 889
Profit / loss on shares in entities accounted for using the equity method	(3 372)	1 169
Operating profit before changes in working capital and reserves	**208 163**	**223 588**
Changes in receivables	34 494	(96 088)
Changes in inventories	(18 838)	(5 102)
Changes in short-term liabilities	(72 848)	9 394
Changes in reserves and employee benefits	4 873	15 653
Net cash generated from operations	**155 844**	**147 445**
Interest paid	(13 492)	(20 530)
Income tax paid	(31 664)	(24 318)
other adjustments	-	4 154
Profit / loss on disposal of discontinued operations	2 675	-
Net cash from operating activities	**113 363**	**106 751**
Investment cash flows		
Inflows (in "+")	**89 952**	**6 119**
Disposal of intangible assets and property, plant and equipment	9 818	2 468
Disposal of investments	76 995	2 313
Dividends received	1 891	836
Interest received	1 226	339
Disposal of a subsidiary	-	-
Other inflows	22	163
Outflows (in "-")	**(207 382)**	**(91 541)**
Acquisition of a subsidiary (net of cash acquired)	-	-
Acquisition of intangible assets and property, plant and equipment	(120 457)	(91 323)
Acquisition of investment property	-	-
Acquisition of other investments	(86 881)	(157)
Research and development expense	-	-
Other expense	(44)	(61)

in thousands of PLN	01.01-31.12.2005	01.01-31.12.2004
Net cash from investment activity	**(117 430)**	**(85 422)**
Financial cash flows		
Inflows (in "+")	**305 452**	**246 842**
Net proceeds from issue of shares and other instruments, and additional contributions to equity	192 875	-
Net proceeds from issue of convertible preference shares	-	-
Proceeds from borrowings	110 280	169 245
Other financial inflows	2 297	77 597
Outflows (in "-")	**(237 605)**	**(262 997)**
Purchase of treasury shares	-	(4 121)
Dividends paid and other payments to equity holders	(8 400)	(916)
Dividends paid to minority shareholders	(1 488)	(2 331)
Repayment of borrowings	(205 279)	(155 933)
Redemption of debt securities	(15 000)	(93 970)
Payment of finance lease liabilities	(7 329)	(5 232)
Other financial expenditure	(109)	(494)
Net cash from financial activity	**67 847**	**(16 155)**
Total net cash flows	**63 780**	**5 174**
Cash at the beginning of the period	**28 521**	**23 768**
Impact of foreign exchange differences	1 294	(421)
Cash at the end of the period	**93 595**	**28 521**

Material items of this consolidated cash flow statement result from the amounts disclosed in the consolidated balance sheet.
This consolidated cash flow statement should be viewed solely in conjunction with additional information and explanatory notes, which constitute an integral part of the consolidated financial statement.

ADDITIONAL INFORMATION AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

i.General Information

This consolidated financial statement of the Ciech Group between the periods of 1 January 2005 and 31 December 2005, and the comparable data, was approved for publication by the Management Board of Ciech SA on April 28, 2006. This consolidated financial statement has been prepared in line with all the International Financial Reporting Standards (IFRS) as approved for implementation in the European Union.

The parent company of the Ciech Group is Ciech Spółka Akcyjna with its registered office in Warsaw, at ul. Powązkowska 46/50. Since 1995 Ciech SA has been registered in the Commercial Register B under the number RHB 44665 kept by the District Court for the capital city of Warsaw, 16th Economic Register Division. On May 24, 2001, the District Court for the capital city of Warsaw, 19th Economic Division of the National Court Register decided on the entry of Ciech SA into the Register of Entrepreneurs of the National Court Register under KRS number 0000011687. Now, following organisational changes at the Court, Ciech SA is registered under the number 0000011687 at the District Court for the capital city of Warsaw in Warsaw, 12th Economic Division of the National Court Register.

As of December 31, 2005, Ciech SA was controlled by the State Treasury.

The parent company's core business as defined in the Articles of Association comprises, among other things: trade activities, investments, manufacturing, services, and financial operations, including in particular foreign and domestic trade in chemicals and related operations. The Company is also licensed to act as an agent for Polish and foreign companies. The core business of the companies in the Ciech Group is presented in Section 31.2 of the additional information and explanatory notes to the consolidated financial statement of the Ciech Group.

Average employment in the Ciech Group (parent company, Ciech SA and subsidiaries consolidated using the full method) in 2005, stood at 3356 staff. In a comparable period, i.e. as at the end of 2004, average employment stood at 3603 staff.

ii.Basis for Preparing of the Consolidated Financial Statement

The Management Board of Ciech SA hereby declares that, according to its best knowledge, the consolidated financial statement as at December 31, 2005 plus the comparable data have been developed in line with the existing accounting policy, and that they reflect the economic and financial position as well as the financial result of the Ciech Group in a true, accurate and clear manner. Moreover, the Management Board of Ciech SA declares that the annual financial statement provides a true picture of the Group's development, achievements, and position, including basic types of risks and threats.

The Management Board of Ciech SA declares that the authority authorised to audit financial statements, auditing the financial statement between the periods of January 1, 2005 and December 31, 2005 has been lawfully selected and it is: Deloitte Audyt Sp. z o.o. with its registered office in Warsaw, entered into the list of entities authorised to audit financial statements kept by the National Council of Statutory Auditors under register no. 73. This entity and statutory auditors conducting the audit meet the conditions required to prepare an independent audit report, according to the relevant provisions of the national law.

Management's Board Statement on Compliance with the International Financial Reporting Standards

The Management Board of Ciech SA hereby declares that the consolidated financial statement of the Ciech Group as well as financial statements of subsidiaries and associates of Ciech SA concerning the presented periods and comparable periods have been prepared in accordance with all the International Financial Reporting Standards

(IFRS), as approved for implementation in the European Union, and related interpretations published as the European Commission's regulations.

Disclosures required by IFRS 1 "First-time Adoption of International Financial Reporting Standards" which concern restatement of the current statement, which has been prepared so far in accordance with the Polish Accounting Act and regulations of the Council of Ministers concerning current and periodic information to be submitted by issuers of publicly traded securities, into the statement compliant with IFRS are included in Note 35 "IFRS Conversion. Explanations."

This consolidated financial statement has been prepared in accordance with the International Financial Reporting Standards (IFRS) to the extent approved by the European Union (EU) as at December 31, 2005. In the period concerned, the Ciech Group had not applied IFRS and interpretations which were adopted after the balance sheet date and which can be applied retrospectively. After the balance sheet date, but before the date of publication of this financial statement, EU has approved the following standards, interpretations, and amendments to standards:

1. IFRS 7 "Financial Instruments: Disclosures"
2. IFRIC 6 "Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment"
3. Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IFRS 6 "Exploration for and Evaluation of Mineral Resources"
4. Amendments to IAS 39 "Financial Instruments: Recognition And Measurement" as regards cash-flow hedge accounting
5. Amendments to IAS 39 and IFRS 4 "Insurance Contracts" as regards financial guarantee contracts
6. Amendments to IAS 1 "Presentation of Financial Statements" as regards capital disclosures

What is more, in 2005 the European Union approved amendments to the standards and interpretations, which were published with an effective date no later than January 1, 2006:

1. IFRS 6 "Exploration for and Evaluation of Mineral Resources"
2. IFRIC 4 "Determining Whether an Arrangement Contains a Lease"
3. IFRIC 5 "Rights to Interests from Decommissioning, Restoration and Environmental Rehabilitation Funds"
4. Amendment to IAS 19 "Employee Benefits" – Actuarial Gains and Losses, Group Plans and Disclosures
5. Amendment to IAS 39 "Financial Instruments: Recognition And Measurement" – Cash Flow Hedge Accounting of Forecast Intragroup Transactions

The Ciech Group is of the opinion that adoption of the requirements specified in the aforementioned standards and interpretations will not influence the financial statement during the first-time adoption of such standards and interpretations, excluding the requirements concerning presentation of equity as specified in the amended IAS 1 "Presentation of Financial Statements."

The Group applied all requirements, as specified in the existing International Financial Reporting Standards. In the periods subject to presentation, the following International Financial Reporting Standards did not apply as irrelevant to the Group's business:

IFRS 2 "Share-based payment"

IFRS 4 “Insurance Contracts”
IAS 11 “Construction Contracts”
IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”
IAS 26 “Accounting and Reporting by Retirement Benefit Plans”
IAS 30 “Disclosures in the Financial Statements of Banks and Similar Financial Institutions”
IAS 31 “Interests in Joint Ventures”
IAS 41 “Agriculture”

The consolidated financial statement is based on individual statements of the parent company and subsidiaries of the Ciech Group, which have been prepared based on accounting records kept in accordance with the Polish Balance Sheet Law. For the purpose of the consolidated financial statement, the data of individual statements were adjusted to comply with accounting policies of IFRS.

All companies of the Ciech Group apply uniform accounting principles (policy) established by the parent, Ciech SA. The financial year for all member companies of the Capital Group is the same as the calendar year.

The consolidated profit and loss account of the Ciech Group is prepared in the multiple-step variant. The consolidated cash flow statement of the Ciech Group is prepared with the use of an indirect method.
The measurement and reporting currency for the purposes of this consolidated financial statement is the Polish zloty. Unless provided otherwise, the data in the consolidated financial statement have been presented in thousands of Polish zloty (thousands PLN).

For the purposes of presentation of the “Selected financial data,” certain assets and liabilities of the balance sheet were translated into EURO at the average exchange rate announced at the balance-sheet date (December 31, 2005) by the National Bank of Poland to be 3.8598. Individual items of the profit and loss account were translated into EURO at an average rate which is arithmetic mean of average rates determined by the National Bank of Poland for EURO as at the last day of each month, i.e. from January to December 2005, which are respectively: 4.0503; 3.9119; 4.0837; 4.2756; 4.1212; 4.0401; 4.0758; 4.0495; 3.9166; 3.9893; 3.9053; 3.8598.

Preparation of the financial statement in compliance with IFRS requires the Management Board to exercise professional judgement, estimates, and objectives that affect the adopted accounting principles and the measurement of the assets, liabilities, income, and expenditure. All estimates and the related assumptions are based on a historical experience and various other factors considered reasonable under given circumstances, and the results of such estimates are the basis for a professional judgement of the carrying value of the assets and liabilities which cannot be calculated using other sources. The actual values may differ from the estimated values. The estimates and assumptions are revised systematically. Changes in accounting estimates are recognised in the period in which they are made, if such changes only apply to a given period, or in the current and future period, if such changes apply both to the current period and the future periods.

This consolidated financial statement has been prepared under the assumption of going concern in the near future. The only exception is Cheman SA, the subsidiary whose financial standing is described in Section 37 of the additional information and explanatory notes to the consolidated financial statement. The Management Board is not aware of any circumstances that could indicate any significant threat to the business continuity as an ongoing concern for the companies subject to consolidation. The life of the parent company Ciech SA and its subsidiaries is unlimited.

Yet, we should mention here the issue of integrated licenses, which must be obtained in the required deadline for the Company to continue its business as specified in the Articles of Association. The current state of affairs is presented below:

Alwernia SA
In May 2005, the Company obtained integrated licenses for the calcium feed phosphate system (decision of the Voivode of Małopolska as of 29.04.2005; Reference No.: ŚR.III. JD.6663-1-05), and on July 20, 2005 for other production systems (decision of the Voivode of Małopolska; Reference No.: ŚR.III. JD.6663-2-05). In Q3 2005, the Company began to prepare an application for the integrated license concerning the nitrate salt production system. In February 2006, the Company submitted a relevant application at the

Office of the Voivode of Małopolska (MUW). Now, the Company disposes of integrated licenses for all systems in operation, which require licensing. The licenses are valid until 2015.

Soda Mątwy SA
As Soda Mątwy SA provides services for other entities, its waste and water management is covered by a separate water permit. Since 01.01.2006, the Company has been granted new powers, which are to regulate waste and water management as a whole until 2009. A relevant motion was submitted during consultations of the application's range for the Integrated License. Submission of the complete application for an integrated license is planned for Q1 2006. The Office of the Voivode should complete the permit-related works within ca. 6 months. The licence will be valid from 01.01.2007. As of the date of the consolidated financial statement, the Management Board of the parent is not aware of any risks related to obtaining of such a license.

Janikosoda SA
According to the Regulation of the Ministry of the Environment of 26 September 2003, on extended deadlines for integrated license applications, Janikosoda SA is obliged to obtain such a license by December 31, 2006. In 2005, the Company focused on an application to the Voivode of Kujawy and Pomerania to grant an integrated license to Janikosoda SA. The application is prepared by PROEKO Sp. z o.o., a consulting company from Warsaw, liaising closely with the Company's employees. In August 2005, the Office of Voivode of Kujawy and Pomerania in Bydgoszcz held a consultation meeting attended by representatives of the Department of Environment and Agriculture at the Office of Voivode, PROEKO and employees of both soda companies. The meeting was devoted to the range of applications for integrated licenses. The meeting established that for Janikosoda SA, the application will cover IPPC systems, that is systems which obligatory require the integrated license and which are included in the Regulation of the Ministry of Environment of 26 July 2002 on types of systems which could considerably pollute individual environmental elements or environment as a whole (manufacturing of light soda ash, heavy soda ash, chalk and landfills: ponds Nos. 9 and 18 a and b) and other production systems (manufacturing, storage and distribution of wet and dry evaporated salt and agricultural limestone). The draft application for an integrated license for Janikosoda SA had been completed by the end of 2005.

Fosfory Sp. z o.o.
Gdańskie Zakłady Nawozów Fosforowych "Fosfory" Sp. z o.o. are currently adjusting its manufacturing process to the current requirements of the European Union as specified in the IPPC Directive No. 96/61/EC and the Landfill Directive 99/31/EC. According to the aforementioned regulations, the Company is obliged to obtain integrated licences, thus adjusting its industrial systems to the requirements of BAT. Consequently, these are the specialised services who are preparing applications for integrated licenses including management, protection and reclamation of the existing landfills. According to the Regulation of the Ministry of Environment of 26 September 2003, on extended deadlines for integrated license applications, the Management Board hereby confirms that the ultimate deadline for integrated license applications for systems located at the premises of GZNF is 31.12.2006, while the deadline applicable to the integrated license for a landfill expires on 30.04.2007. On 28.12.2005, GZNF "Fosfory" Sp. z o.o. submitted the relevant applications concerning manufacturing operations in the aforementioned locations at the Office of the Voivode of Pomerania.

Petrochemia Blachownia SA
On July 27, 2005, the Voivode of Opole granted an integrated license for large-scale manufacturing of organic compounds to Petrochemia-Blachownia SA. The license is valid until July 27, 2015.

Vitrosilicon SA
IN Q3 2005, Vitrosilicon managed to obtain integrated licenses for both plants; the licenses supersede all earlier partial licences.

In the opinion of the Management Boards of the Companies and the Parent Company, we can be sure of obtaining the above permits.

Accounting Principles

The Ciech Group is bound by the Uniform Accounting Principles and the Uniform Consolidation Principles applied by all companies in the Group.
The accounting principles described below were applied to all periods presented in the consolidated financial statement, as well as in the preparation of the IFRS Opening Balance as at January 1, 2004 for the purposes of transition to IFRS reporting.

a) Consolidation Principles

(i) Subsidiaries
Subsidiaries are entities controlled by the Parent. Control is the Group's power to govern financial and operating policies of an entity, directly or indirectly, to benefit from its operations. The degree of control is assessed taking into account the existing and potential voting rights that can be exercised or converted at the balance-sheet date. The financial statements of subsidiaries are included in the consolidated financial statement, throughout the period from the control takeover, until the control loss.

(ii) Associates and Jointly Controlled Entities
Associates are entities over whose financial and operating policies the Group has significant influence, but which it does not control.

Jointly controlled entities are entities over which the Group exercises contractually agreed shared control. In the periods included in this financial statement, the Ciech Group had no jointly controlled entities.

The consolidated financial statement discloses the Group's share in profits and losses of the associates and jointly controlled entities accounted for using the equity method from the moment of take over, to the expiry of a significant influence or joint control. The Group also measures the impairment of its shares in the net assets of its associates and jointly controlled entities, and makes write-downs as appropriate. If the Group's share in an associate's/jointly controlled entity's losses exceeds the book value of that entity, the book value is reduced to zero, and no further losses are recognised unless there is a legal requirement to cover such losses, or unless a payment has already been made on behalf of the entity to cover any of its liabilities.

Goodwill arising on acquisition of interests in associates or jointly controlled entities is recognised as part of such interests. Any excess of the Group's share in the fair value of the entity's identifiable assets, liabilities, and contingent liabilities over the cost of the investment is recognised in the Group's profit and loss account.

(iii) Consolidation Adjustments
Balances of internal settlements between Group members, intra-Group transactions, and any resulting unrealised profits or losses, income or expenses, allowances against intra-group receivables, investment valuation allowances, intra-group dividends or intra-group fixed-asset sales are eliminated when preparing the consolidated financial statement. Unrealised profits on transactions with associates or jointly controlled entities, if any, are eliminated from the consolidated financial statement, proportionally to the Group's interest in these entities. Similarly, any unrealised losses should also be eliminated, unless they provide evidence of impairment.
Principles governing consolidation adjustments are presented in Section I) Capitals.

b) Foreign Currencies

(i) Foreign-Currency Transactions
Foreign-currency transactions are recorded in PLN at the transaction date, at the average NBP exchange rate for a given foreign currency applicable on that date. Monetary asset and liability items expressed in a foreign currency are translated at the balance-sheet date at the average NBP exchange rate for a given foreign currency applicable on that date. Foreign exchange differences arising on foreign-currency transaction settlements and resulting from balance-sheet measurement of monetary asset and liability items expressed in foreign currencies are recognised in the profit and loss account. Non-monetary foreign-currency asset and liability items measured at historical cost are translated at the average NBP exchange rate applicable on the transaction date. Non-monetary foreign-currency balance-sheet items measured at fair value are translated at the average NBP rate applicable on the fair value measurement date.

(ii) Financial Statements of Foreign Operations

The Ciech Group's foreign companies operate in economies other than hyperinflationary economies within the meaning of IAS 29.

All items in the profit and loss account expressed in a foreign currency should be translated into PLN at the exchange rates applicable at the transaction dates (IAS 21.39(b)). The Group applies the "convenience translation" allowance, and applies average end-of-period exchange rates (IAS 21.40), as no exchange rate fluctuations were recorded that would be so high as to significantly effect the consolidated profit.

All balance-sheet items except for equity are translated into PLN at the average NBP exchange rate published at the date of preparation of the consolidated financial statement. All fair-value adjustments in the net assets and any goodwill arising on acquisition of a foreign entity are translated at the exchange rate applicable at the date of the acquisition into the functional currency of the foreign entity, and, subsequently, into the presentation currency, in accordance with the principles generally applied in translations of the assets and liabilities of subsidiaries (at the balance-sheet date).

Any differences arising on equity translation at rates other than the average exchange rate applicable at the balance-sheet date and used for translating other balance-sheet items are recognised in equity as "exchange differences on translation of subsidiaries."

c) Financial Instruments

Financial instruments are recognised and measured in accordance with IAS 32 (Financial Instruments: Disclosure ad Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement). The following principles of measurement and disclosure of financial assets do not apply to measurement of shares in subsidiaries, leasing contracts, financial instruments being a part of employee benefit plans and financial instruments issued by an entity as its capital instruments.

The most important assets, which are measured as financial instruments, are the following:

1. shares in other entities
2. stocks of other entities

3. bonds issued by other entities
4. other securities issued by other entities
5. loan receivables
6. derivative instruments such as:
   6.1. options
   6.2. forward and futures contracts
   6.3. swap contracts
   6.4. embedded derivatives
7. other items of financial assets, subject to the reservation below

Short-term trade receivables are measured at the amount payable less impairment losses. Receivables, for which interest charging effect is significant, in line with IAS 18, are first measured at their fair value and then at amortised cost using the effective interest rate method.

The most important liabilities, which are measured as financial instruments, are the following:

8. borrowing liabilities
9. loan liabilities
10. liabilities against issued bonds
11. other financial liabilities, subject to the reservation below

Trade liabilities are measured at the amount payable. Liabilities for which interest charging effect is significant are first discounted from the first possible maturity date and then measured at their amortised cost using the effective interest rate method.

Financial instruments by type

Financial assets are divided into:

12. financial assets measured at fair value through profit or loss
13. loans granted and other amounts receivable
14. financial assets held to maturity
15. financial assets available for sale

(i) Financial Assets Measured at Fair Value Through Profit or Loss

Financial assets measured at fair value through profit or loss are classified as short-term assets and recognised in their fair value, and any gains or losses arising on the measurement are recognised directly in the profit and loss account. Financial assets measured at fair value through profit or loss includes the following financial assets:

financial assets purchased for sale in a short term
financial assets in a jointly managed portfolio which is certain to generate short-term profits in the future
financial assets classified as such by the Company on initial recognition

Financial assets measured at fair value through profit or loss also include derivative instruments unless they meet the requirements of hedge accounting.

(ii) Held-to-maturity Investments

Held to maturity investments are financial assets other than derivative instruments, with fixed or determinable payments and fixed maturity that an entity has the positive intent and ability to hold to maturity. This asset category excludes loans and receivables, or assets that were classified as financial assets measured at fair value through profit and loss on initial recognition, or available-for-sale financial assets.

The entity does not classify any financial assets as held to maturity, if in the current fiscal year, or during the last two fiscal years, it sold or re-classified more than an insignificant amount of held-to-maturity investments, excluding sales or reclassifications which were:

- effected as close to maturity or the date redemption of any of financial assets that the shift in the market interest rates would not materially influence the fair value of the financial asset concerned
- once the entity has recovered the main part of the principal due to payments or prepayments as specified in the schedule
- due to an isolated event which remains beyond the entity's control, is not repetitive and which could not be possibly predicted based on reasonable evidence

Held-to-maturity financial assets are measured at amortised cost using the effective interest rate method.

(iii) Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market, other than derivative instruments and financial assets, which:

- ***the entity intends to sell immediately or in the near term, which are classified as assets held for trading, or financial assets that were classified as financial assets measured at fair value through profit and loss on initial recognition***
- ***the entity designated as available-for-sale assets on initial recognition***
- ***the entity is not able to recover substantially all of its initial investment due to the reason other than credit deterioration, which are classified as available-for-sale assets***

Loans and receivables are measured at amortised cost using the effective interest rate method.

(iv) Financial Assets Available for Sale

Available-for-sale financial assets are financial assets other than derivative instruments, which were designated as available for sale, and other than loans and receivables, held-to-maturity investments, or financial assets measured at fair value through profit and loss.
Available-for-sale financial assets are measured at fair value, and any gains or losses on such measurement are recognised in the revaluation reserve. For interest-bearing debt instruments included in this category, the interest element measured using the effective interest rate method is recognised directly in the profit and loss account.

(v) Financial Liabilities

Financial liabilities held for trading, especially derivatives with a negative fair value and which were not designated as hedging instruments are disclosed at their fair value, and any gains or losses arising on the measurement are recognised directly in the profit and loss account.
Other financial liabilities are measured at amortised cost using the effective interest rate method.
All financial liabilities are posted before the contract date.

Principles governing measurement and presentation of financial instruments in the financial statement are the following:

Asset or Liability Group	Measurement Principle	Principle of Recognition in the Financial Statement
Financial assets measured at fair value through profit or loss	At fair value (excluding these whose fair value cannot be established)	Difference from measurement recognised in the financial profit/loss of the current reporting period under financial income or financial costs
Liabilities held for trading	At fair value (excluding these whose fair value cannot be established)	Difference from measurement recognised in the financial profit/loss of the current reporting period under financial income or financial costs
Other financial liabilities	At amortised acquisition price, using the effective interest rate method (IRR)	Difference from measurement adjusts the value of an asset subject to measurement and is recognised in the financial profit/loss of the current reporting period
Loans granted and amounts receivable	At amortised acquisition price, using the effective interest rate method (IRR) and when the payment date is unknown, at acquisition price (e.g. for loans without a fixed repayment date)	Difference from measurement adjusts the value of an asset subject to measurement and is recognised in the financial profit/loss of the current reporting period
Assets held to maturity	At amortised acquisition price, using the effective interest rate method (IRR)	Difference from measurement adjusts the value of an asset subject to measurement and is recognised in the financial profit/loss of the current reporting period
Financial assets available for sale	At fair value (excluding these whose fair value cannot be established)	Difference from measurement to the fair value is recognised in the revaluation reserve. In the case of debt instruments, calculated interest is recognised directly in the profit and loss account
Financial assets and liabilities held for trading or available for sale whose fair value cannot be established	At acquisition price adjusted by impairment losses	The item of assets or liabilities is recognised at acquisition price, until its realisation (e.g. by sales). Impairment losses are recognised in financial costs

Hedge Accounting and Embedded Derivatives.

Hedge Accounting
Derivative instruments such as options, forward contracts, and swaps are usually to hedge the fair value of assets or liabilities or hedge future cash flows. These derivative instruments are subject to the hedge accounting principles, only, if they meet all conditions for application of hedge accounting. If such conditions are not met, the derivative instruments are accounted for according to the valuation principles applicable to assets and liabilities held for trading.
Embedded Derivatives

Contracts featuring an embedded derivative are contracts providing for a part of cash flows under the agreement being subject to changes similar to cash flows generated under an independent derivative instrument.
Embedded derivatives are subject to exclusion from the compound instrument and are measured separately at fair value, if all of the following are met:

1. economic nature and the risk related to the embedded instrument are not closely related to the economic nature and risk resulting from the contract featuring such an instrument

2. an independent instrument with realisation conditions identical with the embedded instrument would meet a definition of an embedded instrument

3. it is possible to establish fair value of the embedded derivative in a reliable way

4. the compound instrument is neither measured nor disclosed in the financial statement at its fair value

To determine the cost of sales of financial instruments, the FIFO method is used (First In First Out)

d) Property, Plant and Equipment (PPE)

(i) Own Property, Plant and Equipment

Property, plant and equipment are recognised at acquisition price or manufacturing cost less depreciation and impairment losses. The acquisition price includes the price for purchase of assets (i.e. the amount due to the seller less any deductible taxes, such as VAT or excise tax), public law liabilities (for imports), and the costs directly related to purchase and bringing the asset to a working condition required for its intended use, including transport costs, loading and unloading costs, and storage costs. Any rebates, discounts and other deductions and returns reduce the acquisition price of the asset. Manufacturing cost of the PPE item or an item under fixed assets under construction includes total cost incurred by the entity during the period of construction, installation, adaptation, or development of the item, until the date when the item is complete and ready for use (or until the balance-sheet date, if the item is not ready for use yet), including non-deductible VAT and excise tax, and the costs of servicing the debt incurred to finance the purchase (construction) of the item and the related exchange differences to the extent that they are considered to be an adjustment of the interest charged on such debt.

Items of property, plant and equipment revaluated to their fair value at January 1, 2004, i.e. the date of first-time adoption of IFRS by the Group, are measured at recognised cost which is considered to be the fair value at the revaluation date. Any revaluation effects are recognised in retained earnings brought forward.

(ii) Leased Property, Plant and Equipment

Leasing contracts under which the Group bears substantially all the risks and receives substantially all the rewards incident to ownership of PPE are classified among financial lease agreements. Property, plant and equipment held under finance leases are initially recognised at the lower of their fair value or the present value of the minimum lease payments, and subsequently reduced by depreciation and impairment losses. Payments under operating lease contracts signed by the Group companies are recognised in the profit and loss account throughout the term of the lease.

(iii) Subsequent Expenses

Subsequent costs incurred to replace separately recognised parts of an item of property, plant and equipment, are capitalised. Other costs are capitalised only if they can be reliably measured and if they increase the future economic benefits entailed in the asset. Other expenditure is regularly recognised as costs in the P&L account.

According to IAS 16 (paragraph 13), it is a separate part of a tangible asset that requires replacement at regular intervals, is depreciated over its economic useful life. Repair costs are capitalised if the costs incurred are related to the parts recognised as a separate part of the tangible asset. If no such parts were separated on recognition of a tangible asset, they can be separated at the moment a new expense is incurred.

The Group increases the value of tangible assets by the costs of regular overhauls necessary for the continued operation of an asset, in accordance with IAS 16 (paragraph 14). Such overhaul expenses are treated as a separate tangible asset, and are depreciated over the expected time to the next overhaul. On capitalisation of new overhaul expenses, the non-amortised value of previous overhauls is charged against operating expenses.

On acquisition or construction of a tangible asset, the Group separates an amount of the necessary expenditure on the next overhaul from the cost of acquisition or construction, and depreciates the amount over the expected time remaining till the next planned overhaul.

(iv) Depreciation

Property, plant and equipment, or their important separate parts, are depreciated on a straight-line basis over their economic useful lives. Land is not depreciated. The Group assumes the following economic useful lives for the following types of tangible assets:

Buildings	20 - 25	years
Machines and equipment	2 - 20	years

The depreciation period and residual value are subject to verification as at each balance sheet date. Any verification-related changes are recognised as a change in accounting estimates, in accordance with IAS 8 “Accounting policy, changes in accounting estimates and error adjustments".

As regards tangible assets held under lease agreements, should the acquisition of ownership rights to a tangible asset before the expiry of the agreement effective date be not certain, the full value of tangible assets is depreciated over the shorter of the two periods:

term of the lease agreement
use period

Should the agreement be classified as a finance lease, the subject of the agreement is recognised as a tangible asset of the Company (the Lessee) and depreciation charges are made in line with general principles.

e) Intangible Assets

(i) Goodwill

Goodwill arises on combination of separate entities or operations into one entity developing financial statements. This includes in particular acquisition of shares in subsidiaries, associates, or co-subsidiaries. All combinations of non-related entities are accounted for using the purchase method. Goodwill is determined as the excess cost of the business combination over the acquirer's share in the fair value of identifiable net assets. If the purchase cost of an entity or its branch of activity is lower than the fair value of the net assets acquired, the Group verifies correctness of the measurement of the fair value of assets and liabilities, and recognises the resulting difference in the P&L account under other operating income.

According to the existing regulations, business valuation for the purposes of goodwill measurement is made at fair value, on acquisition of shares. Fair value is measured as at the moment, a subsidiary relation arises and each time it significantly grows. The Group recognises that the goodwill must be regularly verified to account for impairment losses and new circumstances of which it had no knowledge on initial measurement. Re-measurement of the fair value of net assets within 12 months of the transaction date affects the goodwill value. The changes disclosed in subsequent months affect the current financial result, except where an error is found (and recognised in compliance with IAS 8), a deferred-tax asset is recognised, and purchase cost is adjusted, which are recognised in relation to goodwill using the prudent assessment principle.

Goodwill of the associates is recorded at the carrying value of these entities, recognised in the Group's consolidated financial statement. Consequently, impairment analysis is carried out taking into account total shares in associates and their goodwill.

IFRS 1 provides that no adjustments of the carrying value of goodwill are made to account for any depreciation charges of goodwill in the preceding reporting periods. When applying IFRS for the first time, the Group applied IAS 36 "Impairment of Assets" to conduct a goodwill impairment test at the date of transition to IFRS. The resulting write-downs in respect of impairment are recognised by the Group under retained earnings. The impairment test was conducted taking into account the circumstances as at the date of transition to IFRS and subsequent balance sheet dates.

At the date of transition to IFRS, the non-depreciated excess of the acquirer's share in the acquired net assets over the purchase cost was recognised in correspondence with retained earnings.

(ii) Other Intangible Assets

Other intangible assets acquired by the Group are carried at the purchase cost, net of depreciation charges and impairment write-downs. Expenses incurred on internally generated goodwill or brands, are recognised in the P&L account at the moment they are incurred.

(iii) Subsequent Expenses

Subsequent expenses on existing intangible assets are capitalised only if they increase the future economic benefits entailed in a given asset. Other expenditure is recognised directly as costs in the P&L account.

(iv) Depreciation

Intangible assets are depreciated on a straight-line basis over their economic useful lives. The Group assumes the following economic useful lives for individual types of intangible assets:

R&D expenses	2 - 5	years
Patents and licences	2 - 10	years
Other	2 - 5	years

The depreciation period and residual value are subject to verification as at each balance sheet date. Any verification-related changes are recognised as a change in accounting estimates, in

accordance with IAS 8 “Accounting policy, changes in accounting estimates and error adjustments".

f) External Financing Costs

External financing costs are recognised as costs in the period when they are incurred.

g) Investment Property

Investment property is held to generate rent income, respect of an increase in value, or both.

Investment property is measured in accordance with the measurement principles applicable to tangible assets, i.e. at acquisition or construction cost, net of depreciation charges and impairment write-downs.

Income from property rental to third parties is recognised as described in point q).

h) Trade and other Receivables

Short-term trade and other receivables are measured at the outstanding amount, unless the interest charging effect is significant. Otherwise, receivables are initially carried at their fair value, and then measured at depreciated cost, using the effective interest rate. In line with the principle adopted by the Group, receivables due in over 180 days are discounted.

Foreign-currency receivables are recognised as at the transaction date at the average NBP exchange rate for the currency in question applicable at that date, unless other exchange rate was determined in the customs application or another binding document.

As at the balance sheet date, foreign currency receivables are measured based on the average NBP exchange rate for the currency in question applicable at that date.

Receivables are revaluated by writing down, with a view to probability of their payment. A write-down is obligatory with reference to receivables:

from debtors being liquidated or going bankrupt, up to the value of receivables not covered by a guarantee or other collateral reported to the liquidator or adjuster during bankruptcy proceedings

from debtors where a motion to declare them bankrupt is rejected, if the value of their assets does not cover the costs of bankruptcy proceedings - the full amount receivable

questioned by debtors (disputable receivables) or outstanding, and according to the opinion on their economic and financial position, payment of receivables in a contractual amount is not probable - up to the value of claims not covered by a guarantee or other collateral

receivables under litigation

Moreover, 100% write-downs are recognised with reference to receivables with the maturity date as at the balance sheet date exceeding:

- 180 days.

The amount of write-downs established as a result of the afore estimates may decrease, should the Management Board be in possession of reliable documents being proof that collateral has been established for the receivables and their payment is highly probable.

Write-downs on receivables are charged against other operating costs.

i) Reserves

Reserves of materials and goods are measured at the acquisition cost, i.e. the purchase price; gross of the costs incurred to purchase and prepare an asset for use or sale.

Reserves of finished products and products in progress are measured at the production cost, i.e. the direct costs plus reasonable costs indirectly related to the production.

If the acquisition or production cost of a reserve item is higher than the realisable price determined in the sales transaction made in the ordinary course of business, net of the estimated cost of completion and the cost necessary to actually sell an item, the Group recognises relevant write-downs.

Reserves are carried at their net value, i.e. net of write-downs.
Reserve sales are determined according to the "first in - first out" principle.

j) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and demand deposits. Short-term investments that are not subject to significant value changes, can be easily converted into cash, and are part of the Group's liquidity management policy, are recognised as cash and cash equivalents in the cash flow statement.

k) Impairment of Assets

The carrying value of the Group's assets other than reserves and deferred-tax assets is analysed as at each balance sheet date for evidence of impairment. If such evidence is found, the Group estimates the recoverable amount of the assets.

The recoverable amount of goodwill, assets with indefinite useful lives, and intangible assets not yet available for use, is estimated as at each balance sheet date, regardless of whether there is any evidence of impairment.

Impairment write-down is recognised when the carrying value of an asset or a cash-generating unit is higher than the recoverable value. Impairment write-downs are recognised in the P&L account.

Impairment of a cash generating unit is in the first place charged against the goodwill of that unit (or unit group), and then against the carrying value of other assets of that unit (unit group), on a pro rata basis.

The goodwill and intangible assets with indefinite useful lives were tested for impairment as at 1st January 2004, that is, the date of transition to IFRS, and as at subsequent balance sheet days, even if there was no evidence of impairment.

(i) Recoverable Amount Calculation

The recoverable amount of investments held to maturity and receivables measured at amortised cost is established as the current value of future cash flows discounted using the effective interest rate (internal rate of return on the asset concerned). Short-term receivables are not discounted.

For unquoted equity instruments measured at acquisition cost whose fair value cannot be reliably measured, the present value of future cash flows is measured using the current interest rate for similar financial assets.

(ii) Reversal of Impairment Write-Downs

In the case of an increase in the value of financial investments that can be objectively attributed to events occurring after recognition of an impairment write-off, the Group reverses the impairment write-off as appropriate in the correspondence with the P&L account, except for equity investments classified as available for sale.

Impairment write-down is not reversed.

Otherwise, an impairment write-down is reversed only if there has been a change in the estimates used to determine the recoverable amount.

The impairment write-down is reversed only to the carrying amount of an asset, net of depreciation charges, that would have been determined had no impairment write-down been recognised.

l) Equity

Pursuant to the principles of presentation of financial statements defined in IAS 1 "Presentation of Financial Statements," the total consolidated equity comprises the equity attributable to the shareholders of the dominant entity and minority interest.

The share capital of the dominant entity is the Group's share capital, and is disclosed at its par value as specified in the Articles of Association and the commercial register entry.

The equity of subordinates as at the acquisition date, in the part corresponding to the Group's share in the share capital of these entities, is offset against the cost of shares recognised in the

balance sheet of the dominant entity (significant investor) as at the acquisition date (the difference is recognised as goodwill). Any increase (decrease) in equity after the date of acquisition in its part attributable to the dominant entity (significant investor) is credited to the Group's equity and recognised under the Group's appropriate equity items. The remaining part of the equity of fully consolidated entities is recognised as minority equity, as described below.

Any consolidation adjustments are recognised under appropriate equity items, depending on the nature of adjustments made.

Exchange differences resulting from translation of subordinates comprises of the exchange differences arising on equity translation into PLN as at the date of taking over control or gaining a significant influence by the dominant entity, at the average NBP exchange rate applicable at that date. The exchange differences arise on equity translations at the average NBP exchange rate applicable at the balance-sheet date, and the exchange differences arising on net profit translation into PLN at a rate equal to the arithmetical mean of the average NBP exchange rates for the currency in question announced on the last day of each month in the financial year.

On the date of the disposal of stocks (shares) in a consolidated entity, the exchange differences resulting from consolidation are charged against the P&L account.

As regards purchase of treasury shares, the payment amount and the direct costs of the transaction are recognised as a change in equity. The treasury shares purchased is charged against the equity.

Dividends are recognised as liabilities in the period in which they are declared.

Dividends received by the dominant entity for the period preceding the takeover of control over a subsidiary are charged against the acquisition cost. This changes the measurement of the goodwill arising from consolidation, or the excess of the acquirer's interest in the acquired net assets over the acquisition cost (formerly negative goodwill). Note that no adjustments are recognised with respect to dividends paid to minority interest holders.

Dividends received by the dominant entity for the period after the takeover of control, are eliminated from the financial income of the dominant entity, and recognised in the equity of the entity paying the dividend. The recognition follows the distribution of the entity's equity to shares attributable to the Group and to the minority interest.

Elimination of the dividend is credited to the Group's retained earnings.

Consolidated net profit (loss) is disclosed under retained earnings in the equity, and represents the total of the profit (loss) of the dominant entity, share in net profits (losses) of subordinates accounted for using the equity method, net profits (losses) of the fully consolidated entities, and the profits (losses) of minority interest holders.

Minority Interest
Minority interest is calculated as a percentage of the minority shareholders' equities as at the balance sheet date. The resulting amount represents the amount of the minority equities calculated by adding the changes in the minority equities in the reporting period to the amount of the minority equities at the end of the previous period (brought forward as the opening balance). Such changes may be in particular the result of:

- changes in the stake of the minority interest holders, e.g. purchase, sales, increase or decrease in the share capital
- changes in equity not related to changes in the percentage of shares held, e.g. equity increase or decrease without changing the share percentage held, equity contributions by minority interest holders, profit from the current year, revaluation gains, if the revaluation was made in the current year, or dividend payments from prior year's profit

The value of minority interest cannot be negative. If the net assets attributable to minority interest holders have a negative value, the portion of the loss attributable to the minority interest in excess of the minority's equity is charged against the Group's equity. Any profit generated by the subsidiary in subsequent years will be credited in full to the Group, until the minority loss charged against the Group's equity is fully compensated.

m) Employee Benefits

Service anniversary awards and retirement gratuities

The Company payroll regulations provide that the employees of the Group's companies are entitled to receive service anniversary awards and retirement gratuities. These liabilities are the effect of employee entitlements acquired in the current period and in prior periods.

The Group's liabilities in respect of service anniversary awards and retirement gratuities are calculated by a certified actuary using the projected unit credit method and discounted to their present value, net of fair value of any related assets.
Recognition of that type of provisions for the first time, when a given unit was obliged to do that previously, is treated as an error adjustment as regards previous periods. Recognition of that type of provisions, when a given unit was not obliged to do that previously, does not result in the change of the accounting policy, or an error adjustment.

Use of that type of provisions results in a provision decrease (it is not acceptable to currently charge the amounts of benefits paid against the operating costs, with the simultaneous provision adjustment at the end of the period), and the release of the above-mentioned provision results in an increase of other operating income.

n) Provisions

A provision is recognised when the Group has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations. Where the effect of the value of money in time is material, the amount of provisions is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market estimates of the value of money in time, and the risk specific to a given liability.

(i) Restructuring

A restructuring provision is recognised if a detailed and official restructuring plan has been approved, the process has already been launched or publicly announced, and it is possible to estimate reliably the value of future liabilities.

(ii) Reclamation

In accordance with the Group's published and implemented environmental protection policy, as well as relevant environmental legislation, a provision is recognised for the costs of land reclamation, if such costs occur. A provision is calculated based on budgets specifying the amount of costs related to the necessary work, and later it is discounted.

o) Trade and other Liabilities

Trade and other liabilities are divided into long and short-term liabilities, taking the following criteria into consideration:
- liabilities due within 12 months from the balance sheet date are recognised as short-term liabilities
- all liabilities that are not trade liabilities and do not meet the criteria for recognition as short-term liabilities, are recognised as long-term liabilities

Trade liabilities with the maturity date up to 180 days, are held as at the balance sheet date in the amount due, gross of potential penalty interest due as at the valuation date.

Trade liabilities with the maturity date over 180 days are held as at the balance sheet date at depreciated cost (i.e. discounted using the effective interest rate).

All the turnover and accounting balances should be reconciled, potential adjustments recognised in the account books, and as a result recognised in the financial statement developed by an entity. In the case of discrepancies regarding balance reconciliation between an entity and a contractor, the seller's position is taken into account, and a potential adjustment is entered into the current yearbooks upon closing the year.

Foreign currency liabilities are held at the average NBP exchange rate for the given currency applicable at that date.

Penalty interest in respect of delayed payment of liabilities is not calculated when an authorised entity submits a written declaration on abandoning interest calculation; otherwise interest is

calculated and recorded in line with the following principles:

- on a regular basis, based on the interest notes received
- in an estimated amount, where the estimated value is based on historical data that reflects the interest calculated by individual contractors, against the value of debt payable to their benefit

In each and every case when calculating the interest, other material risks should be taken into account, which result in the possibility of calculating such interest.

p) Off Balance Sheet Contingent Liabilities

Contingent liabilities are recognised by the Group as a potential future obligation to provide services whose occurrence is dependent on the occurrence of specific circumstances.

q) Income

(i) Sales of Goods and Providing Services

Income from the sales of products and goods is recognised in the P&L account if material risk and rewards of ownership are transferred to the buyer. Income from service provision is recognised in the P&L account by reference to the stage of completion of the service transaction as at the balance sheet date. The stage of service completion is measured by surveying the work already performed. Income is not recognised if there is considerable uncertainty about the collectibles of the amount due, refund of the costs incurred, or potential return of products and goods.

(ii) Lease Income

Income from investment property leases is recognised in the P&L account, on a straight-line basis over the term of the lease agreement. Any discounts granted are recognised together with the lease income.

r) Costs

(i) Payments in respect of Finance Leases

Lease payments are apportioned between the financing cost and the part reducing the outstanding liability. The financing cost is allocated to each period during the lease term, using the effective interest rate method.

(ii) Net Financing Costs

Net financing costs include interest on borrowings calculated using the effective interest rate, dividends paid on preference shares, interest on cash invested by the Group, dividends receivable, gains and losses on exchange differences and gains and losses on hedging instruments, that are recognised in the P&L account.

Interest income is recognised in the P&L account on the accrual basis, using the effective interest rate method. Dividend income is recognised in the P&L account, when the Group's right to receive payment is established. The financing cost portion resulting from finance lease payments is recognised in the P&L account, using the effective interest rate method.

s) Tax

Income tax recognised in the P&L account comprises the current and deferred tax. Income tax is recognised in profit and loss, except for amounts related to items recognised directly in equity. Such income tax amounts are then recognised in equity.

Current tax is the amount of income taxes payable in respect of the taxable income for the period, calculated based on the income tax rates applicable as at the balance sheet date, and tax adjustments for prior periods.

Deferred tax is calculated using the balance sheet method, based on temporary differences between the value of assets and liabilities calculated for accounting purposes, and the value calculated for tax purposes. No provision is made for the following temporary differences: goodwill not recognised for tax purposes, initial recognition of assets or liabilities that do not affect either the accounting profit or tax profit, differences arising on investments in subsidiaries, to the extent where it is probable that they will not take place in the foreseeable future. The recognised deferred tax amount is measured based on the expected realisation method of the carrying value of assets and liabilities, using the tax rates applicable or determined as at the balance sheet date.

Deferred tax assets are recognised only when it is probable that future tax profit will be available, against which a given asset can be utilised. Deferred tax assets are reduced when it is improbable that related tax benefits will be utilised.

Receivables and liabilities in respect of the current income tax, plus the deferred tax assets and provision are offset and recognised in the consolidated financial statement in their net values.

t) Discontinued Operations and Fixed Assets Held For Sale

Fixed assets are classified as held for sale if their carrying amount can be substantially recovered through a sales transaction, and if they are available for sale in their present condition, when a sales transaction is highly probable.
A discontinued operation is understood as a component of the Group that is either sold or classified as held for sale, and represents:

- a separate major line of business
- part of a plan to dispose a separate line of business or geographical area of operations
- a subsidiary acquired exclusively with a view to resale

A component of the Group comprises operations and cash flows that can be clearly distinguished operationally and for financial reporting purposes (e.g. cash-generating units or groups of cash-generating units).
These assets are measured at the lower of their: net sales price and net book value.
The Group applies the recognition criteria for assets held for sale as specified in IFRS 5.

u) Business Combinations involving Group Entities

Business combinations involving Group entities take place when the combining entities are ultimately controlled by the Group, both before and after the business combination, and the control is not transitory.

Business combinations involving entities under the Group's control are settled (for consolidated reporting purposes) so that the transaction does not in any way affect the Group's consolidated financial statement.

v) Issue Rights

The principles for recognition of issue rights in the account books are as follows:

- Issue rights granted are not recognised in the balance sheet as at the granting date and in subsequent periods. Fees in respect of granting issue rights, plus register entry fee are recognised as prepayments and deferred expenses, and when the value of such fees is not relevant, it is possible to recognise them on a one-time basis as operating costs. The fee does not represent the value of such rights, which is not determined in any other way either.
- the issue rights received by an entity are recorded as off balance sheet items as regards the entities included in the financial statement, similar to their use on the basis of actual issue.
- Fees paid are capitalised in the cost of sales, in proportion to their use in a given settlement period.
- An entity compares the rights granted for a given period with their actual use as at the balance sheet date, and in the case when their use in a given year exceeds the rights granted for this year a provision is established that equals the product of the missing rights and their market value. If an entity can provide proof that there is no need to purchase additional rights to supplement their shortage in a given accounting period, no provision is established. A provision established is charged against the cost of sales.
- When additional rights are purchased, these are held at purchase cost and presented as intangible assets. If, as at the balance sheet date, an entity can provide proof that specific purchased rights are held for sale and it is highly possible that the resulting benefits will be utilised in this way, this part of the rights is recognised at historical cost and disclosed in the financial statement as investments in intangible assets.

Issue rights acquired are not subject to depreciation, since their residual value is equal to the purchase cost. In the case of an increase in the market value, there is an increase in their residual value, and as a result, no reasons exist to make a write-down. However, these rights should be tested for impairment as at the balance sheet date, according to general rules, which in the case of a decrease in their value, will result in the necessity to recognise an impairment write-down. Write-downs are charged against other operating costs.
In the case of use of the purchased rights for the purpose of supplementing their shortage as at the annual limit settlement date, the rights already used are settled at the book value with the provision established earlier in respect of supplementing the shortage.
If the granted rights are sold, these are redeemed, which should be reflected in the off balance sheet register, and the sales income is recognised as other operating income, in line with general principles. If sales refer to the rights purchased, the cost of sales of these rights should be recognised. The result in respect of sales of rights is disclosed in the P&L account under result from sales of non-financial fixed assets.
The use of purchased rights plus the recognition of the cost of sales of rights takes place according to the FIFO principle.

This being so, it should be stressed that neither of the Ciech Group companies exceeded the number of issue rights granted for 2005.

iii. Business Segments

The Ciech Group divides its operating activities into business segments. Risk and investment returns are mainly influenced by the differences between goods, products, and services. The Ciech Group distinguishes between the following business segments:

Soda Segment groups together products, especially soda ash, manufactured by the soda subsidiaries and sold by Ciech SA. The Ciech Group is the only soda manufacturer in Poland.

Agro-Chemical Segment provides a comprehensive offer to the farming industry. This segment comprises fertilisers manufactured by GZNF Fosfory and Alwernia SA, plus plant protection agents. Ciech SA exports fertilisers manufactured by GZNF Fosfory SA and other Polish fertiliser manufacturers. Additionally, the segment comprises raw materials for fertiliser production, supplied to GZNF Fosfory SA and Alwernia SA.

Petrochemical Segment comprises petrochemical products, as well as fuels and oils supplied to the company's own filling stations. Major goods of the petrochemical segment comprise liquid fuels and benzene.

Silicates and Glass Products Segment comprises mainly products of Vitrosilicon SA and other manufacturers, exported by Ciech SA, such as glass and sodium silicate.

Inorganic Segment comprises products of Alwernia, mainly sodium tripolyphosphate and inorganic products of other manufacturers, exported by Ciech.

Organic Segment is made up of trading goods bought and sold by Ciech SA outside the Ciech Group. Sales mainly focus on polyvinyl chloride polymers, caprolactam, EPI and TDI.

Pharmaceutical Segment comprises medicines and pharmaceutical substances exported and imported with the intermediation of Ciech Polfa Sp. z o.o.

Power Engineering Segment focuses on energy generated by Elektrociepłownie Kujawskie Sp. z o.o. (*Kujawskie Heat and Power Plants*), mainly for the purposes of the soda companies and, to a small extent, also certain external power recipients.

"Other operations" Segment deals with goods and services provided outside the Group, mainly by Ciech SA and Cheman SA, as well as foreign operations functioning outside the base chemicals area.

Discontinued Operations Segment: the segment comprises products of the lower-tier companies held for sale - Petrochemia Blachownia SA and Alwernia Chrom Sp. z o.o.

The Group's geographical segments are determined based on the location of the Group's assets.

Transfer Prices

Transfer prices are determined based on the market prices or prices of goods quoted on international stock exchanges.

Industry Segments

The tables below show the figures concerning income and profits, plus assets and liabilities of individual industry segments of the Ciech Group in the periods included in the financial statement:

01.01.-31.12.2005

in thousand PLN	Soda	Power Engineering	Organic	Petrochemical	Agrochemical	Pharmaceutical	Silicates and Glass Products	Non-organic	Discontinued Operations	Other Operations	Eliminations (consolidation adjustments)	TOTAL
Income from third parties	749 355	21 551	199 332	294 841	354 590	55 542	108 320	263 591	101 957	45 555	-	2 194 634
Income from intersegment sales	57 680	215 629	9 277	56 393	341	453	212	7 288	144 975	31 816	(509 153)	14 911
Total income	**807 035**	**237 180**	**208 609**	**351 234**	**354 931**	**55 995**	**108 532**	**270 879**	**246 932**	**77 371**	**(509 153)**	**2 209 545**
Segment profit/loss	**203 744**	**18 894**	**18 284**	**13 276**	**54 644**	**22 767**	**12 923**	**31 807**	**9 894**	**35 533**	**(13 511)**	**408 255**
Unallocated (costs) / income												(264 700)
Operating profit												**143 555**
Net financial income (costs)												(3 926)
Share in profit of associates	-	-	-	-	-	-	-	-	-	3 372	-	3 372
Tax												(25 148)
Profit on discontinued operations												-
Net profit												**117 853**

01.01.-31.12.2004

In thousand PLN	**Soda**	**Power Engineering**	**Organic**	**Petrochemical**	**Agrochemical**	**Pharmaceutical**	**Silicates and Glass Products**	**Non-organic**	**Discontinued Operations**	**Other Operations**	**Eliminations (consolidation adjustments)**	**TOTAL**
Income from third parties	712 141	4 076	280 575	321 342	319 025	55 859	100 494	257 614	145 278	78 656	-	2 275 060
Income from intersegment sales	74 533	211 482	6 673	130 212	77 649	275	175	6 304	165 339	35 153	(667 939)	39 856
Total income	**786 674**	**215 558**	**287 248**	**451 554**	**396 674**	**56 134**	**100 669**	**263 918**	**310 617**	**113 809**	**(667 939)**	**2 314 916**
Segment profit/loss	**216 778**	**(107)**	**37 096**	**18 854**	**89 030**	**21 833**	**16 988**	**49 204**	**47 776**	**18 238**	**(5 048)**	**510 642**
Unallocated (costs) / income												(355 463)
Operating profit												**155 179**
Net financial income (costs)												(36 781)
Share in profit of associates	-	-	-	-	-	-	-	-	-	(1 169)	-	(1 169)
Tax												(24 889)
Profit on discontinued operations												-
Net profit												**92 340**

31.12.2005

in thousand PLN	**Soda**	**Power Engineering**	**Organic**	**Petrochemical**	**Agrochemical**	**Pharmaceutical**	**Silicates and Glass Products**	**Non-organic**	**Other Operations**	**Eliminations (consolidation adjustments)**	**TOTAL**
Segment assets, including:	603 799	35 302	39 834	168 848	261 655	65 066	88 860	155 333	34 224	(67 883)	1 385 038
- fixed assets held for sale	113	-	-	85 116	-	-	-	68	-	-	85 297
Interest in associates	-	-	-	-	-	-	-	-	39 431	-	39 431
Unallocated assets											210 663
Total assets											**1 635 132**
Segment liabilities, including:	188 271	37 451	18 939	58 926	100 932	56 585	39 854	73 858	12 056	(60 886)	525 986
- liabilities related to fixed assets held for sale	-	-	-	14 425	-	-	-	12	-	-	14 437
Unallocated liabilities											90 015
Total liabilities											**616 001**

31.12.2004

in thousand PLN	Soda	Power Engineering	Organic	Petrochemical	Agrochemical	Pharmaceutical	Silicates and Glass Products	Non-organic	Other Operations	Eliminations (consolidation adjustments)	TOTAL
Segment assets	632 602	38 750	38 836	121 492	224 020	53 817	81 364	131 277	57 120	(67 820)	1 311 458
Interest in associates	-	-	-	-	-	-	-	-	32 190	-	32 190
Unallocated assets											189 587
Total assets											**1 533 235**
Segment liabilities	188 425	27 299	20 952	32 265	114 492	47 892	40 951	51 653	15 180	(56 948)	482 161
Unallocated liabilities											293 090
Total liabilities											**775 251**

01.01.-31.12.2005

in thousand PLN	Soda Segment	Power Engineering Segment	Organic Segment	Petrochemical Segment	Agrochemical Segment	Pharmaceutical Segment	Silicates and Glass Products Segment	Inorganic Segment	Other Operations	Unallocated items	Eliminations (consolidation adjustments)	TOTAL
Amortisation	52 346	473	39	4 268	8 231	439	8 670	3 424	6 024	8 279	30	92 223
Non-cash costs, other than depreciation	3 293	793	-	-	303	-	6 441	2 260	507	-	-	13 597
Capital expenditure	67 082	-	875	13 955	14 772	1 438	10 738	8 080	864	2 653	-	120 457
Impairment write-downs recognised	2 818	16	1 150	1 532	420	699	2 854	2 303	199	11 300	(47)	23 244
Impairment write-offs reversed	709	48	258	282	434	157	3 190	2 126	32	4 158	(204)	11 190

01.01.-31.12.2004

in thousand PLN	**Soda Segment**	**Power Engineering Segment**	**Organic Segment**	**Petrochemical Segment**	**Agrochemical Segment**	**Pharmaceutical Segment**	**Silicates and Glass Products Segment**	**Inorganic Segment**	**Other Operations**	**Unallocated items**	**Eliminations (consolidation adjustments)**	**TOTAL**
Amortisation	47 573	183	36	3 802	8 629	253	8 287	3 492	4 081	8 028	-	84 364
Non-cash costs, other than depreciation	3 168	48	-	-	44	-	270	4 889	-	-	-	8 419
Capital expenditure	49 805	-	209	7 789	15 050	423	5 432	5 762	2 292	4 561	-	91 323
Impairment write-downs recognised	2 264	87	522	2 159	3 841	83	3 768	2 378	492	9 914	(101)	25 407
Impairment write-downs reversed	974	28	371	426	-	21	2 102	7 154	160	15 856	(496)	26 596

SALES INCOME

in thousand PLN	**01.01.-31.12.2005**	**01.01.-31.12.2004**
Soda Segment	760 426	735 730
Petrochemical Segment	292 479	316 869
Agrochemical Segment	354 906	321 399
Inorganic Segment	263 707	260 785
Organic Segment	201 165	287 081
Silicates and Glass Products Segment	108 320	100 494
Pharmaceutical Segment	55 543	55 859
Power Engineering Segment	21 631	4 160
Other	49 411	87 261
Discontinued Operations Segment	101 957	145 278
TOTAL	**2 209 545**	**2 314 916**

Geographical Segments

The tables below show the income, selected assets, and investments regarding individual geographical segments, concerning periods included in the financial statement:

01.01.-31.12.2005

in thousand PLN	**Poland**	**European Union**	**Other European countries**	**Africa**	**Asia**	**Other Regions**	**TOTAL**
Income from third parties	1 197 183	693 825	89 167	48 349	155 295	7 033	2 190 852
Income from intersegment sales	3 730	14 963	-	-	-	-	18 693
Total income	**1 200 913**	**708 788**	**89 167**	**48 349**	**155 295**	**7 033**	**2 209 545**
Capital expenditure	120 310	147	-	-	-	-	120 457

01.01.-31.12.2004

In thousand PLN	**Poland**	**European Union**	**Other European countries**	**Africa**	**Asia**	**Other Regions**	**TOTAL**
Income from third parties	1 369 124	700 099	82 722	18 449	121 181	2 190	2 293 765
Income from intersegment sales	9 492	11 659	-	-	-	-	21 151
Total income	**1 378 616**	**711 758**	**82 722**	**18 449**	**121 181**	**2 190**	**2 314 916**
Capital expenditure	90 984	339	-	-	-	-	91 323

31.12.2005

in thousand PLN	**Poland**	**European Union**	**Other European countries**	**Africa**	**Asia**	**Other Regions**	**TOTAL**
Segment assets	1 529 682	39 087	37 529	47	28 257	530	**1 635 132**

31.12.2004

In thousand PLN	**Poland**	**European Union**	**Other European countries**	**Africa**	**Asia**	**Other Regions**	**TOTAL**
Segment assets	1 425 475	42 972	33 556	-	30 455	777	**1 533 235**

iv.Other Income and Costs

Other Operating Income

in thousand PLN	**31.12.2005**	**31.12.2004**
Write-off of the excess share in the acquired net assets over the cost*	18 932	-
Lease income	3 255	3 945
Net profit on sales of non-financial fixed assets	3 735	442
Write-down on short-term receivables	5 457	17 946
Reserve write-down	1 880	1 199
Write-down on intangible assets	28	-
Write-down on property, plant and equipment	1 375	6 574
Remitted liabilities	603	-
Penalties and compensations received	1 591	1 303
Donations received	10	11
Stocktaking reconciliation	344	368
Payment of previously remitted amounts	60	-
Income from social work activities	998	86
Refund of court fees	217	859
Leaseback reconciliation	1 025	1 044
Subsidies	29	39
Profit from the retirement of current and fixed assets	451	361
Release of provision for retirement benefits and service anniversary awards	1 408	991
Release of provision for restructuring	-	232
Release of provision for compensations	5 207	6 952
Release of provision for environmental protection	735	-
Release of provision for liabilities	1 535	567
Release of other provisions	36	68
Cash bonuses received	489	282
Remitted unrecoverable amounts written off	388	981
Excise tax rebate	-	2 205
Release of provisions recognised as short-term liabilities	815	1 613
Resale of electrical power purchased	-	622
Bonus provision	491	-
Other	1 347	1 686
Total	**52 441**	**50 376**

* Excess share in the acquired net assets over cost occurred during the purchase of shares of Janikosoda SA, Soda Mątwy SA, Vitrosilicon SA and Fosfory Sp. z o.o. Excess share in the acquired assets over cost incurred were as follows, as regards individual companies:

- Janikosoda SA 3 079 000 PLN.
- Soda Mątwy SA 7 437 000 PLN.
- Fosfory Sp. z o.o. 6 754 000 PLN
- Vitrosilicon SA 1 662 000 PLN.

Detailed list of transactions has been presented in points 17 and 18.1 of the Management Report.

In the periods in question, the Ciech Group did not receive any government subsidies.

Other Operating Costs

in thousand PLN	**31.12.2005**		**31.12.2004**
Restructuring costs	-		4 079
Write-down on intangible assets	154	205	
Write-down on property, plant and equipment	1 454		562
Write-down on short-term receivables	7 504		11 861
Fixed assets under construction, written off in respect of impairment	-		142
Provisions for compensations	9 474		15 790
Provisions for liabilities	816		3 002
Provisions for restructuring	3 863		1 255
Provisions for service anniversary awards and retirement gratuities	5 828		6 393
Provisions for environmental protection	1 690		1 620
Recognition of other provisions	-		36
Reserve write-down	3 956		3 248
Unused assets and production capacity costs	3 262		1 076
Past activity costs	1 378		1 775
Costs of development work plus intangible assets written off	170		110
Unplanned depreciation charges	-		129
Donations given	1 544		1 240
Court fees	804		714
Receivables written off	146		348
Penalties, fines, compensations paid	2 693		770
Stock taking differences	563		488
Random incidents	119		595
Retirement of fixed assets	490		1 992
Disposal of industrial waste	113		-
Disposal of materials	195		9
Employee benefits	525		522
Membership fees	169		163
Compensations	40		1 904
Maintenance of leased space	1 805		2 042
Net loss on the disposal of non-financial fixed assets	282		622
Other	1 653		1 203
Revaluation of goods	697		1 171
Depreciation of the right of perpetual usufruct of land	115		109
Discontinued investment costs	-		450
Depreciation of amenity facilities	66		93
Provisions recognised as short-term liabilities	910		370
Bonus provision	137		517
Provisions for the costs of retirement of fixed assets	387		550
Provisions for stock taking shortages	52		-
Total	**53 054**		**67 155**

Net Financial Income / (Costs)

in thousand PLN	**31.12.2005**	**31.12.2004**
Interest	9 231	8 109
Dividends	1 713	713
Positive exchange differences	1 347	3 787
Release of provision in respect of financial liabilities	212	-
Revaluation of trade and budgetary interest receivable	1 218	877
Income from debt sales	41	502
Bill and cheque discounts received	24	36
Write-down on long-term investments and investments	1 232	-
Measurement of financial instruments	657	990
Other revaluations	111	134
Net profit on the sales of financial assets	18 732	29
Other	241	1 565
Total financial income	**34 759**	**16 742**
Interest	14 772	24 519
Net loss on the revaluation of investments at fair value	256	-
Negative exchange differences	8 250	14 620
Provisions in respect of financial liabilities	620	212
Write-downs on trade and budgetary interest	1 671	3 633
Differences between the par value and the price of redemption of debt securities issued	-	1 576
Factoring commissions	376	357
Bank fees and charges	34	92
Loan fees	592	984
Loss on sales of financial assets	-	1 763
Write-down on long-term investments and investments in associates	8 505	3 644
Write-down on short-term investments	-	1 704
Measurement of financial instruments	2 499	319
Par value of sold debt	32	28
Other	1 078	72
Total financial costs	**38 685**	**53 523**
Net financial costs / income	**(3 926)**	**(36 781)**

Costs by Type

in thousand PLN	**31.12.2005**	**31.12.2004**
a) Depreciation	92 076	84 254
b) Use of materials and power	621 122	545 989
c) Employee benefits	189 983	182 401
d) Outsourced services	334 249	325 731

Depreciation of Property, Plant and Equipment Plus Intangible Assets
in thousand PLN

DEPRECIATION CHARGES ON INTANGIBLE ASSETS	31.12.2005	31.12.2004
Cost of sales	620	719
General management costs	4 260	4 683
Other operating costs	28	205
Total	**4 908**	**5 607**

DEPRECIATION CHARGES ON PROPERTY, PLANT AND EQUIPMENT	31.12.2005	31.12.2004
Cost of sales	77 233	70 797
Other operating costs	897	933
General management costs	8 281	6 234
Total	**86 411**	**77 964**

Employee Costs
in thousand PLN

EMPLOYEE BENEFITS	31.12.2005	31.12.2004
Remunerations	150 978	145 718
Social insurance and other benefits	38 141	36 268
Expenses for service anniversary awards and retirement gratuities (including increase of relevant provisions)	864	415
Total employee benefits	**189 983**	**182 401**

R&D Costs

Total expenditure on research and development, recognised as cost in the period, amounted to 1 663 000 PLN (1 426 000 PLN in the comparable period).

v.Income Tax

The main components of tax expenditure are as follows:
in thousand PLN

INCOME TAX AS DISCLOSED IN THE P&L ACCOUNT	31.12.2005	31.12.2004
Current tax payable	-	-
Current income tax	32 132	21 447
Income tax for previous periods	(1 478)	(2 699)
Total	**30 654**	**18 748**
Deferred tax	-	-
Temporary differences recorded/reversed	(5 430)	6 078
Change in tax rates	-	-
Recognition of tax losses to be used in future periods	(76)	63
Total	**(5 506)**	**6 141**
Income tax as disclosed in the P&L account	**25 148**	**24 889**

No current or deferred taxes were recognised directly in the Ciech Group equity.

Reconciliation of the income tax on the gross profit before taxation at the statutory tax rate, to the income tax calculated at the effective tax rate of the Group for the periods included in the financial statement, is as follows:

EFFECTIVE TAX RATE *in thousand PLN*	31.12.2005		31.12.2004	
	%	in thousand PLN	%	in thousand PLN
Profit before taxation		143 001		117 229

Tax based on the current tax rate	19.00%	27 170	19.00%	22 274
Difference from the application of tax rates introduced by other legal and tax regulations *	0.09%	134	0.01%	13
	28.83%	41 234	25.42%	29 803
Non-taxable income *	(12.33%)	(17 629)	(23.57%)	(27 633)
Change in tax rates*	0.00%	-	0.00%	-(4)
Adjustments of income tax for previous periods *	(0.80%)	(1 137)	(0.09%)	(106)
Use of tax losses previously not taken into account when calculating deferred tax in the previous periods *	0.00%	-	0.00%	-
Other *	(17.22%)	(24 624)	0.46%	542
Total	**17.59%**	**25 148**	**21.23%**	**24 889**

** the amounts include tax calculated for individual items*
*** In 2005, the income tax of Daltrade (30%) and Polsin (20%), as disclosed in the P&L account, amounted to 652 000 PLN (2004:288 000 PLN)*

Deferred Income Tax
The deferred income tax is a result of the following items:

DEFERRED TAX ASSETS AND PROVISION *in thousand PLN*	**31.12.2005**		
	total asset	total provision	net value
Property, plant and equipment	2 011	23 209	(21 198)
Other investments	2 679	10	2 669
Reserves	1 532	-	1 532
Trade and other receivables	710	132	578
Employee benefits	3 248	-	3 248
Provisions	1 532	23	1 509
Exchange differences	57	30	27
Liabilities and accrued expenses	8 535	447	8 088
Exchange differences at the financial statement level	469	365	104
Other	385	64	321
Deferred tax assets / provision	**21 158**	**24 280**	**(3 122)**
Asset write-down	-	-	-
Deferred tax assets / provision as disclosed in the balance sheet	**21 158**	**24 280**	**(3 122)**

DEFERRED TAX ASSETS AND PROVISION *in thousand PLN*	**31.12.2004**		
	total asset	total provision	net value
Property, plant and equipment	1 467	23 369	(21 902)
Other investments	319	112	207
Reserves	1 462	-	1 462
Trade and other receivables	4 553	36	4 517
Employee benefits	2 577	-	2 577
Provisions	1 823	21	1 802
Liabilities and accrued expenses	2 476	1 440	1 036
Exchange differences at the financial statement level	189	326	(137)
Other	399	65	334
Deferred tax assets / provision	**15 265**	**25 369**	**(10 104)**
Asset write-down	-	-	-
Deferred tax assets / provision as disclosed in the balance sheet	**15 265**	**25 369**	**(10 104)**

Temporary Differences

CHANGES IN TEMPORARY DIFFERENCES FOR THE PERIOD *in thousand PLN*	**As at 01.01.2005**	Change in temporary differences recognised in profit and loss	Exchange differences	change in the Group composition	**As at 31.12.2005**
Property, plant and equipment	(115 274)	(6 393)	95	10 005	(111 567)
Other investments	1 089	12 959	-	-	14 048
Reserves	7 695	650	-	(284)	8 061
Trade and other receivables	23 773	(20 300)	-	(430)	3 043
Employee benefits	13 562	3 702	-	(171)	17 093
Provisions	9 484	(1 399)	(10)	(132)	7 943
Other items	1 760	982	-	(1 053)	1 689
Exchange differences	-	142	-	-	142
Liabilities and accrued expenses	5 451	37 119	-	-	42 570
Exchange differences at the financial statement level	(719)	1 266	-	-	547
Total	**(53 179)**	**28 728**	**85**	**7 935**	**(16 431)**

CHANGE IN TEMPORARY DIFFERENCES FOR THE PERIOD *in thousand PLN*	**As at 01.01.2004**	Change in temporary differences recognised in profit and loss	Exchange differences	change in the Group composition	**As at 31.12.2004**
Property, plant and equipment	(105 605)	(9 920)	251	-	(115 274)
Other investments	6 426	(5 337)	-	-	1 089
Reserves	6 580	1 115	-	-	7 695
Trade and other receivables	16 039	7 266	-	468	23 773
Employee benefits	21 583	(8 105)	-	84	13 562
Provisions	9 593	(136)	27	-	9 484
Other items	3 321	(1 561)	-	-	1 760
Tax losses deductible in future periods	1 578	(1 578)	-	-	-
Liabilities and accrued expenses	10 255	(5 062)	-	258	5 451
Exchange differences at the financial statement level	5 462	(6 181)	-	-	(719)
Total	**(24 768)**	**(29 499)**	**278**	**810**	**(53 179)**

Payment of dividends to shareholders by the Ciech Group does not have any effect on deferred income tax.

vi.Discontinued Operations and Fixed Assets Held For Sale

On 6th October 2005, the Management Board of Ciech SA made a public announcement (current report No. 97/2005) regarding their decision to sell 100% of shares of the lower tier group Petrochemia Blachownia, based in Kędzierzyn-Koźle. The shares were sold on 10th January 2006. As of 31st December 2005, Grupa Petrochemia Blachownia was classified as held for sale.

On 8th December 2005, the Management Board of Alwernia SA decided to hold for sale 100% of shares of Alwernia Chrom Sp. z o.o. subsidiary. The shares were sold on 4th January 2006. As of 31st December 2005, Alwernia Chrom Sp. z o.o. was classified as a group of fixed assets held for sale.

The table below shows major items of the group of fixed assets held for sale:

in thousand PLN	**31.12.2005**	**31.12.2004**
Property, plant and equipment	47 851	2 722
Right of perpetual usufruct of land	1 673	-
Intangible assets	147	-
Reserves	16 527	-
Trade and other receivables	12 423	-
Income tax receivables	485	-
Cash and cash equivalents	5 355	-
Total	**84 461**	**2 722**

The table below shows major items of liabilities related to fixed assets held for sale:

in thousand PLN	**31.12.2005**	**31.12.2004**
Trade and other liabilities	17 490	-
Long and short-term liabilities in respect of loans and borrowings	3 480	-
Long and short-term provisions	373	-
Deferred tax provision	1 508	-
Other	3	-
Total	**22 854**	**-**

For the presented periods, there is no equity components at the Ciech Group related to fixed assets held for sale. Total result from discontinued operations has been presented in the P&L account.

in thousand PLN

01.01.-31.12.2005

in thousand PLN	**Alwernia Chrom Sp. z o.o.**	**Grupa Petrochemia Blachownia**	**Discontinued operations**
Net sales income	1 969	99 988	101 957
Cost of sales	(1 860)	(90 203)	(92 063)
Gross profit/loss on sales	**109**	**9 785**	**9 894**
Other operating income	36	1 399	1 435
Costs of sales	-	(4 771)	(4 771)
General management costs	(492)	(9 527)	(10 019)
Other operating costs	(14)	(2 502)	(2 516)
Operating profit/loss	**(361)**	**(5 616)**	**(5 977)**
Financial income	304	3 090	3 394
Financial costs	(98)	(693)	(791)
Net financial income / costs	**206**	**2 397**	**2 603**
Share in the net profit of subordinates accounted for using the equity method	-	-	-
Profit/loss before taxation	**(155)**	**(3 219)**	**(3 374)**
Income tax	(5)	(548)	(553)
Net profit / loss	**(160)**	**(3 767)**	**(3 927)**

01.01.-31.12.2004

in thousand PLN	**Alwernia Chrom Sp. z o.o.**	**Grupa Petrochemia Blachownia**	**Dyes**	**Discontinued operations**
Net sales income	11 375	130 431	3 472	145 278
Cost of sales	(10 968)	(83 160)	(3 245)	(97 373)
Gross profit/loss on sales	**407**	**47 271**	**227**	**47 905**
Other operating income	225	479	-	704
Costs of sales	-	(4 599)	(22)	(4 621)
General management costs	(482)	(10 765)	-	(11 247)
Other operating costs	(4)	(4 961)	-	(4 965)
Operating profit/loss	**146**	**27 425**	**205**	**27 776**
Financial income	47	504	-	551
Financial costs	(156)	(1 250)	-	(1 406)
Net financial income / costs	**(109)**	**(746)**	-	**(855)**
Share in the net profit of subordinates accounted for using the equity method	-	-	-	-
Profit/loss before taxation	**37**	**26 679**	**205**	**26 921**
Income tax	(13)	(5 498)	(39)	(5 550)
Net profit/loss	**24**	**21 181**	**166**	**21 371**

Major items of the cash flow in respect of discontinued operations were as follows:

in thousand PLN	**01.01.-31.12.2005**	**01.01.-31.12.2004**
Cash flows from operating activities		
Net profit (loss) for the period	**(3 927)**	**21 205**
Depreciation	4 174	3 711
Gains / losses in respect of exchange differences	120	(160)
Gains / losses on investing activities	(2 686)	234
Gains / losses on disposal of tangible assets	(19)	-
Dividends and interest	129	418
Income tax calculated	553	5 511
Gains / losses on shares in entities accounted for using the equity method	-	-
Operating result before change in working capital and provisions	**(1 656)**	**30 919**
Change in receivables	2 285	(4 791)
Change in reserves	(5 373)	(1 352)
Change in short-term liabilities	2 136	(1 113)
Change in provisions and employee benefits	(560)	1 016
Net cash generated from operating activities	**(3 168)**	**24 679**
Interest paid	(36)	-
Income tax paid	(485)	(6 140)
Other adjustments	-	6 140
Gains / losses on sales of discontinued operations	485	-
Net cash from operating activities	**(3 204)**	**24 679**
Cash flows from investing activities		
Inflows (in "+")	**5 631**	**2 110**
Outflows (in "-")	**(13 196)**	**(7 707)**
Net cash from investing activities	**(7 565)**	**(5 597)**

in thousand PLN	01.01.-31.12.2005	01.01.-31.12.2004
Cash flows from financing activities		
Inflows (in "+")	**2 500**	**5 315**
Outflows (in "-")	**(6 173)**	**(16 395)**
Net cash from financing activities	**(3 673)**	**(11 080)**
Total net cash flows	**(14 442)**	**8 002**

Major groups of assets and liabilities of Grupa Petrochemia Blachownia held at the lower value between the carrying value and fair value, net of disposal costs as of 31st December 2005 are as follows:

in thousand PLN	
ASSETS	**31.12.2005**
Property, plant and equipment	48 693
Intangible assets	141
The right of perpetual usufruct	1 673
Reserves	16 527
Income tax receivables	485
Trade and other receivables	25 624
Cash and cash equivalents	5 354
Assets classified as held for sale	**98 497**

Liabilities	**31.12.2005**
Liabilities in respect of loans, borrowings and other debt instruments	(3 480)
Trade and other liabilities	(30 591)
Liabilities in respect of income tax	(3)
Provisions	(1 881)
Liabilities directly associated with assets classified as held for sale	**(35 955)**
Net assets held for sale	**62 542**

The results of Grupa Petrochemia Blachownia for 2004 and 2005 have been presented in the consolidated P&L account as discontinued operations.

Major groups of assets and liabilities of Alwernia Chrom Sp. z o.o. held at the lower value between the carrying value and fair value, net of disposal costs as of 31st December 2005 are as follows:

in thousand PLN	
ASSETS	**31.12.2005**
Trade and other receivables	67
Cash and cash equivalents	1
Assets classified as held for sale	**68**

Liabilities	**31.12.2005**
Trade and other liabilities	(12)
Liabilities directly associated with assets classified as held for sale	**(12)**
Net assets held for sale	**56**

The company results for 2004 and 2005 have been presented in the consolidated P&L account as discontinued operations.

In 2004, Ciech SA Management Board decided to sell a property with the attached buildings, located in Kędzierzyn Koźle, to Petrochemia Blachownia. The property comprises the right of perpetual usufruct of land of 25 961 sq. m in area (plot No. 602/167), ownership of the attached buildings and movables, with a carrying value of 2,722,000 PLN. On 24th August 2005, Ciech SA and its subsidiary Petrochemia Blachownia SA (Kędzierzyn Koźle, ul. Szkolna 15) signed a sales agreement whereby Ciech SA sold said property with attachments for the net price of 3,500,000 PLN (three million five hundred thousand zlotys).

In 2004, the trade in organic chemicals (dyes) in the region was transferred to Boruta Kolor Sp. z o.o., not subject to consolidation. The profit on discontinued operations was presented in the consolidated P&L account. Net cash flows from discontinued operations are as follows:

Net profit / loss	166	000 PLN
Change in receivables	1 548	000 PLN
Change in reserve	186	000 PLN
Changes in liabilities	(2 514)	000 PLN
Income tax paid	(39)	000 PLN
Cash from operating activities	(653)	000 PLN
Net cash	(653)	000 PLN

Sales of Subsidiaries

In H1 2005, Ciech SA sold shares in the subsidiary Oczyszczalnia Alwernia Sp. z o.o., located in Alwernia. The sales income was 72,000 PLN. Payment was made in two instalments, 36 000 PLN each. Oczyszczalnia Alwernia Sp. z o.o. was not subject to consolidation as its performance was not material to the reliable and accurate presentation of the financial standing and performance of the Ciech Group.

On 14th June 2005, Ciech SA sold its shares in the subsidiary Polcommerce Kft, based in Budapest (not consolidated entity) to the subsidiary Ciech Polfa Sp. z o.o. for 203,000 PLN (profit from sales was 0.00 PLN).

On 13th June 2004, Ciech SA sold its shares in the associate Zakłady Tworzyw i Farb Sp. z o.o., based in Złoty Stok. Until the sales date, the company was recognised in the consolidated financial statement of the Ciech Group using the equity method. The consolidated profit on sales was 1,763,000 PLN.

vii.Earnings per Share

Basic earnings per share are calculated by dividing the net profit for the year attributable to ordinary shareholders of the dominant entity by the weighted average number of ordinary shares issued in the financial year.

Diluted earnings per share are calculated by dividing the net profit for the financial year attributable to ordinary shareholders of the dominant entity by weighted average number of ordinary shares issued in the financial year, plus weighted average number of ordinary shares that would be issued when converting dilutive potential shares to ordinary shares.

When calculating diluted earnings per share, 8 203 984 shares were considered as potential ordinary shares, issued on 10th February 2005, after Ciech SA went public.

The figures presenting profit and shares that are considered when calculating basic earnings per share and diluted earnings per share are as follows:

	31.12.2005 in thousand PLN	**31.12.2004** in thousand PLN
Net profit (loss) on continued operations attributable to shareholders	115 469	63 011
Net profit (loss) on discontinued operations attributable to shareholders	(3 885)	21 365
Net profit (loss) attributable to the shareholders of the dominant entity, applied to calculate basic earnings per share	111 584	84 376
Net profit (loss) attributable to the shareholders of the dominant entity, applied to calculate diluted earnings per share	111 584	84 376

	31.12.2005 number of shares	**31.12.2004** number of shares
Weighted average number of ordinary shares issued, taken to calculate basic earnings per share	26 882 985	18 241 613
Result of dilution:		
Weighted average number of C class shares issued	921 543	1 790 016
Weighted average number of ordinary shares issued, taken to calculate diluted earnings per share	27 804 528	16 445 597

Between the balance sheet date and the date of the consolidated financial statement presented, no transactions on ordinary shares or potential ordinary shares were recorded.
The figures used to calculate basic earnings per share and diluted earnings per share from discontinued operations are presented below:

	31.12.2005 *in thousand PLN*	**31.12.2004** *in thousand PLN*
Net profit (loss) on discontinued operations attributable to ordinary shareholders, taken to calculate basic earnings per share	(3 885)	21 365
Net profit (loss) on discontinued operations attributable to ordinary shareholders, taken to calculate diluted earnings per share	(3 885)	21 365

viii.Dividends paid and declared

Ciech SA Ordinary General Meeting resolved by way of Resolution 9 of 29th June 2005, to allocate 8,400,000 PLN from Ciech 2004 net profit for dividends to the shareholders at 0.30 PLN per share. The dividend for 2004 was paid to the shareholders who were holding Company shares as of 15th July 2005. The dividend was paid on 1st August 2005.

In 2004, the dividend from the 2003 profit was paid in the amount of 989 000 PLN, at 0.05 PLN per share. The Ciech SA Management Board suggests that 20% of the consolidated net profit made in 2005 be allotted for dividends to the Shareholders. The proposal regarding profit distribution shall be presented during the General Meeting of Shareholders.

ix.Property, Plant and Equipment

CHANGES IN TANGIBLE ASSETS 01.01.-31.12.2005 *in thousand PLN*	Land	Buildings, structures, plus land- and water engineering facilities	Machines and equipment	Vehicles and other means of transport	Other tangible assets	Tangible assets under construction	TOTAL tangible assets
a) gross tangible assets at the beginning of the period	**2 915**	**393 812**	**493 544**	**64 503**	**15 760**	**47 470**	**1018 004**
b) additions (in respect of)	**576**	**28 006**	**63 861**	**6 098**	**(16)**	**120 912**	**219 437**
- purchase	145	786	5 495	2 818	882	61 126	71 252
- acquired from investments	416	21 394	34 462	1 726	1 158	-	59 156
- modernisation	-	8 176	19 262	916	55	-	28 409
- reclassification to another asset category	-	(2 470)	4 595	-	(2 125)	-	-
- investments for tangible assets under construction	-	-	-	-	-	59 760	59 760
-acquired under finance leases	-	-	-	572	-	-	572
- exchange differences	15	24	27	66	11	-	143
- expansion of the group of companies	-	96	-	-	-	-	96
- other	-	-	20	-	3	26	49
c) deductions (in respect of)	**52**	**26 150**	**35 012**	**8 199**	**2 573**	**111 542**	**183 528**
- sales	-	179	2 949	3 742	405	-	7 275
- retirement	-	2 891	8 234	417	1 078	12	12 632
- settlement of investments	-	313	908	-	-	102 341	103 562
- donations	52	172	109	55	6	-	394
- reclassification to assets held for resale	-	22 486	22 678	3 977	1 073	8 978	59 192
- exchange differences	-	109	20	8	11	-	148
- other	-	-	114	-	-	211	325
d) gross tangible assets at the end of the period	**3 439**	**395 668**	**522 393**	**62 402**	**13 171**	**56 840**	**1053 913**
e) accumulated depreciation (amortisation) at the beginning of the period	**3**	**85 151**	**154 642**	**32 279**	**9 385**	**-**	**281 460**
f) depreciation for the period (in respect of)	**5**	**20 922**	**38 712**	**(334)**	**(329)**	**-**	**58 976**
- annual depreciation charge	5	25 709	53 762	5 125	1 810	-	86 411
- sales of a tangible asset	-	39	1 823	2 954	368	-	5 184
- retirement of a tangible asset	-	1 684	7 328	317	1 008	-	10 337
- tangible asset donated	-	7	109	38	6	-	160

CHANGES IN TANGIBLE ASSETS 01.01.-31.12.2005 *in thousand PLN*	Land	Buildings, structures, plus land- and water engineering facilities	Machines and equipment	Vehicles and other means of transport	Other tangible assets	Tangible assets under construction	TOTAL tangible assets
- reclassification to another category	-	82	1 268	-	(162)	-	1 188
- reclassification to assets held for resale - deduction	-	2 971	4 427	2 187	914	-	10 499
- exchange differences	-	(4)	19	37	(5)	-	47
- other (additions)	-	0	(114)	-	-	-	(114)
g) accumulated depreciation (amortisation) at the end of the period	**8**	**106 073**	**193 354**	**31 945**	**9 056**	**-**	**340 436**
h) impairment write-downs at the beginning of the period	**14**	**5 943**	**4 283**	**204**	**119**	**913**	**11 476**
addition (in respect of)	**-**	**712**	**-**	**-**	**227**	**515**	**1 454**
- impairment write-downs charged against the financial result	-	712	-	-	227	515	1 454
Deduction (in respect of)	**-**	**1 219**	**1 762**	**117**	**48**	**765**	**3 911**
- sales of a tangible asset	-	35	271	117	-	-	423
- retirement of a tangible asset	-	929	663	-	48	-	1 640
- reversal of impairment write-downs charged against the financial result	-	255	828	-	-	292	1 375
use of a write-down	-	-	-	-	-	473	473
i) impairment write-downs at the end of the period	**14**	**5 436**	**2 521**	**87**	**298**	**663**	**9 019**
j) net tangible assets at the beginning of the period	**2 898**	**302 718**	**334 619**	**32 020**	**6 256**	**46 557**	**725 068**
k) net tangible assets at the end of the period	**3 417**	**284 159**	**326 518**	**30 370**	**3 817**	**56 177**	**704 458**

CHANGES IN TANGIBLE ASSETS 01.01.-31.12.2004 *in thousand PLN*	Land	Buildings, structures, plus land- and water engineering facilities	Machines and equipment	Vehicles and other means of transport	Other tangible assets	Tangible assets under construction	TOTAL tangible assets
a) gross tangible assets at the beginning of the period	**2 861**	**393 782**	**458 076**	**56 945**	**13 898**	**24 939**	**950 501**
b) additions (in respect of)	**95**	**13 172**	**53 917**	**8 506**	**3 442**	**92 921**	**172 053**
- purchase	-	2 059	6 650	3 743	2 377	49 408	64 237
- acquired from investments	-	9 283	38 143	600	395	-	48 421
- modernisation	-	-	7 282	607	-	-	7 889
- contributions in kind	95	665	-	-	-	-	760
- investments for tangible assets under construction	-	-	-	-	-	43 472	43 472
- leasehold improvements	-	-	-	-	639	-	639
-acquired under finance leases	-	-	-	3 266	-	-	3 266
- components disposed	-	1 059	1 691	-	-	-	2 750
- expansion of the group of companies	-	-	147	260	31	-	438
- other	-	106	4	30	-	41	181
c) deductions (in respect of)	**41**	**13 142**	**18 449**	**948**	**1 580**	**70 390**	**104 550**
- sales	-	1 833	932	640	43	-	3 448
- retirement	-	3 906	7 423	78	1 284	-	12 691
- settlement of investments	-	3 841	9 235	-	125	69 380	82 581
- contributions in kind	-	405	20	-	2	-	427
- donations	-	-	104	-	-	-	104
- transfer to investments in real estate property	-	32	-	-	-	-	32
- reclassification to assets held for resale	-	2 382	454	-	-	-	2 836
- exchange differences	41	743	281	230	126	-	1 421
- other	-	-	-	-	-	1 010	1 010
d) gross tangible assets at the end of the period	**2 915**	**393 812**	**493 544**	**64 503**	**15 760**	**47 470**	**1018 004**
e) accumulated depreciation (amortisation) at the beginning of the period	**-**	**65 052**	**121 544**	**28 223**	**8 634**	**-**	**223 453**
f) depreciation for the period (in respect of)	**3**	**20 099**	**33 098**	**4 056**	**751**	**-**	**58 007**
- annual depreciation charge	3	25 147	46 976	4 404	1 434	-	77 964
- sales of a tangible asset	-	1 060	532	237	35	-	1 864

CHANGES IN TANGIBLE ASSETS 01.01.-31.12.2004 *in thousand PLN*	Land	Buildings, structures, plus land- and water engineering facilities	Machines and equipment	Vehicles and other means of transport	Other tangible assets	Tangible assets under construction	TOTAL tangible assets
- retirement of a tangible asset	-	2 836	6 012	71	472	-	9 391
- tangible asset donated	-	-	104	-	-	-	104
- reclassification to another category	-	897	7 076	-	109	-	8 082
- other (deductions)	-	102	6	-	2	-	110
- reclassification to assets held for resale - deduction	-	114	36	-	-	-	150
- exchange differences	-	(39)	(209)	(124)	(92)	-	(464)
- expansion of the group of companies	-	-	97	84	27	-	208
g) accumulated depreciation (amortisation) at the end of the period	**3**	**85 151**	**154 642**	**32 279**	**9 385**	**-**	**281 460**
h) impairment write-downs at the beginning of the period	-	10 467	8 273	276	106	801	**19 923**
addition (in respect of)	**14**	**338**	**45**	**-**	**53**	**112**	**562**
- impairment write-downs charged against the financial result	14	338	45	-	53	112	562
deduction (in respect of)	**-**	**4 862**	**4 035**	**72**	**40**	**-**	**9 009**
- retirement of a tangible asset	-	939	1 464	-	32	-	2 435
- reversal of impairment write-downs charged against the financial result	-	3 923	2 571	72	8	-	6 574
i) impairment write-downs at the end of the period	**14**	**5 943**	**4 283**	**204**	**119**	**913**	**11 476**
j) net tangible assets at the beginning of the period	**2 861**	**318 263**	**328 259**	**28 446**	**5 158**	**24 138**	**707 125**
k) net tangible assets at the end of the period	**2 898**	**302 718**	**334 619**	**32 020**	**6 256**	**46 557**	**725 068**

The ownership structure of property, plant, and equipment is as follows:

in thousand PLN

PROPERTY, PLANT AND EQUIPMENT (BY OWNERS)	31.12.2005	31.12.2004
a) own PPP	700 986	715 899
b) used under a hire, lease or other contract, including a leasing contract, including:	**3 472**	**9 169**
- finance leases	3 472	9 169
Total tangible assets as disclosed in the balance sheet	**704 458**	**725 068**

The net carrying value of individual groups of property, plant, and equipment held under finance leases is disclosed in the table below:

in thousand PLN

PROPERTY, PLANT AND EQUIPMENT HELD UNDER FINANCE LEASES	31.12.2005	31.12.2004
machines and equipment	193	5 068
vehicles and other means of transport	3 247	4 030
other	32	71
Total	**3 472**	**9 169**

In the period concerned, the Ciech Group received damages from third parties for impairment of property, plant and equipment worth 1 188 000 PLN.
In the periods concerned, the Ciech Group did not make any revaluations of property, plant, and equipment. Information about impairment write-downs on PPE, recognised, released, and disbursed, is provided in Section 13 of the Additional Information and explanations to the Group's consolidated financial statement.
Pledges on property, plant, and equipment used as loan collateral are disclosed in Sections 24 and 27 of the Additional Information and explanations to the Group's consolidated financial statement.

No changes in accounting estimates recorded in the current period had any material impact, nor are they expected to have any material impact in the future periods.

The Ciech Group's expenditure on property, plant, and equipment under construction in 2005 was mainly connected with the following investment projects:

in thousand PLN

Grupa Petrochemia Blachownia	
continuation of the project "Aroma fraction extractive distillation system"	3 141
continuation of the project "construction of a crude benzol tank"	1 771
Grupa Fosfory	
construction of the phosphorus terminal	2 418
construction of the feed phosphate system	7 002
Grupa Alwernia	
continuation of the investment project regarding production of feed phosphate and extractive phosphoric acid-based orthophosphate solution	3 981
Initiation of work on the adaptation of non-operational systems based on by-products	1 095
Janikosoda SA	
modernisation of boilers	2 971
modernisation of lime-kilns	3 289
a modernised system of loading heavy soda ash to cisterns	4 697
installation of process gas compressors	4 002
Vitrosilicon SA	
modernisation of hollow glass block section	5 732
modernisation of sodium water glass section	1 103

Vitrosilicon SA	
construction of warehouses for end product storage	457
modernisation of the calcium silicate furnace	800
modernisation of the compressed air system	250
modernisation of modified sodium water glass production	228
modernisation of the boiler house	320
hollow block production and painting line	151
other expenditure	2 943
Grupa Soda Mątwy	
monohydrate soda production project	12 809
boosted production of baking soda	2 090
modernisation of calcium chloride packaging	1 543
modernisation of RH-DS apparatus.	3 471
purchase and implementation of the new version of ERP system	1 917
modernisation of lime-kilns	1 986
modernisation of carbonating towers	2 729
automation and modernisation of the boiler house	1 992
modernisation of wiring and power networks	1 571
Ciech Polfa Sp. z o.o.	
MBS AXAPTA system licence and IT infrastructure	187
TOTAL	**76 646**

x.Investment Property

INVESTMENT PROPERTY	31.12.2005		31.12.2004
Gross value at the beginning of the period	**31 489**		**31 448**
- acquisition by purchasing	-	9	
- - additions in respect of subsequent expenses	115		-
- transfer from PPE	-		32
- reduction of the CG composition	96		-
- sales of real estate property	5 802		-
- other deductions	99		-
Gross value at the end of the period	**25 607**		**31 489**
Accumulated depreciation and impairment write-downs at the beginning of the period	**11 940**		**11 035**
- depreciation for the period	823	905	
- sales of real estate property	2 609		-
- other deductions	99		-
Accumulated depreciation and impairment write-downs at the end of the period	**10 055**		**11 940**
Net value at the beginning of the period	**19 549**		**20 413**
Net value at the end of the period	**15 552**		**19 549**

The Ciech Group holds the following investment property:

Office building incl. infrastructure, located at ul. Jasna in Warsaw. The whole building is currently put up for rental.

Land and construction site for a residential and office complex, located at ul. Krasińskiego, on the corner of ul. Powązkowska.

three fuel stations located in Szczytniki, Stawiszyn, Mniszków; leased since 1998

Manufacturing, storage, and office buildings located at the premises of Zakłady Chemiczne Alwernia SA located in Alwernia.

Storage and office building located in Dąbrowa Górnicza.

According to the Group's accounting policy, investment property is measured at purchase cost. All investment property is depreciated using the straight-line method. Depending on the property, the depreciation rates range from 1.7% to 4%, and the economic useful lives range from 35 to 40 years. Machines and equipment that are components of investment property, are depreciated at a rate of 8.5% (hoisting cranes and heating systems) and 10% (interior systems), and their economic useful lives are estimated at 12 and 10 years respectively.
The fair value of investment property as of 31st December 2005 is 39 139 000 PLN. As of the date of the consolidated financial statement, there were no restrictions with regard to free disposal of the investment property and collecting rent proceeds or selling the property by the Ciech Group. Investment property is not collateral for any loans, borrowings, or transactions.

xi.Right of Perpetual Usufruct of Land

in thousand PLN	**31.12.2005**	**31.12.2004**
Gross value at the beginning of the period	**2 863**	**3 072**
Purchase	437	-
Other deductions	15	224
Reclassification to fixed assets held for sale	2 142	-
Other additions	-	15
Gross value at the end of the period	**1 143**	**2 863**
Accumulated depreciation at the beginning of the period	**764**	**819**
Depreciation for the period	115	109
Other deductions	-	164
Reclassification to fixed assets held for sale	469	-
Accumulated depreciation at the end of the period	**410**	**764**
Net value - Opening balance	**2 099**	**2 253**
Net value - Closing balance	**733**	**2 099**

The Ciech Group adopted the approach that the right of perpetual usufruct of land acquired through administrative allocation meets the criteria of operating leases as defined in IAS 17 "Leases”, and therefore it should not be disclosed in the books, but presented as an off-balance sheet item. Accordingly, adjustments were made in the books by derecognising such a right of perpetual usufruct of land in correspondence with accrued and deferred income.

xii.Intangible Assets

CHANGES IN INTANGIBLE ASSETS (BY ASSET GROUP) 01.01.-31.12.2005 *in thousand PLN*	Costs of completed development work	Goodwill	Licenses, patents, etc. purchased, including:		Other intangible assets	TOTAL
				Computer software		
a) gross intangible assets at the beginning of the period	**2 687**	**36 055**	**34 745**	**34 345**	**1 275**	**74 762**
b) additions (in respect of)	**69**	**39**	**9 685**	**9 607**	**1 346**	**11 139**
- purchase	-	39	835	757	45	919
- allocation from development work	69	-	-	-	-	69
- acquired from investments	-	-	8 379	8 379	-	8 379
expenditure for intangible assets in progress	-	-	471	471	1 301	1 772
c) deductions (in respect of)	**-**	**6**	**1 029**	**692**	**-**	**1 035**
- sales	-	-	1	1	-	1
- retirement	-	-	16	16	-	16
- reclassification to assets held for resale	-	6	973	636	-	979
- other	-	-	39	39	-	39
d) gross intangible assets at the end of the period	**2 756**	**36 088**	**43 401**	**43 260**	**2 621**	**84 866**
e) accumulated depreciation at the beginning of the period	**2 000**	**31 473**	**20 452**	**20 090**	**398**	**54 323**
f) depreciation for the period (in respect of)	**283**	**-**	**3 560**	**3 873**	**177**	**4 020**
- depreciation (annual charge)	283	-	4 448	4 425	177	4 908
- retirement	-	-	16	16	-	16
- sales	-	-	1	1	-	1
- reclassification to assets held for resale - deduction	-	-	832	496	-	832
- other (deductions)	-	-	39	39	-	39
g) accumulated depreciation (amortisation) at the end of the period	**2 283**	**31 473**	**24 012**	**23 963**	**575**	**58 343**
h) impairment write-downs at the beginning of the period	**233**	**4 576**	**-**	**-**	**-**	**4 809**
- addition	**-**	**-**	**-**	**-**	**154**	**154**
- impairment write-downs charged against the financial result	-	-	-	-	154	154
- deduction	**28**	**-**	**-**	**-**	**-**	**28**
- reversal of impairment write-downs, charged against the financial result	28	-	-	-	-	28
i) impairment write-downs at the end of the period	**205**	**4 576**	**-**	**-**	**154**	**4 935**
j) net intangible assets at the beginning of the period	**454**	**6**	**14 293**	**14 255**	**877**	**15 630**
k) net intangible assets at the end of the period	**268**	**39**	**19 389**	**19 297**	**1 892**	**21 588**

CHANGES IN INTANGIBLE ASSETS (BY ASSET GROUP) 01.01.-31.12.2004 *in thousand PLN*	Costs of completed development work	Goodwill	Licenses, patents, etc. purchased, including:		Other intangible assets	TOTAL
				Computer software		
a) gross intangible assets at the beginning of the period	**2 785**	**36 055**	**23 821**	**23 458**	**8 532**	**71 193**
b) additions (in respect of)	**11**	**-**	**10 983**	**10 943**	**43**	**11 037**
- purchase	-	-	1 039	999	43	1 082
- allocation from development work	11	-	-	-	-	11
- acquired from investments	-	-	9 744	9 744	-	9 744
- expansion of the group	-	-	200	200	-	200
c) deductions (in respect of)	**109**	**-**	**59**	**56**	**7 300**	**7 468**
- retirement	-	-	46	45	-	46
- intangible assets written off	109	-	12	11	-	121
- expenditure for intangible assets in progress	-	-	-	-	7 300	7 300
- other	-	-	1	-	-	1
d) gross intangible assets at the end of the period	**2 687**	**36 055**	**34 745**	**34 345**	**1 275**	**74 762**
e) accumulated depreciation at the beginning of the period	**1 538**	**31 349**	**15 592**	**15 279**	**246**	**48 725**
f) depreciation for the period (in respect of)	**462**	**124**	**4 860**	**4 811**	**152**	**5 598**
- depreciation (*annual charge*)	480	124	4 851	4 800	152	5 607
- retirement	-	-	46	45	-	46
- expansion of the group	-	-	67	67	-	67
- intangible assets written off	18	-	12	11	-	30
g) accumulated depreciation (amortisation) at the end of the period	**2 000**	**31 473**	**20 452**	**20 090**	**398**	**54 323**
h) impairment write-downs at the beginning of the period	**119**	**4 576**	**-**	**-**	**-**	**4 695**
- addition	**205**	**-**	**-**	**-**	**-**	**205**
- impairment write-downs charged against the financial result	205	-	-	-	-	205
- deduction	**91**	**-**	**-**	**-**	**-**	**91**
- other	91	-	-	-	-	91
i) impairment write-downs at the end of the period	**233**	**4 576**	**-**	**-**	**-**	**4 809**
j) net intangible assets at the beginning of the period	**1 128**	**130**	**8 229**	**8 179**	**8 286**	**17 773**
k) net intangible assets at the end of the period	**454**	**6**	**14 293**	**14 255**	**877**	**15 630**

All intangible asset items are the property of the Ciech Group. Key intangible asset items at the Ciech Group include:

Oracle application with a carrying value of 5 973 000 PLN. The remaining depreciation period is 4 years.
CRM system with a carrying value of 2,015,000 PLN. The remaining depreciation period is 42 months.
Oracle ERP application with a carrying value of 6 583 000 PLN. The remaining depreciation period is 3 years.
Customer relationship management system with a carrying value of 1,752,000 PLN. The remaining depreciation period is 42 months.
Licence – integrated IFS system with the net value of 2,658,000 PLN. The remaining depreciation period is 42 months.

In 2005, Ciech SA signed an agreement for the purchase and implementation of the Oracle application used as a joint IT platform by the Ciech SA companies, Inowrocławskie Zakłady Chemiczne Soda Mątwy SA and Janikowskie Zakłady Sodowe Janikosoda SA. The total value of the application is 5,469,000 PLN, out of which 1,201,000 PLN has been billed back to the soda companies.

Information about impairment write-downs on intangible assets, recognised, released, and disbursed, is provided in Section 13 of the Additional Information and explanations to the Group's consolidated financial statement.
No intangible assets are collateral for liabilities.
Except for goodwill, the Ciech Group does not have any intangible assets with unspecified useful lives. Impairment write-downs recognised in the consolidated statement of goodwill are described in Section 14 of the Additional Information and explanations to the consolidated financial statement. As of 1st January 2004, In line with IFRS 3, goodwill is no longer depreciated and undergoes annual impairment tests.
The Ciech Group did not make any intangible asset revaluations in the periods in question.

Research and Development
The Ciech Group's research and development efforts are focused on increasing economic potential, and mainly consist in upgrading technological processes, reducing manufacturing costs, and optimising the technical and technological parameters.

Detailed information on major achievements in research and development has been presented in Section 14 of the Management Report.

Internally generated Intangible Assets
The tables below show the figures concerning internally generated intangible assets.

Intangible assets generated internally between 01.01 and 31.12.2005	*in thousand PLN*
gross value as of 01.01.2005	1 147
expenditure	69
gross value as of 31.12.2005	**1 216**
amortisation - balance at the beginning of the period	(745)
amortisation for the period	(86)
amortisation at the end of the period	**(831)**
impairment write-down at the beginning of the period	(233)
impairment write-down - change in the period	28
impairment write-down at the end of the period	(205)
net value as of 31.12.2005	**180**

Intangible assets generated internally between 01.01 and 31.12.2004	*in thousand PLN*
gross value as of 01.01.2004	1 245
expenditure	11
intangible assets written off	(109)
gross value as of 31.12.2004	**1 147**
amortisation - balance at the beginning of the period	(556)
amortisation for the period	(189)
amortisation at the end of the period	**(745)**
impairment write-down at the beginning of the period	(119)
impairment write-down - change in the period	(114)
impairment write-down at the end of the period	(233)
net value as of 31.12.2004	**169**

xiii.Impairment

The table below shows the figures reflecting recognised, released, and disbursed impairment write-downs on individual assets.

in thousand PLN

IMPAIRMENT WRITE-DOWNS	**31.12.2005**	**31.12.2004**
Intangible assets		
a) at the beginning of the period	**4 809**	**4 695**
b) recognised	154	205
c) reversed/released	(28)	-
d) disbursed	-	(91)
e) at the end of the period	**4 935**	**4 809**
Property, plant and equipment		
a) at the beginning of the period	**11 476**	**19 923**
b) recognised	1 454	562
c) reversed	(1 375)	(6 574)
d) disbursed	(2 536)	(2 435)
e) at the end of the period	**9 019**	**11 476**
Long-term investments and investments in entities accounted for using the equity method		
a) at the beginning of the period	**8 026**	**4 743**
b) recognised	8 505	3 644

IMPAIRMENT WRITE-DOWNS	31.12.2005	31.12.2004
c) reversed	(1 232)	-
d) disbursed	(15)	(105)
e) exchange differences	103	(256)
f) at the end of the period	**15 387**	**8 026**
Reserves		
a) at the beginning of the period	**5 183**	**3 525**
b) recognised	3 956	3 248
c) reversed	(1 880)	(1 199)
d) disbursed	(2 283)	(391)
e) at the end of the period	**4 976**	**5 183**
Short-term receivables		
a) at the beginning of the period	**110 089**	**130 578**
b) recognised	9 175	15 494
c) reversed	(6 675)	(18 823)
d) disbursed	(13 492)	(15 610)
e) exchange differences	523	(1 635)
f) change in the group composition	-	85
g) reclassification to fixed assets held for sale	(1 178)	-
f) at the end of the period	**98 442**	**110 089**
Short-term investments		
a) at the beginning of the period	**3 542**	**1 288**
b) recognition, including:	-	2 254
- recognised directly in equity	-	550
c) disbursement, including	(550)	-
d) at the end of the period	**2 992**	**3 542**

As of 31.12.2005

Impairment write-downs on intangible assets were recognised due to impossibility to make use of the technology purchased, and due to resale of ownership interest.

Reversal of write-downs on intangible assets was recognised due to re-use of the effects of development work.

Recognised write-downs on PPE related to tangible assets for social work that did not bring about any economic benefits, risk of investment discontinuation plus assets not used and planned for disposal.

Reversal of write-downs on PPE was recognised due to re-use of tangible assets.

Disbursement of write-downs on PPE was recognised due to the retirement plus wear and tear of tangible assets, as well as impossibility to settle the expenditure.

Recognition of write-downs on long-term investments and investments in entities accounted for using the equity method was mainly due to weak financial standing of the companies and low level of equity, confirmed with the DCF analysis.

Reversal of write-downs on long-term investments and investments in entities accounted for using the equity method was recognised due to the valuation of the company quoted on the Stock Exchange.

Disbursement of write-downs on long-term investments and investments in entities accounted for using the equity method was recognised due to the company liquidation.

Reserve write-downs were recognised due to revaluation of reserves lingering for 1-3 years and reserves hard to sell.

Reserve write-downs were reversed due to disposal of reserves.
Reserve write-downs were disbursed due to retirement of reserves.

Write-downs on short-term receivables were recognised for composition proceedings, dispute, interest, and overdue receivables.

Write-downs on short-term receivables were reversed due to payment of receivables, completion of bankruptcy/liquidation proceedings, composition settlement and the write-off of receivables.

Write-downs on trade receivables were disbursed due to the write-off of receivables

Write-down on short-term investments was disbursed due to the sales of the company.

As of 31.12.2004

Write-downs on intangible assets were recognised due to development work carried out.

Write-downs on intangible assets were disbursed due to the write-off of development work carried out.

Write-downs on PPE were recognised due to the failure to use tangible assets and doubts as to reconciliation of capital expenditure on tangible assets under construction.

Write-downs on PPE were reversed and disbursed due to the retirement plus wear and tear of tangible assets.

Recognition of write-downs on long-term investments and investments in entities accounted for using the equity method was mainly due to weak financial standing of the companies (3 500 000 PLN) and low level of equity.

Disbursement of write-downs on long-term investments and investments in entities accounted for using the equity method were recognised due to disposal of stocks and shares written-off plus company liquidation.

Write-downs on reserves were recognised due to the valuation of products at their realisable market price and revaluation of reserves lingering for 1-3 years (2 821 000 PLN).

Reserve write-downs were reversed due to disposal of reserves.
Reserve write-downs were disbursed due to retirement of reserves.

Write-downs on short-term receivables were recognised due to overdue trade receivables (14 004 000 PLN) and composition proceedings in progress.

Write-downs on short-term receivables were reversed due to payment of trade receivables and completion of bankruptcy proceedings.

Write-downs on trade receivables were disbursed due to reconciliation of composition proceedings, receivables written-off and unsuccessful execution of debt.

Write-downs on short-term investments were recognised due to the weak financial standing of the companies and low level of equity.

xiv.Goodwill Impairment Test

Goodwill is not depreciated as of the date of transition to IFRS, i.e. 1st January 2004. Goodwill, as disclosed in the consolidated financial statement, is subject to annual impairment tests. Such tests are also conducted every time there is evidence of impairment.
Impairment tests were conducted on 1st January 2004, and showed that impairment write-downs had to be recognised for the goodwill values of Cheman SA and Alwernia SA.
The goodwill generated on acquisition of shares of Cheman SA and Alwernia SA was allocated to the following cash generating units:

- soda segment
- organic segment
- petrochemical segment
- inorganic segment

The recoverable amount of each of the cash-generating units was determined at fair value, less cost of sales.

in thousand PLN	**Soda Segment**	**Organic Segment**	**Petrochemical Segment**	**Inorganic Segment**
recoverable amount	3 049	4 484	5 022	67 668
value in use	*2 689*	*3 955*	*4 429*	*61 008*
fair value	*3 049*	*4 484*	*5 022*	*67 667*
carrying value including goodwill	3 563	5 241	5 869	70 126
impairment	514	757	847	2 458

The total impairment write-down amounted to 4,576,000 PLN.

xv.Investments in Associates

Ciech SA holds a 50% stake in Transclean Sp. z o.o., which provides international transportation services regarding liquid chemicals. The table below shows condensed figures regarding investments in Transclean Sp. z o.o.:

Transclean Sp. z o. o.	**31.12.2005**	**31.12.2004**
Share (50%) in the balance sheet:	*in thousand PLN*	*in thousand PLN*
Fixed assets	3 943	3 846
Current assets	960	1 152
Long-term liabilities	(595)	(625)

Transclean Sp. z o. o.	31.12.2005	31.12.2004
Short-term liabilities	(1 251)	(1 211)
Net assets	3 057	3 162
Share (50%) in income and profit:	*in thousand PLN*	*in thousand PLN*
Sales income	5 040	5 326
Cost of sales	(4 538)	(4 593)
Other operating income	106	114
General management costs	(379)	(341)
Other operating costs	(62)	(58)
Net financial income (costs)	(76)	(59)
Profit before taxation	91	389
Income tax payable	(25)	(89)
Net profit (loss)	66	300
carried value of the investment in Transclean Sp. z o. o.	3 057	3 162

Ciech SA holds a 45.19% indirect share in Polskie Towarzystwo Ubezpieczeniowe SA (PTU SA), where the indirect share in the overall number of votes at the General Meeting of Shareholders is 45.88%. This company is accounted for using the equity method at the level of the lower-tier groups - Janikosoda SA (a 22.71% direct share in PTU SA) and Soda Mątwy SA (a 22.71% direct share in PTU SA).
The table below shows condensed figures regarding investments in PTU SA:

Polskie Towarzystwo Ubezpieczeniowe SA	31.12.2005	31.12.2004
Share (45.19% in 2005; 41.26% in 2004) in the balance sheet	*in thousand PLN*	*in thousand PLN*
Intangible assets	2 272	2 660
Deposits	99 640	71 987
Receivables	28 186	32 033
Other assets	3 258	2 240
Accruals	16 559	8 341
Investment property	1 537	1 950
Total assets	**151 452**	**119 210**
Equity	33 878	22 684
Technical provisions	122891	94 615
Reinsurance technical provisions (negative value)	(41 096)	(36 002)
Estimated recourses or returns (negative value)	(915)	(1 103)
Other provisions	3 071	1 147
Other liabilities and earmarked funds	15 736	26 439
Accruals	17 886	11 429

Polskie Towarzystwo Ubezpieczeniowe SA	31.12.2005	31.12.2004
Total liabilities	**151 452**	**119 210**

Polskie Towarzystwo Ubezpieczeniowe SA	01.01-31.12.2005	01.01-31.12.2004
Share (45.19% in 2005; 41.26% in 2004) in income and profit	*in thousand PLN*	*in thousand PLN*
Technical result from non-life and life insurance	(3 564)	(1 573)
Income from deposits	16 300	3 765
Uncompleted gains from deposits	31	440
Costs of deposits	8 832	423
Uncompleted losses from deposits	33	-
Net income from deposits, after costs, transferred to the technical result of non-life insurance	664	468
Other operating income	2 140	440
Other operating costs	(2 767)	(847)
Operating profit (loss)	**2 610**	**1 334**
Gross profit (loss)	**2 610**	**1 334**
Income tax	679	(76)
Net profit (loss)	**3 289**	**1 258**

The carrying value of investments in associates accounted for using the equity method is:

- as at 31st December 2005:
  - Transclean Sp. z o. o. 3 057 000 PLN
  - Polskie Towarzystwo Ubezpieczeniowe SA 36 374 000 PLN
- as at 31st December 2004:
  - Transclean Sp. z o. o. 3 162 000 PLN
  - Polskie Towarzystwo Ubezpieczeniowe SA 29 02 000 PLN

Ciech SA also holds a 35.65% stake in Zach-Ciech Sp. z o.o., currently in liquidation. Following Resolution 3/2005 of 11th March 2005 to launch liquidation of the company, an impairment write-down was recognised in the consolidated financial statement. The company's carrying value as at 31.12.2005 is zero.
None of the companies specified above is listed on any stock exchange; therefore, there are no market quotes on the fair value reported for these investments. Balance sheet dates and reporting periods of the associates and the Group are identical, i.e. the balance sheet date falls on 31st December 2005 and the reporting period covers the period between 1st January 2005 and 31st December 2005, and these are analogical dates for comparable data.

Moreover, the Ciech Group holds stake in an indirect associate Suomen Unipol Oy that due to immateriality was not accounted for using the equity method.
The tables below show selected financial data regarding the afore-mentioned company:

Entities not accounted for using the equity method	Net income from sales of goods and products plus	Balance-sheet total of the entity (in thousand PLN)	Net profit / (loss) (in thousand PLN)

	financial operations of the entity (in thousand PLN)		
Suomen Unipol Oy	48 271	10 641	821

Entities not accounted for using the equity method	Ciech S.A. direct shareholding in the entity	Ciech S. A. shareholding in the entity (direct + indirect)	Equity as at 31.12.2005 attributable to the Ciech Group (in thousand PLN)	Purchase cost (in thousand PLN)	Purchase cost revaluations (in thousand PLN)
Suomen Unipol Oy	15.00%	24.78%	803	125	-

xvi. Business Combinations

The Ciech Group recorded no business combinations in the period concerned and in comparable periods.

xvii. Long-term Receivables

in thousand PLN	**31.12.2005**	**31.12.2004**
a) due from affiliates		
b) due from other entities (in respect of)	**166**	**85**
- sales of fixed assets in instalments	39	53
- leases (deposits)	10	32
IT support	117	-
Net long-term receivables	**166**	**85**
c) revaluation of receivables	-	-
Gross long-term receivables	**166**	**85**

xviii.Other long-term Investments

in thousand PLN

LONG-TERM FINANCIAL ASSETS	31.12.2005	31.12.2004
a) in subsidiaries not subject to consolidation plus co-subsidiaries and associates, whether or not accounted for using the equity method	18 929	28 065
- stocks and shares	18 929	28 065
b) in other entities	6 823	4 114
- stocks and shares	6 823	4 114
Total long-term financial assets	**25 752**	**32 179**

Information about impairment write-downs on other long-term investments, recognised, released, and disbursed, is provided in Section 13 of the Additional Information and explanations to the consolidated financial statement.
Details of collateral securing loans and borrowings, established on long-term financial assets are provided in Sections 24 and 27 of the Additional Information and explanations to the consolidated financial statement.

xix.Reserves

in thousand PLN	31.12.2005	31.12.2004
Materials	53 293	53 753
Semi-finished products and products in progress	8 983	9 592
End products	29 596	24 249
Goods	40 578	42 684
Total reserves	**132 450**	**130 278**
Reserves at fair value less sales costs	132 450	130 278
Reserves with limited power of disposal (pledges)	**65 282**	**35 000**

Reserves recognised as cost in 2005 amounted to 2 594,594,000 PLN without taking into account the consolidation adjustments consisting in elimination of intra-group trading.

Information about impairment write-downs on reserves, recognised, released, and disbursed, is provided in Section 13 of the Additional Information and explanations to the consolidated financial statement.

Information on pledges on reserves used as loan collateral is disclosed in Sections 24 and 27 of the Additional Information and explanations to the consolidated financial statement.

xx.Trade and other Receivables

in thousand PLN

SHORT-TERM RECEIVABLES	31.12.2005	31.12.2004
a) due from affiliates	**5 525**	**17 452**
trade receivables, with maturity date	**5 218**	**5 340**
- up to 12 months	5 218	5 340
other receivables	**307**	**12 112**
- other receivables	307	12 112
b) due from other entities	**488 066**	**508 451**
trade receivables, with maturity date	**408 438**	**414 804**
- up to 12 months (net value)	408 438	414 776
- over 12 months (net value)	-	28
other receivables	**14 127**	**14 574**
- reserve prepayments	1 464	7 397
- prepayments for tangible assets	6 349	-
- other	6 314	7 177
Prepayments and deferred expenses, including:	**2 557**	**3 768**
- rent	104	192
- insurance	1 672	1 444
- unbilled costs of partially received but unbilled services	13	44
- purchases	76	8
- taxes and charges	94	68
- VAT	-	507
- outsourced services	331	947
- promotion and marketing	41	37
- subscriptions	102	342
- interest on loans and borrowings payable in advance	32	-
- other	92	179
c) subsidies, customs duties, social and health insurance, plus other benefits (net value)	**62 944**	**75 305**
d) other revaluations of receivables from other entities	**35 013**	**43 191**
Total net short-term receivables	**493 591**	**525 903**
revaluation of receivables	98 442	110 089
Total gross short-term receivables	**592 033**	**635 992**

in thousand PLN

CHANGES IN REVALUATIONS OF SHORT-TERM RECEIVABLES	31.12.2005	31.12.2004
As at the beginning of the period	**110 089**	**130 578**
a) additions (in respect of)	**9 175**	**15 579**
- detailed (individual) revaluations of short-term receivables	4 320	10 612
- estimated revaluations of short-term receivables	4 855	4 882
- expansion of the group	-	85
b) deductions (In respect of)	**20 822**	**36 068**
- use of write-downs	13 492	15 610
- release/reversal of write-downs	6 675	18 823
- reclassification to fixed assets held for sale	1 178	-
- exchange differences	(523)	1 635
- As at the end of the period	**98 442**	**110 089**

Allowances for receivables from affiliates were as follows:
as at 31st December 2005: 384.000 PLN.
as at 31st December 2004: 139.000 PLN.

in thousand PLN

OVERDUE TRADE RECEIVABLES OUTSTANDING:	31.12.2005	31.12.2004
a) up to 1 month	53 615	47 709
b) over 1 month to 3 months	37 299	25 969
c) over 3 months to 6 months	7 628	6 262
d) over 6 months to 1 year	5 129	4 159
e) over 1 year	52 255	51 010
Total (gross) overdue trade receivables	**155 926**	**135 109**
f) revaluations of overdue trade receivables	56 015	57 165
Total (net) overdue trade receivables	**99 911**	**77 944**

in thousand PLN

LONG AND SHORT TERM DISPUTED RECEIVABLES	31.12.2005	31.12.2004
a) trade receivables, including:	1 615	2 172
- non-revaluated receivables	96	349
not recognised as “receivables under litigation”	-	1
b) other	1 085	1 051
Total	**2 700**	**3 223**

Terms and conditions of transactions with affiliates are presented in Section 31.4 of the Additional information and explanations to the consolidated financial statement.

The Ciech Group applies different payment deadlines for trade receivables in its trade contracts, depending on type of transaction, market characteristics, and trade environment. Payments are most often required within 14, 30, 60, and 90 days.

xxi.Short-term Investments

in thousand PLN	**31.12.2005**	**31.12.2004**
a) in subsidiaries	-	72
- stocks and shares	-	72
- revaluated stocks and shares	-	550
- revaluated stocks and shares issued in the current period	-	550
f) in other entities	269	1 102
- other securities (by type)	12	16
- other	-	16
- loans granted	12	-
- other short-term financial assets (by type)	257	1 086
- derivative instruments	257	1 086
Total net short-term financial assets	**269**	**1 174**
- revaluations of short-term financial assets	2 992	3 542
Total gross short-term financial assets	**3 261**	**4 716**

xxii.Cash and Cash Equivalents

in thousand PLN	**31.12.2005**	**31.12.2004**
Bank accounts (current accounts)	42 083	26 004
Short-term deposits	58 713	9 599
Cash in hand	420	503
Cash and cash equivalents as disclosed in the balance sheet	**101 216**	**36 106**
Overdrafts	12 976	7 585
Cash and cash equivalents as disclosed in the cash flow statement	**88 240**	**28 521**

Cash, as disclosed in the cash flow statement at the end of December 2005 totalled to 93 595 000 PLN and exceeded cash disclosed in the consolidated balance sheet by 5 355 000 PLN. The difference arose from holding Grupa Petrochemia Blachownia for sale.

xxiii.Equity

Initial capital

Initial capital	31.12.2005	31.12.2004	01.01.2004
		number of shares	
A-class ordinary bearer shares with a par value of 5 PLN each	20 816	20 816	20 816
B-class ordinary bearer shares with a par value of 5 PLN each	19 775 200	19 775 200	19 775 200
C-class ordinary bearer shares with a par value of 5 PLN each	8 203 984	-	-
Total	**28 000 000**	**19 796 016**	**19 796 016**

On 16th February 2005, the nominal initial capital was increased by 41,019,000 PLN, following issue of 8,203,984 new ordinary shares (C-class) with a par value of 5 PLN each.

Ordinary shares issued and fully paid	*number of shares*	*in thousand PLN*
As at 1st January 2004	19 796 016	123 096
As at 31st December 2004	19 796 016	123 096
Ordinary shares issued on 16th February 2005	8 203 984	41 019
As at 31st December 2005	28 000 000	164 115

According to IAS 29 "Financial Reporting in Hyperinflationary Economies" the initial capital of Ciech SA's dominant entity was restated to account for hyperinflation in the years 1989 to 1996, as at the date of transition to IFRS, i.e. 1st January 2004. The hyperinflationary adjustment was also charged against the retained earnings in the balance sheet. The value of equity remains unchanged.

The table below shows the hyperinflationary adjustment calculation:

period	**initial capital** *in thousand PLN*	**inflation rate**	**restated initial capital** *in thousand PLN*
1989	106	3.511	370
1990	370	6.858	2 540
1991	2 540	1.703	4 326
1992	4 326	1.430	6 186
1993	6 186	1.353	8 370
1994	8 370	1.322	11 065
1995	11 065	1.278	14 141
January 1996	14 141	1.034	14 622
February 1996	14 622	1.015	14 842
March 1996	14 842	1.015	15 064
April 1996	15 064	1.022	15 396
May 1996	15 396	1,014	15 611
21.05. 1996	*issue of B class ordinary shares from reserves*		*98 876*
June 1996	114 487	1.010	115 632
July 1996	115 632	0.999	115 516
August 1996	115 516	1.005	116 094
September 1996	116 094	1.019	118 300
October 1996	118 300	1.014	119 956
November 1996	119 956	1.013	121 515
December 1996	121 515	1,013	123 095
01.01.2004			123 095
30.06.2004			123 095

period	initial capital *in thousand PLN*	inflation rate	restated initial capital *in thousand PLN*
31.12.2004			123 095
16.02.2005	*issue of C class ordinary shares*		*41 020*
31.12.2005			164 115
	Restated initial capital as at 31/12/2005		164 115
	Initial capital as at 31/12/2005 prior to restatement		140 001
	Hyperinflation adjustment		**24 114**

Share Premium Reserve
The share premium reserve was raised from the premium earned on the issue of C class shares over par value.

Treasury Shares
This item discloses (as negative values) treasury shares held by the dominant entity and consolidated subsidiaries.
There were no treasury shares recorded as at 31st December 2005. The table below shows treasury shares as at 31st December 2004.

As at 31.12.2004

Company name and address	Number of shares	Value at purchase cost *in thousand PLN.*	Carrying value *in thousand PLN.*
Ciech SA	441 812	5 959	5 959
Inowrocławskie Zakłady Chemiczne SODA MĄTWY SA	335 924	3 562	3 562
Petrochemia Blachownia SA	236 878	2 862	2 862
Zakłady Chemiczne Alwernia SA	95 100	475	475
Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o.	190 200	951	951
Janikowskie Zakłady Sodowe Janikosoda SA	440 260	4 996	4 996
Total treasury shares	**1 740 174**	**18 805**	**18 805**
Other affiliates holding shares in Ciech SA			
Polskie Towarzystwo Ubezpieczeniowe SA	2 290 080	11 702	11 702
Inchem Sp. z o.o.	752 030	8 936	8 936
	3 042 110	20 638	20 638

in thousand PLN

CHANGES IN TREASURY SHARES	31.12.2005	31.12.2004
Carrying value - Opening balance	18 805	14 684
Additions:	-	4 121
- Purchase of shares in Ciech SA	-	4 121
Deductions:	18 805	-
- Sales of shares in Ciech SA	18 805	-
Carrying value - Closing balance	-	18 805

Revaluation Reserve

in thousand PLN	31.12.2005	31.12.2004
Opening balance	**-**	**-**
additions	**3 543**	**-**
- valuation of shares in an associate	3 543	-
deductions	**-**	**-**
Closing balance	**3 543**	**-**

Other Reserve Capital
The balance of other reserve capitals as at 31st December 2005 comprises the following items:

in thousand PLN	**31.12.2005**	**31.12.2004**
trade risk fund	3 330	3 330
fund for acquisition of soda companies	15 200	15 200
consolidation adjustments	(266)	(242)
fund for investments in an amenity centre	250	-
fund for development compliant with the restructuring plan	60 169	60 169
fund for purchase of treasury shares	-	6 176
Total	**78 683**	**84 633**

Exchange Differences on Translation of Foreign Operations
The balance of this equity item is adjusted to account for exchange differences arising from translations of financial statements of foreign subsidiaries.

xxiv.Long-term Liabilities

in thousand PLN

LONG-TERM LIABILITIES	31.12.2005	31.12.2004
f) towards other entities	**49 305**	**51 942**
- loans and borrowings	48 262	49 880
- finance lease liabilities	1 043	1 397
- other	-	665
TOTAL	**49 305**	**51 942**

in thousand PLN

LONG-TERM LIABILITIES WITH THE MATURITY DATE AS OF THE BALANCE-SHEET DATE	31.12.2005	31.12.2004
a) over 1 year to 3 years	40 220	43 221
b) over 3 years to 5 years	9 085	8 721
Total	**49 305**	**51 942**

LONG-TERM LIABILITIES IN RESPECT OF LOANS AND BORROWINGS

Entity name and legal form	Address	Contractual loan/credit amount		Loan/credit amount outstanding (long-term portion)		Interest rate terms	Repayment date	Collateral
31.12.2005		in thousand PLN	currency	in thousand PLN	currency			
Grupa Fosfory								
ING Bank Śląski SA	Katowice	18 545	PLN	18 545	PLN	1M WIBOR + bank margin	12.2010	Registered Pledge Agreement (it establishes collateral for all the Bank receivables, pledge on reserves), it provides collateral for max. 30 000 000 PLN, Absolute Assignment Agreement, Agreement on Transfer of an Insurance Policy, declaration on submission to enforcement up to 60 000 PLN
Total Grupa Fosfory		**18 545**	**PLN**	**18 545**	**PLN**			
Grupa Soda Mątwy								
CitiBank Handlowy	Bydgoszcz	40 000	PLN	1 817	PLN	3M WIBOR + bank margin		Joint ordinary mortgage, joint capped mortgage, assignment of trade receivables, transfer of ownership of movables and transfer of an insurance policy
Total Grupa Soda Mątwy		**40 000**	**PLN**	**1 817**	**PLN**			
Vitrosilicon SA								
BOŚ SA	Poznań Branch	16 769	4 036 EUR	6 490	1 682 EUR	1M EURIBOR + bank margin	11.2009	Niechorze mortgage, transfer of debt, blank bills of exchange, suretyship by "Janikosoda" SA in Janikowo
Bank Millennium SA	Zielona Góra Branch	3 200	PLN	800	PLN	3M WIBOR + bank margin	10.2007	Registered pledge on the glass furnace in Żary, blank promissory note, authorisation to access bank accounts at Bank Millennium, declaration on submission to enforcement
Bank Millennium SA	Zielona Góra Branch	16 500	PLN	2 083	PLN	1M WIBOR + bank margin	12.2012	Ordinary mortgage on the property in Żary (temporary collateral), ordinary mortgage on the property in Iłowa, authorisation to access bank accounts at Bank Millenium, declaration on submission to enforcement
Total Vitrosilicon SA		**36 469**	**PLN**	**9 373**	**PLN**			
Ciech SA								
Bank Pekao SA	Warsaw ul. Grzybowska 80/82	33 126	8 000 EUR	18 527	4 800 EUR	3M EURIBOR + bank margin	12.2009	Pledge on shares of Janikosoda SA, assignment of debt, authorisation to access the bank account, declaration on submission to enforcement
Total Ciech SA		**33 126**	**PLN**	**18 527**	**PLN**			
TOTAL		**128 140**		**48 262**				

* - bank margins have been established based on market conditions.

Entity name and legal form	Address	Contractual loan/credit amount		Loan/credit amount outstanding (long-term portion)		Interest rate terms*	Repayment date	Collateral
31.12.2004		in thousand PLN	currency	in thousand PLN	currency			
Grupa Petrochemia -Blachownia								
PKO BP	Kędzierzyn Koźle	315	PLN	238	PLN	1M WIBOR + bank margin	09.2009	Promissory note for the amount of 1500, bill of exchange guarantee up to the amount of 300000, court pledges on objects, transfer of debt from the insurance policy for the subject matter of investments for 660 000 PLN
Total Grupa Petrochemia		**315**	**PLN**	**238**	**PLN**			

Blachownia								
Janikosoda SA								
WFOŚ	Toruń	187	PLN	23	PLN	0.3 of the rediscount rate applicable at 1.01. of a given year, but not less than 6%	04.2006	A guarantee by BH S.A. in Bydgoszcz, backed by a tangible asset worth 345 000 PLN
Total Janikosoda SA		**187**	**PLN**	**23**	**PLN**			
Grupa Soda Mątwy								
CitiBank Handlowy SA	Bydgoszcz	5 850	PLN	1 950	PLN	3M WIBOR + bank margin	11.2006	Joint ordinary mortgage + transfer of ownership of movables
NFOŚ and GW	Warsaw	16 674	PLN	1 514	PLN	0.65 of bill rediscount rate, not less than 7%	03.2006	Surety by Ciech, and guarantee by CitiBank Handlowy
Total Grupa Soda Mątwy		**22 524**	**PLN**	**3 464**	**PLN**			
Vitrosilicon SA								
BOŚ SA	Poznań Branch	16 769	4 036 EUR	9 210	2 258 EUR	1M EURIBOR + bank margin	11.2009	Łęknica mortgage, Niechorze mortgage, transfers of debt, blank bills of exchange, suretyship by "Janikosoda" SA in Janikowo.
Bank Millennium SA	Zielona Góra Branch	3 200	PLN	1 760	PLN	3M WIBOR + bank margin	10.2007	Ordinary mortgage in Żary, capped mortgage in Żary, registered pledge on the glass furnace in Żary, registered pledge on reserves, blank promissory note, authorisation to access the bank account at Bank Millennium.
Total Vitrosilicon SA		**19 969**	**PLN**	**10 970**	**PLN**			
Ciech SA								
Bank Pekao SA	ul. Grzybowska 80/82	50 000	PLN	5 000	PLN	1M WIBOR + bank margin	05.2006 regularly at the end of each quarter	Pledge on the shares of Z. Ch. Alwernia with a par value of 3 877 000 PLN
Bank Pekao SA	ul. Grzybowska 80/82	32 632	8 000 EUR	26 106	6 400 EUR	3M WIBOR + bank margin	12.2009 regularly at the end of each quarter	
Bank Pekao SA	ul. Grzybowska 80/82	12 237	3 000 EUR	4 079	1 000 EUR	3M EURIBOR + bank margin	06.2006 regularly at the end of each quarter	Registered pledge on the shares of Janikowskie Zakłady Sodowe Janikosoda SA with a par value of 40 349 000 PLN
Total Ciech SA		**94 869**	**PLN**	**35 185**	**PLN**			
TOTAL		**137 864**		**49 880**				

* all but the above-mentioned margins, established based on market conditions.

LONG-TERM LIABILITIES IN RESPECT OF LOANS AND BORROWINGS, RECOGNISED AS LIABILITIES RELATED TO FIXED ASSETS HELD FOR SALE

Entity name and legal form	Address	Contractual loan/credit amount		Loan/credit amount outstanding (long-term portion)		Interest rate terms*	Repayment date	Collateral
31.12.2005		**in thousand PLN**	**currency**	**in thousand PLN**	**currency**			
Grupa Petrochemia Blachownia								
PKO BP	Kędzierzyn Koźle	315	PLN	187	PLN	1M WIBOR + bank margin	2009	Promissory note for the amount of 1500, bill of exchange guarantee up to the amount of 300000, court pledges on objects, transfer of debt from the insurance policy for the subject matter of investments for 660 000 PLN
Total Petrochemia Blachownia		**315**	**PLN**	**187**	**PLN**			

* - bank margins have been established based on market conditions.

REPAYMENT SCHEDULE FOR LOANS AND BORROWINGS

Loans (*in thousand PLN*)	**Total as at 31.12.2005**	**1 year to 2 years**	**2 to 5 years**	**over 5 years**
Currency - interest type and rate				
Ciech SA	-			
EUR, earmarked loan, Bank Pekao SA, 3M EURIBOR +bank margin	18 527	12 351	6 176	-
Grupa Fosfory				
PLN; on bank account; ING Bank Śląski, 1M WIBOR +bank margin	18 545	11 500	7 045	-
Grupa Soda Mątwy				
PLN, earmarked loan at CitiBank Handlowy, 3M WIBOR +bank margin	1 817	1 817	-	-
Vitrosilicon SA				
EUR, investment loan, BOŚ SA, 1M EURIBOR +bank margin	6 490	2 225	4 265	-
PLN, investment loan, Bank Millennium SA, 3M WIBOR +bank margin	800	800	-	-
PLN, investment loan, Bank Millennium SA, 1M WIBOR +bank margin	2 083	2 083	-	-
Total	**48 262**	**30 776**	**17 486**	**-**

Loans (*in thousand PLN*) ***recognised as liabilities related to fixed assets held for sale***	**Total as at 31.12.2005**	**1 year to 2 years**	**2 to 5 years**	**over 5 years**
Currency - interest type and rate				
Grupa Petrochemia Blachownia				
PLN – loan, PKO BP, 1M+bank margin	187	187	-	-

Loans (*in thousand PLN*)	**Total as at 31.12.2004**	**1 year to 2 years**	**2 to 5 years**	**over 5 years**
Currency - interest type and rate				
Grupa Petrochemia Blachownia				
PLN – loan, PKO BP, 1M WIBOR+bank margin	238	66	172	-
Ciech SA				
EUR, Bank Pekao SA, 3M WIBOR +bank margin	26 106	13 053	13 053	-
PLN, Bank Pekao SA, 1M WIBOR+bank margin	5 000	5 000	-	-
EUR, Bank Pekao SA, 3M EURIBOR +bank margin	4 079	4 079	-	-
Janikosoda SA				
PLN, loan at WFOŚ Toruń, interest rate: 0.3% of the rediscount rate as at 1.01 of a given year, not less than 6%	23	23	-	-
Grupa Soda Mątwy				
PLN, earmarked loan at CitiBank Handlowy, 3M WIBOR +bank margin	1 950	1 950	-	-
PLN, loan at NFOŚ and GW, 0.65 of the bill rediscount rate, not less than 7%	1 514	1 514	- -	
Vitrosilicon SA				
EUR, investment loan, BOŚ SA, 1M EURIBOR +bank margin	9 210	2 352	6 858	-
PLN, investment loan, Bank Millennium SA, 3M WIBOR +bank margin	1 760	960	800	-
Total	**49 880**	**28 997**	**20 883**	**-**

xxv.Provisions

in thousand PLN

CHANGE IN OTHER LONG-TERM PROVISIONS (BY TITLE)	31.12.2005	31.12.2004
a) as at the beginning of the period	**22 645**	**21 557**
- provision for environmental protection	15 318	15 721
- other liabilities	7 327	5 836
b) additions (in respect of)	**1 011**	**2 383**
- other liabilities	524	1 491
- provision for environmental protection	91	106
- reclassification from short-term provisions	396	786
c) disbursement (in respect of)	**853**	**600**
- provision for environmental protection	853	600
d) release (in respect of)	**1 194**	**695**
- other liabilities	762	-
- reclassification to short-term provisions	-	695
- provision for environmental protection	432	-
e) as at the end of the period	**21 609**	**22 645**
- other liabilities	7 089	7 327
- provision for environmental protection	14 520	15 318

in thousand PLN

CHANGE IN OTHER SHORT-TERM PROVISIONS (BY TITLE)	31.12.2005	31.12.2004
a) as at the beginning of the period	**23 584**	**13 053**
- restructuring provision	1 255	1 303
- provision for compensations and court cases	15 413	7 139
- provision for liabilities	2 344	1 246
- provision for environmental protection	3 469	3 245
- provision for bonuses	517	-
- provision for the costs of retirement of tangible assets	550	-
- other	36	120
b) additions (in respect of)	**16 424**	**22 080**
- provision for compensations and court cases	9 474	15 790
- provision for liabilities	912	1 723
- restructuring provision	3 863	1 255
- reclassification from long-term provisions	-	695
- provision for environmental protection	1 599	1 514
- provision for bonuses	137	517
- provision for the costs of retirement of tangible assets	387	550
- provision for stock taking shortages	52	-
- other	-	36
c) disbursement (in respect of)	**5 681**	**2 944**
- disbursements of provision for compensations and court cases	2 060	564
- disbursements from the provision for liabilities	1 229	58
- disbursements from the restructuring provision	647	1 071
- provision for environmental protection	1 259	1 199
- provision for bonuses	99	-
- provision for the costs of retirement of tangible assets	387	-
- other	-	52
d) release (in respect of)	**7 423**	**8 605**
- provision for compensations and court cases	5 207	6 952
- provision for liabilities	985	567
- restructuring provision	-	232
- provision for environmental protection	303	-
- reclassification to fixed assets held for sale	5	-

CHANGE IN OTHER SHORT-TERM PROVISIONS (BY TITLE)	31.12.2005	31.12.2004
- reclassification to long-term provisions	396	786
- provision for bonuses	491	-
- other	36	68
e) as at the end of the period	**26 904**	**23 584**
- provision for compensations and court cases	17 615	15 413
- provision for liabilities	1 042	2 344
- restructuring provision	4 471	1 255
- provision for environmental protection	3 110	3 469
- provision for bonuses	64	517
- provision for the costs of retirement of tangible assets	550	550
- provision for stock taking shortages	52	-
- other	-	36

Description of major provisions, in line with the information provided by the consolidated companies:

Ciech SA

Employment Restructuring Provision
Out of the provision established for employment restructuring at the end of 2004, amounting to 1 255 000 PLN, 647 000 PLN was disbursed in 2005. The part remaining as at 31st December 2005, amounting to 608 000 PLN has been allotted for redundancy pays for staff laid-off due to employment restructuring.
This applies to staff whose contracts will be terminated due to insufficient work opportunities available at the company. The downsizing process is expected to be completed by the end of 2006.

Provisions for Court Cases
The provision existing at the end of 2004 was increased by 6 524 000 PLN, and as at 31st December 2005 it was recognised by the dominant entity in the amount of 17 500 000 PLN. It is related to a potential claim amounting to 25 479 000 PLN (principal amount due with court fees) and 15 640 000 PLN (potential interest payable), due to the court cases described in Section 28 of the consolidated financial statement.

The amounts specified above do not include 14 200 000 PLN (regarding the PCC suit) and 6 975 000 PLN in income from one-year treasury bonds for the period starting from 1st December 2000. The Management Board and legal advisors of Ciech SA agree that the amount of 21 175 000 PLN (the total of 14 200 000 PLN and 6 975 000 PLN) is a duplicate of the lost dividend. Ciech SA legal advisors believe that PCC's claims were filed for the alternative awards of either the amount of dividends, or damages for the annulment of shares.

Janikosoda SA

Long-term provisions were raised to cover reclamation of the post-soda calcium sediment ponds:
Long-term provisions amounting to 1 667 000 PLN refer to reclamation of the post-soda calcium sediment ponds. Currently the Company is reclaiming part of the ponds, and the process will be completed by the end of 2008. The pond reclamation provision was calculated based on the remuneration paid to the company carrying out the reclamation work, and the pond reclamation contracts, discounted over time, based on the existing interest rates.
For the ponds in operation now, reclamation was assumed to commence after about 40 years of operation. The reclamation expenditure estimated at current prices was discounted.

Additional short-term provisions have been established, and these comprise:
- provision for environmental protection, amounting to 619 000 PLN
- provision for the Company liabilities (interest) amounting to 620 000 PLN

Grupa Soda Mątwy

Land Reclamation Provision:
A provision was recognised in the Group financial statement for land reclamation costs, calculated in line with planned expenditure to be incurred by 2018, and the projected inflation rate of 3% by 2010 and 2% after 2010, adjusted for 6% discount by 2009 and 5% after 2010. The expenditure projected until 2018 will range from 905 000 to 1 355 000 PLN.
The provision in this respect recognised in the financial statement is 13 026 000 PLN, out of which 1 355 000 PLN is recognised as a short-term provision.
The provision was calculated on the basis of estimated expenditure. Given a long time span, individual expenditure items may be delayed, and there exists risk related to price changes related to individual categories of services purchased for this purpose.

Grupa Alwernia

Environmental Protection Provisions:

- provision for purification of infiltrates: 5 234 000 PLN established for 40 years, that includes the costs of purification of the water from under the waste dumps, and is reconciled gradually in the values of expenditure incurred
- provision for reclamation of the waste dump amounting to 1 450 000 PLN - provision for closing down of the land fill, as determined in the preliminary cost estimate; to be completed by the end of H1 2006
- provision for the construction of quarters for the purpose of solving problems related to the Company's past activity (reclamation of damages mainly related to the chrome activity), amounting to 2 562 000 PLN at the projected cost, to be completed by the end of H1 2006

Provision for Retirement of Idle Tangible Assets:
A provision of 550 000 PLN has been established which is equal to the projected retirement costs; to be disbursed in 2005.

Cheman SA

Restructuring Provision
An estimated provision of 3 863 000 PLN for restructuring of the fuel sector was established at Cheman; projected completion date at the end of 2006.

Provisions for Court Cases of the Ciech Group is described in Section 28 of this consolidated financial statement.

The provision amounts are estimates and may change over time.

xxvi.Employee Benefits

in thousand PLN

LONG-TERM PROVISIONS FOR EMPLOYEE BENEFITS	31.12.2005	31.12.2004
a) as at the beginning of the period	**24 097**	**21 745**
- provision for retirement benefits and service anniversary awards	24 097	21 745
b) additions (in respect of)	**3 153**	**3 887**
- provision for retirement benefits and service anniversary awards	3 128	3 822
- reclassification from short-term provision	25	-
- expansion of the group of companies	-	65
c) disbursement (in respect of)	**-**	**263**
- provision for retirement benefits and service anniversary awards,	-	263
d) release (in respect of)	**1 429**	**1 272**
- provision for retirement benefits and service anniversary awards,	577	682
- reclassification to short-term provisions	556	590
- reclassification to fixed assets held for sale	296	-
e) as at the end of the period	**25 821**	**24 097**
- provision for retirement benefits and service anniversary awards	25 821	24 097

in thousand PLN

CHANGE IN SHORT-TERM PROVISION FOR RETIREMENT AND OTHER BENEFITS (BY TITLE)	31.12.2005	31.12.2004
a) as at the beginning of the period	**2 937**	**2 358**
- provision for retirement benefits and service anniversary awards	2 937	2 358
b) additions (in respect of)	**3 255**	**3 177**
- provision for retirement benefits and service anniversary awards,	2 700	2 571
- expansion of the group of companies	-	16
- reclassification from long-term provision	555	590
c) disbursement (in respect of)	**1 509**	**2 289**
- provision for retirement benefits and service anniversary awards,	1 509	1 216
- payment of benefits	-	1 073
d) release (in respect of)	**928**	**309**
- provision for retirement benefits and service anniversary awards,	831	309
- reclassification to fixed assets held for sale	72	-
- reclassification to long-term provision	25	-

CHANGE IN SHORT-TERM PROVISION FOR RETIREMENT AND OTHER BENEFITS (BY TITLE)	31.12.2005	31.12.2004
e) as at the end of the period	**3 755**	**2 937**
- provision for retirement benefits and service anniversary awards	3 755	2 937

The employee benefit provisions include provisions for service anniversary awards and retirement gratuities, as well as bonuses for the management and the staff. Employee benefits are measured on the basis of actuarial valuations. For the sake of calculation of future liabilities in respect of employee benefits, the following financial discount rate was assumed:

1. for employee benefits to be paid by Poland's expected joining of the EURO zone, the market rate of return from 5-year treasury bonds denominated in PLN, which is 4.94%
2. for employee benefits to be paid upon Poland's joining the EURO zone, the market rate of return from 15-year treasury bonds denominated in EURO, which is 3.82%

Remuneration increase was assumed at the inflation rate level. The employee turnover rate is determined based on historical data, adjusted for the downsizing plans.

The Ciech Group does not manage any employee stock plans, retirement benefit plans, or any other post-employment benefit plans. Details of the benefits for key management are provided in Section 31.6 of the Additional Information and explanations to the consolidated financial statement of the Ciech Group.

xxvii.Short-term Liabilities

in thousand PLN

SHORT-TERM LIABILITIES IN RESPECT OF LOANS AND BORROWINGS AND OTHER DEBT INSTRUMENTS	31.12.2005	31.12.2004
a) due to other entities	**124 190**	**237 452**
- loans and borrowings, including:	124 190	222 708
long-term, not yet overdue	19 538	28 045
– in respect of issue of debt securities	-	14 744
TOTAL	**124 190**	**237 452**

SHORT-TERM LIABILITIES IN RESPECT OF LOANS AND BORROWINGS

Entity name and legal form 31.12.2005	Address	Contractual loan/credit amount in thousand PLN	currency	Loan/credit amount outstanding in thousand PLN	currency	Interest rate terms*	Repayment date	Collateral
Grupa Alwernia								
BRE Bank SA	Kraków	7 000	PLN	6 685	PLN	WIBOR + bank margin	11.2006	Pledge on reserves, assignment of receivables, mortgage for the amount of 1.341, blank bill of exchange
BRE Bank SA	Kraków	5 000	PLN	5 000	PLN	WIBOR + bank margin	11.2006	Blank bill of exchange, assignment of receivables
BRE Bank SA	Kraków	5 500	PLN	3 500	PLN	WIBOR + bank margin	06.2006	Assignment of Benckiser receivables, assignment of receivables, transfer of ownership of reserves
ING Bank Śląski SA	Katowice	10 000	PLN	10 117	PLN	WIBOR + bank margin	02.2006	Pledge on reserves, assignment of receivables
Raiffeisen SA	Kraków		PLN	3	PLN	credit card		
Total Grupa Alwernia		**27 500**	**PLN**	**25 305**	**PLN**			
Cheman SA								
Bank Pekao S.A	Warsaw	6 000	PLN	5 996	PLN	1M WIBOR + bank margin	07.2006	Registered pledge on reserves, blank promissory note up to 6 000 000 PLN, authorisation to access the bank account, transfer of an insurance policy for reserves
Kredyt Bank S.A	Warsaw	6 500	PLN	6 500	PLN	1M WIBOR + bank margin	08.2006	Mortgage on the property in Domaniew, Jaricin, and Maciszewice, blank promissory note up to 3 750 000 PLN.
Kredyt Bank S.A	Warsaw	4 100	PLN	2 076	PLN	1M WIBOR + bank margin	08.2006	Mortgage on the property in Domaniew, Jaricin, and Maciszewice, blank promissory note up to 3 750 000 PLN
Total Cheman SA		**16 600**	**PLN**	**14 572**	**PLN**			
Grupa Fosfory								
ING Bank Śląski SA	Katowice	50 000	PLN	8 538	PLN	1M WIBOR + bank margin	12.2010	I. Agreement on Transfer of Insurance Policies – 5 000 000 PLN II. Assignment of debt – 80% of debt assigned to the Bank, in line with the absolute assignment agreements; III. Registered pledge – 80% of pledged reserves, in line with the Registered Pledge Agreement IV. Declaration on submission to enforcement up to 60 000 000 PLN

Entity name and legal form 31.12.2005	Address	Contractual loan/credit amount in thousand PLN	currency	Loan/credit amount outstanding in thousand PLN	currency	Interest rate terms*	Repayment date	Collateral
Grupa Alwernia								
BRE Bank SA	Gdańsk	10 000	PLN	8 778	PLN	1M WIBOR + bank margin	03.2006	I. Blank promissory note and agreement, issued by GZNF "FOSFORY" II. Joint capped mortgage up to 11 000 000 PLN on the property located in Gdańsk in the vicinity of Kanał Kaszubski Channel, ul. Ku Ujściu –Land and Mortgage Register 97755, 67051, 60385, and in Gdańsk at ul. Kujawska 2 and Kujawska 5A, 6, 7 – Land and Mortgage Register 36, plus transfer of the insurance policy for the property III. Agreement on the transfer of ownership of tangible assets ASSETS A.II. (Gr.3,4,5,6) – 16 959 000 PLN.
BRE Bank SA	Gdańsk	1 500	PLN	558	PLN	1M WIBOR + bank margin	03.2006	I. Blank promissory note II. Assignment of debt
BRE Bank SA	Gdańsk	4 500	PLN	4 500	PLN	1M WIBOR + bank margin	03.2006	I. Ordinary mortgage of the total amount of 4 500 000 PLN, and capped mortgage for 100 000 PLN, entered in the Land and Mortgage Register 8861, 13592, 9039 II. Blank promissory note III. Assignment of debt
Bank Millennium SA	Gdańsk	6 367	PLN	6 367	PLN	1M WIBOR + bank margin	04.2006	I. Blank promissory note and agreement, plus declaration on submission to enforcement up to 15 918 000 PLN II. Irrevocable authorisation to access the bank account III. Joint capped mortgage up to 3 400 000 PLN on the property located in Gdańsk, at ul. Kujawska – Land and Mortgage Register 63657, 71229, 60410, plus transfer of the insurance policy for the afore-mentioned property IV. Capped mortgage up to 4 100 000 PLN on the property located in Gdańsk, at ul. Ku Ujściu 45 – Land and Mortgage Register 40476, plus transfer of the insurance policy for the afore-mentioned property
PKO BP SA	Gdynia	5 000	PLN	4 922	PLN	1M WIBOR + bank margin	09.2006	I. Capped mortgage up to 6 300 000 PLN on the property located in Gdańsk, at ul. Kujawska 2 – Land and Mortgage Register 36 II. Transfer of the insurance policy for the afore-mentioned property, at least to the value of the mortgage entry, i.e. 6 300 000 PLN III. Blank promissory note issued for up to 5 000 000 PLN IV. Clause authorising deductions from current account V. Declaration on submission to enforcement up to 10 000 000 PLN VI. Declaration of the issuer of bills of exchange on submission to enforcement up to 10 000 000 PLN

Entity name and legal form 31.12.2005	Address	Contractual loan/credit amount in thousand PLN	currency	Loan/credit amount outstanding in thousand PLN	currency	Interest rate terms*	Repayment date	Collateral
Grupa Alwernia								
Nordea Bank Polska SA	Gdynia	5 000	PLN	4 969	PLN	1M WIBOR + bank margin	09.2006	I. Blank promissory note and agreement not exceeding 6 000 000 PLN II. Authorisation to access the bank account III. Capped mortgage up to 6 000 000 PLN on the property located in Gdańsk, at ul. Kujawska – Land and Mortgage Register 36 IV. Transfer of the insurance policy for the afore-mentioned property
Total Grupa Fosfory		**82 367**	**PLN**	**38 632**	**PLN**			
Janikosoda SA								
WFOŚ	Toruń	187	PLN	23	PLN	0.3 of the rediscount rate applicable at 1.01. of a given year, but not less than 6%	04.2006	A guarantee by BH S.A. in Bydgoszcz, backed by a tangible asset worth 345,000 PLN
PKO BP SA	Bydgoszcz	15 000	PLN	12 147	PLN	1M WIBOR + bank margin	08.2006	a clause authorising deductions from current account in case of default, transfer of ownership of tangible assets up to 25,148,000 PLN, transfer of trade contracts, - borrower's declaration on submission to enforcement – sponsor's pledge by Ciech
Total Janikosoda SA		**15 187**	**PLN**	**12 170**	**PLN**			
Ciech Polfa Sp. z o.o.								
Bank Handlowy SA in Warsaw		981	300 USD	981	300 USD	1M LIBOR + bank margin	03.2006	Surety by Ciech SA, assignment agreement
Bank Handlowy SA in Warsaw		1 000	PLN	766	PLN	T/N WIBOR + bank margin	03.2006	Surety by Ciech SA, assignment agreement
BRE BANK SA Regional Branch in Warsaw		2 000	PLN	771	PLN	1M WIBOR + bank margin	04.2006	Assignment agreement
Total Ciech Polfa Sp. z o.o.		**3 981**	**PLN**	**2 518**	PLN			
Grupa Soda Mątwy								
CitiBank Handlowy SA	Bydgoszcz	5 850	PLN	1 955	PLN	3M WIBOR + bank margin	11.2006	Joint ordinary mortgage plus transfer of ownership of movables
PLN, Loan from NFOŚ and GW	Warsaw	16 674	PLN	1 512	PLN	0.65 of bill rediscount rate, not less than 7%	03.2006	Surety by Ciech SA, plus guarantee by CitiBank Handlowy
CitiBank Handlowy SA	Bydgoszcz	40 000	PLN	3 000	PLN	3M WIBOR + bank margin		Joint ordinary mortgage, joint capped mortgage, assignment of trade receivables. Transfer of ownership of movables plus of an insurance policy.

Entity name and legal form 31.12.2005	Address	Contractual loan/credit amount in thousand PLN	currency	Loan/credit amount outstanding in thousand PLN	currency	Interest rate terms*	Repayment date	Collateral
Grupa Alwernia								
Total Grupa Soda Mątwy		**62 524**	**PLN**	**6 467**	**PLN**			
Vitrosilicon SA								
Citibank Handlowy SA	Poznań Branch	4 763	11 45 EUR	-	PLN	1M LIBOR +bank margin for a loan taken in EUR, 1M WIBOR + bank margin for a loan taken in PLN	03.2006	Transfer of ownership of end product reserves, account balance, receipts to bank accounts
BOŚ SA	Poznań Branch	16 769	4 036 EUR	2 264	586 EUR	1M EURIBOR + bank margin	11.2009	Niechorze mortgage, transfer of debt, blank bills of exchange, suretyship by "Janikosoda" SA in Janikowo
Bank Millennium SA	Zielona Góra Branch	5 000	PLN	-	PLN	1M WIBOR +bank margin for a loan taken in PLN, 1M EURIBOR + bank margin for a loan taken in EUR	12.2006	Capped mortgage in Żary, blank bills of exchange, registered pledge on reserves plus transfer of an insurance policy, authorisation to access bank accounts at Bank Millenium, declaration on submission to enforcement
Bank Millennium SA	Zielona Góra Branch	3 200	PLN	960	PLN	3M WIBOR + bank margin	10.2007	Registered pledge on the glass furnace in Żary, blank promissory note, authorisation to access bank accounts at Bank Millennium, declaration on submission to enforcement
Bank Millennium SA	Zielona Góra Branch	1 440	PLN	325	PLN	1M WIBOR + bank margin	06.2009	Transfer of ownership of the LAROX water glass filter, LAROX peristatic pump, machines and equipment, authorisation to access bank accounts at Bank Millenium SA, declaration on submission to enforcement
Bank Millennium SA	Zielona Góra Branch	16 500	PLN	1 269	PLN	1M WIBOR + bank margin	12.2012	Ordinary mortgage on the property in Żary (temporary collateral), ordinary mortgage on the property in Iłowa, authorisation to access bank accounts at Bank Millenium SA, declaration on submission to enforcement
BOŚ SA	Poznań Branch	3 500	PLN	-	PLN	Variable interest rate based on the bill rediscount rate, not less than 3% per annum	12.2010	Blank bill of exchange, authorisation to access bank accounts at BOŚ SA, registered pledge on end products stored - hollow glass blocks, assignment of debt, ordinary mortgage in Żary

Entity name and legal form 31.12.2005	Address	Contractual loan/credit amount in thousand PLN	currency	Loan/credit amount outstanding in thousand PLN	currency	Interest rate terms*	Repayment date	Collateral
Grupa Alwernia								
Fortis Bank SA	Wrocław Branch	7 000	PLN	4 657	PLN	1M WIBOR +bank margin for a loan taken in PLN, 1M EURIBOR + bank margin for a loan taken in EUR	12.2006	Blank promissory note
BRE Bank SA	Zielona Góra Branch	2 500	PLN	6	PLN	1M WIBOR + bank margin	10.2006	Blank promissory note
BRE Bank SA	Zielona Góra Branch	2 500	PLN	-	PLN	1M WIBOR +bank margin for a loan taken in PLN, 1M LIIBOR + bank margin for a loan taken in USD, 1M EURIBOR + bank margin for a loan taken in EUR	12.2006	Blank promissory note
Bank Pekao SA	Warsaw	5 000	PLN	-	PLN	1M WIBOR + bank margin	10.2006	Declaration on submission to enforcement, authorisation to bank account at Pekao SA, absolute transfer of debt
Total Vitrosilicon SA		**68 172**	**PLN**	**9 481**	**PLN**			
Ciech SA								
Bank Pekao SA	ul. Grzybowska 53/57	33 126	8 000 EUR	6 175	1 600 EUR	3M EURIBOR + bank margin	12.2009 regularly at the end of each quarter	Pledge on shares of Janikosoda SA, assignment of debt, authorisation to access the bank account, declaration on submission to enforcement
Bank Pekao SA	ul. Grzybowska 53/57	12 544	3 000 EUR	3 860	1 000 EUR	3M EURIBOR + bank margin	06.2006 regularly at the end of each quarter	Pledge on shares of Janikosoda SA, assignment of debt, authorisation to access the bank account, declaration on submission to enforcement

Entity name and legal form 31.12.2005	Address	Contractual loan/credit amount in thousand PLN	currency	Loan/credit amount outstanding in thousand PLN	currency	Interest rate terms*	Repayment date	Collateral
Grupa Alwernia								
Bank Pekao SA	ul. Grzybowska 53/57	50 000	PLN	5 000	PLN	1M WIBOR + bank margin	05.2006 regularly at the end of each quarter	Pledge on shares of Alwernia SA, authorisation to access the bank account, declaration on submission to enforcement.
Citibank Handlowy SA	ul. Traugutta 7/9	35 000	PLN	5	PLN	1M WIBOR + bank margin	09.2006	Authorisation to access the bank account, declaration on submission to enforcement
Bank Millenium SA	Al. Jerozolimskie 123 a			5	1.4 EUR	technical limit, no costs included	12.2006	Absolute assignment from international contracts, authorisation to access bank accounts, declaration on submission to enforcement
Total Ciech SA		**130 670**		**15 045**				
TOTAL		**409 816**		**124 190**				

* all but the above-mentioned margins, established based on market conditions.

Entity name and legal form 31.12.2004	Address	Contractual loan/credit amount in thousand PLN	currency	Loan/credit amount outstanding in thousand PLN	currency	Interest rate terms*	Repayment date	Collateral
Grupa Alwernia								
BRE Bank SA	Kraków	5 000	PLN	3 957	PLN	WIBOR + bank margin	11.2005	Blank bill of exchange, pledge on reserves, and assignment of receivables
BRE Bank SA	Kraków	5 000	PLN	5 000	PLN	WIBOR + bank margin	11.2005	Blank bill of exchange, pledge on reserves, and assignment of receivables
BPH SA	Oświęcim	5 000	PLN	4 968	PLN	WIBOR + bank margin	03.2005	Pledge on reserves, mortgage for the amount of 1.150
Raiffeisen SA	Kraków		PLN	2	PLN	credit card		Saponia assignment
BOŚ SA	Kraków	1 000	PLN	1 000	PLN	1M WIBOR + bank margin	03.5005	Deposit of 400 000 USD of Zakłady Chemiczne Alwernia SA

Entity name and legal form	Address	Contractual loan/credit amount		Loan/credit amount outstanding		Interest rate terms*	Repayment date	Collateral
31.12.2004		in thousand PLN	currency	in thousand PLN	currency			
Grupa Alwernia								
Total Grupa Alwernia		**16 000**	**PLN**	**14 927**	**PLN**			
Grupa Petrochemia Blachownia								
PKO BP SA	Kędzierzyn Koźle	315	PLN	69	PLN	1M WIBOR + bank margin	12.2006	Promissory note for the amount of 1500, bill of exchange guarantee up to the amount of 300000, court pledges on objects, transfer of debt from the insurance policy for the subject matter of investments for 660 000 PLN
Total Petrochemia Blachownia		**315**	**PLN**	**69**	**PLN**			
Cheman SA								
BRE Bank SA	Warsaw	2 481	PLN	0	PLN	1M WIBOR + bank margin	09.2005	Blank promissory note
BRE Bank SA	Warsaw	1 495	500 USD	149	PLN	1M LIBOR + bank margin	08.2005	Blank promissory note
Bank Pekao S.A	Warsaw	6 000	PLN	5 014	PLN	1M WIBOR + bank margin	07.2005	Registered pledge on reserves, blank promissory note up to 6 000 000 PLN, authorisation to access the bank account, transfer of an insurance policy for reserves
Kredyt Bank SA	Warsaw	4 500	PLN	4 500	PLN	1M WIBOR + bank margin	08.2005	Mortgage on the property in Domaniew, Jaricin, and Maciszewice, blank promissory note up to 3 750 000 PLN
Kredyt Bank SA	Warsaw	2 750	PLN	2 065	PLN	1M WIBOR + bank margin	08.2005	Mortgage on the property in Domaniew, Jaricin, and Maciszewice, blank promissory note up to 3 750 000 PLN
Total Cheman SA		**17 226**	**PLN**	**11 728**	**PLN**			
Grupa Fosfory								
ING BankSląski SA	Katowice	45 000	PLN	17 360	PLN	1M WIBOR+ bank margin	no fixed date	I. Agreement on Transfer of an Insurance Policy – 5 000 000 PLN II. Agreement on assignment of debt from sales agreements -80% + 80% of the reserves of raw materials, products, and semi-finished products III. Registered pledge agreement for 45 000 000 PLN; reserves worth 9 600 000 PLN IV. Declaration on submission to enforcement up to 36 000 000 PLN

Entity name and legal form	Address	Contractual loan/credit amount		Loan/credit amount outstanding		Interest rate terms*	Repayment date	Collateral
31.12.2004		in thousand PLN	currency	in thousand PLN	currency			
Grupa Alwernia								
BRE Bank SA	Gdańsk	10 000	PLN	9 090	PLN	1M WIBOR+ bank margin	03.2005	I. Blank bill of exchange II. Capped mortgage - 11 000 000 PLN on the Land and Mortgage Register 97775, 6705, 60385: 36 III. Transfer of ownership of tangible assets (Assets A.II Group 3,4,5 and 6) worth 16 000 000 PLN
	Gdańsk	1 500	PLN	1 433	PLN	1M WIBOR+ bank margin	03.2005	I. Blank promissory note II. Assignment of debt amounting to 2 000 000 PLN
BRE Bank SA	Gdańsk	4 500	PLN	4 500	PLN	1M WIBOR+ bank margin	03.2005	I. Ordinary mortgage and capped mortgage of 4,600,000 PLN
Bank Millennium SA	Gdańsk	6 888	PLN	3 284	PLN	1M WIBOR+ bank margin	03.2005	I. Blank promissory note II. Capped mortgage up to 7 500 000 PLN III. Transfer of the insurance policy covering the above-mentioned property IV. Irrevocable authorisation to access the bank account
PKO BP SA	Gdynia	5 000	PLN	4 945	PLN	1M WIBOR+ bank margin	09.2005	I. Blank promissory notes up to 10 000 000 PLN II. Clause authorising deductions from current account. III. Capped mortgage up to 6 300 000 PLN IV. Transfer of the insurance policy covering the afore-mentioned property
Nordea Bank Polska SA	Gdynia	5 000	PLN	4 960	PLN	1M WIBOR+ bank margin	09.2005	I. Blank promissory note II. Capped mortgage up to 6 000 000 PLN III. Authorisation to access the bank account IV. Transfer of the insurance policy for the afore-mentioned property
Total Grupa Fosfory		**77 888**	**PLN**	**45 572**	**PLN**			
Janikosoda SA								
PKO Bank Polski SA	Bydgoszcz	15 000	PLN	0	PLN	1M WIBOR + bank margin	08.2006	Clause authorising deductions from current account in case of default, transfer of ownership of tangible assets up to 25,148,000 PLN, transfer of trade contracts, - borrower's declaration on submission to enforcement – sponsor's pledge by Ciech SA
WFOŚ	Toruń	187	PLN	47	PLN	0.3 of the rediscount rate applicable at 1.01. of a given year, but not	04.2006	A guarantee by BH S.A. in Bydgoszcz, backed by a tangible asset worth 345,000 PLN

Entity name and legal form	Address	Contractual loan/credit amount		Loan/credit amount outstanding		Interest rate terms*	Repayment date	Collateral
31.12.2004		in thousand PLN	currency	in thousand PLN	currency			
Grupa Alwernia								
						less than 6%		
Total Janikosoda SA		**15 187**		**47**				
Ciech Polfa Sp. z o.o.								
DaimlerChrysler Services Bank Polska SA		136	PLN	59	PLN	12%	05.2005	Registered pledge
Bank Handlowy SA in Warsaw		1 000	PLN	1	PLN	T/N WIBOR + bank margin	03.2005	Surety by Ciech SA
Total Ciech Polfa Sp. z o.o.		**1 136**	**PLN**	**60**	**PLN**			
Grupa Soda Mątwy								
CitiBank Handlowy SA	Bydgoszcz	5 850	PLN	1 966	PLN	3M WIBOR + bank margin	11.2006	Joint ordinary mortgage plus transfer of ownership of movables
NFOŚ and GW	Warsaw	16 674	PLN	3 196	PLN	0.65 of bill rediscount rate, not less than 7%	03.2006	Surety by Ciech, and guarantee by CitiBank Handlowy SA
Total Grupa Soda Mątwy		**22 524**	**PLN**	**5 162**	**PLN**			
Vitrosilicon SA								
Citibank Handlowy SA	Poznań Branch	4 763	1145 EUR	426	104 EUR	1M LIBOR + bank margin	03.2005	Transfer of ownership of end product reserves, assignment of receivables, account balance, capped mortgage in Iłowa
Bank BPH SA	Zielona Góra Branch	1 700	PLN	0	PLN	1M WIBOR + bank margin	06.2005	Registered pledge on current assets, blank bills of exchange
Bank BPH SA	Zielona Góra Branch	3 300	PLN	3 300	PLN	1M WIBOR + bank margin	06.2005	Registered pledge on current assets, registered pledge on a tank furnace, mortgage in Żary, blank bills of exchange
BOŚ SA	Poznań Branch	16 769	4036 EUR	2 401	589 EUR	1M EURIBOR + bank margin	11.2009	Łęknica mortgage, Niechorze mortgage, transfer of debt, blank bills of exchange, suretyship by "Janikosoda" SA in Janikowo

Entity name and legal form	Address	Contractual loan/credit amount		Loan/credit amount outstanding		Interest rate terms*	Repayment date	Collateral
31.12.2004		in thousand PLN	currency	in thousand PLN	currency			
Grupa Alwernia								
BOŚ SA	Poznań Branch	2 000	PLN	0	PLN	1M WIBOR + bank margin	10.2005	Registered pledge on end products, registered pledge on the glass packaging assembly line in Iłowa, authorisation to access bank accounts
Bank Millennium SA	Zielona Góra Branch	1 550	PLN	6	PLN	3M WIBOR + bank margin	12.2005	Capped mortgage on the property in Żary, blank bill of exchange, authorisation to access the bank account at Bank Millenium SA
Bank Millennium SA	Zielona Góra Branch	3 200	PLN	960	PLN	3M WIBOR + bank margin	10.2007	Ordinary mortgage on the property in Żary, capped mortgage on the property in Żary, registered pledge on the glass furnace in Żary, registered pledge on reserves, blank promissory note, authorisation to access the bank account at Bank Millennium SA.
Total Vitrosilicon SA		**33 282**	**PLN**	**7 093**	**PLN**			
Ciech SA								
Bank Pekao SA	ul. Grzybowska 80/82	50 000	PLN	10 000	PLN	1M WIBOR + bank margin	05.2006 regularly at the end of each quarter	Pledge on the shares of Z. Ch. Alwernia with a par value of 3,877,000 PLN
Bank Pekao SA	ul. Grzybowska 80/82	32 632	8 000 EUR	6 526	1 600 EUR	3M EURIBOR + bank margin	12.2009 regularly at the end of each quarter	Registered pledge on the shares of Janikowskie Zakłady Sodowe Janikosoda SA with a par value of 40 349 000 PLN
Bank Pekao SA	ul. Grzybowska 80/82	12 237	3 000 EUR	8 158	2 000 EUR	3M EURIBOR + bank margin	06.2006 regularly at the end of each quarter	Registered pledge on the shares of Janikowskie Zakłady Sodowe Janikosoda SA with a par value of 40 349 000 PLN
Bank Pekao SA	ul. Grzybowska 80/82	15 000	PLN	7 194	PLN	1M WIBOR + bank margin	11.2005	Assignment of debt from trade contracts worth 83 359 000 PLN
Bank Handlowy SA, 6th Branch in Warsaw	ul. Chałubińskiego 8	7 000	PLN	7 000	PLN	1M WIBOR + bank margin	03.2005	Capped mortgage up to 60 000 000 PLN on the building located at ul. Powązkowska

Entity name and legal form	Address	Contractual loan/credit amount		Loan/credit amount outstanding		Interest rate terms*	Repayment date	Collateral
31.12.2004		in thousand PLN	currency	in thousand PLN	currency			
Grupa Alwernia								
Bank Handlowy SA, 6th Branch in Warsaw	ul. Chałubińskiego 8	35 000	PLN	27 217	PLN	1M WIBOR + bank margin	09.2005	
Raiffeisen BP Warszawa Branch	ul. Chałubińskiego 8	15 500	PLN	11 694	PLN	1M WIBOR + bank margin	10.2005	Assignment of receivables from Z.Ch. Dwory SA , Petrochemia Blachownia SA, Voest Alpine, Nuowa Zama, Saint Gobain Isover
Nord LB Bank Polska	ul. Kruczkowskiego 8	19 500	PLN	19 214	PLN	1M WIBOR + bank margin	09.2005	Transfer of receivables worth at least 135% of the current debt
BRE Bank SA	ul. Królewska 12	7 500	PLN	6 461	PLN	1M WIBOR + bank margin	06.2005	Assignment of receivables from Huntsman Advanced Materials (Europe) BVBA, registered pledge on the stake in GZNF "Fosfory" Sp. z o. o.
Fortis Bank Polska SA	ul. Postępu 15	10 000	PLN	10 000	PLN	1M WIBOR + bank margin	08.2005	Blank promissory note
Bank Millennium SA	Al. Jerozolimskie 123a	10 000	PLN	8 586	PLN	1M WIBOR + bank margin	12.2006	Transfer of international trade contracts
Bank Millenium SA	Al. Jerozolimskie 123a	16 000	PLN	16 000	PLN	1M WIBOR + bank margin	02.2005	Blank promissory note, transfer of an excess VAT rebate
Total Ciech SA		**230 369**		**138 050**				
TOTAL		**413 927**		**222 708**				

* all but the above-mentioned margins, established based on market conditions.

SHORT-TERM LIABILITIES IN RESPECT OF LOANS AND BORROWINGS, RECOGNISED AS LIABILITIES RELATED TO FIXED ASSETS HELD FOR SALE

Entity name and legal form	Address	Contractual loan/credit amount		Loan/credit amount outstanding		Interest rate terms*	Repayment date	Collateral
31.12.2005		in thousand	currency	in thousand PLN	currency			

		PLN						
Grupa Petrochemia Blachownia								
PKO BP SA	Kędzierzyn Koźle	315	PLN	67	PLN	1M WIBOR + bank margin	12. 2006	Promissory note for the amount of 1500, bill of exchange guarantee up to 300 000 PLN, court pledges on objects, transfer of debt from the insurance policy for the subject matter of investments for 660 000 PLN.
ING Bank Śląski SA	Kędzierzyn Koźle	2 500	PLN	2 500	PLN		01. 2006	Assignment of receivables from F.CH. Dwory SA
Total Grupa Petrochemia Blachownia		**2815**	**PLN**	**2567**	**PLN**			

* - bank margins have been established based on market conditions.

in thousand PLN

SHORT-TERM LIABILITIES - OTHER FINANCIAL, TRADE AND OTHER LIABILITIES	31.12.2005		31.12.2004
a) due to subsidiaries	**2 943**		**3 213**
- trade liabilities, with the maturity date:	**2 810**		3 197
- up to 12 months	2 810	3 146	
- prepayments for deliveries	-		51
other (by type)	**133**		16
- investment obligations	6		-
- other	127		16
a) due to co-subsidiaries	**731**		**695**
- trade liabilities, with the maturity date:	731		695
- up to 12 months	731	695	
c) due to associates	**227**		**405**
- trade liabilities, with the maturity date:	**227**		**405**
- up to 12 months	227	405	
f) due to other entities	**304 099**		**381 633**
- other financial liabilities, including:	14 317		11 653
- financial instrument liabilities	2 054	394	
- finance lease liabilities	1 131		3 750
- factoring liabilities	11 118		7 509
- other	14		-
- trade liabilities, with the maturity date:	208 529		260 150
- up to 12 months	206 980		255 052
- prepayments for deliveries	737		5 093
- bills payable (payment in the form of bills of exchange)	812		5
other (by type)	81 253		109 830
- liabilities in respect of environmental protection	11 920		42 847
- lease liabilities	70		5 023
- investment obligations	20 397		13 719
- customs duties and social insurance	21 039		23 018
- remunerations payable	4 004		5 102
- holiday provision	2 175		1 584
- provision for employee bonuses	6 535		3 612
- liabilities in respect of future deliveries	168		232
- deposits	244		187
- other liabilities and accrued expenses	11 429		9 050
- payroll deductions	135		134
- due to employees	67		73
- excise tax	276		276
- other	2 794		4 973
g) Earmarked funds (by title):	**6 329**		**6 479**
- Employee Benefit Fund (ZFŚS)	6 301		6 405
- other	28	74	
TOTAL	**314 329**		**392 425**

Terms and conditions of transactions with affiliates are presented in Section 31.4 of the Additional information and explanations to the consolidated financial statement. No interest is calculated on trade liabilities. The Ciech Group applies different payment deadlines for trade receivables in its trade contracts, depending on the type of transaction, market characteristics, and trade environment. Payments are most often required within 14, 30, 60, and 90 days.

xxviii. Off Balance Sheet Items

28.1.1 Ciech SA

Ciech SA Liabilities (domestic and international) claimed in Court or Arbitration Proceedings as at 31st December 2005.

Action by Petro Carbo Chem Aktiengesellschaft (PCC)

PCC AG filed an action in 2000 for damages in the amount of 21,364,000 PLN and 13,861.45 EUR (equivalent to 54,000 PLN) for breach of an agreement for transfer of shares of Petrochemia Blachownia Sp. z o.o. as stipulated in the preliminary agreement of 9th July 1999. On 27th March 2003, the District Court in Warsaw issued a preliminary judgment in favour of PCC AG, stating that PCC AG's claim was founded, without specifically determining the amount of the damages. Ciech SA appealed against the preliminary judgment on 19th September 2003, on the grounds that the preliminary judgment was issued on the basis of erroneous legal findings of fact, and infringement of the substantive law by assuming that it was the intention of the parties to enter into an agreement. During a hearing held on 12th August 2004, the Court of Appeal upheld the preliminary judgment of the District Court, confirming that PCC's claims were justified, without stating the amount of damages that will be subject to further proceedings. In November 2004, Ciech SA filed another appeal, on the grounds of infringement of the substantive law due to its incorrect interpretation and application, as well as violation by the Court of Appeal of the principle of free assessment of evidence, as defined in the EU directives. On 19th April 2005, Ciech SA received the final decision of the Supreme Court dismissing its appeal.
Because the appeal was dismissed, the case returned before the District Court that continued the proceedings by determining the amount of damages for PCC AG.
After the preliminary judgment came into effect, the claimant revised and extended its original claim with statutory interest in respect of lost dividend for 1999 and 2000.

On 10th November 2005, the District Court judged against PCC.

On 1st March 2006 PCC AG appealed at the Court of Appeal in Warsaw against the judgement of the District Court, filing to change the questioned judgement and considering the case filed in full. PCC AG demands an amount of 30,591,919.96 PLN and 13,861.44 EUR (equivalent of 54 000 PLN) in respect of damages for lost dividends for 1999 and lost benefits in respect of increased goodwill of Petrochemia Blachownia.
On 18th April 2006, Ciech SA replied to the appeal and filed for dismissal of the whole appeal, keeping the same defence strategy. According to a renowned legal office representing Ciech S.A., claims of PCC AG included in the appeal have no basis.

Action by Comexport

In September 2003, Comexport (Brazil) filed an action with the Court of Arbitration at the International Chamber of Commerce in Paris, claiming damages for failure to complete sulphur deliveries to Brazil between 1996 and 1999. The sued parties were Ciech SA and the sulphur mines in Tarnobrzeg and Grzybów. The amount of claim was 3,872,943 USD (equivalent of 12 631 000 PLN), and statutory interest according to the Polish law, calculated from 16th September 2003, which as at 31st March 2006 constituted the amount of 3.998 000 PLN. In addition, Comexport demanded reimbursement of the cost of court proceedings and the cost of legal service in the amount of 204,436.26 EUR (equivalent of 789 000 PLN).
The principal claim amount consisted of: Comexport's lost profits on contractual quantities not delivered to Brazilian customers, losses on overstated freight costs, etc. In November 2003, Ciech SA replied to the claim by filing for dismissal of Comexport's action, on the grounds of the force majeure certificates evidencing that the mines were closed down as part of restructuring of the sulphur industry, that the action has lapsed, and that the claim for damages was not supported with sufficient evidence. The Court of Arbitration appointed one arbitrator to investigate the dispute. Having examined the case, the arbitrator determined the schedule for further proceedings. Each party filed two detailed pleadings supported by evidence.
On 22nd April 2005, a hearing was held before the Court of Arbitration at the International Chamber of Commerce in Paris, attended by the representatives and attorneys of Comexport and Ciech SA.. The sued sulphur mines in Tarnobrzeg and Grzybów did not participate in the arbitration procedure, nor did they appoint any attorneys. Ciech SA filed for Comexport's claim to be dismissed and for reimbursement of the court fees, sustaining its allegations as described in the pleadings and accompanying documentation. Comexport sustained its pleadings. After the hearing ended, the arbitration proceedings were adjourned.
On 27th October 2005 Ciech SA received a court judgement, according to which all three defendants: Ciech and sulphur mines in Grzybów and Tarnobrzeg were jointly and severally to pay the amount of 2 474 166 USD (equivalent of 8,070,000 PLN) plus the interest of 5%, from 17th September 2003, amounting as at 31st March 2006 to 314 000 USD (equivalent of 1.024 000 PLN) and 123 000 USD (equivalent of 401 000 PLN) in respect of the cost of court proceedings. The awarded amount constitutes the lost profit claimed for by Comexport.
On 18th November 2005, Ciech submitted an announcement of a complaint at the Court of Appeal in Paris, to revoke the judgement of the Court of Arbitration. The complaint with the justification was lodged by Ciech SA on

22nd March 2006. The basis for lodging a complaint is the violation of the principle of the proper course of arbitration proceedings by the arbitrator, by referring to the judgement of the Polish Supreme Court of 1973 concerning a vital issue of termination of the lapse course, without enabling the parties to express their opinion on that. According to the opinion of the law office representing Ciech, the judgement from 1973 referred to by the arbitrator is not applicable in the case of arbitration proceedings.
The Court of Appeal set the deadline for Compexport to reply to the complaint by 23rd June 2006.

Action by Enapharm

In June 2004, the Liquidator for Enapharm in Algeria filed a claim for 172,879.84 USD (equivalent to 564 000 PLN) constituting damages for deliveries of medications by Ciech SA between 1985 and 1991.
According to the claimant, Ciech SA did not replace expired medications that the claimant had not sold, in violation of the contract between the parties. Ciech SA claims that it was exempt from the replacement provision, in light of the claimant failing to make the payments due from its sales of the medications in the Algerian market.
The case is pending before an Algerian court. Ciech SA is represented by a local attorney, supervised by a well-respected law office based in Paris. At a hearing held in March 2005, the court agreed with the claimant and appointed an expert to assess whether the amount of the claimed damages is well founded. Another hearing date was not appointed.

Employee Claims

Three cases are currently pending against Ciech SA, filed by its former employees dismissed due to the fault of the company. The employees are demanding to be restored to work. The projections as to the result of these suits are favourable.

Ciech S.A established a provision amounting to 17 500 000 PLN for the afore-mentioned liabilities.

Ciech S.A Debtors (domestic and international)

Receivables claimed in Courts or Arbitration Proceedings

Ciech SA filed eight civil suits against its domestic trade debtors for the total of 878 000 PLN. The projections are favourable. Ciech SA recognised a write-down for the full amount receivable.

Administrative Claims

Ciech SA filed a case with the Supreme Administrative Court for a refund of customs duties totalling to 94,000 PLN. The projections are favourable. Ciech SA recognised a write-down for the full amount receivable.

Bankruptcy Proceedings

The total of 12 753,000 PLN is being claimed in fifty-seven domestic bankruptcy proceedings.
Ciech SA filed its receivables in international bankruptcy proceedings amounting to 689,632 USD and 472,575 EUR (the total is equal to 4,102,000 PLN). The largest of these claims regard bankruptcy proceedings of Chemapol – Prague (1,103,000 PLN), Euroftal N.V. Belgium (806 000 PLN), Petrimex – Bratislava (734,000 PLN), WMW – Novosibirsk (488,000 PLN).
The projections as to the results of the bankruptcy proceedings are unfavourable, as Ciech S.A receivables are not privileged.
The Company recognised a write-down on all the proceedings pending.

Enforcement and Composition Proceedings

Ciech S.A. is claiming 27.159,000 PLN from domestic debtors through twenty-nine enforcement proceedings. The largest claim (17.620,000 PLN) is the enforcement procedure against Sur5Net initiated in August 2004. The bailiff dismissed the enforcement proceedings, and claimed the enforcement to be unsuccessful. in October 2005 Ciech lodged a complaint at the District Court against the decision to dismiss the enforcement proceedings.
The projections as to the results of other enforcement proceedings differ, depending on the debtors' assets.

There is one case against a foreign debtor for the amount of 27.116 EUR (equivalent of 105 000 PLN).
24,000 PLN is being claimed in three composition proceedings. The projections are favourable.

The Company recognised a write-down on the whole amount of these receivables.

The following exchange rates were adopted for translation of liabilities denominated in foreign currencies:
USD 3.2613
EURO 3.8598

28.1.2 Subsidiaries

Grupa Soda Mątwy

No claims were filed against Soda Mątwy S.A. or its subsidiaries, which could significantly affect their business. Receivables claimed via debt enforcement or court proceedings by Soda Mątwy S.A. and its subsidiaries amount to 21,872,000 PLN, with the largest claim of 21,814,000 PLN pending against B. Lepiarz for unpaid deliveries of goods claimed in enforcement proceedings. According to Soda Mątwy S.A., the projections to recover the debt are unfavourable.
Other receivables of Soda Mątwy Capital Group include bankruptcy proceedings amounting to 1,744,000 PLN and composition proceedings amounting to 131,000 PLN.
Soda Mątwy SA Group recognised a write-down on all the proceedings pending.

Janikosoda SA

No significant claims (liabilities) were filed against Janikosoda S.A. and its subsidiaries, which could affect their business. Complaints are pending before the Supreme Administrative Court, filed by Janikosoda S.A. against decisions issued between 1999 and 2000 by the Chief Environmental Protection Inspector, imposing penalties on the company for excessive emissions to the atmosphere, in the total amount of 2,330,000 PLN. The proceedings were suspended in 2002 on request of both parties. Currently, Janikosoda are awaiting the dismissal of proceedings.
The claims of GK Janikosoda against several dozen-trade debtors total to 321,000 PLN. Debt enforcement procedures are pending to recover the total of 2.122,000 PLN, including the largest claim for 2,102,000 PLN against B.Lepiarz. Bankruptcy proceedings are pending to recover 690 000 PLN, and composition proceedings to recover 113 000 PLN.
Janikosoda SA Group recognised a write-down on all the proceedings pending.

Vitrosilicon SA

No claims (liabilities) were filed against the company that could affect its business. The company is claiming a total of 1.345,000 PLN from trade debtors, including the largest claim pursued through enforcement proceedings for 660,000 PLN, and 497,000 PLN pursued through bankruptcy proceedings.
Vitrosilicon SA recognised a write-down on all the proceedings pending.

Grupa Alwernia

No claims (liabilities) were filed against Grupa Alwernia, which could materially affect its business. Grupa Alwernia SA is claiming trade receivables and damages in the total amount of 418,000 PLN through court actions and enforcement proceedings. Bankruptcy proceedings are pending to recover 675,000 PLN.
Grupa Zakłady Chemiczne Alwernia SA recognised a write-down on all the proceedings pending.

Cheman SA

No claims (liabilities) were filed against Cheman SA that could materially affect its business. Cheman SA filed court cases against several dozen-trade debtors for a total of 4.371,000 PLN, including 1.372,000 PLN claimed in enforcement proceedings and 1.367, 000 PLN reported for bankruptcy and composition proceedings.
Cheman SA recognised a write-down on all the proceedings pending.

Grupa Fosfory

No claims (liabilities) were filed against Grupa Fosfory that could materially affect its business. Grupa Fosfory is

claiming a total of 4.782,000 PLN in court actions, enforcement and bankruptcy proceedings, with the largest claim of 2 801 000 PLN from bankruptcy and composition proceedings.
Grupa GZNF "Fosfory" recognised a write-down on all these receivables.

Grupa Petrochemia Blachownia

No claims of material importance were filed against Grupa Petrochemia Blachownia. Petrochemia-Blachownia SA instituted enforcement proceedings for debt from several dozen debtors in connection with the conducted business activity for the total amount of 458,000 PLN. Petrochemia-Blachownia SA reported 164 000 PLN for bankruptcy proceedings.
It recognised a write-down on the total of these receivables.

28.1.3 Investment Obligations

Ciech S.A. has additional obligations resulting from the following orders issued by the Ministry of Privatisation after the purchase of shares in Inowrocławskie Zakłady Chemiczne "Soda Mątwy" S.A. and Janikowskie Zakłady Sodowe "Janikosoda" S.A.

– investment obligations,

By the tenth anniversary of the signature of agreements (28th August 2006), Ciech SA must ensure the completion of investments by the companies, of the minimum value of:

Entity	Investment obligations	Investment obligations fulfilled by 31st December 2005	Investment obligation performance
IZCH "Soda Mątwy"SA	65.01 million USD	81.93 million USD	126.03%
JZS "Janikosoda"SA	63.49 million USD	69.34 million USD	109.21%

– investment obligations regarding environmental protection,

Within the afore-mentioned, total investment expenditures, and up to 10th anniversary of the signature of contracts (i.e. 28th August 2006), Ciech has to ensure the completion of investments by the Companies regarding environmental protection, of the minimum value of:

Entity	Investment obligations	Investment obligations fulfilled by 31st December 2005	Investment obligation performance
IZCH "Soda Mątwy" SA	9.26 million USD	19.33 million USD	233.70%
JZS "Janikosoda" SA	17.27 million USD	21.42 million USD	124.03%

– obligations resulting from the investment nature of the purchase of shares

Within the period of 10 years of the date of the signature of contracts (i.e. 28th August 2006), Ciech is obliged not to vote for the decrease of the Companies' equity or the dissolution of the Companies.

28.1.4 Guarantees and Sureties plus other Off Balance Sheet Receivables and Liabilities

The table below shows off balance sheet items, including guarantees and sureties granted by the Ciech Group to other entities (outside the Ciech Group). Sureties and guarantees granted to affiliates (within the Ciech Group) have been described in the table "Sureties and guarantees granted".

in thousand PLN

OFF-BALANCE SHEET ITEMS	31.12.2005	31.12.2004
1. Contingent receivables, including:	**1 500**	**2 800**
- guarantees and sureties received	1 500	2 800
2. Contingent liabilities, including:	**29 939**	**40 786**
- guarantees and sureties granted*	4 719	13 325
- other off-balance sheet liabilities**	25 220	27 461
3. Other	**907**	**555**
- other	907	555
Total off-balance sheet items	**32 346**	**44 141**

* The recognised guarantees and sureties granted comprises of, surety granted by Grupa Soda Mątwy to NFOŚ, in respect of the loan taken from the Fund by the Town Office in Inowrocław. In addition to a guarantee issued by Bank Handlowy in respect of a loan taken at NFOŚ, and GW by Grupa Soda Mątwy in 1998 for financing pro-ecological investments, customs guarantees, plus other guarantees and sureties.

** The remaining contingent liabilities are mainly related to the excise collateral at the subsidiary Petrochemia Blachownia SA for the movement of harmonised excise products among domestic bonded warehouses, internal delivery/purchase.

Sureties and guarantees granted between consolidated entities

Obligee	Amount of loan covered in full or specific part with the surety		Effective date of surety	Financial terms: surety fee due to the company	Principal	Affiliation between Ciech SA and the borrower
	currency	in thousand PLN				
Ciech SA						
NFOŚiGW, Warsaw	PLN	4 185	till 31.03.2006	As part of the surety agreement, Ciech S.A. also stands surety for interest on a loan of 16.740,000 PLN. According to the repayment schedule, the overdue amount as at 31.12.2005 is 1 580 000 PLN.	IZCH. Soda Mątwy SA	subsidiary
KREDYT BANK SA, Sieradz Branch	PLN	4 500	till 31.08.2006	Payment to Ciech SA equal to 1% of the surety value	Cheman S.A - Warsaw	subsidiary
KREDYT BANK SA, Sieradz Branch	PLN	3 750	till 31.08.2006	payment to Ciech SA equal to 1% of the surety value	Cheman S.A - Warsaw	subsidiary
BANK HANDLOWY SA	PLN	4 800	till 01.05.2006	payment to Ciech SA equal to 1% of the surety value	Ciech-Polfa Sp. z o. o.	subsidiary
PKN ORLEN SA	PLN	1 200	no fixed date	payment to Ciech SA equal to 1% of the surety value	Cheman S.A - Warsaw	subsidiary
BANK PKO SA 1st Branch in Warsaw	PLN	6 000	till 31.08.2006	Payment to Ciech SA equal to 1% of the surety value (2 000 000 PLN) + 10,000 PLN on increase + 400 000 PLN	Cheman SA	subsidiary
BANK PKO SA 1st Branch in Warsaw	PLN	2 000	till 20.01.2006	Payment of 10,000 PLN to Ciech S.A.	Cheman SA	subsidiary
Total Ciech SA	PLN	**26 435**				
Grupa Petrochemia Blachownia						
Bank PKO BP S.A	PLN	300	30.08.2004 - 05.07. 2010	none	BL-Trans Sp. z o.o.	indirect subsidiary
Total Grupa Petrochemia Blachownia	PLN	**300**				
Grupa Soda Mątwy						
ING BSK Leasing SA	PLN	826	till 31.03.2007	None (lease agreement)	Transoda Sp. z o. o.	indirect subsidiary
Total Grupa Soda Mątwy	PLN	**826**				

Obligee	Amount of loan covered in full or specific part with the surety		Effective date of surety	Financial terms: surety fee due to the company	Principal	Affiliation between Ciech SA and the borrower
	currency	in thousand PLN				
Ciech SA						
Janikosoda SA						
BOŚ Poznań	EUR 2 268	8 754	till 16.11.2009	no fee	Vitrosilicon SA	subsidiary
Total Janikosoda SA	PLN	**8 754**				
Total loans guaranteed	PLN	**36 315**				

The above items do not include the value of cases filed by third parties described in Note 28 (Off-balance sheet items) of the Additional information and explanations to the consolidated financial statement.

xxix.Finance Leases

The Ciech Group uses vehicles and different types of machines and equipment held under finance leases. The lease contracts provide for prolongation of the leases or purchase of leased assets. Lease agreements do not contain any provisions regarding contingent lease payments, or any limitations with respect to dividends, additional debt, or additional lease agreements.

The future minimum lease payments under those agreements and the present value of the minimum lease payments are as follows:

in thousand PLN

FINANCE LEASE LIABILITIES AS AT 31.12.2005	Payment	interest	equity
- up to 1 year	1 365	164	1 201
- 1 year to 5 years	1 114	71	1 043
Total	**2 479**	**235**	**2 244**

in thousand PLN

FINANCE LEASE LIABILITIES AS AT 31.12.2004	Payment	interest	equity
- up to 1 year	9 557	784	8 773
- 1 year to 5 years	1 572	175	1 397
Total	**11 129**	**959**	**10 170**

xxx.Operating Leases

Operating leases of the Ciech Group, as established in the applicable accounting policy, include the right of perpetual usufruct of land acquired through administrative allocations.
The total future minimum lease payments are shown in the table below:

in thousand PLN

OPERATING LEASE LIABILITIES	31.12.2005	31.12.2004
- up to 1 year	3 038	3 108
- 1 year to 5 years	12 643	13 521
- over 5 years	73 902	80 004
Total	**89 583**	**96 633**

The Ciech Group records no sub-leases. None of the Ciech Group companies is a lessor.

xxxi.Affiliates

31.1.1 Companies included in the Group Consolidated Financial Statement

The consolidated financial statement as at 31st December 2005 comprises the financial statements of the following companies / lower-tier groups.

Name	Address	**as at 31.12.2005** (total direct and indirect share)	**as at 31.12.2004** (total direct and indirect share)
Grupa Petrochemia Blachownia			
Petrochemia-Blachownia SA	Kędzierzyn-Koźle	100.00%	100.00%
Bl-Trans Sp. z o.o.	Kędzierzyn-Koźle	99.87%	99.87%
Ciech- POLFA Sp. z o.o.	Warsaw	100.00%	100.00%
Przedsiębiorstwo Chemiczne Cheman SA	Warsaw	100.00%	100.00%
Grupa Soda Mątwy			
Inowrocławskie Zakłady Chemiczne Soda Mątwy SA	Inowrocław	99.77%	91.37%
Transoda Sp. z o.o.	Inowrocław	99.72%	91.28%
Elektrociepłownia Kujawy Sp. z o.o.	Inowrocław	99.52%	90.85%
Polskie Towarzystwo Ubezpieczeniowe SA	Warsaw	45.19%	41.26%
Grupa Janikosoda			
Janikowskie Zakłady Sodowe Janikosoda SA	Janikowo	99.26%	90.31%
Polskie Towarzystwo Ubezpieczeniowe SA	Warsaw	45.19%	22.71%
Grupa Fosfory			
Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o.	Gdańsk	89.03%	79.72%
Agrochem Sp. z o.o. Dobre Miasto	Dobre Miasto	89.03%	79.72%
Agrochem Sp. z o.o. Człuchów	Człuchów	89.03%	79.72%

Name	Address	as at 31.12.2005 (total direct and indirect share)	as at 31.12.2004 (total direct and indirect share)
Grupa Alwernia			
Zakłady Chemiczne Alwernia SA	Alwernia	73.75%	73.75%
Alwernia Chrom Sp. z o.o.	Alwernia	73.75%	73.75%
Polsin Pte. Ltd.	Singapore	65.00%	65.00%
Daltrade Plc.	Great Britain	61.20%	61.20%
Vitrosilicon SA	Iłowa	99.81%	96.21%
Przedsiebiorstwo Transportowo-Usługowe TRANSCLEAN Sp. z o.o.	Bydgoszcz	50.00%	50.00%

31.1.2 Core Activities of the Ciech Group Companies

The core activities of the subsidiaries and the associate are presented below:

- **Grupa Petrochemia-Blachownia**
  manufacture of other basic organic chemicals
  manufacture of refined petroleum products
  wholesale of chemical products
  wholesale of solid, liquid, and gaseous fuels plus related products
  freight transportation by road with specialised and all-purpose vehicles

- **Grupa Alwernia**
  manufacture of other basic inorganic chemicals
  manufacture of dyes and pigments
  manufacture of other basic organic chemicals
  manufacture of fertilisers and nitrogen compounds
  manufacture of gypsum
  production of heat (steam and hot water)

- **Grupa Soda Mątwy**
  manufacture of other basic inorganic chemicals
  wholesale of chemical products
  production and distribution of electricity
  goods transportation services

- **Grupa Fosfory**
  manufacture of fertilisers 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 feeds
  handling services with the use of its own handling and storing base

- **Vitrosilicon SA**
  manufacture of other basic inorganic chemicals,
  manufacture of household and technical glassware,
  manufacture of plastic packaging,
  manufacture of other plastic products.

- **Grupa Janikosoda**
  salt manufacture
  manufacture of industrial gases
  manufacture of other basic inorganic chemicals
  manufacture of other chemical products n.e.c.

- **Ciech – Polfa Sp. z o.o.**
  wholesale of pharmaceutical products
  wholesale of chemical products
  wholesale of perfume and cosmetics
  retail sale of medical and orthopaedic products

- **Cheman SA**
  - wholesale and distribution of solid inorganic and organic chemicals
  - wholesale and distribution of materials for household chemicals
  - wholesale and distribution of cosmetic and pharmaceutical materials
  - wholesale and distribution of builders, pigments, materials for paints and varnishes
  - wholesale and distribution of food and feed additives
  - wholesale and distribution of acids, bases, and other liquid chemicals

- **Polsin Ltd**.:

- wholesale and retail sales of a variety of goods in Far Eastern markets

- **Daltrade PLC:**

- distribution and wholesale of chemicals in the UK chemical market

- **Transclean Sp. z o.o.:**

- international transportation of liquid chemicals, tank truck and tank car wash

When selecting entities for consolidation, the Management Board of the dominant entity applied the principle of materiality (as per the IFRS objectives) of their financial data for ensuring compliance with the requirement of reliable and accurate presentation of the economic and financial standing plus profit of the Group. It was assumed that entities whose balance-sheet totals and net income from sales and financing activities are immaterial compared to the same values recorded by the dominant entity, and their total figures are less than 5% of the relevant total figures (of all subsidiaries of the Ciech Group), are immaterial for the purposes of compliance with the requirements of the standards. The table below lists all the companies that were not consolidated / accounted for using the equity method, for the reasons explained above:

Name	**Address**	**as at 31.12.2005** (total indirect and direct share)	**as at 31.12.2004** (total indirect and direct share)
Polcommerce GmbH	Austria	100.00%	100.00%
Ciech-SERVICE Sp. z o.o.	Warsaw	100.00%	100.00%
"Boruta-Kolor" Sp. z o.o.	Zgierz	100.00%	100.00%
Polcommerce Ltd.	Hungary	100.00%	100.00%
Chemia.Com SA	Warsaw	100.00%	100.00%
Nordiska Unipol AB	Sweden	97.78%	97.78%
Suomen Unipol Oy	Finland	24.78%	24.78%
Chemiepetrol GmbH	Hamburg Germany	60.00%	60.00%
Danske UmipolA/S	Denmark	55.00%	55.00%
InChem Sp. z o.o.	Warsaw	100.00%	50.00%
Polsin-Karbid Sp. z o.o.	Chorzów	22.76%	22.76%
Soda-Med. Sp. z o.o.	Janikowo	99.57%	90.96%
Jantrans - Janikowo Sp. z o.o.	Janikowo	99.26%	90.31%
Alwernia Fosforany Sp. z o.o.	Alwernia	73.75%	73.75%
Soc-Al. Sp. z o.o.	Alwernia	69.88%	69.88%
CIECH FINANCE Sp. Z o.o.	Warsaw	100%	-

31.1.3 Key Data of Non-Consolidated Subsidiaries

The table below provides the key financial data of non-consolidated subsidiaries. Selected financial data of associates are presented in Section 15 of Additional information and explanations to the consolidated financial statement.

Non-consolidated entities	CIECH SA share in the entity (direct + indirect)	Net income from sales of goods and products plus financial operations ** *in thousand PLN*	Net profit / loss *in thousand PLN*	Balance-sheet total of the entity/ Group** *in thousand PLN*	CIECH S.A. income (%)	CIECH S.A. balance-sheet total (%)	Dependence on CIECH S.A.
1) Chemia.com SA	100.00%	4 066	92	1 047	0.25%	0.12%	Subsidiary
2) Polcommerce GmbH, Austria	100.00%	28 996	317	5 321	1.80%	0.59%	Subsidiary
3) Ciech-Service Sp. z o.o.	100.00%	4 440	24	1 459	0.28%	0.16%	Subsidiary
4) Boruta-Kolor Sp. z o.o.	100.00%	18 131	(1 200)	19 135	1.12%	2.12%	Subsidiary
5) Grupa Ciech Polfa							
5.1.) Polcommerc Ltd., Węgry	100.00%	2 670	21	1 175	0.17%	0.13%	Indirect subsidiary
6) Grupa Soda Mątwy							
6.1.) Soda-Med. Sp. z o.o.	99.57%	1 013	37	2 857	0.06%	0.32%	Indirect subsidiary
7) Grupa Janikosoda						.	
7.1.) Jantrans - Janikowo Sp. z o.o.	99.26%	14 200	41	11 184	0.88%	1.24%	Indirect subsidiary
8) Nordiska Unipol AB	97.78%	2 483	462	1 278	0.15%	0.14%	Subsidiary
9) Grupa Alwernia							
9.1.) Alwernia Fosforany Sp. z o.o.*	73.75%	-	-	50	0.00%	0.01%	Indirect subsidiary
9.2.) Soc-Al. Sp. z o.o.	69.88%	2 231	-	1 658	0.14%	0.18%	Indirect subsidiary
10) Chemiepetrol GmbH	60.00%	35 109	885	6 484	2.18%	0.72%	Subsidiary
11) Danske UmipolA/S	55.00%	19 641	634	4 034	1.22%	0.45%	Subsidiary
12) InChem Sp. z o.o.	100%	9 329	7 830	2 543	0.58%	0.28%	Subsidiary
13) CIECH FINANCE Sp. z o.o.	100%	0	(6)	45	0.00%	0.00%	Subsidiary

in thousand PLN

Total value	Non-consolidated entities	Ciech Group (without eliminations)	Share (%)
Balance-sheet totals	58 270	2 418 780	2.40%
Net income from sales of goods and products plus financial operations	142 309	3 876 965	3.67%

According to IAS 24 "Affiliate Information Disclosures," other entities related to the State Treasury are also considered to be affiliates of Ciech SA as an entity controlled by the State Treasury.

Ciech S.A. also holds stocks/shares in entities where its control has been restricted or lost:
- Calanda Polska Sp. z o.o. in liquidation, 95.70% shares/votes held directly by Ciech S.A.
- ZAO-Polfa Ciech, Russia, in liquidation, 65.00 % shares/votes held directly by Ciech S.A.
- Polsin-Karbid Sp. z o. o. in liquidation, 22.76% of total shares/votes held by Ciech SA, shares/votes (direct+indirect) via Ciech SA and Polsin Pte.Ltd.
- K. Foster & Son Ltd. lost control, 46.51% shares/votes held indirectly by Ciech S.A. via Daltrade Plc.
- Polfa Nigeria - lost control, no contact with the company, 20% share held directly by Ciech S.A.
- Zach-Ciech Sp. z o.o in liquidation, 35.65% shares/votes held directly by Ciech S.A., Company's bankruptcy was declared by the District Court in Katowice on 24th January 2006.

31.1.4 Total Transactions with Affiliates

The table below discloses total transactions with affiliates, concluded in the reporting periods concerned:

in thousand PLN

01.01.-31.12.2005	Sales and other income	Purchases and costs	Receivables	Liabilities
Ciech SA	896 085	417 446	169 676	89 122
Janikosoda SA	129 786	343 638	8 287	74 730
Cheman SA	43 162	1 707	19 165	242
Vitrosilicon SA	18 745	49 173	1 693	4 241
Grupa Alwernia	102 393	22 656	12 658	3 462
Polsin Pte. Ltd.	1 320	64 147	13	6 487
Grupa Fosfory	70 776	24 244	9 701	5 957
Grupa Soda Mątwy	16 328	441 426	2 067	77 646
Grupa Petrochemia Blachownia	56 463	154 881	13 113	13 571
Daltrade Plc	22 325	2 438	567	1
Ciech Polfa Sp. z o.o.	28 640	14 925	2 267	33 091
Transclean Sp. z o.o.	4 163	3 992	730	730
Zach- Ciech Sp. z o.o.	13	13	-	51
Boruta Kolor Sp. z o.o.	3 126	2 904	51	-
Chemiepertol GMBH	1 191	1 150	99	100
Ciech Inwestycje Sp. z o.o.	3 196	3 196	1	308
Ciech Service Sp. z o.o.	3 330	3 330	634	1 759
Danske Unipol A/S	8 107	8 019	1 453	273
Nordiska Unipol AB	1 557	1 557	689	1 457
Polcommerce Wiedeń GMBH	7 998	7 998	1 232	211
Polcommerce Budapeszt Ltd.	223	102	84	93
Chemia.com SA	2 670	2 670	457	448
Alwernia Fosforany Sp. z o.o.	-	-	-	123
Jantrans Sp. z o.o.	4 080	4 080	1 616	1 500
Soc-Al. Sp. z o.o.	1 169	1 169	118	117
Soda Med. Sp. z o.o.	449	449	76	70

01.01.-31.12.2005	Sales and other income	Purchases and costs	Receivables	Liabilities
Polfa Nigeria	-	-	-	2 545
Suomen Unipol Oy	27 709	27 646	2 772	227

in thousand PLN

01.01.-31.12.2004	Sales and other income	Purchases and costs	Receivables	Liabilities
Ciech SA	695 484	390 428	123 651	82 600
Grupa Janikosoda	149 031	249 093	9 195	48 836
Cheman SA	43 028	1 567	17 843	354
Vitrosilicon SA	15 023	45 873	2 394	4 310
Grupa Alwernia	92 052	29 494	9 017	4 445
Polsin Pte. Ltd.	2 581	42 743	443	8 199
Grupa Fosfory	84 922	29 195	3 325	2 365
Grupa Soda Mątwy	112 988	379 411	21 988	60 583
Grupa Petrochemia Blachownia	47 215	179 616	14 741	28 331
Daltrade Plc	30 873	2 331	1 332	1 053
Ciech Polfa Sp. z o.o.	8 690	263	1 773	20 202
Transclean Sp. z o.o.	4 431	4 331	695	932
Zach- Ciech Sp. z o.o.	321	321	237	1 118
Boruta Kolor Sp. z o.o.	11 981	11 759	1 246	128
Chemiepertol GMBH	986	945	116	11 971
Ciech Inwestycje Sp. z o.o.	1	1	11 855	10
Ciech Service Sp. z o.o.	3 808	3 808	441	1 035
Danske Unipol A/S	6 989	6 901	806	459
Nordiska Unipol AB	1 194	1 194	566	1 239
Polcommerce Wiedeń GMBH	6 039	6 039	1 041	111
Polcommerce Budapeszt Ltd.	351	173	32	39
Chemia.com SA	669	669	251	244
Alwernia Fosforany Sp. z o.o.	-	-	-	7
Jantrans Sp. z o.o.	131	131	27	31
Soc-Al. Sp. z o.o.	1 025	922	86	80
Soda Med. Sp. z o.o.	441	441	36	31
Polfa Nigeria	-	-	-	2 390
Suomen Unipol Oy	16 780	16 716	2 795	405

Terms and Conditions of Transactions with Affiliates

Sales to and purchases from affiliates are made at standard market prices. Overdue liabilities and receivables are not collateralised and are settled in cash or by offsetting. Receivables from affiliates are not subject to any guarantees granted or received. Details of write-downs on receivables from affiliates are provided in Section 13 of the Additional Information and explanations to the consolidated financial statement.

31.1.5 Material Agreements between Affiliates:

On 17th January 2005, Ciech SA and its subsidiary Jantrans Sp. z o.o. signed an agreement for lease of rail cars for transportation of soda from Janikosoda SA., for an unspecified period of time. The lease rate is negotiated on an annual basis. The five-year expected agreement value is 22,500,000 PLN. The agreement can be terminated by mutual agreement of the parties, or by either party with six months' notice, or without notice in case of gross breach of contract. The agreement stipulates no contractual penalties.

On 17th January 2005, Ciech SA and its subsidiary Transoda Sp. z o.o. signed agreements for lease of rail cars for transportation of soda from Soda Mątwy SA, and for operator transportation of heavy soda ash to seaports. The agreement was signed for an unspecified period of time, and the rates will be negotiated on an annual basis. The expected five-year agreement value is 20,500,000 PLN and 16,000,000 PLN respectively. The agreements stipulate no contractual penalties. They can be

terminated by mutual agreement of the parties, or by either party with six months' notice, or without notice in case of gross breach of contract.

On 18th January 2005, Zakłady Chemiczne Alwernia and Gdańskie Zakłady Nawozów Fosforowych concluded an agreement for providing extractive phosphoric acid trans-shipment and storage services to ZCh Alwernia SA. The contract was signed for three years, and its total value is 540,000 EUR.

On 19th January 2005, Ciech SA signed an annex to a 25-year framework agreement effective as of 30.10.1998 to 30.10.2023, concluded between the subsidiary Janikowskie Zakłady Sodowe Janikosoda SA and Inowrocławskie Kopalnie Soli “Solino” SA. The annex, effective as of 01.01.2005 to 31.12.2005, provides for the takeover by Ciech SA of all Janikosoda SA's rights and obligations under the aforementioned framework agreement concerning deliveries for Janikosoda SA of raw brine and sales of vacuum evaporated salt to IKS "Solino.” Specific agreements for purchase and sales of brine and salt will be signed in January 2005.

On 20th January 2005, Ciech SA and Janikowskie Zakłady Sodowe Janikosoda SA signed two agreements for purchase of soda ash, aragonite, carbon dioxide, wet and dry vacuum pan salt, and pickling salt produced by Janikosoda SA for further resale. The agreement was concluded for an unspecified period of time, unless terminated by notice at least six months before the end of a calendar year.
The parties will sign an annex specifying the tonnage, prices, and terms of sales by 15th December of each year. The value of the agreement will amount to approx. 400 000 000 PLN in 2005. On 13th June 2005 annexes were signed to agreements of 20th January 2005 with the subsidiary Janikowskie Zakłady Sodowe Janikosoda SA Considering the constant decline in production costs, annexes reduce the one-year value of the agreements for product supplies to Ciech SA by an estimated 11,500,000 PLN. All other terms and conditions of the agreements remain unchanged..

On 20th January 2005 Ciech SA and the subsidiary Inowrocławskie Zakłady Chemiczne Soda Mątwy SA signed two agreements for purchases of soda ash, baking soda, calcium chloride, salt and calcium mixture, precipitated chalk, hopcalite, absorbent materials and salt produced by Soda Mątwy SA, for further resale. The agreement was concluded for an unspecified period of time, unless terminated by notice at least six months before the end of a calendar year. The parties will sign an annex specifying the tonnage, prices, and terms of sales by 15th December of each year. The value of the agreement will amount to approx. 325 000 000 PLN in 2005. On 13th June 2005 annexes were signed to agreements of 20th January 2005 with the subsidiary Inowrocławskie Zakłady Chemiczne Soda Mątwy SA. Considering the constant decline in production costs, annexes reduce the one-year value of the agreements for product supplies to Ciech SA by an estimated 7,000,000 PLN. All other terms and conditions of the agreements remain unchanged.

On 24th January 2005, Ciech SA concluded a long-term agreement between the subsidiary Elektrociepłownie Kujawskie Sp. z o. o. and Kompania Węglowa S.A., regulating power coal deliveries to Elektrociepłownie Kujawskie. The term of the agreement is from 1st January 2005 to 31st December 2007. The prices will be renegotiated every year by way of an annex, prior to commencement of deliveries, on the basis of the applicable power coal pricelist. The value of the agreement is approx. 112,000,000 PLN.

Ciech SA received contents of annexes, agreed on with the subsidiary Vitrosilicon SA, to the "Co-operation Agreement for product purchases for Ciech SA's own account, dated 4th July 2000, concluded between Ciech SA and Vitrosilicon SA.” Annex 1/2005 sets out the terms of silicate supplies abroad via Ciech SA. The value of the purchases is estimated at approx. 33.600 000 PLN. Annex 2/2005 sets out the terms of silicate supplies to Poland via Ciech SA, worth approx. 6,200,000 PLN. The total value of the purchases regulated by these annexes is 39,800,000 PLN.

On 16th February 2005, Ciech SA and the subsidiary JZS Janikosoda SA signed an agreement for permanent agency services in material purchases. The agreement was concluded for an unspecified period of time. Expected five-year value: 2,700,000 PLN.

On 16th February 2005, Ciech SA and the subsidiary Elektrociepłownie Kujawskie Sp. z o.o. signed an agreement for permanent agency services in material purchases, for an unspecified period of time. Expected five-year value is 9,000,000 PLN. Either party is entitled to terminate the agreement with six months' notice, effective at the end of a calendar month.

On 18th February 2005, Ciech SA signed a permanent agency agreement with the subsidiary IZCh Soda Mątwy SA, which authorises Ciech SA to purchase materials on behalf of IZCh Soda Mątwy SA and to manage IZCh Soda Mątwy SA's agreements. The parties agreed that they may offset their mutual debt. The agreement may be terminated by either party with six months' notice, effective at the end of a calendar month. Expected five-year value: 2,460,000 PLN.

On 28th February 2005, the Management Board of Gdańskie Zakłady Nawozów Fosforowych "Fosfory" Sp. z o.o. (subsidiary) and Ciech SA signed a four-year co-operation agreement for forwarding and seaport services with regard to hydrochloric acid handled at GZNF transhipment terminal. The agreement has been effective since 19th January 2005, and its total value is estimated at approx. 600,000 EUR. Transaction value: 2 340,000 PLN.

On 3rd March 2005, Ciech SA and Janikowskie Zakłady Sodowe Janikosoda SA (subsidiary) signed an agreement whereby Ciech SA will buy raw brine from JKS Solino to satisfy the manufacturing needs of JZS Janikosoda SA. The agreement was concluded for an unspecified period of time, and became effective on 1st January 2005. Its five-year value is: approx. 93 000 000 PLN

On 3rd March 2005, the subsidiary Janikowskie Zakłady Sodowe Janikosoda SA signed an agreement with its daughter company Jantrans - Janikowo Sp. z o.o. for providing railroad transport services by Jantrans - Janikowo Sp. z o.o. to Janikosoda SA. The agreement was concluded for an unspecified period of time and became effective on 1st January 2005. Expected five-year value: approx. 11.000 000 PLN.

On 16th March 2005, Ciech SA and Cheman SA (subsidiary) signed an agreement for sales and distribution of the soda products manufactured at the plants of Soda Mątwy SA and Janikosoda SA. The agreement was concluded for an unspecified period of time, and its estimated one-year value is 32,000,000 PLN. The agreement can be terminated at the end of each calendar year with three months' notice.

On 7th April 2005, Ciech SA concluded an agreement for sales of light and heavy soda ash to Zakłady Chemiczne Alwernia SA. The term of the agreement is from 1st January 2005 until terminated. The prices will be re-negotiated at the beginning of each consecutive calendar year. The five-year value of the agreement is estimated at 112 000 000 PLN.

On 18th April 2005, Ciech SA signed a five-year agreement with its subsidiary, Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o., for the transhipment, storage, and forwarding of heavy soda ash via GZNF Fosfory's warehousing and storage terminal. Ciech SA is planning to deliver at least 120 000 tonnes of soda ash in 2005. The transhipment volumes will be negotiated for each consecutive contractual year. The five-year value of the agreement is 13,600,000 PLN.

Ciech SA approved a global contract with Pilkington Plc, England, for the sales of 54,000 tonnes of heavy soda ash to Pilkington's factories located in Poland, Finland, and Sweden. The Polish customer is Pilkington Polska Sp. z o.o., based in Sandomierz. The value of the deliveries is approx. 21 800 000 PLN. The Finnish customer is Pilkington Lahden Lasitehdas Oy. The transaction is conducted through Ciech SA's subsidiary Suomen Unipol Oy, buying the goods for its own account. The value of the deliveries is approx. 1 400 000 EUR. The Swedish customer is Pilkington Floatglas AB, Halmstad. The value of the deliveries is approx. 1 400 000 EUR.
Ciech SA is carrying out a package of four agreements signed with its subsidiary, Cheman SA.

- Agreement whereby Cheman SA acts as an agent for Ciech SA in its trade transactions involving plastics and semi-finished products. The term of the Agreement is from 1st April 2005 until 31st December 2005, and its value is: 135,000 PLN.
- Agreement whereby Ciech SA performs plastics trade transactions on its own behalf, but to the benefit of Cheman SA. The agreement became effective on 1st April 2005 and continued for 3 months; value: 135,000 PLN.
- Sales agreement for various chemical goods between Ciech SA as the Seller and Cheman SA as the Buyer. The agreement was signed on 15th April 2005, and its value is: 1,106,000 PLN.
- Sales agreement for various chemical goods between Ciech SA as the Seller and Cheman SA as the Buyer. The agreement was signed on 18th April 2005, and its value is: 1.043 000 PLN.

According to an agreement signed on 4th May 2005, Ciech SA extended a loan of 4,500,000 PLN to its subsidiary Soda Mątwy SA. The loan was disbursed on 5th May 2005. The repayment date is 30th June 2005. The loan was allocated to repay short-term revolving credit facilities extended to Soda Mątwy SA. The purpose of the transaction was to reduce the consolidated financial costs of the Ciech Group.

On 6th May 2005, Ciech SA signed an agreement with Kemira Oy, Finland, for the purchase and deliveries of phosphoric acid as raw material for Zakłady Chemiczne Alwernia SA (subsidiary). The expected agreement value is 7,000,000 USD.

On 10th May 2005, Ciech SA signed loan agreements with the following subsidiaries:

- Janikowskie Zakłady Sodowe Janikosoda SA: 4,000,000 PLN, repayable by 30th June 2005
- Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o.: 4,500,000 PLN repayable by 30th June 2005

The loans were allotted for repayment of revolving credit facilities.
On 23rd June 2005, CIECH SA and GZNF "Fosfory" Sp. z o.o. signed an annex to the loan agreement

postponing the repayment deadline to 31st December 2005. Other terms of the agreement remain unchanged.

On 24th May 2005, Ciech SA signed a loan agreement with the subsidiary Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o. for 4,500,000 PLN repayable by 30th November 2005. The loan will be disbursed to repay revolving credit facilities.

On 6th June, Ciech SA signed an agreement with its subsidiary Soda Mątwy SA for co-operation in implementing an ERP system based on the Oracle software platform. CIECH SA, as an investor, will have the system implemented at Soda Mątwy SA by 31st may 2006. The cost of the project is estimated for 4,777,000 PLN.

On 24th August 2005, Ciech SA and its subsidiary Petrochemia-Blachownia SA signed an agreement for the sales of the right of perpetual usufruct of land of 25 961 square metres located in Kędzierzyn-Koźle by Ciech SA, ownership right to the buildings and movables located on the land, for 3 500 000 PLN net.

On 10th October 2005, an agreement was signed to transfer rights and responsibilities regarding sales of crude carbon dioxide: Ciech SA made an obligation to supply the minimum of 25 000 tonnes of carbon dioxide a year to BOC Gazy Sp. z o.o, a branch of an international corporation BOC Group. Ciech SA took over the responsibilities of the subsidiary Janikosoda SA. The five-year value of the contract is 8 100 000 PLN.

An agreement signed on 15th February 2005 between Vitrosilicon SA and Ciech SA for supplying of 29 000 tonnes of sodium carbonate to Vitrosilicon came into force. Deliveries took place on the basis of an annual order from January 2005 and weekly schedules. The value of the agreement is 14 935,000 PLN.

On 25th October 2005, Ciech SA signed an agreement with its subsidiary Janikosoda SA for co-operation in implementing an ERP system based on the Oracle software platform. Ciech SA as an investor will have the system implemented in Janikosoda SA by 31st October 2006. The cost of the project is estimated for 3 006,000 PLN.

On 8th November 2005, Ciech SA granted a loan to Z.Ch. Alwernia SA amounting to 4 500 000 PLN. The loan shall be disbursed for the reduction of the revolving bank credit commitment. The repayment date was established for 31st March 2006.

On 29th December 2005, Ciech SA remitted the receivables of its subsidiary Cheman, amounting to 4 890 000 PLN, related mainly to the wholesale of fuels. The receivables remitted were written-down in full.

31.1.6 Transactions involving Top Management

Out of the overall number of 62 top managers of the Ciech Group, there is one case where a close relative holds a 60% stake in transportation and service company that provides and is provided with the services for the Ciech Group. The value of the services referred to is 31 000 PLN as at 31.12.2005.
Out of the overall number of top managers, there was one case where services were provided to Ciech SA, amounting to 62 100 000 PLN as at 31.12.2005.
Apart from the afore-mentioned services, no other major transactions between top management members and the Ciech Group were recorded.

At the date of publication of this financial statement, the Management Board of Ciech SA held 390,641 shares in Ciech SA.

Top Management Remuneration

Top management remuneration for the period between 01.01 and 31.12. 2005.	*in thousand PLN*
1. short-term employee benefits	17 830
2. post-employment benefits	-
3. other long-term benefits	77
4. benefits payable on termination of employment	756
5. payments in treasury shares	-
Total	**18 663**

Top management remuneration for the period between 01.01 and 31.12.2004.	*in thousand PLN*
1. short-term employee benefits	16 915
2. post-employment benefits	-
3. other long-term benefits	114
4. benefits payable on termination of employment	337
5. payments in treasury shares	-
Total	**17 366**

xxxii.Financial Risk Management Objectives and Policy

Ciech S.A. actively manages its operating and financial risk, in an attempt to optimise cash flows and maximise the Company's market value. To provide constant risk monitoring, the Management Board of Ciech SA appointed the Risk Committee that implements procedures of the risk management system. In the course of work, the Risk Committee managed to identify and evaluate financial and operating risks to which the Ciech Group is exposed. In the current operations, risk management lies with risk owners reporting periodically to the Risk Committee. The Risk Committee decides on management strategies as regards individual risks, and submits quarterly reports to the Management Board of Ciech SA as regards efficiency of the risk management system.

As for financial risks, the Company is exposed to the following:
- FX risk
- credit risk
- interest rate risk

These risk categories have been described in detail in Section 33 of the Additional information and explanations to the consolidated financial statement.

xxxiii.Financial Instruments

33.1.1 Financial Assets And Liabilities

The Group holds the following financial assets and liabilities as at the balance-sheet date:

in thousand PLN	**Assets 31.12.2005**	**Liabilities 31.12.2005**	**Assets 31.12.2004**	**Liabilities 31.12.2004**
stocks and shares	27 971	-	138	-
loans granted	13 584	-	-	-
cash	101 216	-	36 106	-
participation units	-	-	6 365	-
measurement of financial instruments (positive)	257	-	-	-
measurement of financial instruments (negative)		1 794	-	124
CIRS	-	-	-	149
WTT	-	-	317	
options	-	-	-	46
finance lease liabilities	-	1 043	-	1 397
long-term loans and borrowings	-	48 262	-	49 880
short-term loans and borrowings	-	124 190	-	222 708
bills of exchange	-	-	-	14 744

33.1.2 Interest Rate Risk

The Ciech Group is exposed to interest rate risk entailed in its debt. In 2005, the Group concluded no hedging transactions against interest rate risk.

The table below shows the effective interest rates and realisation periods for the Group's income-generating financial assets plus interest-bearing loans, borrowings and other debt instruments:

in thousand PLN

Effective interest rates	Effective interest rate	Value	31.12.2005 Less than 6 months	6-12 months	1-2 years	2-5 years
Ciech SA						
Cash	3.8%	49 140	49 140	-	-	-
Stocks and shares	n/a	1 185	1 185	-	-	-
Positive measurement of financial instruments (forwards and options)	n/a	257	257	-	-	-
Loans granted	6.0%	13 572	13 572	-	-	-
Negative measurement of financial instruments (forwards, options and swaps)	n/a	1 802	779	287	462	274
Financial liabilities - loans	5.0%	33 573	11 798	3 088	12 351	6 336
Janikosoda SA						
Loan from WFOŚ Toruń, current debt: 23 000 PLN	2.9%	23	23	-	-	-
Overdraft at BH Bydgoszcz	4.6%	13 369	13 369	-	-	-
Grupa Alwernia						
Working capital loan at BRE	5.3%	3 500	3 500	-	-	-
Working capital loan	5.3%	5 000	-	5 000	-	-
overdraft facility (limit)	5.3%	6 685	-	6 685	-	-
working capital loan at ING	5.2%	10 117	10 117	-	-	-
credit cards	19.0%	3	3	-	-	-
Ciech loan	6.0%	4 523	4 523	-	-	-
Vitrosilicon SA						
BOŚ S.A.	5.2%	8 754	1 150	1 113	2 225	4 266
Bank Millennium S.A.	6.4%	1 760	480	480	800	-
Bank Millennium S.A.	5.3%	3 352	634	635	2 083	-
Bank Millennium S.A.	5.2%	325	216	109	-	-
Fortis Bank S.A.	5.1%	4 657	-	4 657	-	-
BRE Bank S.A.	5.2%	6	-	6	-	-
Cheman SA						
Overdraft facility (KB SA)	5.1%	2 076	2 076	-	-	-
Revolving working capital loan (KB SA)	6.1%	6 500	6 500	-	-	-
Overdraft facility (PKO SA)	5.8%	5 996	5 996	-	-	-
Grupa Soda Mątwy						
Loan from NFOŚ	7.0%	1 512	1 512	-	-	-
Earmarked loan from BH	5.4%	1 955	980	975	-	-
Investment loan - monohydrate	5.5%	4 817	-	3 000	1 817	-
Overdraft facility at BH	5.3%	4 761	-	4 761	-	-
Overdraft facility at PKO BP	5.3%	6 993	-	6 993	-	-
Ciech Polfa Sp. z o.o.						
short-term loan for 300 000 USD	5.6%	2 367	2 367	-	-	-
14.12.2005 to 14.03.2006		-	-	-	-	-
1-month interest periods		-	-	-	-	-
Grupa Fosfory						
BRE Bank S.A. Warsaw	6.1%	4 500	4 500	-	-	-
BRE Bank S.A. Warsaw	5.7%	558	558	-	-	-
BRE Bank S.A. Warsaw	5.7%	8 778	8 778	-	-	-
Bank Millenium S.A. Gdańsk	6.1%	6 367	6 367	-	-	-
Nordea Bank Warsaw S.A. Gdańsk	5.5%	4 969	-	4 969	-	-
PKO Bank Polska S.A. Warsaw	5.4%	4 922	-	4 922	-	-
INGBank Śląski S.A. Katowice	5.4%	8 538	-	8 538	-	-
INGBank Śląski S.A. Katowice	5.4%	18 545	-	-	-	18 545
Ciech S.A. - loan	6.4%	9 049	9 049	-	-	-
Grupa Petrochemia Blachownia						
Long-term loan at PKO BP	6.0%	187	-	-	-	187

in thousand PLN			31.12.2005			
Effective interest rates	**Effective interest rate**	**Value**	**Less than 6 months**	**6-12 months**	**1-2 years**	**2-5 years**
Ciech SA						
Short-term loan at PKO BP	6.0%	67	67	-	-	-
Overdraft facility	5.3%	2 500	2 500	-	-	-

in thousand PLN			31.12.2004				
Effective interest rates	**Effective Interest Rate**	**Value**	**Less than 6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**
Ciech SA							
Cash	6.0%	3 628	3 628	-	-	-	-
Stocks and shares	n/a	123	123	-	-	-	-
Positive measurement of financial instruments (forwards and options)	n/a	16	16	-	-	-	-
Negative measurement of financial instruments (forwards, options and swaps)	n/a	124	20	20	47	37	-
Financial liabilities - loans	7.5%	173 235	124 997	22 132	13 053	13 053	-
Financial liabilities – bills of exchange	7.3%	14 744	14 744	-	-	-	-
Janikosoda SA							
Loan from WFOŚ Toruń, current debt: 23 000 PLN	2.9%	187	23	141	23		
Grupa Alwernia							
Overdraft facility at BRE	6.6%	3 957	-	3 957	-	-	-
working capital loan at BRE	6.6%	5 000	-	5 000	-	-	-
overdraft facility at BPH	7.0%	4 968	4 968	-	-	-	-
working capital loan at BOŚ	8.0%	1 000	1 000	-	-	-	-
credit cards	22.0%	2	2	-	-	-	-
Vitrosilicon SA							
Citibank Handlowy S.A.	3.7%	426	426	-	-	-	-
Bank BPH S.A.	8.4%	3 300	3 300	-	-	-	-
BOŚ S.A.	4.9%	11 611	1 225	1 176	2 352	6 858	-
Bank Millennium S.A.	8.3%	6	-	6	-	-	-
Bank Millennium S.A.	8.4%	2 720	480	480	960	800	-
Cheman SA							
Overdraft facility (PKO SA)	7.9%	5 014	5 014	-	-	-	-
Overdraft facility (KB SA)	8.9%	2 065	-	2 065	-	-	-
Revolving working capital loan (KB SA)	6.7%	4 500	1 011	3 489	-	-	-
Revolving foreign currency loan (BRE SA)	3.9%	149	149	-	-	-	-
Grupa Soda Mątwy							
Loan from NFOŚ	7.0%	4 709	1 615	1 580	1 514	-	-
Earmarked loan at BH	6.0%	3 916	991	975	1 950	-	-
Overdraft facility at BH	5.4%	2 024	2 024	-	-	-	-
Overdraft facility at PKO BP	5.4%	5 444	-	-	5 444	-	-
Grupa Fosfory							
BRE Bank S.A. Warsaw	8.5%	4 500	4 500	-	-	-	-
BRE Bank S.A. Warsaw	7.8%	1 433	1 433	-	-	-	-
BRE Bank S.A. Warsaw	7.8%	9 090	9 090	-	-	-	-
Bank Millenium S.A. Gdańsk	8.2%	3 284	3 284	-	-	-	-
Nordea Bank Warsaw S.A. Gdańsk	7.6%	4 960	-	4 960	-	-	-
PKO Bank Polska S.A. Warsaw	7.9%	4 945	-	4 945	-	-	-
INGBank Śląski S.A. Katowice	7.8%	17 360	-	-	-	-	17 360
Grupa Petrochemia Blachownia							
Long-term loan at PBK BP	6.2%	238	-	-	-	238	-
Short-term loan at PBK BP	6.2%	69	69	-	-	-	-

Group exposure to interest rate risk:

A sensitivity analysis showed that a shift in the market interest rates by one percentage point will not have a significant impact on the Group's profit for 2005 and 2005 future cash flows.

33.1.3 FX Risk

FX risk is an inherent part of commercial transactions denominated in foreign currencies. Ciech Group faces FX exposure as part of its import and export activity. The exposure stems from significant predominance of export over import.
Thanks to its internal security procedures, the Company is able to limit significantly its exchange risk, thus increasing the stability of its core operations. Ciech Group systematically entered into hedge transactions to limit the impact of exchange rate fluctuations on its profit.

The Ciech Group companies use natural hedging, by balancing its import and export flows, and utilise derivative instruments to reduce the FX risk.
The transactions used to hedge cash flows included the following hedge transactions:

- Forward, allowing the Company to hedge its cash flows at a fixed exchange rate
- Parforward, allowing the Company to hedge numerous petty cash flows at an average exchange rate for a given period
- Average Strike Option, allowing the Company to hedge numerous cash flows effected in a short period of time
- Currency and interest rate swaps aimed at eliminating the impact of FX risk on valuation of long-term loans taken by the Company

33.1.4 Credit Risk

Ciech SA is exposed to credit risk related to creditworthiness of its customers who are involved in the Company's sales transactions of products and goods. The risk is mitigated by applying internal procedures for managing customer receivables. Risk assessment is made prior to conclusion of each agreement, and then periodically for each supply of goods, in accordance with the existing procedures. A profitability calculation is carried out for each contract, shipment, or shipment batch, taking into account both the potential costs of the trade credit, and the contractor's payment history. The calculation serves as a basis for decisions to conclude contracts or send goods. The Group is not exposed to any material credit risk related to financial instruments.

33.1.5 Liquidity Risk

Liquidity risk at the Ciech Group is monitored on an ongoing basis. A profitability calculation is carried out for each contract, shipment, or shipment batch, taking into account the contractor's payment history and current financial standing. The calculation serves as a basis for decisions to conclude contracts or send goods. In the case of delayed payments, subsequent deliveries are limited or stopped.

33.1.6 Price Risk (Goods)

A major portion of the Ciech Group's turnover is generated from imports of chemical raw materials. Raw-material markets are characterised by high cyclicality, prompted by fluctuations in the world economy. On the one hand, growing prices of raw materials force the trading agents to lower their mark-ups and lead to lower customer demand. Declining prices, on the other hand, are usually a sign of lower demand and the onset of an economic slump. Raw materials undergo similar trends in the domestic market. If the stable growth rate and steady prices of chemical raw materials continue, this will positively influence the Ciech Group's imports of chemical raw materials. Significant fluctuations in demand and prices caused either by high economic growth rate, or by an economic slump, will affect the Ciech Group's trade in chemical raw materials.

33.1.7 Hedge Accounting

The Group does not apply hedge accounting. Application of hedge accounting would not materially influence the Group's financial statement.

xxxiv.Post-Balance Sheet Date Events

On 5th January the Management Board of Ciech SA approved contracts for sales of heavy soda to Owens Illinois companies (one of the major manufacturers of glass packaging) in 2006. Total value of contracts is 81 000 000 PLN.

On 10th January 2006 the transaction of sales of 100% of shares of Ciech SA subsidiary Petrochemia-Blachownia SA based in Kędzierzyn Koźle to BorsodChem Rt. was closed. On 6th October 2005, in Budapest an agreement was signed with BorsodChem Rt. for the sales of the entire stake in Ciech SA's subsidiary Petrochemia Blachownia SA based in Kędzierzyn Koźle that specialises in benzene and ethylene production. The agreement results from the long-term development strategy of the Ciech Group that consists in focusing on products belonging to the core product portfolio of the Group. Enforcement of the agreements was possible due to the consent of the President of Polish Office For Competition and Consumer Protection given on 30th December 2005 for the concentration consisting in the take-over of control of Petrochemia-Blachownia SA based in Kędzierzyn Koźle by BorsodChem Rt. based in Kazincbarcik (Hungary). As of the date of agreement signature, Petrochemia-Blachownia SA is recognised in the consolidated financial statement in line with IFRS 5 under "Fixed assets held for sale and discontinued operations."

On 4th January 2006 Nafta Polska SA decided to grant Ciech SA exclusive rights to negotiate the purchase of 80% of shares in Zakłady Chemiczne Organika – Sarzyna. As a result of the negotiations conducted, on 3rd March 2006 the Parties closed the talks on terms and conditions of transactions and initialled draft agreements.

As a result of the negotiations regarding purchase of shares of Zakłady Chemiczne Zachem SA based in Bydgoszcz from Nafta Polska SA, on 1st March 2006 the Parties closed the talks on terms and conditions of transactions and initialled draft agreements.

On 9th March 2006 the Supervisory Board of Ciech SA provided a unanimous positive opinion on the motions of the Management Board of Ciech SA regarding the purchase of the 80% stake of Zakłady Chemiczne Zachem SA based in Bydgoszcz from Nafta Polska SA, and the 80% stake of Zakłady Chemiczne Organika-Sarzyna SA based in Nowa Sarzyna.

On 29th March 2006 agreements were signed to purchase shares of Zakłady Chemiczne Zachem SA and Zakłady Chemiczne Organika –Sarzyna SA by Ciech SA. Key agreement parameters include:

- purchase cost of 80% of shares in ZCh Zachem SA - 68,553.600 PLN (5.79 PLN per share), investment guarantees – 176,120 000 PLN
- purchase cost of 80% of shares in ZCh Organika-Sarzyna SA - 244,512 000 PLN (36 PLN per share), investment guarantees – 130,000 000 PLN

Enforcement of the agreements is dependent on: the consent of the President of the Polish Office of Competition and Consumer Protection or the expiry date for the consent issue, in line with art. 97 and 98 of the Competition and Consumer Protection Act; consent granted to the seller by the Council of Ministers, consent of the Minister of State Treasury acting as the General Meeting of the seller.

On 14th February 2006 Ciech SA and Vitrosilicon SA agreed on two annexes (1/2006 and 2/2006) to the "Co-operation agreement with regard to the purchase of goods for Ciech SA's own account, dated 4th July 2000 concluded between Ciech SA and Vitrosilicon SA." The annexes regulate terms and conditions of co-operation between Ciech SA and its subsidiary Vitrosilicon SA, as regards deliveries of various silicates to the

Polish market via Ciech SA in 2006. The purchase value presented in annex 1/2006 is estimated at 37 000 000 PLN, and in annex 2/2006 at 5 400 000 PLN.
On 17th February 2006, the Extraordinary General Meeting of Shareholders of Ciech SA dismissed the following Members of the Company's Supervisory Board:

- Ms Elżbieta Boniuszko – Vice-President of the Board
- Mr Edmund Kozak – Secretary to the Board
- Mr Zygmunt Bosiakowski
- Mr Andrzej Buczak
- Mr Ireneusz Król

On the same day, the Extraordinary General Meeting of Shareholders of Ciech SA appointed the following Members of the Company's Supervisory Board:

- Ms Krystyna Dziworska
- Mr Maksymilian Klank
- Mr Marek Konopczyński
- Mr Maciej Rudnicki
- Mr Wiesław Piosik
- Mr Zbigniew Markowski

On 23rd February 2006 two annexes were initialled to agreements concluded on 20th January 2005 between Ciech SA and its subsidiary JZS Janikosoda SA. As regards first annex, new purchase and sales prices were determined for soda ash, calcium carbonate (aragonite), carbon dioxide, and bicarbonate. The value of the current year transactions is 258 000 000 PLN. As regards the other annex, new purchase and sales prices of evaporated salt were determined, the value of current year transactions is 63 000 000 PLN.
On 23rd February 2006 two annexes were initialled to agreements concluded on 20th January 2005 between Ciech SA and its subsidiary IZCh Soda Mątwy SA. As regards the first annex, new purchase and sales prices of soda ash were determined. The value of the current year transactions is 235 000 000 PLN. As regards the other annex, new purchase and sales prices of evaporated salt, calcium chloride, precipitated chalk and other was determined. The value of current year transactions is about 64 000 000 PLN.
On 7th March 2006 Ciech SA subsidiary, Elektrociepłownie Kujawskie Sp. z o.o. and Kompania Węglowa SA signed an annex to a long-term agreement for sales of power coal. The annex refers to the purchase of fine coal in 2006, which is the basic material at Elektrociepłownie Kujawskie. The value of the contract in 2006 is 114 000 000 PLN.
According to the decision of the District Court in Bydgoszcz of 10th March 2006, received on 14th March 2006, two indirect subsidiaries of Ciech SA - TRANSODA Sp. z o.o. and Jantrans-Janikowo Sp. z o.o. were merged, as a company taking over and a company taken over respectively, according to the procedure specified in art. 492 §1 point 1 of the Commercial Companies' Code. The share capital of TRANSODA Sp. z o.o. upon merger is 27 652 500 PLN.
On 31st March 2006 Ciech SA converted the receivables from Cheman SA to a long-term loan, with the repayment date on 31st March 2011.

xxxv. Reconciliation of Figures Published in Compliance with The Polish Accounting Standards (Pas) restated in Compliance with the International Financial Reporting Standards

As at the balance-sheet date, the Ciech Group used the best knowledge to identify material differences between the accounting principles applied to date, and IFRS. Certain areas were identified with potential inconsistencies in value, plus differences in presentation and disclosure. The differences in value include:

Revaluation of tangible assets: according to IFRS 1 "First-Time Adoption of the International Accounting Standards", the Ciech Group assumed the amount of its tangible assets used in a hyperinflationary economy to be the fair value of these assets (measured based on estimates by professional property appraisers). An adjustment of the carrying amount of tangible assets resulted in a positive temporary difference between the tax values and balance-sheet values.

Ciech Group companies measured tangible assets at the turn of 2004 and 2005, with the assistance of experts and their own technical crew.

The first consolidated financial statement in line with IAS/IFRS was developed for Q1 2005 and published on 15th May 2005.

Another one was for Q2 2005.

The first financial statement audited by Deloitte was developed by the Ciech Group for H1 2005.

In their letter addressed to the Management Board of Ciech SA, upon an interim audit, a registered auditor recommended to review the measurements developed and standardise documentation (in particular methods and principles) regarding these measurements in individual companies.

Ciech SA hired a renowned Company that was expected to perform the following tasks as recommended by a registered auditor:

1. analysis of reports presenting the results of the measurement of tangible assets at fair value, for the companies included in the project
2. analysis and review of the comments of the auditor and/or expert cooperating with the auditor, with regard to reports on the measurement of tangible assets at fair value for individual Group companies
3. development of a questionnaire for the entities measuring tangible assets in individual Group companies included in the project
4. workshops with the entities measuring tangible assets in individual Group companies
5. development of instructions with detailed recommendations as regards the range of additional activities to be performed by the entities measuring tangible assets in individual Group companies
6. development of proposed contents of the report presenting the minimum detailed information as expected by the auditor
7. verification of additional work performed by the entities performing measurements, with the view to meet the requirements of the auditor and eliminate potential irregularities or inaccuracies

The measurement verification process proved to be an extensive undertaking and resulted in re-measurement or additional measurement of tangible assets in 4 subsidiaries, which made the process go beyond the pre-arranged schedule. The verification process performed by the hired Company and the auditor was completed at the turn of February and March 2006, upon publication of the consolidated financial statement of the Ciech Group for Q4 2005.

Re-measurement or additional measurement of PPE at the companies resulted in a change of previous figures and adjustments in the financial statement. An additional component of the verification of measurement, required by the auditor, was to develop and carry out tests for the impairment of tangible assets with the use of the discounted cash flow method (DCF).

As a result of the verification and audit of annual financial statements of individual companies, the following adjustments in individual items were introduced:

Fixed assets held for sale: According to IFRS 5 "Fixed Assets Held For Sale and Discontinued Operations," fixed assets held for sale is not subject to depreciation, therefore, an adjustment were made to eliminate the depreciation calculated for 2004.

Depreciation of investment property: The Ciech Group carries its investment property under assets at purchase cost, not their fair value. According to IAS 40 "Investment Property," if this measurement model is adopted, the assets should be depreciated. Therefore, the equity was adjusted to account for depreciation for the years 2002-2003.

Renovations settled over time: According to PAS, the Ciech Group recognised the costs of renovations spread over time under prepayments and accruals. According to IAS 16 "Property, Plant, and Equipment," such costs should be charged to profit and loss, in the event of the impossibility to recognise them under PPE in line with IAS mentioned above.. Therefore, an appropriate adjustment of the consolidated profit was made.

Costs of launching new production: In line with the PAS, the costs of launching new production settled over time were disclosed under accruals. According to IAS 16 "Property, Plant, and Equipment," such costs should be recognised in profit and loss on a one-off basis. That being so, the amount of activated costs of launching new production was presented as a decrease in equity as at the date of transition to IFRS.

Minority interest: according to the principles of presentation of financial statements prescribed in IAS 1 "Presentation of Financial Statements," the total consolidated equity includes minority interest. The net financial result recognised in profit and loss also includes the minority interest.
Apart from other presentation in the notes presenting transition from PAS to MSSF, the minority interest was adjusted for changes in equity and the net result, in respect of other adjustments.

Goodwill: In compliance with IFRS 3 "Business Combinations," the Ciech Group ceased to amortise goodwill as of 1st January 2004. Write-downs were reversed against retained earnings. In line with IAS 36 "Impairment of Assets," the Ciech Group conducted impairment tests for its assets as at 1st January 2004 and 31st December 2004. The results of the tests did not lead to adjustments.

Negative goodwill: In accordance with IFRS 1 "First-Time Adoption of International Reporting Standards" and IFRS 3 "Business Combinations", negative goodwill disclosed as at 1st January 2004 was written off against equity. Depreciation charge of negative goodwill for 2004 was reversed against the P&L account.

Equity accounting: As the companies accounted for using the equity method were required to adapt their respective financial statements to IFRS requirements, their respective interests disclosed in the consolidated financial statement changed.

Reclassification of the Privatisation Fund to equity: as at 01.01.2004, the earmarked funds recognised under short-term liabilities were reclassified to equity (revaluation reserve).

Disclosure of the net value of assets and deferred tax provision: in compliance with IAS 12 "Income Tax," deferred tax assets were set off against deferred tax provisions in the financial statements of the individual Group companies.

Derecognition of the right of perpetual usufruct of land: The Ciech Group adopted the approach that the right of perpetual usufruct of land acquired through administrative allocation meets the criteria for operating leases as defined in IAS 17 "Leases", and therefore it should not be disclosed in the books, but presented as an off-balance sheet item. That being so, adjustments were made in the books by derecognising such a right of perpetual usufruct of land against prepayments and accrued income.

Disclosure of fixed assets held for sale and discontinued operations: in compliance with IFRS 5 "Fixed Assets Held For Sale and Discontinued Operations", fixed assets held for sale were singled out and reclassified from property, plant and equipment to current assets. Discontinued operations were additionally disclosed as a separate item in the P&L account.

Isolation of investment property: tangible assets that should be disclosed as investment property according to IAS 40 "Investment Property" were disclosed separately in the consolidated balance sheet.

Reclassifications in equity: The share premium reserves disclosed in individual financial statements, the reserves, and the revaluation reserve for tangible assets created in accordance with PAS were reclassified as retained earnings. Earmarked funds were disclosed under reserves.

Extraordinary gains / losses: to comply with the presentation requirements set out in IAS 1 "Presentation of Financial Statements", the extraordinary gains and losses disclosed by the Group were reclassified as other operating income and other operating costs respectively.

Gains / losses on disposal of all or part of shares in subordinates: to comply with the presentation requirements set out in IAS 1 "Presentation of Financial Statements", the losses on partial disposal of shares in subordinates, disclosed by the Group, were reclassified as financial costs.

Prepayments for reserves: prepayments for reserves disclosed as reserves under PAS were reclassified as short-term receivables to comply with IFRS.

Accruals: Prepayments and accruals were presented as short-term receivables and short-term liabilities respectively.

The table below shows:

- reconciliation of equity as at 01.01.2004, and 31.12.20404 determined in accordance with the Polish Accounting Standards and equity measured at the same dates in accordance with the International Financial Reporting Standards
- reconciliation of the net profit for the period between 01.01. in addition, 31.12.2004 measured in accordance with the Polish Accounting Standards, and the net profit for the same period measured in accordance with the International Financial Reporting Standards
- reconciliation of the net cash flows for the period between 01.01. and 31.12.2004 measured in accordance with the Polish Accounting Standards, and the net cash flows measured for the same period in accordance with the International Financial Reporting Standards

Individual adjustments are presented above.

in thousand PLN

Item	**as at 01.01.2004**
equity according to PAS as reported previously	**473 196**
revaluation of tangible assets	93 791
deferred tax on revaluated tangible assets	(15 853)
negative goodwill written off against retained earnings	37 916
minority interest	89 643
depreciation of investment property	(846)
earmarked fund reclassification	6 176
measurement using the equity method (revaluation)	1 632
renovation costs	(516)
costs of launching a new production	(209)
impairment write-down	(4 576)
other adjustments	(24)
equity in line with IFRS	**680 330**

in thousand PLN

Item	**as at 31.12.2004**
equity according to PAS as reported previously	**551 377**
revaluation of tangible assets	98 036
deferred tax on revaluated tangible assets	(17 023)
goodwill (elimination of depreciation for 2004)	6 897
negative goodwill (elimination of depreciation for 2004)	(6 127)
negative goodwill written off against retained earnings	37 954
minority interest	92 211
depreciation of investment property	(846)
measurement using the equity method (revaluation)	86
impairment write-down	(4 576)
other adjustments	(5)
equity in line with IFRS	**757 984**

in thousand PLN

Item	**for the period 01.01-31.12.2004**
net profit according to PAS as reported previously	**79 250**
revaluation of tangible assets (depreciation)	5 560
revaluation of tangible assets (change in deferred tax)	(1 168)
goodwill (elimination of depreciation for 2004)	6 897
negative goodwill (elimination of depreciation for 2004)	(6 127)
net profit/loss attributable to minority shareholders	6 421
measurement using the equity method (revaluation)	(39)

Item	**for the period 01.01-31.12.2004**
renovation costs	516
costs of launching a new production	209
reversal of write-downs	823
other adjustments	(2)
net profit in line with IFRS	**92 340**

Cash flow statement for the period 01.01. - 31.12.2004	**according to PAS as reported previously**	reclassification of interest paid, from financing to operating activities	adjustments related to overdraft recognition	change in presentation of cash of a newly consolidated company	change in presentation of dividend paid to minority shareholders	other adjustments	**according to IFRS**
cash from operating activities	127 668	(20 775)	-	-	-	(142)	106 751
cash from investing activities	(85 170)	-	-	(2 676)	2 284	140	(85 422)
cash from financing activities	(37 278)	20 775	(42)	(2 676)	(2 284)	(2)	(16 155)
total net cash flows	**5 220**	**-**	**(42)**	**-**	**-**	**3**	**5 174**

xxxvi. Reconciliation of Data presented in Q4 2005 with Data in the 2005 Annual Financial Statement

Differences between the data for Q4 2005 and the current data are presented in Section 27 of the interim consolidated financial statement of the Ciech Group for Q1 2006, published on 15th May 2006.

xxxvii. Economic and financial Position of the Subsidiary Cheman S.A.

Cheman S.A. is a subsidiary with 100% of shares held by Ciech S.A. In 2005 the Company recorded a net loss amounting to 10 858 000 PLN, and the accumulated losses amounting to 15 287 000 PLN exceeded the total of the reserves, revaluation reserves and 1/3 of the share capital. According to art. 397 of the Commercial Companies Code, the Company Management Board is obliged to summon immediately the General Meeting of Shareholders in order to adopt a resolution on the Company's future operation. The Supervisory Board was notified of the existing situation by the date of the financial statement. The Management Board of Cheman SA will summon the General Meeting of Shareholders immediately upon the approval of the financial statement.
Poor financial results and problems with the financial liquidity appeared due to numerous factors. Major factors include a take-over in the middle of 2004 of Ciech Petrol recording losses, by Cheman SA. Upon the merger, the return on sales decreased due to the worse sales structure (take-over of unprofitable goods). Ciech Petrol dealt with the distribution and retail sales of fuels, unprofitable in the last years of the Company's operation on the market, which resulted in the deterioration of the Company's financial position. Within the project of withdrawal from the petrochemical industry by the Ciech Group, during the take-over of Ciech Petrol, Cheman was obliged to restructure and close the fuel-related activity. By the end of 2004 Cheman was engaged in the take-over of Ciech Petrol profile of activity, and selection of the field of activity to be terminated. The process was completed in 2005 and estimates concerning the cost of final termination of the fuel-related activity were developed. Restructuring costs were included in the 2005 result, which brought about an increase in the net loss. The following factors affected the result in particular:

write-down on tangible assets regarding fuels – 2.324 000 PLN
write-down on reserves regarding fuels – 178 000 PLN
write-downs on receivables – 2.474 000 PLN
provision for restructuring fuel-related activity – 3. 863 000 PLN

Moreover, the Company recorded a loss in income and profitability in respect of operating problems (loss of products, high personnel turnover, mismanagement of sales and delivery chain, situation on the FX market, sudden change in the economic situation of imported goods).

A jump in sales in 2005 brought about by a merger with Ciech Petrol Sp. z o.o. plus the take-over from Ciech S.A. of the distribution of plastics and reagents with extended payment periods, resulted in increased demand for working capital. Additional problem appeared related to delayed payments by consumers and ineffective debt recovery. These factors immediately affected Company's financial liquidity.

The take-over of the distribution of goods from Ciech S.A. by Cheman SA strengthened mutual commercial relationships. Due to the strategy pursued by Grupa Chemiczna, Ciech S.A. supported the restructuring process in Cheman SA. As at 31st December 2005 amounts due by Cheman S.A. to Ciech S.A. were 18.140 000 PLN, including 12 337 000 PLN overdue up to 180 days. The amount of 6.979 000 PLN was repaid by the audit date (15th March). Additionally, Ciech S.A. extended a surety for loans taken by Cheman S.A. to finance current operations, up to the amount of 17.450 000 PLN. As at the balance sheet date, the amount of the loan surety used is lower than the maximum surety granted.

In May 2005 the composition of Cheman Management Board changed. A new Management Board ordered an operating audit with a certified auditing company. Advisor report was developed in September 2005. On the basis of the recommendations included in the Report, the Management Board developed a Corporate Recovery Programme for 2006-2009. The action plan was approved by the Supervisory Board and the owner that is CiecH SA. In order to support the recovery programme, Ciech S.A. redeemed part of the overdue receivables from Cheman S.A. amounting to 6.754 000 PLN. On 29th December 2005, the Extraordinary General Meeting of Shareholders adopted a resolution concerning the increase of the share capital by issuing 17 000 shares with the par value of 9 PLN each, and the issue price 50 PLN. On the same day Ciech SA made a payment of 850 000 PLN for the acquisition of shares. Increased share capital of Cheman SA was recorded in March 2006.

Cheman S.A. recovery programme is based on the following assumptions:

- conversion of overdue liabilities towards Ciech S.A. to a long-term loan amounting to 9 000 000 PLN for the period of 5 years, with the 2-year principal payment grace and the interest rate based on market conditions (conversion made in March 2006)
- change in the profile of the company operation and adaptation of a new organisational structure focused on sales intensification
- change in the sales structure by way of termination of the distribution of unprofitable goods to the benefit of profitable ones
- increased sales of soda products
- termination in 2006 of unprofitable fuel-related activity, including sales and liquidation of property used for fuel-related activity
- development of trade network in selected domestic regions
- more effective debt recovery
- optimised allocation of goods in warehouses, and optimised warehousing locations
- reduced transportation costs by a limited number of links in the chain of delivery to a final user

A long-term financial forecast based on the afore-mentioned programme includes an improvement of Cheman financial liquidity in 2006, reduction of sales costs plus profit on net sales, and in the years to follow a steady improvement of return on sales, including net profit.

xxxviii.Statement of the Management Board

These consolidated financial statements of the Ciech Group were approved by the Management Board at the Ciech Group's registered offices on 28th April 2006.

Warsaw, 28th April 2006.

…….....
Ludwik Klinkosz – President of the Management Board of Ciech SA

……
Stefan Rojewski – Member of the Management Board of Ciech SA

…….
Jerzy Golis – Member of the Management Board of Ciech SA

……
Kazimierz Przełomski – CFO, Proxy of Ciech SA