



THE CONSOLIDATED FINANCIAL STATEMENTS

of the CIECH Group for 2017



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



The CIECH Group – SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA	in thousand PLN		in thousand EUR	
	12 months ended 31.12.2017	12 months ended 31.12.2016	12 months ended 31.12.2017	12 months ended 31.12.2016
Sales revenues	3,579,393	3,455,335	843,262	789,665
Operating profit/(loss)	588,808	660,320	138,716	150,906
Profit/(loss) before tax	515,745	624,950	121,503	142,823
Net profit / (loss) for the year	393,975	594,136	92,815	135,780
Net profit/(loss) attributable to shareholders of the parent company	393,413	593,513	92,683	135,638
Net profit/(loss) attributed to non-controlling interest	562	623	132	142
Other comprehensive income net of tax	27,178	(21,958)	6,403	(5,018)
Total comprehensive income	421,153	572,178	99,218	130,762
Cash flows from operating activities	628,832	836,871	148,145	191,254
Cash flows from investment activities	(389,137)	(445,582)	(91,676)	(101,831)
Cash flows from financial activities	(165,773)	(177,545)	(39,054)	(40,575)
Total net cash flows	73,922	213,744	17,415	48,848
Earnings (loss) per ordinary share (in PLN/EUR)	7.47	11.26	1.76	2.57
	as at 31.12.2017	as at 31.12.2016	as at 31.12.2017	as at 31.12.2016
Total assets	4,643,511	4,501,892	1,113,311	1,017,607
Non-current liabilities	1,369,282	1,695,514	328,294	383,254
Current liabilities	1,089,584	1,042,886	261,235	235,734
Total equity	2,184,645	1,763,492	523,782	398,619
Equity attributable to shareholders of the parent	2,187,596	1,766,827	524,490	399,373
Non-controlling interest	(2,951)	(3,335)	(708)	(754)
Share capital	287,614	287,614	68,957	65,012

The above selected financial data were converted into PLN in accordance with the following principles:

- items in the consolidated statement of financial position were converted using the average exchange rate determined by the National Bank of Poland on the last day of the reporting period;
- items in the consolidated statement of profit or loss, consolidated statement of other comprehensive income and consolidated statement of cash flows were converted using the exchange rate constituting the arithmetic mean of rates determined by the National Bank of Poland on the last day of each calendar month of the reporting period.

as at 31.12.2017	as at 31.12.2016	12 months ended 31.12.2017	12 months ended 31.12.2016
1 EUR = 4.1709 PLN	1 EUR = 4.4240 PLN	1 EUR = 4.2447 PLN	1 EUR = 4.3757 PLN



TABLE OF CONTENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE CIECH GROUP	5
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME OF THE CIECH GROUP	6
CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CIECH GROUP	7
CONSOLIDATED STATEMENT OF CASH FLOWS OF THE CIECH GROUP	8
STATEMENT OF CHANGES IN CONSOLIDATED EQUITY OF THE CIECH GROUP	9
1. GENERAL INFORMATION	10
1.1. INFORMATION ON THE GROUP'S ACTIVITIES	10
1.2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES	10
1.2.1. REPRESENTATIONS OF THE MANAGEMENT BOARD	10
1.2.2. BASIS OF PREPARATION	11
1.3. FUNCTIONAL AND REPORTING CURRENCY	11
1.4. ACCOUNTING POLICIES	12
1.5. CHANGES IN ACCOUNTING POLICIES AND THE SCOPE OF DISCLOSURES	13
2. SEGMENT REPORTING	20
3. NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME	26
3.1. SALES REVENUES	26
3.2. COST OF SALES	26
3.3. COSTS BY TYPE	27
3.4. OTHER OPERATING INCOME AND EXPENSES	27
3.5. FINANCIAL INCOME AND EXPENSES	30
3.6. COMPONENTS OF OTHER COMPREHENSIVE INCOME	31
4. INCOME TAX, DEFERRED TAX ASSETS AND LIABILITY	32
4.1. MAIN COMPONENTS OF TAX EXPENSE	32
4.2. EFFECTIVE TAX RATE	32
4.3. DEFERRED INCOME TAX	33
5. NOTES TO ASSETS REPORTED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION	36
5.1. PROPERTY, PLANT AND EQUIPMENT	36
5.2. RIGHT OF PERPETUAL USUFRUCT OF LAND	39
5.3. INTANGIBLE ASSETS	40
5.4. GOODWILL IMPAIRMENT TESTING	44
5.5. INVESTMENT PROPERTIES	45
5.6. LONG-TERM RECEIVABLES	46
5.7. LONG-TERM FINANCIAL ASSETS	46
5.8. SHARES IN JOINT VENTURES / INVESTMENTS IN ASSOCIATES	46
5.9. INVENTORIES	47
5.10. SHORT-TERM RECEIVABLES	48
5.11. SHORT-TERM FINANCIAL ASSETS	49
5.12. CASH AND CASH EQUIVALENTS	50



5.13. DISCONTINUED OPERATIONS, NON-CURRENT ASSETS AND LIABILITIES CONNECTED WITH NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE	51
6. EQUITY	52
6.1. CAPITAL MANAGEMENT.....	52
6.2. CONSOLIDATED EQUITY	52
6.3. DIVIDENDS PAID OR DECLARED.....	54
6.4. BUSINESS COMBINATIONS AND ACQUISITION OF NON-CONTROLLING INTEREST.....	55
6.5. SIGNIFICANT SUBSIDIARIES WITH NON-CONTROLLING INTEREST.....	56
6.6. EARNINGS PER SHARE.....	56
7. LIABILITIES, PROVISIONS, EMPLOYEE BENEFITS	58
7.1. INFORMATION ABOUT SIGNIFICANT FINANCIAL LIABILITIES	58
7.2. OTHER NON-CURRENT LIABILITIES.....	59
7.3. CURRENT TRADE AND OTHER LIABILITIES	59
7.4. FINANCE LEASE	60
7.5. OPERATING LEASES.....	61
7.6. PROVISIONS FOR EMPLOYEE BENEFITS.....	61
7.7. OTHER PROVISIONS	62
8. FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT AND IMPAIRMENT.....	65
8.1. FINANCIAL INSTRUMENTS.....	65
8.2. FINANCIAL INSTRUMENTS DESIGNATED FOR HEDGE ACCOUNTING	68
8.3. FINANCIAL RISK MANAGEMENT	71
8.4. DETERMINATION OF FAIR VALUES.....	77
9. OTHER NOTES.....	80
9.1. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS.....	80
9.2. INFORMATION ON CHANGES IN CONTINGENT ASSETS AND LIABILITIES AND OTHER MATTERS	81
9.3. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES.....	83
9.3.1. TRANSACTIONS WITH RELATED PARTIES IN TOTAL	83
9.3.2. SIGNIFICANT TRANSACTIONS CONCLUDED BY COMPANIES OR SUBSIDIARIES WITH RELATED PARTIES OTHER THAN ON AN ARM'S LENGTH BASIS.....	84
9.3.3. DESCRIPTION OF NON-ROUTINE TRANSACTIONS WITH RELATED PARTIES	84
9.3.4. TRANSACTIONS CONCLUDED WITH KEY MANAGERIAL PERSONNEL	84
9.4. INFORMATION ABOUT AGREEMENTS CONCLUDED WITH THE ENTITY AUTHORISED TO AUDIT THE CIECH GROUP'S CONSOLIDATED FINANCIAL STATEMENTS.....	85
9.5. COMPOSITION OF THE GROUP	86
9.6. EVENTS AFTER THE BALANCE SHEET DATE	88
STATEMENT OF THE MANAGEMENT BOARD.....	89



CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE CIECH GROUP

	<i>note</i>	01.01-31.12.2017	01.01-31.12.2016
CONTINUING OPERATIONS			
Sales revenues	3.1	3,579,393	3,455,335
Cost of sales	3.2	(2,662,729)	(2,415,670)
Gross profit/(loss) on sales		916,664	1,039,665
Other operating income	3.4	116,560	86,610
Selling costs		(263,481)	(231,462)
General and administrative expenses		(141,402)	(157,990)
Other operating expenses	3.4	(39,533)	(76,503)
Operating profit/(loss)		588,808	660,320
Financial income	3.5	13,499	23,551
Financial expenses	3.5	(86,787)	(59,595)
Net financial income/(expenses)		(73,288)	(36,044)
Share of profit / (loss) of equity-accounted investees	5.8	225	674
Profit/(loss) before tax		515,745	624,950
Income tax	4.1	(121,770)	(30,814)
Net profit/(loss) on continuing operations		393,975	594,136
DISCONTINUED OPERATIONS			
Net profit/(loss) on discontinued operations	5.13	-	-
Net profit / (loss) for the year		393,975	594,136
including:			
Net profit/(loss) attributable to shareholders of the parent company		393,413	593,513
Net profit/(loss) attributed to non-controlling interest	6.5	562	623
Earnings per share (in PLN):			
Basic	6.6	7.47	11.26
Diluted	6.6	7.47	11.26

The consolidated statement of profit or loss of the CIECH Group should be analysed together with the notes which constitute an integral part of the consolidated financial statements.



CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME OF THE CIECH GROUP

	<i>note</i>	01.01-31.12.2017	01.01-31.12.2016
Net profit/(loss) on continuing operations		393,975	594,136
Net profit/(loss) on discontinued operations		-	-
Net profit / (loss) for the year		393,975	594,136
Other comprehensive income before tax that may be reclassified to the statement of profit or loss	<i>3.6</i>	45,106	(33,604)
Currency translation differences (foreign companies)		(24,121)	4,714
Cash flow hedge		69,226	(38,242)
Other components of other comprehensive income		1	(76)
Other comprehensive income before tax that may not be reclassified to the statement of profit or loss	<i>3.6</i>	(834)	685
Actuarial gains	<i>7.6</i>	(834)	685
Income tax attributable to other comprehensive income		(17,094)	10,961
Income tax attributable to other comprehensive income that may be reclassified to the statement of profit or loss	<i>4.1</i>	(17,250)	11,091
Income tax attributable to other comprehensive income that may not be reclassified to the statement of profit or loss	<i>4.1</i>	156	(130)
Other comprehensive income net of tax		27,178	(21,958)
TOTAL COMPREHENSIVE INCOME		421,153	572,178
Comprehensive income including attributable to:		421,153	572,178
Shareholders of the parent company		420,769	571,446
Non-controlling interest		384	732

The consolidated statement of other comprehensive income of the CIECH Group should be analysed together with the notes which constitute an integral part of the consolidated financial statements.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CIECH GROUP

	note	31.12.2017	31.12.2016
ASSETS			
Property, plant and equipment	5.1	2,712,252	2,623,660
Right of perpetual usufruct	5.2	30,069	30,219
Intangible assets, including:	5.3	169,758	129,389
- goodwill	5.4	61,373	64,180
Investment property	5.5	44,268	31,384
Non-current receivables	5.6	81,678	99,252
Investments in associates and jointly-controlled entities measured under the equity method	5.8	5,095	5,610
Long-term financial assets	5.7	54,432	90,135
Deferred income tax assets	4.3	107,411	199,866
Total non-current assets		3,204,963	3,209,515
Inventory	5.9	364,517	299,265
Short-term financial assets	5.11	57,979	59,971
Income tax receivables		13,244	13,542
Trade and other receivables	5.10	509,824	502,000
Cash and cash equivalents	5.12	489,754	414,369
Non-current assets held for sale	5.13	3,230	3,230
Total current assets		1,438,548	1,292,377
Total assets		4,643,511	4,501,892
EQUITY AND LIABILITIES			
Share capital	6.2	287,614	287,614
Share premium		470,846	470,846
Cash flow hedge	8.2	10,021	(45,306)
Actuarial gains		311	989
Other reserve capitals	6.2	78,521	78,521
Currency translation reserve		(73,630)	(46,336)
Retained earnings		1,413,913	1,020,499
Equity attributable to shareholders of the parent		2,187,596	1,766,827
Non-controlling interest	6.4	(2,951)	(3,335)
Total equity		2,184,645	1,763,492
Loans, borrowings and other debt instruments	7.1	1,130,482	1,345,973
Finance lease liabilities	7.4	20,145	18,979
Other non-current liabilities	7.2	103,567	197,738
Employee benefits reserve	7.6	10,789	10,752
Other provisions	7.7	71,812	84,284
Deferred income tax liability	4.3	32,487	37,788
Total non-current liabilities		1,369,282	1,695,514
Loans, borrowings and other debt instruments	7.1	199,437	160,845
Finance lease liabilities	7.4	4,743	4,714
Trade and other liabilities	7.3	758,581	743,479
Income tax liabilities		47,959	43,868
Employee benefits reserve	7.6	968	1,194
Other provisions	7.7	77,896	88,786
Total current liabilities		1,089,584	1,042,886
Total liabilities		2,458,866	2,738,400
Total equity and liabilities		4,643,511	4,501,892

The consolidated statement of financial position of the CIECH Group should be analysed together with the notes which constitute an integral part of the consolidated financial statements.



CONSOLIDATED STATEMENT OF CASH FLOWS OF THE CIECH GROUP

	<i>note</i>	01.01-31.12.2017	01.01-31.12.2016
Cash flows from operating activities			
Net profit/(loss) for the period		393,975	594,136
Adjustments			
Amortisation/depreciation		244,388	223,474
Recognition of impairment allowances		1,166	1,540
Foreign exchange (profit) /loss		16,687	(3,130)
Investment property revaluation		(12,884)	(14,347)
(Profit) / loss on investment activities		(47)	2,255
(Profit) / loss on disposal of property, plant and equipment		(813)	(2,615)
Dividends and interest		32,429	27,703
Income tax		121,770	30,814
(Profit) / loss on the settlement of construction contracts (caverns)		(6,902)	(3,741)
Share of (profit) / loss on equity accounted investees		(225)	(674)
Change in liabilities due to loan arrangement fee		2,614	2,023
Valuation of derivatives		2,248	(2,087)
Ineffective portion of hedge accounting		(1,287)	(1,862)
Other adjustments		(6,460)	(1,485)
Cash from operating activities before changes in working capital and provisions		786,659	852,004
Change in receivables	9.1	(45,989)	(38,369)
Change in inventory	9.1	(68,065)	(3,873)
Change in current liabilities	9.1	66,159	134,471
Change in provisions and employee benefits	9.1	(18,007)	4,965
Cash generated from operating activities		720,757	949,198
Interest paid		(49,954)	(55,119)
Cash flows from construction contracts		18,868	(2,739)
Income tax (paid)/returned		(48,643)	(53,970)
Expenses for research		(12,196)	(499)
Net cash from operating activities		628,832	836,871
Cash flows from investment activities			
Disposal of a subsidiary		454	2,930
Disposal of intangible assets and property, plant and equipment		8,070	2,353
Disposal of investment property		-	17,202
Dividends received		1,163	1,105
Interest received		3,940	6,015
Subsidies received		1,091	15,231
Proceeds from repaid borrowings		7,072	-
Acquisition of intangible assets and property, plant and equipment		(401,211)	(480,370)
Acquisition of investment property		-	(28)
Development expenditures		(9,709)	(9,920)
Other outflows		(7)	(100)
Net cash from investment activities		(389,137)	(445,582)
Cash flows from financial activities			
Other financial inflows		1,352	-
Dividends paid to parent company		-	(150,195)
Repayment of loans and borrowings		(438)	(21,498)
Redemption of debt securities		(160,000)	-
Payments of finance lease liabilities		(6,687)	(5,852)
Net cash from financial activities		(165,773)	(177,545)
Total net cash flows		73,922	213,744
Cash and cash equivalents as at the beginning of the period		414,369	202,935
<i>Impact of foreign exchange differences</i>		1,463	(2,310)
Cash and cash equivalents as at the end of the period	5.12	489,754	414,369

The consolidated statement of cash flows of the CIECH Group should be analysed together with the notes which constitute an integral part of the consolidated financial statements.



STATEMENT OF CHANGES IN CONSOLIDATED EQUITY OF THE CIECH GROUP

	Attributable to shareholders of the parent company							Equity attributable to shareholders of the parent	Non-controlling interest	Total equity
	Share capital	Share premium	Cash flow hedge	Other reserve capitals	Actuarial gains	Currency translation reserve	Retained earnings			
<i>note</i>	6.2		8.2		6.2					
01.01.2017	287,614	470,846	(45,306)	78,521	989	(46,336)	1,020,499	1,766,827	(3,335)	1,763,492
Total comprehensive income for the period	-	-	55,327	-	(678)	(27,294)	393,414	420,769	384	421,153
Net profit / (loss) for the period	-	-	-	-	-	-	393,413	393,413	562	393,975
Other comprehensive income	-	-	55,327	-	(678)	(27,294)	1	27,356	(178)	27,178
31.12.2017	287,614	470,846	10,021	78,521	311	(73,630)	1,413,913	2,187,596	(2,951)	2,184,645
01.01.2016	287,614	470,846	(16,004)	78,521	434	(53,092)	577,257	1,345,576	(4,072)	1,341,504
Transactions with the owners	-	-	-	-	-	-	(150,195)	(150,195)	5	(150,190)
Dividend payment	-	-	-	-	-	-	(150,195)	(150,195)	-	(150,195)
Change in the Group's structure	-	-	-	-	-	-	-	-	5	5
Total comprehensive income for the period	-	-	(29,302)	-	555	6,756	593,437	571,446	732	572,178
Net profit / (loss) for the period	-	-	-	-	-	-	593,513	593,513	623	594,136
Other comprehensive income	-	-	(29,302)	-	555	6,756	(76)	(22,067)	109	(21,958)
31.12.2016	287,614	470,846	(45,306)	78,521	989	(46,336)	1,020,499	1,766,827	(3,335)	1,763,492

The consolidated statement of changes in consolidated equity of the CIECH Group should be analysed together with the notes which constitute an integral part of the consolidated financial statements.



1

GENERAL INFORMATION

1.1. INFORMATION ON THE GROUP'S ACTIVITIES

Parent company	CIECH Spółka Akcyjna
Registered office	Warsaw
Address	Wspólna 62 Street, 00-684 Warsaw
KRS (National Register number)	0000011687 (District Court for the capital city of Warsaw in Warsaw 12 th Commercial Division of the National Court Register)
Statistical identification number (REGON)	011179878
Tax ID No (NIP)	118-00-19-377
Website	www.ciechgroup.com
Branches held	CIECH S.A.'s Branch in Romania CIECH S.A.'s Branch in Germany
Ultimate parent company	KI Chemistry s. à r. l (a subsidiary of Kulczyk Investments)

The CIECH Group is an international group with a well-established position of a leader of the chemical sector in Central and Eastern Europe. It manufactures products which are used in the production of articles necessary in everyday life of people all over the world - state-of-the-art products of the highest, world quality. Taking advantage of the support of a reliable strategic investor – Kulczyk Investments – it implements the strategy of global development.

The Parent company of the Group is CIECH S.A. It is a holding company that manages domestic and foreign manufacturing, trade and service companies of the Group. CIECH S.A. also provides support services to key subsidiaries. Key products manufactured by the CIECH Group include: soda ash, sodium bicarbonate, evaporated salt, epoxy and polyester resins, agrochemical products, polyurethane foams, lanterns and jars, sodium and potassium silicates.

The core sales market for the CIECH Group is the European Union, including mainly Poland, Germany and Central Eastern European countries. Products manufactured by the CIECH Group are also exported to overseas markets and sold mainly to customers in India, North Africa and the Middle East.

A detailed description of the CIECH Group entities is provided in note 9.5 to these financial statements.

1.2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES

1.2.1. REPRESENTATIONS OF THE MANAGEMENT BOARD

These consolidated financial statements of the CIECH Group for the period from 1 January 2017 to 31 December 2017, including comparative data, were approved by the Management Board of CIECH S.A. on 26 March 2018.

The Management Board of CIECH Group declares that these consolidated financial statements for the current and comparable period have been prepared in compliance with International Financial Reporting Standards approved by the European Union and related interpretations issued by the European Commission in the form of Regulations (IFRS).

The Management Board of CIECH S.A. represents that to the best of its knowledge these consolidated financial statements, including corresponding figures, have been prepared in accordance with the generally acceptable accounting principles and that they represent a true, accurate and fair reflection of the CIECH Group's financial position and the results of operations. Furthermore, the Management Board of CIECH S.A. represents that the Management Board Report on activities of the CIECH Group and CIECH S.A. in 2017 contains a true image of the CIECH Group's developments, achievements, and condition, including the description of major risks and threats.



The Management Board of CIECH S.A. represents that PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw, entered into the list of entities authorised to audit financial statements under the registry no. 144 kept by the National Chamber of Statutory Auditors was chosen in accordance with the binding legal regulations for the auditor of these consolidated financial statements. The above entity, including the certified auditors performing the audit, satisfy all the conditions required in order to issue an unbiased and independent audit report, pursuant to the applicable domestic legal regulations.

1.2.2. BASIS OF PREPARATION

These consolidated financial statements have been prepared on the historical cost basis except for investment property as well as financial assets and liabilities (derivative instruments) measured at fair value through profit or loss.

These consolidated financial statements have been prepared based on individual financial statements of the CIECH Group's parent company and its subsidiaries, prepared from the accounting ledgers maintained in accordance with the applicable accounting principles of their respective countries of operation. For the purpose of these consolidated financial statements, adjustments have been made to the accounting policies used in the preparation of the abovementioned individual financial statements for them to be aligned with International Financial Reporting Standards.

Since 2007, the Parent Company, CIECH S.A., has been preparing separate financial statements in accordance with IFRS.

Major accounting principles applied in the preparation of these consolidated financial statements are listed in note 1.4. These principles have been applied on a continuous basis in all presented periods.

These consolidated financial statements were prepared under the assumption that the CIECH Group will continue as a going concern in the foreseeable future. As at the date of approval of these consolidated financial statements, no facts or circumstances are known that would indicate any threat to the Group continuing as a going concern.

All entities belonging to the CIECH Group operate according to the financial year corresponding to the calendar year, except for Cerium Sp. z o.o. whose financial year ends on 30 September.

The consolidated statement of profit or loss of the CIECH Group is prepared in the cost by function format. The Group's consolidated statement of cash flows is prepared under the indirect method.

Preparation of the financial statement in accordance with IFRS requires the Management Board to make own assessments and apply certain assumptions and accounting estimates as part of the application of accounting principles adopted by the Group. Issues which require significant assessments or areas where the assumptions and estimates made have a significant impact on these consolidated financial statements have been described in note 1.4.

1.3. FUNCTIONAL AND REPORTING CURRENCY

The Polish zloty (PLN) is the functional currency of the parent company, CIECH S.A., and the reporting currency of these consolidated financial statements. Unless stated otherwise, all financial data in these consolidated financial statements have been presented in thousands of Polish zlotys (PLN '000).

The functional currencies for the significant foreign subsidiaries are as follows: SDC Group and Ciech Group Financing AB – EUR, CIECH Soda Romania S.A. – RON. For the purpose of conversion into PLN, the following foreign exchange rates determined on the basis of quotations announced by the National Bank of Poland ("NBP") have been applied for consolidation purposes:

	31.12.2017 ¹	31.12.2016 ²
EUR	4.1709	4.4240
RON	0.8953	0.9749
Average NBP rate for the reporting period	12 months ended 31.12.2017³	12 months ended 31.12.2016⁴
EUR	4.2447	4.3757
RON	0.9282	0.9739

¹ NBP's average foreign exchange rates table applicable as at 31 December 2017.

² NBP's average foreign exchange rates table applicable as at 31 December 2016.

³ According to the exchange rate constituting the arithmetic mean of average exchange rates determined by NBP on the last day of each month of the period from 1 January 2017 to 31 December 2017.

⁴ According to the exchange rate constituting the arithmetic mean of average exchange rates determined by NBP on the last day of each month of the period in the period 1 January to 31 December 2016.



1.4. ACCOUNTING POLICIES

To ensure more legible presentation and better understanding of the information disclosed in the consolidated financial statements, key accounting policies applicable in the CIECH Group as well as judgements and estimates made have been presented in separate notes.

Note	Title	Accounting principles	Judgements and estimates
3.1	Sales revenues	x	
3.2	Cost of sales	x	
3.4;3.5	Other income and expenses	x	x
4.1	Income tax	x	
4.3	Deferred tax assets and liabilities	x	x
5.1	Property, plant and equipment	x	x
5.2	Right of perpetual usufruct	x	
5.3	Intangible assets	x	x
5.5	Investment properties	x	x
5.6	Long-term receivables	x	
5.7	Long-term financial assets	x	
5.8	Shares in joint ventures / investments in associates	x	
5.9	Inventories	x	x
5.10	Short-term receivables	x	x
5.11	Short-term financial assets	x	
5.12	Cash and cash equivalents	x	
5.13	Discontinued operations, non-current assets and liabilities connected with non-current assets classified as held for sale	x	
6.2	Equity	x	
6.4	Business combinations and acquisition of non-controlling interest	x	
6.6	Earnings per share	x	
7.1	Information about significant financial liabilities	x	
7.2	Other non-current liabilities	x	
7.3	Current trade and other liabilities	x	x
7.4	Finance lease	x	
7.5	Operating leases	x	
7.6	Provisions for employee benefits	x	x
7.7	Other provisions	x	x
8.1	Financial instruments	x	x
8.2	Hedge accounting	x	
9.2	Contingent liabilities and assets	x	x
9.5	Composition of the Group	x	



1.5. CHANGES IN ACCOUNTING POLICIES AND THE SCOPE OF DISCLOSURES

Amendments to IFRS that came into force from 1 January 2017, have had no significant impact on the consolidated financial statements of the CIECH Group.

New Standards, amendments to Standards and Interpretations:	
New standards, amendments to standards and interpretations which entered into force as of 1 January 2017	Impact on the financial statements
Amendments to IAS 7: Disclosure Initiative	No impact on the financial statements is estimated — the reconciliation of net debt is presented in the financial statements
Amendments to IAS 12 relating to the recognition of deferred tax assets on unrealised losses	No material impact on the financial statements is estimated
Annual improvements to IFRS 2014–2016	No material impact on the financial statements is estimated
New standards, amendments to standards and interpretations which are not yet effective and have not been adopted early by the Group	Impact on the financial statements
Amendments to IFRS 9: Prepayment features with negative compensation	No material impact on the financial statements is estimated
IFRS 17 “Insurance Contracts”	No material impact on the financial statements is estimated
Clarifications to IFRS 15 “Revenue from contracts with customers”	No material impact on the financial statements is estimated
Amendments to IFRS 2: Classification and valuation of share-based payment transactions	No material impact on the financial statements is estimated
Amendments to IFRS 4: Applying IFRS 9 “Financial instruments” with IFRS 4 “Insurance contracts”	No material impact on the financial statements is estimated
Amendments to IAS 40: Reclassification of investment property	No material impact on the financial statements is estimated
IFRIC 22: Foreign currency transactions and advance consideration	No material impact on the financial statements is estimated
IAS 19 “Employee benefits”	No material impact on the financial statements is estimated
IFRIC 22: Foreign currency transactions and advance consideration	No material impact on the financial statements is estimated
IFRIC 23: Uncertainty over income tax treatments	No material impact on the financial statements is estimated
Amendments to IAS 28: “Investments in associates and joint ventures”	No material impact on the financial statements is estimated
Annual improvements to IFRS 2015–2017	No material impact on the financial statements is estimated
IFRS 14 “Regulatory deferral accounts”	The European Union has decided not to approve IFRS 14.
Amendments to IFRS 10 and IAS 28 concerning sale or contribution of assets between an investor and its associates or joint ventures	As at the date of drawing up these consolidated financial statements, the approval of this amendment has been postponed by the European Union.

1.5.1 IFRS 9 “Financial Instruments”

IFRS 9 “Financial Instruments” is effective for annual periods beginning on or after 1 January 2018. The Group did not decide to adopt the standard earlier. IFRS 9 implements: a new financial assets impairment model based on the “expected loss” concept, changes within the scope of financial instruments valuation and classification rules (particularly with regards to financial assets), and a new approach to hedge accounting.

For the purposes of the first application of IFRS 9, the CIECH Group does not restate data regarding previous reporting periods. Thus, any differences between the previous balance sheet value of financial assets and financial liabilities and their carrying amount at the beginning of the annual reporting period, in which the first application of IFRS 9 falls, the Group will recognize in the opening balance of retained earnings in the annual reporting period which is the date of first application of IFRS 9.

1.5.1.1 Summary of Key IFRS 9 Assumptions

a) Classification and Valuation of Financial Instruments

Financial Assets

Pursuant to IFRS 9, financial assets - as initially recognized - are classified in the following valuation categories:

1. financial assets valued at depreciated costs;
2. financial assets valued at fair value through other comprehensive income;
3. financial assets valued at fair value through profit or loss.



Any financial asset is classified into one of the foregoing valuation categories when it is initially recognized in the balance sheet, on the basis of:

1. the Group's financial asset management business model specified at a level reflecting the way of collectively managing financial assets to achieve a given business goal; and
2. contract cash flow characteristics of financial assets aimed at verifying whether the terms and conditions of the agreement cause the creation, at certain dates, of cash flows constituting only the repayment of principal and interest (*the so-called SPPI criterion*).

Financial assets valued at depreciated costs are financial assets meeting both of the following conditions, unless the Group has earmarked them for valuation at fair value through profit or loss:

1. the financial asset is maintained in accordance with a business model aimed at keeping financial assets to obtain contract cash flows, and
2. the terms and conditions of the agreement pertaining to the financial asset cause the creation, at certain dates, of cash flows constituting only the repayment of principal and interest (*the so-called SPPI criterion*).

Financial assets valued at fair value through other comprehensive income are financial assets meeting both of the following conditions, unless the Group has earmarked them for valuation at fair value through profit or loss:

1. the financial asset is maintained in accordance with a business model aimed at both keeping financial assets to obtain contract cash flows, and selling financial assets (the sale making up an integral part of the business model), and
2. the terms and conditions of the agreement pertaining to the financial asset cause the creation, at certain dates, of cash flows constituting only the repayment of principal and interest (*the so-called SPPI criterion*).

Financial assets valued at fair value through profit or loss are assets which:

1. cannot be classified into the category of assets valued at depreciated costs or fair value through other comprehensive income (the business model for managing such assets is largely based on selling financial assets or changing fair values, or the terms and conditions of the agreement cause the creation of cash flows not constituting only the SPPI criterion - in particular derivatives and equity instruments);
2. have been classified into this category by virtue of a Group decision at the moment of their initial recognition, whereby classification of a financial asset into the category of valuation at fair value through profit or loss at the moment of the initial recognition is irrevocable and may happen only when that is the way for the Group to eliminate or seriously decrease the incoherence of valuation or recognition ("accounting mismatch") which would have otherwise been established as a result of valuating assets or liabilities, or recognizing any gains or losses related to such assets/liabilities pursuant to different rules.

Initially recognizing equity instruments not held for trading (or as of the first day of IFRS 9 utilization), the Group may irrevocably decide to earmark individual equity instrument investments for valuation at fair value through other comprehensive income.

Carrying out any initial recognition, it must be analyzed whether a given instrument includes an embedded derivative. Any derivative embedded in a hybrid contract whose principal agreement is determined by a financial asset covered by IFRS 9 is not separated, while the entirety of the hybrid contract is recognized in pursuance with the IFRS 9 financial asset classification requirements. Conversely, any derivative embedded in a hybrid contract whose principal agreement is not determined by a financial asset covered by IFRS 9 should be assessed against a possible separation.

Financial assets may be reclassified only when the Group changes the financial asset management business model. Should that be the case, the assets affected by the modified business model will be reclassified.

Financial Liabilities

IFRS 9 does not introduce any significant changes regarding the classification and measurement/valuation of financial liabilities, in relation to the principles introduced by IAS 39 – financial liabilities on the date of their acquisition are classified into the following categories:

1. financial liabilities measured at fair value through profit or loss,
2. other financial liabilities valued at depreciated costs.

Furthermore, as per IFRS 9, financial liabilities should not be reclassified.

b) Impairment

The Group assumes that the introduction of a new impairment model based on the concept of expected credit losses (*ECL*) will affect the total amount of write-downs.

IFRS 9, unlike IAS 39, does not require identification of impairment evidence to estimate losses. Conversely, the units are obliged to estimate their credit losses from the day a given asset was recognized until it is removed from the balance sheet. At the moment of acquiring or granting the financial asset, the Group is required to keep a write-down in the amount of a 12 month ECL. In the event of a significant increase in credit risk as compared with the recognition of assets in the balance sheet, it is necessary to calculate losses over the lifelong horizon (*the so-called basket 2*). Such an approach makes it possible for the expected credit losses to be recognised earlier, which will ultimately increase the amount of write-downs and thus impact the financial result.

The exception from the above rule are trade receivables and assets related to contracts covering transactions subject to IFRS 15 (*the so-called contract assets*). For these categories of assets, the Group may choose a simplified approach whereby write-downs are estimated over the lifetime horizon - right from the initial recognition of exposures.



In the Group's opinion, the implementation of a new standard calls for using more complex solutions as compared to the ones currently in utilization.

c) Hedge Accounting

In accordance with IFRS 9, the Group - only on the day of implementation of IFRS 9 - may decide to make a decision making part of the accounting policy to continue applying hedge accounting requirements in accordance with IAS 39 instead of those specified in IFRS 9. IFRS 9 requires the Group to ensure the coherence of appropriate hedging relationships and its risk management strategy and objectives. IFRS 9 introduces new provisions regarding the assessment of the effectiveness of hedging relationships and the mechanism of rebalancing them. It also eliminates the possibility of discontinuation of hedge accounting as a result of a subjective decision of the Group (i.e. in the absence of evidence justifying the discontinuation of hedge accounting, as specified in the Standard).

1.5.1.2 Expected Impact of IFRS 9 on the Group's Financial Position

a) Classification and Valuation of Financial Instruments

Financial Assets

In order to ensure the possibility to decide on the classification of financial assets held by the Group in accordance with IFRS 9, as of 1 January 2018, the Group, within the framework of the IFRS 9 implementation project, reviewed the financial assets that were held by the Group after 31 December 2017 in order to:

1. determine and assign financial asset groups to the appropriate business model, based on an assessment of the financial assets management portfolio, by means of:
 - a) reviewing and assessing significant and objective qualitative data affecting the assignment of asset portfolios to the relevant business model (in particular the reasons for the past sale of financial assets within the framework of portfolios);
 - b) reviewing and assessing significant and objective qualitative data affecting the assignment of asset portfolios to the relevant business model (such as the value of sale of financial assets, carried out within the portfolios in earlier reporting periods (provided such sale took place), and the frequency of sale of financial assets within the portfolios (provided such sale took place));
 - c) analyzing expectations regarding the planned future value of financial assets and their frequency in the framework of portfolios;
2. determination - by identification and analysis of the contractual provisions of the financial asset with economic characteristics of the debt instrument that may affect the non-compliance of the SPPI criterion by the financial asset in question - whether the terms of the financial asset agreement result in the creation, at given time intervals, of cash flows constituting only the repayment of principal and interest.

The Group expects the following impact of IFRS 9 implementation on the classification and valuation of its financial assets:

Financial Asset Classes	Note	31 Dec. 2017	Financial Asset Categories and Valuation Method as per IAS 39	IFRS 9 Business Model	SPPI Criterion	Reclassification	Financial Asset Categories and Valuation Method as per IFRS 9
Cash and cash equivalents	5.12	489,754	Loans and receivables – valued at depreciated costs;	Maintenance of financial assets to obtain contractual cash flows	Met	None	Financial assets valued at depreciated costs
Bank deposits (value included in cash and cash equivalents)	5.12	168,396	Loans and receivables – valued at depreciated costs;	Maintenance of financial assets to obtain contractual cash flows	Met	None	Financial assets valued at depreciated costs
Loans granted	5.11	26,087	Loans and receivables – valued at depreciated costs;	Maintenance of financial assets to obtain contractual cash flows	Met	None	Financial assets valued at depreciated costs
Trade receivables	5.10	339,092	Loans and receivables – valued at depreciated costs;	Maintenance of financial assets to obtain contractual cash flows	Met	None	Financial assets valued at depreciated costs
Factoring receivables	5.10	47,256	Loans and receivables – valued at depreciated costs;	Maintenance of financial assets to obtain contractual cash flows	Met	None	Financial assets valued at depreciated costs



Financial Asset Classes	Note	31 Dec. 2017	Financial Asset Categories and Valuation Method as per IAS 39	IFRS 9 Business Model	SPPI Criterion	Reclassification	Financial Asset Categories and Valuation Method as per IFRS 9
Derivatives allotted as hedging instruments	5.7;5.11 ;8.2	75,554	Hedging instruments	Another business model	Not applicable	None	Hedging instruments

Financial Assets with Economic Characteristics of Debt Instruments

The Group expects that the implementation of IFRS 9 will not result in any change in the method of classification and valuation of its financial assets with economic characteristics of debt instruments. An exception could be made for trade receivables to be transferred to the factor as part of factoring without recourse. These receivables are held by the Group so that the entire trade receivable balance (agreed with the factor) may be assigned to the factor. The Group manages trade receivables designated for transfer to the factor under factoring without recourse in order to carry out cash flows through the sale of assets – obtaining cash flows arising from the agreement is not an integral part of the business model. Therefore, in accordance with IFRS 9, the Group classifies these receivables as financial assets measured at fair value through profit or loss, whereby - due to the relatively short period of maintenance of receivables subject to transfer to the factor, it does not expect - in its balance sheet - any significant impact of the classification change on the Group's financial standing.

Derivatives

IFRS 9 does not change the approach to the classification and measurement of derivatives.

Equities

The Group holds equity instruments (shares) which constitute financial assets within the meaning of IAS 39 and IFRS 9. According to IAS 39, the Group values its equity instruments at purchase price adjusted against impairment. The current net carrying amount of these instruments is close to zero.

According to IFRS 9, the Group will qualify its equity instruments in the category measured at fair value through profit or loss. As of 31 Dec. 2017, the Group estimated the value of its equities as close to zero. Therefore, it does not expect any significant impact of changes in their classification on the Group's financial standing.

Designation of Financial Assets to be Valuated at Fair Value Through Profit and Loss

The Group holds no financial assets designated for valuation at fair value through profit or loss.

The Group does not identify any financial assets that would need to be designated on 1 January 2018 at fair value through profit or loss in order to reduce the accounting mismatch that would have otherwise arisen as a result of the valuation of financial assets at depreciated costs or at fair value through other comprehensive income.

Financial Liabilities

As a result of the implementation of IFRS 9 requirements, the Group does not expect any changes in the classification of its financial liabilities as compared to the existing IAS 39 classification, which could have a significant impact on the balance sheet and/or the financial result of the Group.

b) Impairment

The new requirements for the determination of write-downs will primarily relate to the following types of financial assets in the Group's balance sheet:

1. Trade receivables,
2. Contract assets covered by IFRS 15,
3. Loans granted and purchased bonds,
4. Time deposits,

The Group estimates that the total impact of IFRS 9 on impairment charges will increase them by PLN 8.2 million.

It should be underlined that at the time of implementation of IFRS 9, a single change resulting from the adoption of new solutions will not be included in the financial result, and it will be recognised in retained earnings.

c) Hedge Accounting

On 1 January 2018, the Group decided to move to IFRS 9, as regards hedge accounting. The impact of IFRS 9 will depend on the nature and type of the hedging relationship, the performance test structure, and the fair value determination method.



As regards the hedging relationship applied by the Group, IFRS 9 will significantly affect the following issues:

1. The temporary value of options for the purchase of natural gas which, according to IAS 39, the Group left outside of hedge accounting, will be recognised - throughout the option life cycle - in a separate component of the equity as cost of collateral – value reclassified from the position of retained earnings to the item cost of collateral is PLN + 2.8 million (EUR 0.7 million).
2. The Group will use a new approach to the FX basis spread for CCIRS transactions, excluding it from the hedge accounting. Such spread will be recognized in a separate equity asset as collateral cost. The Group will use the opportunity provided by IFRS 9, applying that approach prospectively from the date on which IFRS 9 is used for the first time – value reclassified from the position of retained earnings to the item cost of collateral is PLN -2.4 million.

IFRS 15 “Revenue from Customer Agreements”

IFRS 15 “Revenue from Customer Agreements” is effective for annual periods beginning on or after 1 January 2018. The Group did not decide to adopt the standard earlier.

CIECH Group decided to apply IFRS 15 retrospectively with the recognition of the cumulative effect of the first application of this IFRS as an adjustment to the opening balance of retained earnings of the year 2018.

The standard introduces uniform requirements for all the entities as regards recognition of revenue from customer agreements, based on the 5-step model:

1. agreement identification,
2. identification of service obligations,
3. transactional price specification,
4. transactional price assignment to service obligations,
5. performance of service obligations.

In line with the standard, the entities should assess their customer agreements and set apart elements constituting separate service obligations within the meaning of the IFRS 15 definition. As for agreements stipulating more obligations of this type, each obligation will be assigned - in the next steps of the model - with expected remuneration, and the revenue will be recognized upon that condition being met. The service obligation identification requirement shall also apply to agreements where the settlement with the customer is based on the assumption of there being only one element (e.g. product sales) stipulated therein.

Based on the analysis of the IFRS 15 impact on the consolidated statement of Ciech Group, certain areas which must be adjusted in order to implement the new standard have been identified. The summary of the identified impact has been presented below. The information below does not contain adjustments that the Group did not introduce due to its immateriality:

Non-Cash Remuneration

As part of construction service agreements, the Group receives - apart from cash remuneration - raw materials extracted by the customer during the construction works, such materials being then used by the Group in its production process to manufacture its products. Until the end of 2017, revenues from free raw material use were not recognized in the financial statement.

Pursuant to IFRS 15, the Group - defining the transactional price for agreements where the customer has been obliged to pay non-cash remuneration - values such non-cash remuneration at fair value.

Any assets so received are initially recognized in the amount and at the moment specified in line with the standard corresponding to a given asset type.

The transactional price adjustment resulting from taking into account the fair value of raw materials extracted and provided to the Group during the agreement. Considering the current agreement implementation stage, the amount of PLN 25.2 million referred to the increase of retained revenues. The remaining difference, i.e. PLN 1.4 million will be recognized as revenue in the next periods. As of the moment of the first usage of the standard, it adjusted the cavern receivables balance.

The total value of the reserves adjustment for the agreement performance period in connection with taking into account the fair value of raw materials received was the same as the adjusted transactional price mentioned above. The value of the Group's own sale adjustment falling onto the agreement performance period until the moment of the first standard usage



amounts to PLN 21.6 million. The remaining part of the amount, i.e. PLN 3.6 million was recognized as the increase of value of reserves held in the balance as of the moment of the first standard usage.

1.5.3 IFRS 16 "Leases"

IFRS 16 "Leases" was issued by the International Accounting Standards Board on 13 January 2016 and is effective for annual periods beginning on or after 1 January 2019. The Group did not decide to adopt the standard earlier. As of this statement date, the Group is assessing the IFRS 16 impact on the Group's consolidated financial statements.

The standard has introduced a new leasing definition. Any agreement shall be deemed to be or include leasing where by the virtue thereof the right to control the usage of an identified asset for a given period is given in return for remuneration. The agreement gives the right to exercise control of using an identified asset for a given period, if throughout the whole useful life of such asset, the customer holds the entire right to use, in principle, any and all benefits arising from such use, along with the right to manage such use. In practice, the entities are not obliged to reassess whether the agreement constitutes leasing on the first day of the standard usage. Instead, it is possible not to use the new definition in agreements which have been previously assessed against leasing in accordance with IAS 17 and IFRIC 4. Applying the aforementioned simplification on identifying whether the agreement is indicative of leasing, the new leasing definition should be applied only to agreements concluded after 1 Jan. 2019.

Where an agreement is or includes leasing, the entity shall recognize each leasing element as leasing separately from non-leasing elements, unless it can utilize a practical solution. As a practical solution, the lessee may elect not to separate non-leasing elements and recognize the whole agreement as a single leasing element instead.

In the case of lessees, IFRS 16 steps away from dividing leasing into operational and financial leasing, introducing one model for accounting recognition, which - in principle - corresponds with the previous accounting model used for finance leases. The lessee will be required to recognise: (a) assets and liabilities for all leasing transactions with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss. In the case of lessors, IFRS 16 substantially carries forward the requirements set forth in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Note 7.5 of this consolidated financial statement presents cumulative amounts of future minimum fees for concluded operating lease agreements, as at 31 Dec. 2017. The numerical data presented herein indicates approximate amounts of additional lease liabilities which should be recognized in the financial standing statement, if all the agreements were treated as leases within the meaning of IFRS 16. After the application of the new standard, all the operating leases will be disclosed in the financial standing statement which, in consequence, may increase the balance sheet total (resulting from the recognition of fixed assets in the statement of financial position as the right to use the assets and, on the opposite side, as a lease liability) and change the classification of costs in the statement of profit or loss (where lease expenses will be replaced by the costs of depreciation and interest). It should be underlined, however, that in order to define the amount of additional liabilities which would be revealed pursuant to IFRS 16, the amounts mentioned in the note would need to be adjusted to the current value through an appropriate discount rate. Consequently, the potential lease obligation would be lower than the amounts presented. Furthermore, the period of assumed lease payment projections refers only to the irrevocable lease period, while pursuant to IFRS 16, the lease period requiring recognition of lease obligations, also takes into account the potential periods resulting from the extension or early termination of the agreement, if one of the aforementioned scenarios is sufficiently certain according to the entity's assessment. In the case of extendible agreements, the lease obligation would be higher, while the termination options would lead to a decrease of the liability amount.

Moreover, the Group companies recognise the right of perpetual usufruct acquired free of charge on the basis of administrative decisions as operating lease. It should be noted, however, that as of the day of preparing this statement, there are no final interpretations regarding recognition of such assets upon IFRS 16 becoming effective. That is why the Group cannot estimate, at the moment, the impact of the standard becoming effective on the consolidated financial statement as regards such rights. If the right of perpetual usufruct was treated as a lease within the meaning of IFRS 16, the recognition of assets held by the Group under this right would have a significant impact primarily on the total assets.

The Group has been considering the usage of simplifications, stipulated in the standard, for short-term leases and low value asset leases. It has been assumed that low value assets are assets whose unit value does not exceed approximately PLN 17 thousand, i.e. approximately USD 5 thousand. Short-time leases are leases whose term is below 12 months. The Group has been trying to identify agreements subject to the aforementioned simplifications. As of the day of preparing this consolidated statement, the analysis has not been finalized, and the potential impact of the new rules cannot be specified yet.



Moreover, the Group needs to decide whether it will use the proposed simplification, or utilize the lease agreement identification standard for agreement which have not been previously identified as lease agreements, as per IAS 17 and IFRIC 4. As of the day of preparing this statement, the decision on using the simplification has not been made yet.

The entry of IFRS 16 into force may also affect the determination of the ratio calculated in relation to the loan agreement. Should this be the case, CIECH Group will seek to update the definition in the loan agreement, so that the change in presentation will have no adverse impact on the level of ratios calculated.



2 SEGMENT REPORTING

The CIECH Group's operating segments are designated on the basis of internal reports related to the components of the Group and are regularly reviewed by the Management Board, which is responsible for operating decisions aimed at allocating resources to segments and assessing the subsidiaries performance.

From the product perspective, the CIECH Group has been divided into the following operating segments:

Soda segment – the most important manufactured goods in the scope of the segment products are: light and dense soda ash, evaporated salt, sodium bicarbonate and calcium chloride. The products of this segment are sold mainly by the parent company CIECH S.A. Production of the soda segment goods manufactured by the CIECH Group is implemented in CIECH Soda Polska S.A., the Romanian company CIECH Soda Romania S.A. and in the German company CIECH Soda Deutschland GmbH&Co. KG. (the German company also sells its products on its own). Soda segment goods are used in the glass, food, detergent and pharmaceutical industries.

Organic segment – the CIECH Group is a producer of a variety of organic compounds manufactured by the companies: CIECH Sarzyna S.A. and Ciech Pianki Sp. z o.o. In 2017, it was producing, among others, polyurethane foams, epoxy resins and polyester resins. These products are used in the following industries: furniture, automotive, paints and electronics. The Group also produces crop protection chemicals used in agriculture.

Silicates and glass segment includes mainly the products of CIECH Vitrosilicon S.A. and CIECH Soda Romania S.A. Products manufactured by Ciech Soda Romania S.A. are sold by CIECH S.A. The Silicates and Glass Segment covers the production of glass and soda glaze, as well as glass packaging (lanterns and jars). The goods made of glass are used in construction and food industries, and for production of headstone lamps.

The transport segment is concentrated in the CIECH Cargo Sp. z o.o., rendering rail transport services in Poland, within the scope of: rental of rail carriages, rail cargo transport and maintenance services of rail sidings. The Transport segment includes also forwarding activities carried out by CIECH S.A. since 2016 for its subsidiaries, i.e. CIECH Pianki Sp. z o.o., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Trading S.A.

Other activities segment covers mainly services rendered outside the Group and goods sold mainly by CIECH S.A. and CIECH Trading S.A.

Information for a given operating segment may include sales of products and goods also included in the core product range of other divisions. Such items, however, are not significant for those divisions' management accounting.

The Group financing is managed (including finance expenses and incomes with the exception of interest on trade receivables and liabilities) and income tax is calculated on the Group level and they are not allocated to particular segments.

The CIECH Group has been divided into the following geographical areas: Poland, European Union, Other European countries, Africa, Asia, Other regions. Information on the Group geographical areas is established based on the Group's assets localisation.

Reporting segments are identical to operating segments. Revenues and costs, assets and liabilities of segments are recognised and valued in a manner consistent with the method used in the consolidated financial statements.

Operational segments results are assessed by the CIECH S.A.'s Management Board on the basis of sales revenue, operating profit, level of EBITDA and adjusted EBITDA.

EBITDA should be viewed as a supplement not as a substitute for the business performance presented in accordance with IFRS. EBITDA is a useful ratio of the ability to incur and serve debt. EBITDA and adjusted EBITDA levels are not defined by the IFRS and can be calculated in a different manner by other entities. The reconciliation and definitions applied by the CIECH Group when determining these measures are presented below.



	01.01.-31.12.2017	01.01.-31.12.2016
Net profit/(loss) on continuing operations	393,975	594,136
Income tax	121,770	30,814
Share of profit / (loss) of equity-accounted investees	(225)	(674)
Financial expenses	86,787	59,595
Financial income	(13,499)	(23,551)
Amortisation/depreciation	244,388	223,474
EBITDA on continued operations	833,196	883,794

	01.01.-31.12.2017	01.01.-31.12.2016
EBITDA on continued operations	833,196	883,794
One-offs including:	(25,059)	(6,962)
Impairment (a)	1,238	1,612
Cash items (b)	(2,017)	(3,371)
Non-cash items (without impairment) (c)	(24,280)	(5,203)
Adjusted EBITDA from continuing operations	808,137	876,832

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

(b) Cash items include, among others, profit/loss of the sale of property, plant and equipment and other items (including fees and compensations received or paid).

(c) Non-cash items include: fair value valuation of investment properties, environmental provisions, provisions for liabilities and compensation, costs of unused production capacity, costs of development activities written-off and other items (including extraordinary costs and other provisions).



OPERATING SEGMENTS OF THE CIECH GROUP

Revenue and costs data as well as assets, equity and liabilities data of particular CIECH Group operating segments for periods disclosed in statements are presented in the tables below:

OPERATING SEGMENTS 01.01.-31.12.2017	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions - reconciliation item	Eliminations (consolidation adjustments)	TOTAL
Revenues from third parties	2,381,486	869,189	229,336	11,097	88,285	-	-	3,579,393
Revenue from inter-segment transactions	48,434	2,368	9	113,357	34,507	-	(198,675)	-
Total sales revenues	2,429,920	871,557	229,345	124,454	122,792	-	(198,675)	3,579,393
Cost of sales	(1,673,847)	(718,489)	(176,945)	(107,599)	(94,694)	-	108,845	(2,662,729)
Gross profit /(loss) on sales	756,073	153,068	52,400	16,855	28,098	-	(89,830)	916,664
Selling costs	(242,522)	(62,046)	(30,019)	(2,966)	(11,165)	(1,119)	86,356	(263,481)
General and administrative expenses	(59,905)	(19,688)	(5,058)	(3,644)	(5,580)	(49,586)	2,059	(141,402)
Result on management of receivables	8,227	1,823	83	-	(197)	-	-	9,936
Result on other operating activities	61,162	(6,283)	(219)	(481)	12,701	807	(596)	67,091
Operating profit /(loss)	523,035	66,874	17,187	9,764	23,857	(49,898)	(2,011)	588,808
Exchange differences and interest on trade settlements	(16,322)	(11,621)	(279)	(137)	432	-	-	(27,927)
Group borrowing costs	-	-	-	-	-	(38,352)	-	(38,352)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	(7,009)	-	(7,009)
Share of profit / (loss) of equity-accounted investees	225	-	-	-	-	-	-	225
Profit /(loss) before tax	506,938	55,253	16,908	9,627	24,289	(95,259)	(2,011)	515,745
Income tax	-	-	-	-	-	-	-	(121,770)
Net profit /(loss) for the period	-	-	-	-	-	-	-	393,975
Amortization/depreciation	181,335	29,894	19,657	5,846	2,443	5,213	-	244,388
EBITDA	704,370	96,768	36,844	15,610	26,300	(44,685)	(2,011)	833,196
Adjusted EBITDA*	690,667	96,517	36,768	16,064	14,858	(44,727)	(2,010)	808,137

* Adjusted EBITDA for the 12-month period ended 31 December 2017 is calculated as EBITDA adjusted for untypical one-off events: valuation of investment properties to fair value: PLN 11.5 million; changes in provisions: PLN 10.4 million; gain on disposal of non-financial non-current assets: PLN 2.9 million, change in impairment losses on assets: PLN -1.2 million, other: PLN 1.5 million.



OPERATING SEGMENTS 01.01.-31.12.2016	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions - reconciliation item	Eliminations (consolidation adjustments)	TOTAL
Revenues from third parties	2,417,253	761,977	190,164	11,393	74,548	-	-	3,455,335
Revenue from inter-segment transactions	29,315	4,142	4	107,827	33,645	-	(174,933)	-
Total sales revenues	2,446,568	766,119	190,168	119,220	108,193	-	(174,933)	3,455,335
Cost of sales	(1,567,354)	(629,231)	(139,118)	(104,755)	(75,906)	-	100,694	(2,415,670)
Gross profit /(loss) on sales	879,214	136,888	51,050	14,465	32,287	-	(74,239)	1,039,665
Selling costs	(214,801)	(52,139)	(24,325)	(1,068)	(7,935)	(1,428)	70,234	(231,462)
General and administrative expenses	(54,403)	(22,082)	(8,183)	(5,133)	(5,462)	(64,822)	2,095	(157,990)
Result on management of receivables	(4,850)	(5,125)	(89)	(44)	(1,547)	-	-	(11,655)
Result on other operating activities	27,498	(9,379)	772	(5,143)	12,707	(4,092)	(601)	21,762
Operating profit /(loss)	632,658	48,163	19,225	3,077	30,050	(70,342)	(2,511)	660,320
Exchange differences and interest on trade settlements	(7,560)	(16,501)	262	(288)	18	-	-	(24,069)
Group borrowing costs	-	-	-	-	-	(33,333)	-	(33,333)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	21,358	-	21,358
Share of profit / (loss) of equity-accounted investees	674	-	-	-	-	-	-	674
Profit /(loss) before tax	625,772	31,662	19,487	2,789	30,068	(82,317)	(2,511)	624,950
Income tax	-	-	-	-	-	-	-	(30,814)
Net profit /(loss) for the period	-	-	-	-	-	-	-	594,136
Amortization/depreciation	166,779	29,669	15,450	5,777	1,152	4,647	-	223,474
EBITDA	799,437	77,832	34,675	8,854	31,202	(65,695)	(2,511)	883,794
Adjusted EBITDA*	793,921	79,543	34,676	13,976	19,015	(61,769)	(2,530)	876,832

*Adjusted EBITDA for the 12-month period ended 31 December 2016 is calculated as EBITDA adjusted for untypical one-off events: valuation of investment property at fair value: PLN 14.3 million; costs of unused production capacity: PLN -4.8 million; costs of written-off development activities: PLN -2.2 million; gain on disposal of non-financial non-current assets: PLN 2.0 million; change in impairment losses on assets: PLN -1.5 million; other: PLN -0.8 million.



SALES REVENUES — BUSINESS SEGMENTS

	01.01-31.12.2017	01.01-31.12.2016	Change 2017/2016	Change %
Soda segment, including:	2,429,920	2,446,568	(16,648)	(0.7%)
Dense soda ash	1,371,834	1,432,439	(60,605)	(4.2%)
Light soda ash	490,220	448,085	42,135	9.4%
Salt	169,909	181,374	(11,465)	(6.3%)
Sodium bicarbonate	158,309	162,390	(4,081)	(2.5%)
Energy	97,645	90,853	6,792	7.5%
Gas*	7,645	20,124	(12,479)	(62.0%)
Calcium chloride	25,614	23,256	2,358	10.1%
Other products	60,310	58,732	1,578	2.7%
Revenues from inter-segment transactions	48,434	29,315	19,119	65.2%
Organic segment, including:	871,557	766,119	105,438	13.8%
Resins	316,452	297,891	18,561	6.2%
Polyurethane foams	314,174	245,120	69,054	28.2%
Crop protection chemicals	224,032	208,903	15,129	7.2%
Other	14,531	10,063	4,468	44.4%
Revenues from inter-segment transactions	2,368	4,142	(1,774)	(42.8%)
Silicates and Glass segment, including:	229,345	190,168	39,177	20.6%
Sodium silicates	144,291	106,562	37,729	35.4%
Potassium silicates	5,696	5,048	648	12.8%
Container glass	78,578	77,279	1,299	1.7%
Other	771	1,275	(504)	(39.5%)
Revenues from inter-segment transactions	9	4	5	125.0%
Transport segment, including:	124,454	119,220	5,234	4.4%
Transport services	11,097	11,393	(296)	(2.6%)
Revenues from inter-segment transactions	113,357	107,827	5,530	5.1%
Other segment, including:	122,792	108,193	14,599	13.5%
Revenues from third parties	88,285	74,548	13,737	18.4%
Revenues from inter-segment transactions	34,507	33,645	862	2.6%
Consolidation adjustments	(198,675)	(174,933)	(23,742)	(13.6%)
TOTAL	3,579,393	3,455,335	124,058	3.6%

* Resale of surpluses of the gas purchased.

ASSETS AND LIABILITIES BY OPERATING SEGMENTS

	ASSETS		LIABILITIES	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Soda segment	2,639,825	2,553,494	229,225	217,161
Organic segment	562,745	527,848	122,413	123,634
Silicates and glass segment	162,523	172,186	31,021	22,378
Transport segment	60,798	66,295	12,070	12,763
Other operations segment	110,549	68,349	25,026	32,189
Corporate functions - reconciliation item	1,141,929	1,157,669	2,071,535	2,370,033
Eliminations (consolidation adjustments)	(34,858)	(43,949)	(32,424)	(39,758)
TOTAL	4,643,511	4,501,892	2,458,866	2,738,400



INFORMATION ON GEOGRAPHICAL AREAS

Information on the CIECH Group geographical areas is established based on the Group's assets localisation.

ASSETS DIVIDED ON GEOGRAPHICAL REGIONS	Non-current assets other than financial instruments	Deferred income tax assets	Other assets	Total assets
31.12.2017				
Poland	2,178,433	107,411	1,067,014	3,352,858
European Union (excluding Poland)	875,457	-	321,984	1,197,441
Other European countries	-	-	35,286	35,286
Africa	-	-	3,779	3,779
Asia	-	-	53,590	53,590
Other regions	-	-	557	557
TOTAL	3,053,890	107,411	1,482,210	4,643,511
31.12.2016				
Poland	2,008,662	199,866	915,484	3,124,012
European Union (excluding Poland)	922,211	-	346,472	1,268,683
Other European countries	-	-	52,816	52,816
Africa	-	-	2,852	2,852
Asia	-	-	50,550	50,550
Other regions	-	-	2,979	2,979
TOTAL	2,930,873	199,866	1,371,153	4,501,892

SALES REVENUES – GEOGRAPHICAL STRUCTURE OF MARKETS

	01.01-31.12.2017	01.01-31.12.2016	Dynamics 2017/2016
Poland	1,500,408	1,318,520	13.8%
European Union (excluding Poland)	1,557,412	1,649,109	(5.6%)
Germany	625,420	693,675	(9.8%)
Romania	149,639	137,740	8.6%
Czech Republic	156,254	156,427	(0.1%)
Italy	82,412	99,963	(17.6%)
The Netherlands	115,542	109,156	5.9%
Finland	59,420	58,177	2.1%
Sweden	76,288	70,560	8.1%
Belgium	35,927	29,700	21.0%
United Kingdom	49,542	52,582	(5.8%)
Denmark	24,323	35,416	(31.3%)
France	42,739	51,885	(17.6%)
Luxembourg	15,613	25,277	(38.2%)
Lithuania	18,091	20,332	(11.0%)
Other EU countries	106,202	108,219	(1.9%)
Other European Countries	244,974	246,022	(0.4%)
Switzerland	101,021	131,647	(23.3%)
Norway	41,029	40,356	1.7%
Russia	22,058	13,221	66.8%
Other European countries	80,866	60,798	33.0%
Africa	54,532	73,421	(25.7%)
Asia	188,348	147,890	27.4%
China	235	42	459.5%
Other Asian countries	188,113	147,848	27.2%
Other regions	33,719	20,373	65.5%
TOTAL	3,579,393	3,455,335	3.6%



3

NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

3.1. SALES REVENUES

Accounting policy

Revenues from the sale of products and goods are recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer.

Revenues from services rendered are recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed. Revenues are not recognised when significant doubts exist as to the collectibility of the amounts due or the reimbursement of costs, or as to the amounts of potential returns of goods and products.

Revenues from the sales of products and goods in foreign currencies are recognised in profit or loss at the NBP's average exchange rate from the date preceding the date of invoice, when the significant risks and rewards of ownership have been transferred to the buyer.

SALES REVENUES	01.01-31.12.2017	01.01-31.12.2016
Revenues from sales of products and services	3,467,900	3,348,436
- products	3,439,511	3,321,369
- services	28,389	27,067
Revenues from sales of goods and materials	111,493	106,899
- goods	108,552	104,361
- materials	2,941	2,538
Net sales of products, goods and materials	3,579,393	3,455,335

3.2. COST OF SALES

Accounting policy

Expenses are probable decreases in economic benefits in the form of outflows or depletions of assets or increases in liabilities and provisions.

Cost of sales comprises the production cost of products and services sold and the value of sold goods and materials.

Selling costs include, among others: sales commissions and the costs of advertising, promotion and distribution.

General and administrative expenses are expenses associated with activities of the entity's management or those of general functions.

COST OF SALES	01.01-31.12.2017	01.01-31.12.2016
Cost of manufacture of products and services sold	(2,569,707)	(2,329,436)
Cost of sold goods and materials sold	(92,402)	(86,512)
Reversal of impairment losses on inventory	6,922	4,601
Recognition of impairment losses on inventory	(7,542)	(4,323)
TOTAL	(2,662,729)	(2,415,670)



3.3. COSTS BY TYPE

COST BY KIND (SELECTED)	01.01-31.12.2017	01.01-31.12.2016
Amortisation	(243,885)	(221,601)
Consumption of materials and energy	(1,819,018)	(1,761,475)
Employee benefits, including:	(338,857)	(332,492)
- payroll	(273,670)	(269,188)
- social security and other benefits	(63,288)	(61,493)
- expenditure on retirement benefit and jubilee awards (including provisions)	(781)	(491)
- expenditure on pension schemes with defined benefits	(402)	(416)
- other	(716)	(904)
External services	(395,324)	(366,523)

3.4. OTHER OPERATING INCOME AND EXPENSES

Accounting policy

The reporting period's results are also affected by **other operating income and expenses** indirectly related to the Group's core operations. The key items include:

- ✓ gains/ losses on disposal and liquidation of non-financial non-current assets,
- ✓ gains/ losses on sales of emission rights,
- ✓ recognition/ reversal of impairment losses (including allowances for doubtful receivables) and recognition/ reversal of provisions,
- ✓ revenue / expenses associated with construction contracts – when the outcome of the contract can be estimated reliably, contract revenue and expenses are recognised in accordance with the stage of completion of the contract. The stage of completion is determined by comparing the work physically performed to the contracted work, or as a proportion between the costs incurred for work performed to date and the estimated total contract costs or completion of a physical proportion of the contract work. An expected loss on a construction contract should be recognised as an expense as soon as such loss is probable,
- ✓ income from rental of investment property is recognised in profit or loss on a straight-line basis over the lease term. Any lease incentives granted are an integral part of the net consideration agreed for the use of the asset,
- ✓ gains/losses on valuation of fair value of investment property,
- ✓ unused production capacity.

Subsidies

Government subsidies are recognised when there is reasonable assurance that the subsidy will be received and that the entity will comply with all relevant conditions of the subsidy. Subsidies are recognised as income in profit or loss on a systematic basis when the entity recognises, as expenses, the related costs that the subsidies are intended to compensate.

Government subsidies related to assets, including non-monetary subsidies at fair value, are presented in the balance sheet by setting up the subsidy as deferred income. It is recognised as income over the useful life of the asset. Repayment of a subsidy related to income should be applied first against any unamortised deferred credit set up in respect of the subsidy. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment should be recognised immediately in profit or loss. Repayment of a subsidy related to an asset should be recorded by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable.

Judgements and estimates

Impairment of non-financial assets

The carrying amounts of the company's non-financial assets, other than inventory and deferred tax assets, are reviewed at reporting date to determine whether there is any indication of impairment. If any such indication exists, then the company estimates the recoverable amount of the respective cash-generating unit.

For intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date, irrespective of the existence of the aforesaid indications.



The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. The recoverable amount is determined for individual assets, unless the asset does not generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If the asset's carrying amount exceeds its recoverable amount, an impairment loss is recognised against the carrying amount of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

Impairment losses are recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the unit (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. Impairment losses are recognised in profit or loss. Impairment losses in respect of assets are recognised in those expense categories that correspond to the function of the asset to which they relate.

OTHER OPERATING INCOME	01.01-31.12.2017	01.01-31.12.2016
Subsidies	11,481	10,747
The right to emit greenhouse gases	24,920	-
Rents/lease income	2,904	2,609
Gain on disposal of non-financial non-current assets	579	2,049
Reversal of impairment allowances on receivables	11,445	780
Reversal of impairment losses on property, plant and equipment and intangible assets	1,727	133
Reversal of provisions on employee benefits	1,262	1,577
Reversal of provisions for compensation – changing the base	5,035	81
Reversal of provisions for environmental protection – changing the base	464	1,047
Reversal of provisions for liabilities – changing the base	9,941	16,115
Reversal of other provisions- changing the base	4,607	5,115
Penalty fees and compensations received	1,777	5,064
Refund of taxes and charges	4,156	3,935
Revenues from caverns	6,902	3,741
Valuation of investment property in fair value	11,515	14,347
Other services	3,427	3,120
Other	14,418	16,150
TOTAL	116,560	86,610

As at 31 December 2017, the CIECH Group made an assessment of premises, originating both from external and internal sources of information, of indicators of impairment. These analyses did not indicate the need to estimate the recoverable value.

Subsidies

Subsidies recognised in the statement of profit or loss in the reporting period amounted to PLN 11,481 thousand (PLN 10,747 thousand in the comparable period) settled over time in proportion to the depreciation/amortisation of non-current assets to which they relate. Subsidies included in liabilities as at 31 December 2017 amounted to PLN 82,604 thousand (compared to PLN 92,335 thousand as at 31 December 2016). The CIECH Group companies receive subsidies for research and development activities, purchase of property, plant and equipment and for adapting investment projects to environmental requirements. The subsidies are mainly received by the CIECH Group companies from the European Regional Development Fund.



The most significant subsidies are as follows:

SIGNIFICANT SUBSIDIES RECEIVED BY:	CIECH Soda Polska S.A.	CIECH Sarzyna S.A.	CIECH Vitrosilicon S.A
“Establishment of an exhaust gas desulphurisation plant in CHP plant in Janikowo”	15,904		
“Extension of CKTI boilers in CHP plant Janikowo in order to adjust them to environmental requirements – CKTI 2 boiler”	13,443		
“Extension of CKTI boiler No. 3 in order to adjust CHP plant in Janikowo to environmental requirements”	9,591		
“Extension of the centre of decantation and filtration of distillation sludge in the Plant in Inowroclaw”	10,930		
“Construction of an innovative MCPA and MCPP-P manufacturing system”		39,997	
“Developing and testing, on a demonstrable scale, internationally innovative agro-chemical preparations of a unique composition and formulation”		14,645	
“BarvaGlass packaging glass - Vitrosilicon turns vision into reality”			7,537

Other forms of State aid

In 2017, the CIECH Group consistently pursued its strategy of strengthening its market position and developing its product portfolio that ensures high profitability. The Group's value growth is possible, among other things, owing to continuous investments in innovative solutions and technologies. Research and development which enables the Group to offer innovative products is an important tool for successful competition on the market. It is the implementation of research and development projects that allows the Group to continuously expand its product portfolio and respond to emerging market trends. The CIECH Group companies, which are beneficiaries of EU Funds, received in 2017 an amount of approximately PLN 1.4 million for the implementation of R&D projects on the basis of agreements concluded in 2016.

Further development of products in the area of crop protection chemicals and resins will be based on own research carried out in a modern research and development centre in Nowa Sarzyna. The investment is co-financed with funds from the Operational Programme Smart Growth. Under the co-financing agreement signed in 2017, CIECH R&D Sp. z o.o. will receive over PLN 8 million of aid for the implementation of the project: “Establishment of a Research and Development Center of Ciech R&D Sp. z o.o.”. Also investment projects in the production area are implemented with the participation of funds from public sources. The CIECH Group uses both financial support and income tax exemptions. CIECH Soda Deutschland GmbH & Co.KG, operating in Stassfurt (Germany), has received a decision on granting a co-financing in the amount of approximately PLN 46.9 million (EUR 11.25 million) for an investment project aimed at the construction of a new evaporated salt production plant. In turn, CIECH Soda Polska S.A. benefits from the exemption from corporate income tax due to conducting business activities in the Pomeranian Special Economic Zone. The amount of CIT unpaid in 2017 was PLN 3.6 million.

Construction contracts

The SDC Group, in accordance with IAS 11 “Construction Contracts”, attributes revenues and costs connected with contracts concerning cavern desalination to particular periods in which the works were conducted.

- **Project 1** – the project has been completed, all caverns were handed over, as at the end of 2017, there are no receivables from this project in the balance sheet (as at 31 December 2016, they amounted to PLN 2,044 thousand, or EUR 462 thousand).
- **Project 2** –the Contract includes the sale of mining rights, land and preparation of four gas caverns (S113 to S116). The stage of completion is determined as a proportion between the costs incurred for work performed to date and the estimated total contract costs or completion of a physical proportion of the contract work.

Revenue recognised in statement of profit or loss for 2017 represent the amount of the expected sales revenues multiplied by the percentage of completion of the contract in the accounting period.

The results on construction contract (Project 2) recognised in other operating income for 2017 amounted to PLN 6,902 thousand (EUR 1,626 thousand). In the comparable period, it amounted to PLN 3,741 thousand (EUR 855 thousand). The receivables relating to the construction contract (Project 2) recognised in assets as long-term receivables amounted to PLN 81,552 thousand (EUR 19,553 thousand) as at the end of 2017. As at 31 December 2016, they amounted to PLN 99,106 thousand (EUR 22,402 thousand).

The total amount of costs incurred and profits recognised (less recognised losses) due to ongoing contracts for the period of duration of these contracts amounted to PLN 143,704 thousand (in the comparable period: PLN 148,139 thousand).



OTHER OPERATING EXPENSES	01.01-31.12.2017	01.01-31.12.2016
Costs related to investment property	(1,648)	(1,661)
Recognition of impairment losses on receivables	(1,509)	(12,435)
Recognition of impairment losses on property, plant and equipment and intangible assets	(2,965)	(1,674)
Recognition of provisions on employee benefits	(1,279)	(1,475)
Recognition of provisions for restructuring - changing the base	(9)	-
Recognition of provisions for compensation – changing the base	(884)	(973)
Recognition of provisions for environmental protection – changing the base	(50)	(188)
Recognition of provisions for liabilities – changing the base	(2,686)	(8,709)
Recognition of provision for anticipated losses - changing the base	(1,677)	(6,964)
Recognition of other provisions - changing the base	(1,447)	(7,433)
Liquidation costs of property, plant and equipment	(362)	(771)
Liquidation costs of materials	(1,622)	(879)
Amortisation/depreciation	(503)	(1,873)
Costs of idle assets and production capacity	(11,053)	(15,402)
Costs of remediating the effects of fortuitous events	(797)	(2,584)
Receivables written-off	(3,759)	(2,188)
Penalties and compensations paid	(1,129)	(2,324)
Other	(6,154)	(8,970)
TOTAL	(39,533)	(76,503)

The total amount of expenditure on research and development expensed in the period, as not meeting the capitalisation criteria, amounted to PLN 1,464 thousand (PLN 394 thousand in the comparable period).

3.5. FINANCIAL INCOME AND EXPENSES

Accounting policy

Financial income and expenses relate to an entity's financing activities including the acquisition and disposal of equity, securities, drawing of loans and borrowings, issuance of debt securities. Accordingly, key items of financing activities include:

- ✓ interest on borrowings determined based on the effective interest method,
- ✓ interest earned by the Group on cash and cash equivalents (bank deposits and accounts loans granted and receivables) – accounted for in the profit and loss on accrual basis using the effective interest method,
- ✓ dividend income – recognised in profit or loss when the Group's right to receive payment is established,
- ✓ write-downs on investments,
- ✓ net foreign exchange gains or losses,
- ✓ gains/ losses on sales of financial assets,
- ✓ ineffective portion of hedge accounting.

FINANCIAL INCOME	01.01-31.12.2017	01.01-31.12.2016
Interest	6,158	4,930
Dividends and shares in profit	737	930
Net foreign exchange gains	-	5,301
Reversal of impairment losses	968	207
Decrease in provisions due to change in discount rate	3,031	57
Income from liquidated companies	454	-
Ineffective portion of hedge accounting	1,287	1,862
Reversal of provision of financial liabilities	748	7,477
Other	116	2,787
TOTAL	13,499	23,551



FINANCIAL EXPENSES	01.01-31.12.2017	01.01-31.12.2016
Total interest	(41,059)	(35,765)
Net foreign exchange losses	(32,603)	-
Recognition of other impairment losses	(989)	-
Factoring commissions	(3,996)	(3,503)
Bank fees and commissions	(3,523)	(3,279)
Recognised provisions	(1,321)	(8,808)
Increase in provisions due to change in discount rates	(513)	(5,473)
Costs of discounting of liabilities	-	(2,080)
Other	(2,783)	(687)
TOTAL	(86,787)	(59,595)

3.6. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Tax effect of each component of other comprehensive income of the CIECH Group

Tax effect of each component of other comprehensive income of the CIECH Group	01.01-31.12.2017			01.01-31.12.2016		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Net currency at translation differences	(24,121)	(3,351)	(27,472)	4,714	2,151	6,865
Cash flow hedge	69,226	(13,899)	55,327	(38,242)	8,940	(29,302)
Valuation of actuarial provisions	(834)	156	(678)	685	(130)	555
Other components of other comprehensive income	1	-	1	(76)	-	(76)
TOTAL	44,272	(17,094)	27,178	(32,919)	10,961	(21,958)

Income tax and reclassification adjustments in other comprehensive income

Other comprehensive income before tax	01.01-31.12.2017	01.01-31.12.2016
Currency translation differences (foreign companies)	(24,121)	4,714
remeasurement for the current period	(24,121)	4,714
Cash flow hedge	69,226	(38,242)
fair value remeasurement in the period	80,207	(23,777)
reclassification to profit or loss	(10,981)	(14,465)
Valuation of actuarial provisions	(834)	685
remeasurement for the current period	(834)	685
Other components of other comprehensive income	1	(76)
remeasurement for the current period	1	(76)
Income tax attributable to other components of other comprehensive income	(17,094)	10,961
accrued for the current period	(19,353)	8,212
reclassification to profit or loss	2,259	2,749
Other comprehensive income net of tax	27,178	(21,958)



4

INCOME TAX, DEFERRED TAX ASSETS AND LIABILITY

4.1. MAIN COMPONENTS OF TAX EXPENSE

Accounting policy**Current tax**

Current tax receivables and liabilities for the current and prior periods are measured in the amount of the expected tax amount to be paid to tax authorities (recoverable from tax authorities) using tax rates and tax laws that are legally or substantively enacted at the reporting date.

The main components of tax expense include:

THE MAIN COMPONENTS OF TAX EXPENSE (TAX INCOME)	01.01.-31.12.2017	01.01.-31.12.2016
Current income tax	(49,605)	(53,783)
Income tax for the reporting period	(43,131)	(52,904)
Adjustment to tax for previous years	(6,474)	(879)
Deferred tax	(72,165)	22,969
Origination/reversal of temporary differences	(37,813)	20,986
Unrecognized deferred tax assets	(34,352)	1,983
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS	(121,770)	(30,814)

INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME	01.01.-31.12.2017	01.01.-31.12.2016
Net currency at translation differences	(3,351)	2,151
Cash flow hedge	(13,899)	8,940
Valuation of actuarial provisions	156	(130)
TOTAL	(17,094)	10,961

4.2. EFFECTIVE TAX RATE

The following represents a reconciliation of income tax calculated by applying the currently enacted statutory tax rate to the Group's pre-tax financial result to income tax calculated based on the effective tax rate:

EFFECTIVE TAX RATE	01.01.-31.12.2017	01.01.-31.12.2016
Profit/(loss) before tax	515,745	624,950
Income tax based on currently enacted tax rate	(97,992)	(118,740)
Difference due to the application of tax rates of other tax jurisdictions	(7,871)	(13,886)
Withholding tax unrealised	(386)	(257)
Tax effect of revenues adjusting profit (loss) before taxes (permanent difference)	6,162	17,869
Effect of participation in equity-accounted investees	132	53
Tax effect of costs adjusting profit (loss) before taxes (permanent difference)	(11,347)	(23,077)
Current income tax adjustment of previous years	(4,028)	3,343
Deferred tax asset from tax losses from previous years	-	8,976
Tax losses from statement periods from which deferred tax asset was not included	(13)	-
Special economic zone	10,457	95,831
Tax reliefs	(145)	(248)
Writing down of the asset for deferred tax	(14,717)	-
Other	(2,022)	(678)
Income tax recognised in income statement	(121,770)	(30,814)
EFFECTIVE TAX RATE	23.6%	4.9%



4.3. DEFERRED INCOME TAX

Accounting policy

Deferred tax

Deferred tax is recognised in respect of temporary differences between the tax values of assets and liabilities and the carrying amounts recognised in the financial statements.

Deferred tax liability is recognised for all taxable temporary differences, unless the deferred tax liability arises from:

- ✓ the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit, or
- ✓ unless the investor is able to control the timing of the reversal of temporary differences in respect of investments in subsidiaries, associates and joint ventures, and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences and for unused tax credits and tax losses carried forward to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised:

- ✓ unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit, and
- ✓ deductible temporary differences in respect of investments in subsidiaries, associates and joint ventures are recognised in statement of financial position only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of a deferred tax asset is reviewed at the end of every reporting period and is reduced to the extent that it is no longer probable that sufficient taxable income will be available against which the asset can be utilised. Any previously unrecognised deferred tax asset is reassessed at each reporting date and is recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are valued at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the tax rates and laws that have been enacted at the reporting date or whose application in the future is certain at the reporting date.

Income tax related to items recognised outside profit or loss statement is itself recognised outside profit or loss: either in other comprehensive income, when it relates to items recognised in other comprehensive income, or directly in equity, when it relates to items recognised directly in equity.

Deferred tax assets and liabilities are offset solely if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity.

Judgements and estimates

Deferred tax

Deferred income tax asset is based on the assumption that future taxable profit will allow for its usage. In determining the amount of deferred tax assets, the CIECH Group subsidiaries base their calculations on estimates related to the term and amount of future taxable income.

Deferred income tax is attributable to the following items:

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITY	31.12.2017			31.12.2016		
	Total asset	Total liability	Net value	Total asset	Total liability	Net value
Property, plant and equipment	2,199	140,234	(138,035)	2,081	136,195	(134,114)
Intangible assets	12,258	333	11,925	32,430	499	31,931
Right of perpetual usufruct	-	5,074	(5,074)	-	5,147	(5,147)
Investment property	2,003	1,761	242	2,003	1,673	330
Financial assets	700	16,983	(16,283)	1,732	13,454	(11,722)
Inventory	2,123	2,077	46	2,106	557	1,549
Trade and other receivables	2,448	30,172	(27,724)	4,053	35,599	(31,546)
Provisions for employee benefits	2,673	31	2,642	3,181	31	3,150
Other provisions	20,007	-	20,007	22,107	-	22,107
Tax losses carried forward	84,999	-	84,999	139,309	-	139,309
Foreign exchange differences	3,664	20	3,644	3,839	376	3,463



DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITY	31.12.2017			31.12.2016		
	Total asset	Total liability	Net value	Total asset	Total liability	Net value
Liabilities	46,927	810	46,117	61,850	306	61,544
Special economic zone	132,535	-	132,535	90,759	-	90,759
Other	2,952	752	2,200	207	1,777	(1,570)
Deferred tax assets/liability	315,488	198,247	117,241	365,657	195,614	170,043
Set - off of deferred tax assets/ liability	(165,760)	(165,760)	-	(157,826)	(157,826)	-
Unrecognized deferred tax assets	(42,317)	-	(42,317)	(7,965)	-	(7,965)
Deferred tax assets/liability recognised in the statement of financial position	107,411	32,487	74,924	199,866	37,788	162,078

CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	01.01.2017	Change in temporary differences recognised in the statement of profit or loss	Change in temporary differences recognised in equity	Currency translation differences	31.12.2017
Property, plant and equipment	(609,996)	(39,458)	-	10,514	(638,940)
Intangible assets	142,488	(102,222)	-	(1,027)	39,239
Right of perpetual usufruct	(27,089)	386	-	-	(26,703)
Investment property	14,091	(462)	-	-	13,629
Financial assets	(123,503)	(27,937)	(5,770)	1,462	(155,748)
Inventory	8,237	(7,917)	-	2	322
Trade and other receivables	(96,151)	577	-	6,086	(89,488)
Provisions for employee benefits	16,705	(3,228)	834	(474)	13,837
Other provisions	72,270	(4,719)	-	(3,659)	63,892
Tax losses carried forward	733,710	(285,844)	-	(6)	447,860
Foreign exchange differences	24,584	17,301	(16,345)	-	25,540
Liabilities	239,057	(67,387)	-	(5,771)	165,899
Other	(8,764)	19,833	-	(1)	11,068
TOTAL	385,639	(501,077)	(21,281)	7,126	(129,593)

CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	01.01.2016	Change in temporary differences recognised in the statement of profit or loss	Change in temporary differences recognised in equity	Currency translation differences	31.12.2016
Property, plant and equipment	(558,775)	(44,705)	-	(6,516)	(609,996)
Intangible assets	142,558	(826)	-	756	142,488
Right of perpetual usufruct	(27,460)	371	-	-	(27,089)
Investment property	13,558	533	-	-	14,091
Financial assets	78,151	(199,061)	(2,271)	(322)	(123,503)
Inventory	5,439	2,798	-	-	8,237
Trade and other receivables	(100,653)	8,447	-	(3,945)	(96,151)
Provisions for employee benefits	14,613	2,594	(685)	183	16,705
Other provisions	89,287	(20,001)	-	2,984	72,270
Tax losses carried forward	917,030	(183,320)	-	-	733,710
Foreign exchange differences	15,799	(53,187)	61,972	-	24,584
Liabilities	123,546	113,559	(715)	2,667	239,057
Other	(23,978)	15,214	-	-	(8,764)
TOTAL	689,115	(357,584)	58,301	(4,193)	385,639



The above table does not contain any temporary differences from the deferred tax asset of the special economic zone as according to the rules, the above-mentioned relief is tax-deductible rather than income-deductible.

Dividend payment to the shareholders of the CIECH Group has no effect on deferred tax.

The CIECH Group companies who recognised deferred tax assets in respect of tax loss carried forward, on the basis of their tax budgets, predict that sufficient taxable profits will be realised within 5 years against which the Group can fully utilise the benefits therefrom.

In connection with the fulfilment, as at the end of August 2016, of conditions specified in the Permit No 126/PSSE dated 23 May 2014 for carrying out business activities in the Pomeranian Special Economic Zone, CIECH Soda Polska S.A. started to take advantage of its exemption from the corporate income tax. The amount of CIT unpaid in 2017 was PLN 3,558 thousand (PLN 5,072 thousand in the comparable period).

In August 2016, the employment condition was met in accordance with the Zone Permit No. 126 / PSSE from 23 May 2014 for running a business in the Pomeranian Special Economic Zone. Hereby, CIECH Soda Polska S.A. met all the conditions of the Permission and on 1 September 2016 started using the tax exemption in the corporate income tax from due to operating in the Pomeranian Special Economic Zone. Therefore, CIECH Soda Polska S.A. in 2016 recognized deferred income tax assets in the amount of PLN 95,422 thousand. In 2017, as a result of obtaining, via the Office for Competition and Consumer Protection, the explanations of the European Commission regarding the definition and calculation of the unit value of the investment project, the value of public assistance available for the Company increased by PLN 44 911 thousand. The Company cautiously analyzed the capabilities of using available public aid by calculating the amount of the exemption in accordance with the methodology adopted in this respect and decided to recognize in the financial statements an additional amount of deferred tax asset due to operating in a special economic zone in value PLN 10,457 thousand and do not recognize deferred income tax assets in the amount of PLN 34 454 thousand. At the end of 2017, after taking into account the update, the asset due to operating in the Special Economic Zone is PLN 98 080 thousand.

In the light of provisions of the General Anti-Avoidance Rule ("GAAR"), applicable as of 15 July 2016 and aimed at preventing the origination and use of factitious legal structures designed to avoid payment of taxes in Poland, the Management Board of CIECH S.A. considered the impact of transactions which could potentially be subject to the GAAR regulations on the deferred tax, tax value of assets and deferred tax provisions. In the opinion of the Management Board, the analysis conducted did not demonstrate the need to adjust the reported current and deferred income tax items. However, in the opinion of the Management Board, there is an inherent uncertainty arising from GAAR that tax authorities will interpret these provisions differently, will change their approach to their interpretation or the rules themselves will change, which may affect the ability to utilise the deferred tax assets in future periods and the possible payment of an additional tax for past periods.



5

NOTES TO ASSETS REPORTED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

5.1. PROPERTY, PLANT AND EQUIPMENT

Accounting policy**Own property, plant and equipment**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and all other costs directly attributable to the acquisition of the asset and bringing it to a working condition for its intended use. The cost also includes the cost of replacing components of machinery and equipment when incurred if the recognition criteria are met.

Property, plant and equipment used under finance lease agreements

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership of an item of property, plant and equipment are classified as finance leases. Upon initial recognition the leased item of property, plant and equipment is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset's carrying amount is decreased by accumulated depreciation and accumulated impairment losses.

In the case of an asset used under a finance lease, if it is not reasonably certain that the lessee will obtain ownership of the asset by the end of the lease term, then the tangible asset is depreciated over one of the following two periods, whichever shorter:

- ✓ the lease term,
- ✓ the expected useful life of the asset.

When an agreement is classified as a finance lease, the underlying asset is recognised within the Company's (lessee's) property, plant and equipment and is depreciated in accordance with principles specified below. Payments under operating lease agreements are recognised as an expense over the lease term.

Subsequent costs

The cost of replacing a part of an item of property, plant and equipment are capitalised. Other costs are capitalised only to the extent that it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. Other subsequent costs are recognised in the profit or loss statement as incurred expenses.

A separate component of an item of property, plant and equipment, requiring replacement at regular intervals, is depreciated over its economic useful life.

The Group increases the value of property, plant and equipment by the value of outlays for periodic major overhauls, necessary for the functioning of a given item of property, plant and equipment. These expenditures are treated as a separate item of property, plant and equipment and depreciated through the anticipated period to the next planned overhaul. Upon capitalisation of new costs of overhauls, the non-depreciated value of previous repairs is allocated to operating expenses.

Upon the acquisition or creation of an item of property, plant and equipment, the Group separates from the cost a value equal to the expenditures that need to be made during the next overhaul of a given item of property, plant and equipment and depreciates it through the anticipated period left until the next planned overhaul.

Depreciation

Items of property, plant and equipment, and also their significant and separate components, are depreciated on a straight-line basis over their respective estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	20-50 years
Machinery and equipment	2-20 years
Means of transport	2-20 years
Other	1-15 years

**Borrowing costs**

For qualifying assets, the borrowing costs that otherwise would have been avoided if the expenditure on the qualifying asset has not been made are included in purchase price of these assets. The amount of borrowing costs eligible for capitalisation is defined as the appropriate portion of loan interest, the cost of arranging financing and respectively foreign exchange differences on foreign currency loans.

Judgements and estimates

Depreciation rates. These are determined on the basis of the expected useful lives of property, plant and equipment and are subject to annual verification. Any adjustments resulting from the verification are made prospectively as a change in estimate.

Impairment losses on non-financial assets — detailed principles of estimation of impairment losses are described in accounting policies, in note 3.4.

01.01-31.12.2017	Land	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	Tangible fixed assets under construction	TOTAL
Gross value of property, plant and equipment at the beginning of the period	84,579	1,083,972	2,717,796	101,559	46,304	340,585	4,374,795
Purchase	318	2,018	37,778	5,321	2,740	364,413	412,588
Reclassification	-	84,903	228,583	200	5,673	(367,534)	(48,175)
Capitalised borrowing costs	-	-	-	-	-	10,593	10,593
Exchange differences	(5,160)	(15,740)	(61,221)	(1,315)	(730)	(4,696)	(88,862)
Sales	-	(295)	(382)	(167)	(32)	(616)	(1,492)
Liquidation	-	(659)	(4,899)	(143)	(7,902)	(77)	(13,680)
Other	-	4	2,008	2,097	2	5	4,116
Gross value of property, plant and equipment at the end of the period	79,737	1,154,203	2,919,663	107,552	46,055	342,673	4,649,883
Accumulated depreciation at the beginning of the period	(10,855)	(438,511)	(1,207,530)	(53,934)	(34,372)	-	(1,745,202)
Annual depreciation charge	(756)	(50,062)	(175,100)	(7,024)	(5,169)	-	(238,111)
Sales	-	295	382	154	32	-	863
Liquidation	-	374	4,400	141	7,899	-	12,814
Exchange differences	634	7,470	29,812	820	611	-	39,347
Reclassification	-	-	615	(6)	(609)	-	-
Other	-	-	(1,074)	713	-	-	(361)
Accumulated depreciation at the end of the period	(10,977)	(480,434)	(1,348,495)	(59,136)	(31,608)	-	(1,930,650)
Impairment losses at the beginning of the period	-	(978)	(411)	-	-	(4,544)	(5,933)
Recognition	-	(1,798)	(1,151)	(3)	(13)	-	(2,965)
Reversal	-	921	581	2	111	-	1,615
Liquidation	-	-	154	-	-	-	154
Exchange differences	-	111	40	-	(3)	-	148
Impairment losses at the end of the period	-	(1,744)	(787)	(1)	95	(4,544)	(6,981)
Carrying amount of property, plant and equipment at the beginning of period	73,724	644,483	1,509,855	47,625	11,932	336,041	2,623,660
Carrying amount of property, plant and equipment at the end of the period	68,760	672,025	1,570,381	48,415	14,542	338,129	2,712,252



01.01-31.12.2016	Land	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	Tangible fixed assets under construction	TOTAL
Gross value of property, plant and equipment at the beginning of the period	81,567	908,740	2,354,758	102,007	42,748	392,084	3,881,904
Purchase	-	2,319	27,061	12,740	741	489,771	532,632
Reclassification	-	168,455	344,608	146	4,827	(561,821)	(43,785)
Capitalised borrowing costs	-	-	-	-	-	20,576	20,576
Exchange differences	3,012	8,696	33,639	489	393	1,543	47,772
Sales	-	(826)	(5,037)	(9,835)	(1,277)	(561)	(17,536)
Liquidation	-	(3,535)	(37,855)	(3,808)	(1,130)	(1,007)	(47,335)
Other	-	123	622	(180)	2	-	567
Gross value of property, plant and equipment at the end of the period	84,579	1,083,972	2,717,796	101,559	46,304	340,585	4,374,795
Accumulated depreciation at the beginning of the period	(8,889)	(396,526)	(1,074,286)	(57,851)	(33,326)	-	(1,570,878)
Annual depreciation charge	(1,609)	(42,783)	(163,123)	(6,465)	(3,072)	-	(217,052)
Sales	-	825	4,980	9,535	1,253	-	16,593
Liquidation	-	3,481	37,362	1,156	1,114	-	43,113
Exchange differences	(357)	(3,885)	(14,397)	(333)	(333)	-	(19,305)
Reclassification	-	377	7	-	(7)	-	377
Other	-	-	1,927	24	(1)	-	1,950
Accumulated depreciation at the end of the period	(10,855)	(438,511)	(1,207,530)	(53,934)	(34,372)	-	(1,745,202)
Impairment losses at the beginning of the period	-	(945)	(508)	(13)	(11)	(4,544)	(6,021)
Reversal	-	-	109	13	11	-	133
Exchange differences	-	(33)	(12)	-	-	-	(45)
Impairment losses at the end of the period	-	(978)	(411)	-	-	(4,544)	(5,933)
Carrying amount of property, plant and equipment at the beginning of period	72,678	511,269	1,279,964	44,143	9,411	387,540	2,305,005
Carrying amount of property, plant and equipment at the end of the period	73,724	644,483	1,509,855	47,625	11,932	336,041	2,623,660

In 2017, the capitalisation rate applied to determine the amount of borrowing costs to be capitalised was approx. 8%, whereas in 2016 it amounted to approx. 11%.

In 2017 and 2016, there were no significant impairment allowances of property, plant and equipment.

Depreciation of property, plant and equipment was charged to the following line items in the consolidated profit or loss statement:

PROPERTY, PLANT AND EQUIPMENT DEPRECIATION CHARGES	01.01-31.12.2017	01.01-31.12.2016
Cost of sales	(230,656)	(207,767)
General and administrative expenses	(7,322)	(7,367)
Other operating expenses	(133)	(1,918)
TOTAL	(238,111)	(217,052)

RECOGNIZED NON-CURRENT ASSETS (OWNERSHIP STRUCTURE)	31.12.2017	31.12.2016
Owned	2,669,789	2,582,550
Finance lease agreements	42,463	41,110
TOTAL	2,712,252	2,623,660



In the reporting period the CIECH Group received compensation from third parties for impaired tangible fixed assets in the amount of PLN 1,830 thousand (PLN 1,362 thousand in the comparable period).

As at 31 December 2017, all tangible assets in Polish companies (CIECH S.A., JANIKOSODA S.A., CIECH Nieruchomości S.A., CIECH Soda Polska S.A., CIECH Transclean Sp. z o.o., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Trading S.A., CIECH Pianki Sp. z o.o., CIECH Cerium Sp. z o.o. SK, Cerium Finance Sp. z o.o.) and German companies (SDC GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltungs-GmbH, CIECH Soda Deutschland GmbH & Co. KG, CIECH Energy Deutschland GmbH), who are guarantors of the term loan, constitute a collateral for financial liabilities.

Future commitments arising from agreements concerning acquisition of property, plant and equipment amounted to PLN 79,908 thousand in 2017 (in the comparable period: PLN 174,220 thousand).

OFF-BALANCE SHEET PROPERTY, PLANT AND EQUIPMENT	31.12.2017	31.12.2016
Used under lease, tenancy and other agreements including:	133,612	103,346
Land in perpetual usufruct	51,135	51,836
Operating lease agreement	6,372	6,912
Renting agreement	899	754
Tenancy agreement	75,206	43,844

CIECH S.A. is a lessee of office space. The largest item (approx. 2 thousand m²) is the office in Warsaw at Wspólna Street, where the company's registered office is located. The term of the lease agreement expires in 2023. The company does not have a valuation report concerning the lease real property and is of the opinion that the cost of preparing such report would be higher than its informative value. The value of payments incurred in relation to the leased asset and the total amount of future minimum lease payments are disclosed in note 7.5 to these statements.

A significant increase in the value of lease agreements results from the conclusion of new lease agreements for locomotives and rail carriages by CIECH Cargo Sp. z o.o.

5.2. RIGHT OF PERPETUAL USUFRUCT OF LAND

Accounting policy

Purchased rights of perpetual usufruct of land are recognised as separate items in the statement of financial position. Perpetual usufruct rights obtained based on an administrative decision are recorded off-balance sheet (recognised as operating lease). Rights of perpetual usufruct of land are depreciated on a straight-line basis over the lease term.

The carrying amount of the right of perpetual usufruct purchased by the CIECH Group is presented in the table below.

RIGHT OF PERPETUAL USUFRUCT OF LAND	01.01-31.12.2017	01.01-31.12.2016
Gross value at the beginning of the period	38,977	39,021
Purchase	273	-
Sales	-	(44)
Gross value at the end of the period	39,250	38,977
Amortisation at the beginning of the period	(8,758)	(7,612)
Amortisation for the period	(423)	(1,148)
Sales	-	2
Amortisation at the end of the period	(9,181)	(8,758)
Impairment losses at the beginning of the period	-	-
Impairment losses at the end of the period	-	-
Net value as at the beginning of the period	30,219	31,409
Net value as at the end of the period	30,069	30,219



5.3. INTANGIBLE ASSETS

Accounting policy

Goodwill

Goodwill arises on a combination of two separate entities or businesses into one reporting entity. It specifically relates to the acquisitions of subsidiaries, associates, or jointly controlled entities. All business combinations of unrelated entities are recognised using the acquisition method.

The Group initially measures goodwill as the difference between the total value:

- ✓ the acquisition-date fair value of the consideration transferred,
- ✓ the amount of any non-controlling interest in the acquiree valued either at fair value or at their proportionate share in the fair value of the acquiree's net assets, and
- ✓ in a business combination achieved in stages the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree and

the net recognised amounts (fair value) of the identifiable assets acquired and liabilities assumed valued at the acquisition date.

Occasionally, a bargain purchase may occur, i.e. a business combination in which the net recognised amounts of the identifiable assets acquired and liabilities assumed measured at the acquisition date exceed the aggregate of the acquisition-date fair value of the consideration transferred, the amount of any non-controlling interest valued at fair value or at their proportionate share in the acquiree's net assets, and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree. Before recognising a gain on a bargain purchase, the acquirer reassesses whether it has correctly identified and valued the amounts of assets acquired and liabilities assumed, non-controlling interest, consideration transferred, and in a business combination achieved in stages, the acquirer's previously held equity interest in the acquiree. The purpose of the reassessment is to ensure that the valuations accurately consider all information available at the acquisition date. Any remaining gain from a bargain purchase after completing the reassessment is recognised in profit or loss at the acquisition date (as other operating income).

At the date of an acquisition, any goodwill acquired in a business combination is allocated to the cash-generating units that are expected to benefit from the synergies of the combination. Each cash-generating unit or a group of units to which the goodwill was allocated:

- ✓ is the lowest level within the Group at which goodwill is monitored for internal management purposes,
- ✓ is not larger than an operating segment as defined in IFRS 8 "Operating Segments".

Goodwill represents an asset with indefinite useful life and as such is subject to annual impairment tests. Goodwill is tested at a minimum at the operating segment level.

Goodwill related to investments in associates is reflected in their carrying amounts in the Group's consolidated financial statements. Consequently, any investments in associates and the related goodwill are analysed for impairment on a combined basis.

Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost less accumulated amortisation and accumulated impairment losses. Any expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

The costs of registering a substance in the REACH system, such as participation in research, consulting services linked to a specific registration, costs of preparing the registration documents and Chemical Safety Reports, registration fees and authorisation, are capitalised as intangible assets.

Subsequent costs

Subsequent expenditure on existing intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other subsequent expenditure is expensed as incurred.



Amortisation

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The estimated useful lives of intangible assets are as follows:

Development costs	2-5 years
Patents and licences	2–10 years
Other	2-12 years

Depreciation periods and residual values are reviewed at each reporting date with any resulting adjustments made. Any adjustments resulting from the verification are made prospectively as a change in estimate.

Amortisation of intangible assets related to the costs incurred in respect of registration in the REACH system begins in the month following the month of proper registration of a given substance. The amortisation period is 12 years with amortisation charged to cost of sales.

Costs of completed development activities

Research activities represent an innovative and scheduled search for solutions, undertaken with the prospect of gaining new scientific or technical knowledge. Development activities are understood as a practical application of discoveries or achievements of other knowledge in planning and designing the production of new or considerably improved materials, devices, products, technological processes, systems or services, taking place prior to starting mass production or prior to their application.

All expenditure on research activities is recognised in profit or loss as incurred. Whenever a clear distinction between research and development activities cannot be made, the Group treats the related expenditure as though it were incurred in the research phase only.

Development expenditure is capitalised as part of intangible assets only if the Group is able to prove:

- ✓ that the product or process is technically and commercially feasible (assessed from a technical perspective),
- ✓ its intent to complete development and to use or sell the asset,
- ✓ the ability to use or sell the asset,
- ✓ the manner in which the asset will bring future economic benefits (inter alia, the entity should prove the existence of a market for new products created by the asset or a market for the asset itself, or – if the asset is to be used by the Group – the usefulness of the intangible asset to the Group),
- ✓ the availability of appropriate technical, financial and other resources required to complete development activities and then use or sell the asset, and,
- ✓ its ability to reliably measure development costs attributable to the asset.

Internally generated trademarks, magazine titles, editorial titles, customer lists and other items of similar nature are not recognised in the financial statements.

The amortisation periods of capitalised development costs should reflect their estimated useful lives.

Judgements and estimates

Amortisation rates. Amortisation rates are determined on the basis of the expected useful lives of intangible assets, and are subject to annual verification. Any adjustments resulting from the verification are made prospectively as a change in estimate.

Impairment losses on non-financial assets — detailed principles of estimation of impairment losses are described in accounting policies, in note 3.4.



01.01-31.12.2017	Development costs	Goodwill	Licences, patents, permits, etc. obtained	Intangible assets under development	Other intangible assets	TOTAL
Gross value of intangible assets at the beginning of the period	17,541	492,065	95,605	26,570	114,410	746,191
Purchase	-	-	936	950	14	1,900
Investment outlays	-	-	-	77,236	-	77,236
Reclassifications	2,127	-	2,394	(32,789)	27,318	(950)
Exchange differences	-	(28,276)	(179)	-	(5,405)	(33,860)
Sales	-	-	-	-	(6)	(6)
Liquidation	-	-	-	-	(306)	(306)
Cancellation of CO ₂ emission rights	-	-	-	-	(31,160)	(31,160)
Other	-	-	14	(500)	3,318	2,832
Gross value of intangible assets at the end of the period	19,668	463,789	98,770	71,467	108,183	761,877
Accumulated amortisation at the beginning of the period	(13,653)	-	(85,316)	-	(44,026)	(142,995)
Annual amortisation charge	(1,289)	-	(2,278)	-	(2,287)	(5,854)
Exchange differences	-	-	146	-	2,373	2,519
Sales	-	-	-	-	5	5
Other	-	-	(3)	-	-	(3)
Accumulated amortisation at the end of the period	(14,942)	-	(87,451)	-	(43,935)	(146,328)
Impairment losses at the beginning of the period	-	(427,885)	(3,365)	-	(42,557)	(473,807)
Reversal	-	-	112	-	-	112
Exchange differences	-	25,469	-	-	2,435	27,904
Impairment losses at the end of the period	-	(402,416)	(3,253)	-	(40,122)	(445,791)
Net value of intangible assets at the beginning of the period	3,888	64,180	6,924	26,570	27,827	129,389
Net value of intangible assets at the end of the period	4,726	61,373	8,066	71,467	24,126	169,758

01.01-31.12.2016	Development costs	Goodwill	Licences, patents, permits, etc. obtained	Intangible assets under development	Other intangible assets	TOTAL
Gross value of intangible assets at the beginning of the period	15,246	475,352	100,247	15,687	133,884	740,416
Purchase	-	-	1,068	1,068	-	2,136
Investment outlays	-	-	2	16,537	-	16,539
Reclassifications	2,295	-	985	(4,515)	389	(846)
Exchange differences	-	16,713	108	-	3,395	20,216
Sales	-	-	(828)	-	-	(828)
Liquidation	-	-	(5,977)	-	(519)	(6,496)
Cancellation of CO ₂ emission rights	-	-	-	-	(22,739)	(22,739)
Other	-	-	-	(2,207)	-	(2,207)
Gross value of intangible assets at the end of the period	17,541	492,065	95,605	26,570	114,410	746,191
Accumulated amortisation at the beginning of the period	(12,762)	-	(89,663)	-	(40,694)	(143,119)
Annual amortisation charge	(891)	-	(1,974)	-	(2,409)	(5,274)
Exchange differences	-	-	(80)	-	(1,442)	(1,522)
Sales	-	-	506	-	-	506
Liquidation	-	-	5,895	-	519	6,414



01.01-31.12.2016	Development costs	Goodwill	Licences, patents, permits, etc. obtained	Intangible assets under development	Other intangible assets	TOTAL
Accumulated amortisation at the end of the period	(13,653)	-	(85,316)	-	(44,026)	(142,995)
Impairment losses at the beginning of the period	-	(412,974)	(2,454)	-	(40,994)	(456,422)
Recognition	-	-	(911)	-	-	(911)
Exchange differences	-	(14,911)	-	-	(1,563)	(16,474)
Impairment losses at the end of the period	-	(427,885)	(3,365)	-	(42,557)	(473,807)
Net value of intangible assets at the beginning of the period	2,484	62,378	8,130	15,687	52,196	140,875
Net value of intangible assets at the end of the period	3,888	64,180	6,924	26,570	27,827	129,389

A significant increase in capital expenditure under "Other intangible assets" in 2017 was driven by expenditure related to the implementation of the SAP system in the CIECH Group.

Moreover, an important component is also the client database in the SDC Group in the amount of PLN 6,394 thousand (recognised upon acquisition of the company). The valuation was executed in relation to the most significant clients of the production of CIECH Soda Deutschland S.A., a member of the SDC Group – identified on the basis of an analysis of data for 2005-2007, who have a stable and long-term relationship with the company and will remain clients of CIECH Soda Deutschland S.A. also in the future. These are the relationships with the clients who are, to a large extent, dependent on CIECH Soda Deutschland S.A. as their main or secondary supplier of raw materials.

Other intangible assets of the CIECH Group include mainly IT systems, licences and patents, other software, development works and other intangible assets. All intangible assets belong to the CIECH Group.

Amortisation of intangible assets was included in the following line items of the consolidated statement of profit or loss:

AMORTISATION CHARGES ON INTANGIBLE ASSETS	01.01-31.12.2017	01.01-31.12.2016
Cost of sales	(2,285)	(2,848)
Selling costs	(2,166)	(2,232)
General and administrative expenses	(1,403)	(194)
TOTAL	(5,854)	(5,274)

As at 31 December 2017, all intangible assets in Polish companies (CIECH S.A., JANIKOSODA S.A., CIECH Nieruchomości S.A., CIECH Soda Polska S.A., CIECH Transclean Sp. z o.o., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Trading S.A., CIECH Pianki Sp. z o.o., CIECH Cerium Sp. z o.o. SK, Cerium Finance Sp. z o.o.) and German companies (SDC GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltungs-GmbH, CIECH Soda Deutschland GmbH & Co. KG, CIECH Energy Deutschland GmbH), who are guarantors of the term loan, constituted a collateral for financial liabilities.

In the current period changes in accounting estimates did not have a material impact and it is not expected that they will have a material impact in future periods.

As at 31 December 2017, future commitments arising from agreements concerning acquisition of intangible assets amounted to PLN 1,359 thousand (in the comparable period: PLN 9 thousand).

Apart from goodwill, the CIECH Group does not have other intangible assets with an indefinite useful life. Additional information about the goodwill is presented in note 5.4.

Development works

Development works carried out by the CIECH Group are aimed at increasing economic potential; and are related mainly to the modernisation of technological processes, reduction of manufacturing costs and optimisation of technical and technological parameters. The Group continues the development of the R&D area to support the development of products being a response to growing needs of the market.



Internally generated intangible assets	01.01.-31.12.2017	01.01.-31.12.2016
Gross value as at the beginning of the period	36,415	23,782
Expenditure incurred	23,467	14,848
Write-off of intangible assets	-	(2,215)
Gross value as at the end of the period	59,882	36,415
Accumulated amortisation – as at the beginning of the period	11,790	11,159
Amortisation for the period	1,221	631
Accumulated amortisation as at the end of the period	13,011	11,790
Net value as at the end of the period	46,871	24,625

5.4. GOODWILL IMPAIRMENT TESTING

In preparing the consolidated financial statements of the CIECH Group, the goodwill recognised in the consolidated financial statements in relation to a subsidiary CIECH Sarzyna S.A. and German SDC Group was tested for impairment. The recoverable amount was calculated based on the value in use. The value in use was calculated on the basis of the Group's five-year plans. In 2017, no impairment of goodwill of the SDC Group or CIECH Sarzyna S.A. was identified.

The following assumptions were applied in the impairment tests:

- the weighted average cost of capital for CIECH Sarzyna S.A. was: 9.4% – for cash flows in PLN, 7.2% – for cash flows in EUR and 9.0% – for cash flows in USD;
- the weighted average cost of capital for the SDC Group for cash flows in EUR was 6.6%;
- the assumed growth rate for the residual period was 2.0% for both the SDC Group and CIECH Sarzyna S.A.

According to the estimates of the Management Board:

- for CIECH Sarzyna S.A., an increase in the weighted average cost of capital of 1 p.p. for each currency without changing other factors would not lead to any change in the carrying amount of goodwill.
- for SDC Group, an increase in the weighted average cost of capital to 7.1% without changing other factors would lead to an alignment of the recoverable value with the carrying value.

Goodwill is the most valuable component of intangible fixed assets and is presented at the level of the CIECH Group and on the lower tier group level – the SDC Group. Goodwill presented in consolidated financial statements was recognised as a result settlement of business combinations in 2006 and 2007. Goodwill presented in the consolidated financial statements as at 31 December 2017 amounted to PLN 61,373 thousand (soda segment PLN 46,264 thousand, silicates and glass segment – PLN 39 thousand and organic segment – PLN 15,070 thousand) and decreased by PLN 2,807 thousand as compared to 2016. It is a result of a decrease in goodwill recognised in the statements of the lower tier group, the SDC Group, which resulted from a change in the EUR exchange rate in 2017.



5.5. INVESTMENT PROPERTIES

Accounting policy

Investment property is held to earn rentals or for capital appreciation (or both). Investment property is valued at fair value. At initial recognition, investment property is accounted for in accordance with policies applicable for property, plant and equipment i.e. purchase price or cost. In subsequent reporting periods change in fair value of investment property is recognised in profit or loss in the period when change occurred and is presented in other operating expenses. Investment properties held under operating lease may be classified and accounted for as investment property if they meet the definition of investment property and the Group elects to do so.

Judgements and estimates

Investment property valuation. The CIECH Group presents investment property at fair value, recognising the fair value valuation in the statement of profit or loss. Investment property valuation is performed using:

- ✓ comparative method based on observable market data, including the price of comparable investment properties and adjusted with the specific factors such as the capability of the property, its location and condition, or
- ✓ income method (based on a discounted cash flow model) in the absence of comparable market data.

INVESTMENT PROPERTIES	01.01-31.12.2017	01.01-31.12.2016
Carrying amount at the beginning of period	31,384	34,308
Sales	-	(17,304)
Goodwill valuation	11,515	14,347
Other	1,369	33
Gross value at the end of the period	44,268	31,384

The item "Investment properties" presented by the CIECH Group includes land, buildings and structures that have been acquired only in order to achieve economic benefits from rents or for the increase of their value. The fair value of an investment property is determined with comparative and income method by an independent appraiser.

As at 31 December 2017, the CIECH Group had the following investment property:

- **CIECH Nieruchomości S.A.** – As at 31 December 2017, the investment property line item for CIECH Nieruchomości S.A. included land and investment expenditure related to the construction of a residential and office complex located in Warsaw in Krasieńskiego Street, on the corner of Powązkowska Street. The company is also the owner of real property located in Bydgoszcz. The real property was acquired from Infrastruktura Kapuściska S.A in liquidation bankruptcy.
- **CIECH Soda Polska S.A.** – Buildings acquired by CIECH Soda Polska S.A. as a result of a merger with Soda Med. Sp. z o.o. These are buildings leased for medical outpatient, clinics, nursing and treatment rooms as well as private doctor's and dentist's consulting rooms.
- **CIECH Sarzyna S.A.** – 35 buildings and structures located on the premises of CIECH Sarzyna S.A. In the past, they were used by the company for its own needs, currently they are leased to generate rental income.
- **CIECH Trading S.A.** – the company recognises land located in Bydgoszcz as investment property (acquired from Infrastruktura Kapuściska S.A. in liquidation bankruptcy).

	01.01.-31.12.2017	01.01.-31.12.2016
Income from investment property rental	2,139	2,068
Operating costs related to investment property generating rental income in the given period	2,334	2,274

As at 31 December 2017, some of the investment property of CIECH Nieruchomości S.A. and all investment property of CIECH Soda Polska S.A. and CIECH Sarzyna S.A., who are guarantors of the term loan, constituted a collateral for financial liabilities.



5.6. LONG-TERM RECEIVABLES

Accounting policy

Construction contract – receivables in relation to caverns.

In the case when an entity (contractor) incurs costs due to future activity related with the execution of a contract, such costs are recognised as an asset provided it is probable that they will be recovered. Such costs represent an amount due from the customer and are often classified as contract work in progress.

NON-CURRENT RECEIVABLES	31.12.2017	31.12.2016
Receivables in relation to caverns	81,552	99,106
Other	126	146
Net non-current receivables	81,678	99,252
Gross non-current receivables	81,678	99,252

5.7. LONG-TERM FINANCIAL ASSETS

Accounting policy

Accounting policy concerning financial instruments is presented in note 8.1.

NON-CURRENT FINANCIAL ASSETS	31.12.2017	31.12.2016
Shares	10,618	11,271
Derivatives	35,086	56,594
Embedded derivatives	8,576	22,182
Other	152	88
TOTAL	54,432	90,135

In 2017 and in the comparable period, there was no change in impairment write-downs on long-term financial assets. These write-downs amounted to PLN 1,343 thousand.

5.8. SHARES IN JOINT VENTURES / INVESTMENTS IN ASSOCIATES

Accounting policy

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint venture is a contractual arrangement whereby two or more parties undertake an economic activity subject to joint control and have rights to the net assets of the arrangement.

The consolidated financial statements include the Group's share of the income and expenses of equity accounted associates and joint ventures from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. The Group also measures impairment of the share in the net assets of associates and joint ventures and creates appropriate allowance. When the Group's share of losses exceeds the carrying amount of its interest in an associate or a joint venture, such carrying amount is reduced to nil and the recognition of further losses is discontinued if the Group is not obliged to cover them.

The CIECH Group holds a 50% share in Kaverngesellschaft Stassfurt mbH. It is a jointly-controlled company valued under the equity method at the lower-tier group level – the SDC Group (50% direct share in Kaverngesellschaft Stassfurt mbH). This company is not listed on the stock market so the fair value of this investment is not available. Balance sheet days and reporting periods of Kaverngesellschaft Stassfurt mbH are the same as those adopted by the Group.

The following table presents the carrying amounts of investments in associates and jointly-controlled entities valued under the equity method:

INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES	31.12.2017	31.12.2016
Investments in associates and jointly-controlled entities	5,095	5,610
Share in net profit of associated entities measured under the equity method	225	674



The table below presents condensed information related to the investment in Kaverngesellschaft Stassfurt mbH:

KaverngesellschaftStassfurtmbH	31.12.2017	31.12.2016
Share in the equity	50.0%	50.0%
Non-current assets	229	278
Current assets	5,226	6,869
Equity	3,312	4,044
Short-term liabilities	2,143	3,103
Sales revenues	10,429	12,454
Profit before tax	675	1,858
Income tax	(212)	(474)
Net profit/loss	463	1,384

5.9. INVENTORIES

Accounting policy

Raw materials and goods are valued at cost being the purchase price increased by other costs incurred in bringing the asset to its present location and condition or place on the market but not higher than the selling price possible to achieve.

Finished goods and work in progress are valued at cost including direct manufacturing costs and reasonable portion of costs indirectly connected with the manufacturing process, but not higher than the selling price possible to achieve. The cost of inventory is based on the first-in first-out principle (FIFO).

Judgements and estimates

The CIECH Group companies recognise inventory impairment allowances for damaged and slow moving inventory. Inventory impairment allowances are also recognised for inventory with a carrying amount that exceeds the realisable net selling price. Reversal occurs as a result of the use or sales of inventory in the course of business activities while usage is the result of inventory being scrapped.

INVENTORY	31.12.2017	31.12.2016
Materials	166,268	129,085
Semi-finished products and work in progress	23,339	26,911
Finished products	110,108	113,406
Goods	64,802	29,863
TOTAL	364,517	299,265

CHANGE OF INVENTORY IMPAIRMENT WRITE-DOWNS	01.01-31.12.2017	01.01-31.12.2016
Opening balance	(38,218)	(38,215)
Recognized	(7,542)	(4,323)
Reversed / released	6,922	4,601
Used	198	-
Exchange differences	653	(281)
Closing balance	(37,987)	(38,218)

As at 31 December 2017, all inventories in Polish companies (CIECH S.A., JANIKOSODA S.A., CIECH Nieruchomości S.A., CIECH Soda Polska S.A., CIECH Transclean Sp. z o.o., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Trading S.A., CIECH Pianki Sp. z o.o., CIECH Cerium Sp. z o.o. SK, Cerium Finance Sp. z o.o.) and German companies (SDC GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltungs-GmbH, CIECH Soda Deutschland GmbH & Co. KG, CIECH Energy Deutschland GmbH), who are guarantors of the term loan, constituted a collateral for financial liabilities.



5.10. SHORT-TERM RECEIVABLES

Accounting policy

After initial recognition, current trade and other receivables are valued at the amortised cost using the effective interest method less any impairment losses.

Receivables denominated in foreign currencies are recognised at the average NBP exchange rate effective on the working day immediately preceding the date of the transaction, unless a different exchange rate was indicated in the customs declaration or another binding document.

At the reporting date, receivables denominated in foreign currencies are translated at the average exchange rate established for that date by the NBP except for prepayments made for deliveries, which are translated using sell exchange rate of the bank effective on the payment date.

Factoring

The Group companies use non-recourse factoring services. The factor transfers advance payments to the company's account in the full amount of invoices accepted for financing. The financing of receivables transferred is provided in various timeframes, therefore, as at the balance sheet date, there may be receivables which have not been financed yet and are reported as factoring receivables. Advance payments received are posted as factoring liabilities. In the statement of financial position, factoring receivables and liabilities are recognised on a net basis up to approximately 90% of the value of advance payments received from the factor (the approximately 90% limit results from the level of the receivables insurance). The remaining 10% of receivables value is reported as factoring receivables, and 10% of the value of advance payments received is reported as factoring liabilities.

Judgements and estimates

Impairment allowances are recognised on interest receivable on late payments of receivables, in the full amount of interest accrued. These allowances are recognised upon accrual, as at the due date or balance sheet date, and charged to financial expenses. The value of receivables is adjusted considering the probability of repayment. Allowances are recognised in relation to receivables:

- ✓ from debtors in liquidation or bankruptcy, up to the amount not guaranteed or secured in another manner, as reported to a receiver or judge-commissioner during bankruptcy proceedings;
- ✓ from debtors where a bankruptcy petition has been dismissed, if the debtor's assets are not sufficient to cover the cost of bankruptcy proceedings – in full;
- ✓ contested by debtors (disputed receivables) and where payments due are delayed and either the debtor's financial standing makes the collection no longer probable – up to the amount of receivables not guaranteed or secured in another manner;
- ✓ receivables claimed in court.

Moreover, allowances in the full amount of receivables are recognised in relation to receivables that are more than 180 days past their maturity as at the balance sheet date. The amount established as a result of the abovementioned allowances may be decreased if the Management Board is in possession of reliable documents, indicating that the receivables were secured and their payment is highly probable.

TRADE AND OTHER RECEIVABLES	31.12.2017	31.12.2016
Trade receivables, including:	339,092	298,449
- up to 12 months	337,668	298,004
- prepayments for inventory	1,424	445
Prepayments for non-current assets	3,522	16,980
Escrow receivables	-	398
Receivables in relation to caverns	-	2,044
Public and legal receivables (excluding income tax)	91,169	87,305
Receivables from sales of energy	9,343	9,463
Insurance receivables	798	446
Purchase costs	569	3,721
External services	1,099	3,935
Factoring receivables	47,256	70,155
Other receivables	16,976	9,104
NET TRADE AND OTHER RECEIVABLES	509,824	502,000
Impairment allowances with respect to trade receivables including	(28,919)	(38,049)
- impairment allowance recognized in the current reporting period	(1,712)	(10,127)



TRADE AND OTHER RECEIVABLES	31.12.2017	31.12.2016
Impairment allowances with respect to other current receivables including	(15,694)	(19,889)
- impairment allowance recognized in the current reporting period	(15)	(2,753)
GROSS TRADE AND OTHER RECEIVABLES	554,437	559,938

As at the balance sheet date, continuing involvement is reported. It is calculated as a product of the financing received, interest and the maximum period of delay in payments. As at 31 December 2017, the asset from continuing involvement amounted to PLN 1,821 thousand (presented under other receivables). The value of receivables transferred to the factor and derecognised from the statement of financial position was PLN 340,535 thousand as at 31 December 2017 (as at 31 December 2016: PLN 279,721 thousand). Fair value of trade receivables and other receivables does not differ significantly from their carrying value.

CHANGE IN IMPAIRMENT ALLOWANCES ON SHORT-TERM RECEIVABLES	01.01-31.12.2017	01.01-31.12.2016
Opening balance	(57,938)	(44,826)
Recognized	(1,727)	(12,880)
Reversed	11,503	1,383
Used	1,084	2,133
Exchange differences	2,629	(3,221)
Other	(164)	(527)
Closing balance	(44,613)	(57,938)

Impairment allowance with respect to current receivables were recognised for those that are subject to compromise arrangements or in dispute, penalty interest, receivables, past due and doubtful receivables and for receivables from companies in bankruptcy. Reversal occurred as a result of settlement of the receivable while usage occurs when receivables are written-off due to ineffective enforcement and bankruptcy of companies on whose receivables an impairment was recognised.

AGEING OF PAST DUE TRADE RECEIVABLES	31.12.2017	31.12.2016
Up to 1 month	33,808	37,600
Between 1 and 3 months	2,442	3,389
3 to 6 months	4,235	9,268
6 months to 1 year	2,526	6,153
Above 1 year	29,235	30,227
Total (gross) past due trade receivables	72,246	86,637
Impairment allowances on past due trade receivables	(28,439)	(36,507)
Total (net) past due trade receivables	43,807	50,130

Terms of transactions with related entities have been presented in note 9.3.

Commercial contracts concluded by the CIECH Group include various terms of payment of trade receivables depending on the type of transaction, market characteristics and trade conditions. The most common payment terms are: 14, 30, 60 and 90 days.

As at 31 December 2017, all receivables (long- and short-term receivables) in Polish companies (CIECH S.A., JANIKOSODA S.A., CIECH Nieruchomości S.A., CIECH Soda Polska S.A., CIECH Transclean Sp. z o.o., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Trading S.A., Ciech Pianki Sp. z o.o., CIECH Cerium Sp. z o.o. SK, Cerium Finance Sp. z o.o.) and German companies (SDC GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltungs-GmbH, CIECH Soda Deutschland GmbH & Co. KG, CIECH Energy Deutschland GmbH), who are guarantors of the term loan, constituted a collateral for financial liabilities.

5.11. SHORT-TERM FINANCIAL ASSETS

Accounting policy

Accounting policy concerning financial instruments is presented in note 8.1.



SHORT-TERM FINANCIAL ASSETS	31.12.2017	31.12.2016
Derivatives	24,751	19,198
Embedded derivatives	7,141	6,773
Loans granted	26,087	34,000
Total (net) short-term financial assets	57,979	59,971
Impairment of short-term financial assets	(24,532)	(24,601)
Total (gross) short-term financial assets	82,511	84,572

CHANGE IN IMPAIRMENT ALLOWANCES ON SHORT-TERM FINANCIAL ASSETS	01.01-31.12.2017	01.01-31.12.2016
Opening balance	(24,601)	(24,601)
Recognized	(841)	-
Reversed	910	-
Closing balance	(24,532)	(24,601)

5.12. CASH AND CASH EQUIVALENTS

Accounting policy

Cash and cash equivalents include cash in hand and bank deposits repayable on demand. Current investments that are not subject to significant changes in value and that may be easily exchanged for a determinable amount of cash and that form an integral part of the Group cash management are recognised as cash and cash equivalents for the purposes of the statement of cash flows.

At the reporting date, any foreign currencies in bank accounts and on hand are valued at the average exchange rate for a given currency, established by the President of the NBP.

CASH AND CASH EQUIVALENTS	31.12.2017	31.12.2016
Bank accounts	321,326	376,259
Short-term deposits	168,396	38,044
Cash in hand	32	65
Other cash	-	1
Cash and cash equivalents – presented in the statement of financial position	489,754	414,369
Cash and cash equivalents – presented in the cash flow statement	489,754	414,369

The value of restricted cash

As at 31 December 2017, all cash and cash equivalents in Polish companies (CIECH S.A., JANIKOSODA S.A., CIECH Nieruchomości S.A., CIECH Soda Polska S.A., CIECH Transclean Sp. z o.o., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Trading S.A., Ciech Pianki Sp. z o.o., CIECH Cerium Sp. z o.o. SK, Cerium Finance Sp. z o.o.) and German companies (SDC GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltungs-GmbH, CIECH Soda Deutschland GmbH & Co. KG, CIECH Energy Deutschland GmbH), Romanian company CIECH Soda Romania S.A. and Swedish company Ciech Group Financing AB, who are guarantors of the term loan, constituted a collateral for financial liabilities.

As at 31 December 2017, the balance of cash restricted due to a deposit placed for transactions concluded with the PGE Brokerage House (futures contracts for the purchase of CO₂ certificates) amounted to PLN 7,503 thousand (EUR 1,799 thousand) (as at 31 December 2016: PLN 2,981 thousand (EUR 674 thousand)).

The effective interest rates of short-term bank deposits are similar to the nominal interest rates, and fair value of short-term bank deposits is not significantly different from carrying value. Interest rates are based on WIBOR, EURIBOR and LIBOR.



5.13. DISCONTINUED OPERATIONS, NON-CURRENT ASSETS AND LIABILITIES CONNECTED WITH NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

In the reporting periods presented, there were no discontinued operations at the CIECH Group.

Assets and liabilities classified as held for sale

Accounting policy

Non-current assets are classified as held for sale when their carrying amounts are expected to be recovered primarily through a sale transaction and when they are available for sale in their current condition with such transaction being highly probable.

As at 31 December 2017 and 31 December 2016, the CIECH Group presented the following assets under the item "Non-current assets classified as held for sale":

- CIECH Vitrosilicon S.A. presented property, plant and equipment in the amount of PLN 368 thousand (land located in the town of Itowa) redundant from the point of view of the enterprise; a potential buyer of the land is now being sought. These assets are included in the segment of silicates and glass;
- CIECH Trading S.A. presented an EPI installation acquired from Infrastruktura Kapuściska S.A. in liquidation bankruptcy and a part of the catholyte installation (total carrying value of PLN 2,315 thousand). These assets are presented in the "Other activities" segment.
- CIECH Transclean Sp. z o.o. presented a real property with the carrying amount of PLN 547 thousand, located in Bydgoszcz, containing an administrative building together with equipment. These assets are presented in the "Other activities" segment.



6 EQUITY

6.1. CAPITAL MANAGEMENT

Capital structure management

The Group’s capital structure consist of its debts, including bank loans and bonds presented in note 7.1, cash and cash equivalents and equity attributable to shareholders of the parent entity including shares issued, reserve capital and retained earnings.

The Group manages its capital in order to ensure that subsidiaries are able to continue their activity and at the same time maximise returns for stakeholders by optimising the debt to equity ratio.

In 2016-2017 there were no changes in aims, principles and processes of capital management.

The Group monitors the effectiveness and stability of capitals using the debt ratio calculated based on the net debt value in relation to EBITDA. The consolidated net debt of the Group calculated as the sum of non-current and current liabilities for credits, loans and other debt instruments (bonds + finance lease + liabilities for net loss on derivatives calculated separately for each instrument + factoring liabilities) less cash.

EBITDA is calculated as operating profit plus amortisation and depreciation.

	31.12.2017	31.12.2016
Loans, borrowings and debt securities – bonds issued	1,329,919	1,506,818
Financial lease liabilities	24,888	23,693
Reverse factoring liabilities	28,162	27,502
Factoring liabilities	43,459	52,854
Net valuation of liabilities due to derivative instruments	1,426,428	1,610,867
Gross debt	489,754	414,369
Cash and cash equivalents	936,674	1,196,498
EBIT	588,808	660,320
Amortization	244,388	223,474
EBITDA	833,196	883,794
Debt ratio	1.1	1.4

As at 31 December 2017, the net debt ratio amounted to 1.1 which is defined as a safe level.

6.2. CONSOLIDATED EQUITY

Accounting policy

The total consolidated shareholders’ equity includes equity attributable to shareholders of the parent company and non-controlling interest.

The Group’s share capital is represented by the share capital of the parent company and is accounted for at its nominal value adjusted by the effects of hyperinflation in the years 1989–1996.

Post-acquisition changes in the equity of subsidiaries are recognised in the Group’s equity to the extent of the parent company’s interest in those subsidiaries. The remaining equity of the consolidated entities is recognised in non-controlling interest, described below.

When a foreign operation is disposed of, the relevant amounts in the currency translation differences are transferred to profit or loss.

When shares are repurchased by the parent company or a consolidated subsidiary, the amount of the consideration paid, which includes directly attributable costs, is recognised as a change in equity. The purchased shares are presented as a deduction from total equity.

A liability for a dividend payable is recognised when authorised.



Dividends payable from pre-acquisition profits do not reduce the acquisition price of the shares, however, they may provide evidence of impairment.

The consolidated net profit (loss) is presented in shareholders' equity within retained earnings and represents the sum of the net profit (loss) of the parent company, its share in net profit (loss) of equity accounted investees, net profit (loss) of consolidated subsidiaries and profit (loss) of non-controlling interest.

Non-controlling interest

Non-controlling interest represents interest in a subsidiary's equity which is not directly or indirectly attributable to the parent company.

Non-controlling interest is measured:

- ✓ at the amount of proportionate interest in subsidiary's net assets, or
- ✓ at fair value,

for each business combination separately at the time of initial recognition.

The carrying amount of non-controlling interest should correspond to the amount calculated by adding changes in the current period to the carrying amount of non-controlling interest at the end of the preceding period. These changes may result from:

- ✓ changes in the percentage share of interest held by non-controlling shareholders – e.g. purchase, sale, increase or decrease of share capital;
- ✓ changes in equity not related to the changes in the interest held – e.g. increase or decrease of equity with no effect on shareholding, additional equity contributions made by non-controlling shareholders, net result of the current year, transactions recognised directly in other comprehensive income, dividends paid.

Profit or loss as well as any component of other comprehensive income are attributable to the shareholders of the parent company and to non-controlling interest even where the attribution results in a negative carrying amount of non-controlling interest.

As at 31 December 2017, the carrying amount of the share capital of the parent company CIECH S.A. amounted to PLN 287,614 thousand and comprised the share capital from the share issues and from the hyperinflation adjustment.

The shares of CIECH S.A. are listed on Warsaw Stock Exchange and on Frankfurt Stock Exchange. The share capital of CIECH S.A. amounts to PLN 263,500,965 and is divided into 52,699,909 shares with a nominal value of PLN 5 each, including:

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

The shares of all series are ordinary shares and do not carry any additional rights, preferences or restrictions as to dividend distribution or return of capital.

Shareholder structure of CIECH S.A. as at the date of approval of the financial statements (according to the best knowledge of the Company)

Shareholder	Type of shares	Number of shares	Number of votes at the General Meeting of Shareholders	Share in the total number of votes at the General Meeting of Shareholders	Stake in share capital (%)
KI Chemistry s. à r. l. with its registered office in Luxembourg*	Ordinary bearer	26,952,052	26,952,052	51.14%	51.14%
TFI PZU Funds**	Ordinary bearer	6,428,681	6,428,681	12.20%	12.20%
Nationale-Nederlanden Otwarty Fundusz Emerytalny***	Ordinary bearer	3,000,000	3,000,000	5.69%	5.69%
Other	Ordinary bearer	16,319,176	16,319,176	30.97%	30.97%



* In accordance with information dated 9 June 2014 provided by Shareholder under Article 77(7) and Article 69(1)(1) of the Act of 29 July 2005 on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies (CR 26/2014).

** In accordance with information dated 28 February 2017 provided by Shareholder under Article 70(1) of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies of 29 July 2005 – purchase or disposal of a significant block of shares (CR 4/2017).

*** on the basis of the list of entities holding at least 5% of votes at the Ordinary Meeting of Shareholders of CIECH S.A. on 16 June 2016, CR 22/2016 prepared and published pursuant to Article 70(3) of the Act of 29 July 2005 on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies (Journal of Laws of 2009, No 185, item 1439). However, on the basis of the list of entities holding at least 5% of votes at the Ordinary Meeting of Shareholders of CIECH S.A. on 22 June 2017 (Current report 13/2017), Nationale-Nederlanden Otwarty Fundusz Emerytalny (hereinafter "NN") held 4.74% of the total number of votes in the Company. Until the date of publication hereof, the Company has not received a notification from NN on the decrease in the number of votes held below 5% of the total number of votes in the Company.

The percentage share of above-listed shareholders in the share capital of CIECH S.A. equals the percentage share in the number of votes at the General Shareholders Meeting of CIECH S.A.

Share premium

The share premium arose from the surplus in excess of nominal value achieved upon the issue of C, D and E series shares.

Other reserve capital

The table below presents the balances of other reserve capital, consisting of the following items:

OTHER RESERVE CAPITAL BY PURPOSE	31.12.2017	31.12.2016
Commercial risk fund	3,330	3,330
Fund for purchasing soda companies	15,200	15,200
Development funds	57,669	57,669
Other	2,322	2,322
TOTAL	78,521	78,521

Cash flow hedge

The cash flow hedge reserve reflects the valuation and settlement of hedging instruments to which the hedge accounting applies.

Currency translation differences (foreign companies)

The balance of this equity item is adjusted by exchange differences on the translation of the financial statements of foreign subsidiaries, i.e. CIECH Soda Romania S.A., SDC Group and Ciech Group Financing AB.

The balance of this item of equity also represents accumulated exchange differences on the valuation of net investments in a foreign entity and effective part of profit and losses from measurement of an instrument used for hedging shares in net assets of foreign companies.

Non-controlling interest

Profit or loss as well as any component of other comprehensive income are attributable to the equity of shareholders of the parent company and to non-controlling interest even where the attribution results in a negative carrying amount of non-controlling interest.

6.3. DIVIDENDS PAID OR DECLARED

Until the date of approval of the report for publication, the Management Board of CIECH S.A. did not adopt a resolution regarding the proposal to distribute the 2017 net profit.

On 22 June 2017, the Ordinary General Meeting of Shareholders of CIECH S.A. adopted a resolution regarding the allocation of the entire net profit of the Company for 2016, in the amount of PLN 152,440 thousand, to the Company's supplementary capital.



6.4. BUSINESS COMBINATIONS AND ACQUISITION OF NON-CONTROLLING INTEREST

Basis of consolidation

The subsidiaries' net equity in the amount as at the acquisition date, in the part corresponding to Group's share in the share capital, is compensated with acquisition value of the shares included in statement of financial position of the parent company at the date of acquisition. Consolidation adjustments, depending on their nature, are recorded against appropriate items of equity. Changes in the parent company's ownership interest that do not result in a loss of control of the subsidiary are accounted for as equity transactions.

Subsidiaries of the CIECH Group are fully consolidated from the date on which control is transferred to the Group, and cease to be consolidated from the date such control ends.

Balances, revenues and costs, unrealized profits or losses from transactions between the Group subsidiaries are eliminated in the process consolidation.

In the current reporting period and in the comparable period there were no mergers or acquisitions of non-controlling interests in the CIECH Group.

Establishment of new companies

On 5 October 2017, CIECH S.A. established a special purpose vehicle, BOSTEN S.A. The share capital of this company amounts to PLN 100 thousand and is divided into 10 thousand shares with the nominal value of PLN 10 each. The issue price of shares is equal to their nominal value. The entire share capital was covered with a cash contribution and acquired by CIECH SA. The company will be involved in R&D activities.

Phasing out and liquidation of businesses

On 8 November 2017, Polcommerce GmbH was deleted from the Commercial Register pursuant to decision of the General Meeting of Shareholders of the Company dated 18 October 2017 which concluded that the liquidation of the Company – opened on 31 December 2016 – had been completed. The liquidation of the Company resulted from changes in the CIECH Group's business model in the area of sales.

Transformation of legal form of companies

On 12 October 2017, a Partners' Meeting of the limited partnership under the business name Beta Cerium spółka z ograniczoną odpowiedzialnością spółka komandytowa was held to resolve on the transformation of the partnership's legal form into a limited liability company. Partners of Beta Cerium Sp. z o.o. Sp. k., having reviewed the Plan of Transformation of the Partnership's legal form into a limited liability company dated 10 July 2017, resolved to transform the Partnership into a limited liability company.

Changes in the share capital of companies

On 23 February 2017, the Extraordinary Shareholders' Meeting of Cerium Finance Sp. z o.o. adopted a resolution on voluntary redemption, effected against payment, of 28,483 shares in this Company held by Gamma Finanse Sp. z o.o., with the nominal value of PLN 50 each and the total nominal value of PLN 1,424 thousand, accounting for 98.99% of the share capital of Cerium Finance Sp. z o.o. The market value of all shares subject to redemption was determined based on a valuation prepared by an independent expert and amounted to PLN 206,757 thousand. Following the redemption, the share capital of Cerium Finance Sp. z o.o. decreased from PLN 1,439 thousand to PLN 15 thousand. Following the redemption of shares and decrease of the share capital of Cerium Finance Sp. z o.o., the sole shareholder of the company is CIECH Soda Polska S.A.

Pursuant to resolution of the Extraordinary Shareholders' Meeting of CIECH R&D Sp. z o.o. of 28 February 2017 on the increase of the share capital, CIECH S.A., in accordance with the declaration dated 3 March 2017, took up 90,000 new shares in CIECH R&D Sp. z o.o. with the nominal value of PLN 50 each. Shares in CIECH R&D Sp. z o.o. taken up by CIECH S.A. were covered in whole with a cash contribution in the amount of PLN 4,500 thousand, constituting the equivalent of the total nominal price of new shares in CIECH R&D Sp. z o.o. Following the above, the share capital of the Company, registered by the Court on 8 May 2017, increased to PLN 40,000 thousand and is divided into 800,000 shares with the nominal value of PLN 50 each. CIECH S.A. remains the sole shareholder of the Company.



On 26 October 2017, the Extraordinary Shareholders' Meeting of JANIKOSODA S.A. adopted resolution No 1 on increasing the Company's share capital, pursuant to which:

- 1) the share capital is to be increased by the amount of PLN 7,800 thousand, i.e. from PLN 36,530 thousand to PLN 44,330 thousand;
- 2) the share capital was to be increased by way of issue of 260 million series E bearer shares with the nominal value of PLN 0.03 each;
- 3) the issue price of series E shares was to amount to PLN 0.30 per share;
- 4) the shares in the increased share capital of JANIKOSODA S.A. were to be taken up by way of an offer placed by JANIKOSODA S.A. and accepted by CIECH S.A. with its registered office in Warsaw.

The agreement on taking up 260 million series "E" shares in JANIKOSODA S.A., with the nominal value of PLN 0.03 each, by CIECH S.A. was concluded on 26 October 2017. The shares were taken up by CIECH S.A. at the issue price of PLN 0.30 per share and the share premium (agio) was allocated to the Company's supplementary capital. The total issue price of the series "D" shares was PLN 78,000 thousand. CIECH acquired the ownership title to series "E" shares on 22 November 2017 (the date of registration of the increase of the Company's share capital by the District Court).

On 9 November 2017, the Extraordinary General Meeting of Ciech Nieruchomości S.A. resolved to increase the Company's share capital, i.e.:

- the Company's share capital was increased by PLN 18,000 thousand, i.e. from PLN 148 thousand to PLN 18,148 thousand by way of issue of 900 million series D bearer shares with the nominal value of PLN 0.02 per share and issue price of PLN 0.02 per share,
- the issue of series D shares was addressed to CIECH S.A.,
- the pre-emptive right to series D shares held by the sole shareholder of the Company was waived,
- series D shares were taken up by CIECH S.A. in consideration for cash contribution; the agreement on the subscription of shares through a private placement was signed on 9 November 2017. On 3 January 2018, the Court registered the increase of the Company's share capital.

Acquisition of shares in other companies

On 10 March 2017, the Court registered the change of the sole owner of shares in JANIKOSODA S.A., i.e. registered CIECH FINANCE Sp. z o.o. as the owner, following the sale of the Company's shares under an agreement dated 23 December 2016 concluded between CIECH Trading S.A. and CIECH FINANCE Sp. z o.o.

In 2017, the CIECH Group did not discontinue its activities in any significant area. After the reporting date, there were no material changes in the Group's organisation.

6.5. SIGNIFICANT SUBSIDIARIES WITH NON-CONTROLLING INTEREST

In 2017 and 2016, there was no significant non-controlling interest in any of the significant subsidiaries of the CIECH Group.

6.6. EARNINGS PER SHARE

Accounting policy

Basic earnings per share is the net profit for the year attributable to ordinary shareholders of the parent entity divided by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is the net profit for the year attributable to ordinary shareholders of the parent entity divided by the weighted average number of ordinary shares outstanding during the year adjusted for the effects of all dilutive potential ordinary shares.

The table below presents profit and shares data used in the calculation of the basic and diluted earnings per share:

<i>in PLN</i>	01.01-31.12.2017	01.01-31.12.2016
Basic and diluted earnings per share (continuing operations)	7.47	11.26
Basic and diluted earnings per share (discontinuing operations)	-	-



	01.01-31.12.2017	01.01-31.12.2016
Net profit (loss) from continuing operations attributable to the shareholders of the parent	393,413	593,513
Net profit (loss) from discontinued operations attributable to the shareholders of the parent	-	-
Weighted average number of issued ordinary shares used in calculation of basic and diluted earnings per share	52,699,909	52,699,909



LIABILITIES, PROVISIONS, EMPLOYEE BENEFITS

7.1. INFORMATION ABOUT SIGNIFICANT FINANCIAL LIABILITIES

Accounting policy

Financial liabilities are an entity's liabilities to deliver financial assets to another entity or to exchange a financial instrument with another entity under conditions that are unfavourable. When a financial liability is recognised initially, an entity shall value it at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability. Interest accrued is recognised under finance costs or, if it is subject to capitalisation, to property, plant and equipment or intangible assets.

LOANS, BORROWINGS AND OTHER DEBT INSTRUMENTS	31.12.2017	31.12.2016
LONG-TERM	1,130,482	1,345,973
Loans and borrowings	1,130,482	1,345,973
SHORT-TERM	199,437	160,845
Loans and borrowings	199,437	463
Debt securities issued	-	160,382
TOTAL	1,329,919	1,506,818

* Pursuant to an annexe to the loans agreement signed on 9 January 2018, the short-term portion of the liability on account of the loans will be presented as a long-term liability as at the end of the 1st quarter of 2018.

Debt financing of the Group

The Group's debt financing is secured mainly through loans made available to CIECH S.A. under the Loans Agreement dated 29 October 2015:

- o term loan in the amount of PLN 1,045,031 thousand and EUR 69,673 thousand (the total amount of the loan as at 31 December 2017 was PLN 1,335,630 thousand),
- o revolving credit facility granted to CIECH S.A. in the amount of up to PLN 250,000 thousand (the amount of used credit as at 31 December 2017 was PLN 0).

On 5 December 2017, CIECH S.A. repaid bonds in the amount of PLN 160,000 thousand.

Detailed information about loan liabilities is disclosed in the Directors' Report for the CIECH Group and CIECH S.A. for 2017, in section 4.6.

Interest rate:

The interest rate of the Loans is a floating rate and it is determined on the basis of the WIBOR / EURIBOR base rate, plus margin, the level of which depends on the level of the net debt index to EBITDA. The initial value of the margin was 1.5%. The current value of the margin is 1%.

Information about the financial covenants included in loan agreements

During the period covered by these financial statements, no loan agreement was called to maturity and there were no violations of payment terms for repayment of principal or interest due in relation to financial liabilities recognised in the balance sheet. Under the Loan Agreement dated 29 October 2015, CIECH S.A. and its selected subsidiaries were obliged to, among others, maintain a certain level of net leverage ratio for the Group specified in the Loan Agreement (the ratio of the CIECH Group's consolidated net debt to consolidated EBITDA of the CIECH Group calculated according to the guidelines in the amount of at least 4.0, measured at the end of a year and first six months of a year). As at the balance sheet date, i.e. 31 December 2017, this ratio was maintained and amounted to 1.1.



7.2. OTHER NON-CURRENT LIABILITIES

Accounting policy

Accounting policy concerning financial instruments is presented in note 8.1.

OTHER NON-CURRENT LIABILITIES	31.12.2017	31.12.2016
Subsidies	47,796	54,983
PUT options	8,342	8,848
Derivatives	41,528	120,929
Liabilities from the initial recognition of the valuation of embedded derivatives	5,618	12,507
Other	283	471
TOTAL	103,567	197,738

7.3. CURRENT TRADE AND OTHER LIABILITIES

Accounting policy

Trade and other liabilities are classified as current or non-current based on the following principles:

- ✓ trade liabilities are reported as current liabilities, regardless of maturity,
- ✓ other liabilities due to be settled within 12 months of the balance sheet date are classified as current liabilities,
- ✓ other payables, which do not meet the current liability conditions, are classified as non-current liabilities.

Liabilities denominated in foreign currencies are recognised at the NBP's average exchange rate effective on the last working day before the date of transaction.

At the reporting date foreign currency denominated liabilities are translated at the average exchange rate announced for that day by the NBP except for received prepayments. Currency translation differences arising upon the repayment of a liability (realised) or its valuation (unrealised) are presented within financial income or expense. Prepayments for deliveries denominated in foreign currencies are recognised at the exchange rate applicable as at the transaction day.

Judgements and estimates

At the reporting date trade payables are valued at amortised cost (i.e. they are discounted using the effective interest method) and increased by any applicable late interest accrued.

Late interest is not accrued when a formal waiver is received from the counterparty. In all other cases such interest is accrued and recognised in accordance with the following principles:

- ✓ on an ongoing basis, based on interest notes received;
- ✓ in estimated amounts, with such estimates based on comparison of interest charged in the past by a counterparty to the related amounts owed.

CURRENT TRADE AND OTHER LIABILITIES	31.12.2017	31.12.2016
Trade liabilities and advances taken	387,331	368,937
- in up to 12 months	380,404	367,420
- prepayments received for supplies	6,927	1,517
Public and legal liabilities (excluding income tax)	23,737	24,854
Liabilities for purchase of property, plant and equipment	79,624	94,218
Financial instruments liabilities	2,141	6,006
Liabilities to employees	13,686	11,265
Payroll liabilities	27,878	35,873
Holiday leave accrual	8,200	7,360
Taxes and charges	53,486	42,600
Materials and energy consumption	22,019	25,270
Subsidies	34,808	37,352
External services	3,752	9,110
Environmental charges	28,549	28,016
Social security and other employee benefits	2,746	4,359



CURRENT TRADE AND OTHER LIABILITIES	31.12.2017	31.12.2016
Factoring liabilities	28,162	27,502
Liabilities from the initial recognition of the valuation of embedded derivatives	5,184	4,676
Other	37,278	16,081
TOTAL	758,581	743,479

Terms of transactions with related entities have been presented in note 9.3.

Trade liabilities do not bear interest. Commercial contracts concluded by the CIECH Group include various terms of payment of trade liabilities depending on the type of transaction, market characteristics and trade conditions. The most common payment terms are: 14, 30, 60 and 90 days.

7.4. FINANCE LEASE

Accounting policy

Accounting policy concerning finance leases is described in note 5.1.

The CIECH Group uses property, plant and equipment (mainly means of transport and various types of machinery and equipment) pursuant to finance lease agreements. The agreements include the return option, extension of the agreement or the option to buy all or a part of the equipment after the lease period. In 2017, the carrying amount of leased property, plant and equipment amounted to PLN 42,463 thousand (as at 31 December 2016, it amounted to PLN 41,110 thousand). There were no contingent lease charges.

In 2015 and 2016, CIECH Cargo Sp. z o.o. signed finance lease agreements, under which the Company uses additional wagons to carry coal fines and stones. In the agreements, purchase options are provided for after the end of lease. As at 31 December 2017, the carrying value of property, plant and equipment covered by these agreements amounted to PLN 24,957 thousand (PLN 26,803 thousand as at 31 December 2016).

The nominal value and the present value of minimum lease payments are as follows:

FINANCE LEASE LIABILITIES	Nominal value of minimum lease payments	Future financial costs due to finance lease	Present value of minimum lease payments
31.12.2017			
Up to 1 year	5,261	518	4,743
Between 1 and 5 years	15,638	1,282	14,356
Over 5 years	5,870	81	5,789
TOTAL	26,769	1,881	24,888
31.12.2016			
Up to 1 year	5,414	700	4,714
Between 1 and 5 years	15,095	1,822	13,273
Over 5 years	5,792	86	5,706
TOTAL	26,301	2,608	23,693



7.5. OPERATING LEASES

Accounting policy

A financial lease is when all the risks and rewards incidental to ownership of the subject matter of the contract (including a lease contract) remain with the financing party — in such case the company does not recognise the asset as property, plant and equipment. Costs are recognised proportionally to the term of the agreement (on a straight line basis) unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis. Initial direct costs incurred before the conclusion of a lease contract, if substantial, are settled over time, proportionally to lease payments disclosed in financial statements, or are recognised as an expense in the statement of profit or loss in the period in which they are incurred.

All incentives for the agreement of a new or renewed operating lease should be recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.

The Group recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

The largest item subject to operating lease in the CIECH Group, in accordance with the adopted accounting principles, is the right of perpetual usufruct of land obtained by administrative decision. Furthermore, the SDC Group recognises a long-term sewage system agreement effective until 2095 as an operating lease. Group companies also recognise lease agreements of property and low-value property, plant and equipment, e.g. cars. Operating lease is a renewable lease, making it possible to acquire an asset at its estimated market value at the end of its use. The companies are not obliged to purchase the leased assets. No conditions for extending lease agreements or purchasing the subject of lease have been included in administrative decisions concerning the right of perpetual usufruct of land. Price indexation may occur in relation to land revaluation.

Total amounts of future minimum lease payments are presented in the table below:

TOTAL FUTURE MINIMUM OPERATING LEASE PAYMENTS	31.12.2017	31.12.2016
Up to 1 year	7,289	8,121
Between 1 and 5 years	27,760	27,094
Over 5 years	55,185	62,522
TOTAL	90,234	97,737

In 2017, the costs of lease payments amounted to PLN 7,443 thousand (PLN 7,268 thousand in the comparable period).

7.6. PROVISIONS FOR EMPLOYEE BENEFITS

Accounting policy

Jubilee awards, retirement benefits pays and disability pay:

Based on the Group's remuneration plan, the employees of its companies are entitled to long-term jubilee awards and to retirement benefits. The Group's obligations in respect of the above benefits is the amount of benefit entitlement that employees have earned as a result of their service in the current and prior years.

Net defined benefit liabilities are calculated separately for each plan by estimation of future payments required to settle the obligation resulting from employee service in the current and prior periods (discounted to its present value and reduced by the fair value of plan assets). The discount rate is the rate of return for low-risk debt securities with similar maturity date as the Group's liabilities as at the end of the reporting period. An appropriate estimation is made by an authorised actuary with the application of forecast discounted unit right method.

The Company recognises in the statement of profit or loss:

- ✓ current service cost, which is the change in liability resulting from increase in value of the defined benefit obligation due to increase in the period of service and age of employees;
- ✓ past service cost connected with plan amendment during the current period;
- ✓ interest – change in liability resulting from unwinding of discount.



The Company recognises in other comprehensive income actuarial gains and losses – the effects of differences between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions and change in discount rate.

Judgements and estimates

The amount of the provision for employee benefits is determined based on actuarial valuations performed by independent professional firms. By actuarial valuation estimates are made regarding the rotation in employment, wage growth, discount rates and inflation.

PROVISIONS FOR EMPLOYEE BENEFITS	LONG-TERM		SHORT-TERM	
	01.01-31.12.2017	01.01-31.12.2016	01.01-31.12.2017	01.01-31.12.2016
Opening balance	10,752	12,829	1,194	1,603
Recognition	663	678	708	797
Use and reversal	(1,048)	(1,353)	(1,028)	(1,350)
Foreign exchange differences	(308)	212	-	-
Other	730	(1,614)	94	144
Closing balance	10,789	10,752	968	1,194

In 2017, a change in provision in the amount of PLN -834 thousand was recognised in equity (PLN 685 thousand in the comparable period).

Employee benefits are valued on the basis of actuarial valuations. A discount rate of 3.2% p.a. was applied in order to determine the current value of future liabilities due to employee benefits. The discount rate applied is established in nominal value. At the same time, future inflation in the amount of 2.0% per annum was taken into account. The estimated nominal growth rate of 1% was applied. The remuneration growth rate of 1% was applied for the residual period. Staff turnover ratio is established based on historic data, adjusted for employment restructuring plans. According to the Group estimations, a change in actuarial assumptions will not have a significant impact on financial results.

7.7. OTHER PROVISIONS

Accounting policy

A provision is recognised if, as a result of a past event, the Group has a present obligation and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provision for environmental protection

In accordance with the Group’s published and currently enforced environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognised. The provision is recognised in the amount of the expected future restoration costs discounted to present value.

Judgements and estimates

For measurement of the provisions, the Group is required to make estimates, assumptions regarding discount rates, expected costs and payment terms.

CHANGE IN OTHER LONG-TERM PROVISIONS	Provision for liabilities (costs)	Provision for environmental protection	TOTAL
01.01-31.12.2017			
Opening balance	6,547	77,737	84,284
Recognition	-	50	50
Use and reversal	(5,500)	(100)	(5,600)
Foreign exchange differences	-	(3,775)	(3,775)
Change in discount rate	-	(2,539)	(2,539)
Other	-	(608)	(608)
Closing balance	1,047	70,765	71,812



CHANGE IN OTHER LONG-TERM PROVISIONS	Provision for liabilities (costs)	Provision for environmental protection	TOTAL
01.01-31.12.2016			
Opening balance	6,547	68,157	74,704
Foreign exchange differences	-	2,212	2,212
Change in discount rate	-	5,296	5,296
Other	-	2,072	2,072
Closing balance	6,547	77,737	84,284

CHANGE IN OTHER SHORT-TERM PROVISIONS	Provision for compensation	Provision for liabilities (costs)	Provision for environmental protection	Provision for bonuses	Provision for expected losses	Other provisions	TOTAL
01.01-31.12.2017							
Opening balance	9,337	26,598	2,391	3,661	46,507	292	88,786
Recognition	884	2,686	-	1,447	2,998	-	8,015
Use and reversal	(5,083)	(5,730)	(2,048)	(4,343)	-	(264)	(17,468)
Foreign exchange differences	-	(1,178)	-	(155)	(712)	-	(2,045)
Other	-	-	608	-	-	-	608
Closing balance	5,138	22,376	951	610	48,793	28	77,896
01.01-31.12.2016							
Opening balance	8,368	37,020	2,236	1,146	30,887	437	80,094
Recognition	973	9,386	188	6,586	15,095	848	33,076
Use and reversal	(93)	(26,632)	(2,061)	(4,486)	-	(629)	(33,901)
Foreign exchange differences	89	1,149	-	25	525	13	1,801
Reclassification from liabilities	-	5,688	-	-	-	-	5,688
Other	-	(13)	2,028	390	-	(377)	2,028
Closing balance	9,337	26,598	2,391	3,661	46,507	292	88,786

The most significant provisions of the CIECH Group are:

Provisions for liabilities

CIECH Soda Polska S.A. – long-term provision in the amount of PLN 1,047 thousand for potential environmental fees resulting from exceeded emission limits. A reversal of the provision in the amount of PLN 5,500 thousand was made as a result of receiving a decision on including potential penalties in future pro-environmental projects. The amount of the reversed provision is disclosed under contingent liabilities.

Provisions for expected losses

CIECH S.A. – short-term provision for expected losses in the amount of PLN 29,387 thousand, related to potential claims (principal liability plus interest liabilities and litigation costs) resulting from litigation.

SDC Group – short-term provision of PLN 12,905 thousand (EUR 3,094 thousand) related to negative valuation of a contract between the SDC Group and EVZA, concerning supply of technological steam and electricity.

CIECH Cargo Sp. z o.o.– due to a damage to a leased locomotive, railway infrastructure, traction network and damage to property and load, a provision in the amount of PLN 6,500 thousand was recognised in connection with the repair of these damages and payment of contractual penalties.

**Provisions for environmental protection**

SDC Group – long-term provision for environmental protection in the amount of PLN 60,109 thousand (EUR 14,411 thousand) comprising, among others, reclamation of rainwater ponds in Unseburg, mine reclamation activities in the limestone, reclamation of remains of the old limestone outcrops and closing of caverns.

CIECH Soda Polska S.A. – provision for land reclamation costs, calculated in accordance with expenditure planned until 2042, in line with the expected inflation rate: 2.0% adjusted by a discount factor, calculated as the average of the discount factor at the beginning and end of every annual period. The annual expenditure arising therefrom will amount to approx. PLN 700 thousand until 2042. The amount of the respective provision recognised in the statements amounts to PLN 7,589 thousand;

CIECH Sarzyna S.A. – provision for water and land reclamation costs in the amount of PLN 3,030 thousand, comprising a long-term provision of PLN 344 thousand and short-term provision of PLN 2,686 thousand. The provision was estimated based on a technical and financial project including a schedule of works for the years 2008-2020 of expenses to be incurred and the Marshal of Podkarpackie Province decision, discounted for a 1.5% inflation rate.



8 FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT AND IMPAIRMENT

8.1. FINANCIAL INSTRUMENTS

Accounting policy

Principles of valuation after initial recognition/at the end of reporting period and presentation of financial instruments in financial statements

Category of assets or liabilities	Valuation	Recognition
Assets at fair value through profit or loss	At fair value	Remeasurement changes recognised in the current period profit or loss under finance income or costs.
Liabilities at fair value through profit or loss	At fair value	Remeasurement changes recognised in the current period profit or loss under finance income or costs.
Other financial liabilities	At amortised cost using the effective interest rate (IRR)	Remeasurement changes adjust the carrying amount of the liability and are recognised in current period profit or loss.
Loans and receivables	At amortised cost using the effective interest rate (IRR)	Remeasurement changes adjust the carrying amount of the asset and are recognised in current period profit or loss.
Held-to-maturity financial assets	At amortised cost using the effective interest rate (IRR)	Remeasurement changes adjust the carrying amount of the asset and are recognised in current period profit or loss.
Available-for-sale financial assets	At fair value	Changes from remeasurement at fair value are recognised in other comprehensive income. For debt instruments interest is recognised directly in profit or loss.

Impairment of financial assets

At each reporting date the Group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets measured at amortised cost

If any objective evidence indicates that loans valued at amortised cost are impaired, the impairment loss is the amount of the difference between the carrying amount of the financial asset and the present value of estimated future cash flows. The amount of allowance decreases the carrying amount of financial asset and is recognised in profit or loss.

The Company first assesses whether there is any objective evidence of impairment of individually significant financial assets, and also whether any indications of impairment exist in respect of financial assets that are not individually significant. If the analysis does not reveal any objective evidence of impairment of an individually assessed financial asset, regardless of whether it is significant or not, the Group includes such an asset in a group of financial assets with similar credit risk and evaluates them collectively in terms of impairment. Assets that are individually assessed for impairment and for which an impairment loss was recognised or it was considered that the existing allowance should not change, are not taken into account when assessing the group of assets for impairment.

If in a subsequent period the amount of impairment loss decreases and the decrease can be objectively associated with an event occurring after the recognition of the impairment loss, the previously recognised impairment loss is reversed. The subsequent reversal of the impairment loss is recognised in profit or loss to the extent that the asset's carrying amount at the reversal date does not exceed its amortised cost.



In particular, in relation to trade receivables from entities in liquidation or bankruptcy, or not admitted to bankruptcy, or in relation to receivables that are contested by debtors (disputed receivables), or where payments due are delayed and either the debtor's financial standing makes the collection no longer probable or such delay exceeds 180 days, an impairment loss is recognised in the full amount due after taking into account the amounts of any existing security which the Board considers highly probable of execution.

Available-for-sale financial assets

If objective evidence indicates that available-for-sale financial assets are impaired, the amount of the difference between the asset's acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and reclassified into profit or loss. Reversals of impairment losses on equity instruments classified as available-for-sale cannot be recognised in profit or loss. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

Financial assets measured at cost

If objective evidence indicates that impairment may exist in respect of an unquoted equity instrument that is not recognised at fair value due to the fact that its fair value cannot be reliably measured, or a derivative which is linked to or must be settled through delivery of such an unquoted equity instrument, the amount of impairment loss is determined as the difference between the carrying amount of the financial asset and the present value of its estimated future cash flows discounted at the current market rate of return for similar financial assets.

Embedded derivatives

Agreements with an embedded derivative are agreements containing conditions causing that a part of cash flows due to the agreement changes similarly to cash flows arising from independent derivatives. Embedded derivatives are subject to exclusion from a compound instrument and to separate measurement at fair value if all the following conditions are satisfied:

- ✓ the economic characteristics and risk of the embedded derivative are not closely related to the economic characteristics and risk of the host contract,
- ✓ a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative,
- ✓ it is possible to reliably establish the fair value of an embedded derivative,
- ✓ the hybrid (combined) instrument is not valued and recognised at fair value in financial statements.

The FIFO (first in – first out) method is applied to establish the costs due to the outflow of financial instruments.

The main financial instruments disclosed in the statement of financial position of the CIECH Group as at 31 December 2017 include:

Financial assets:

- loans granted,
- financial instruments with positive valuation,
- embedded instruments with positive valuation,
- trade receivables and factoring receivables,
- cash and cash equivalents.

Financial liabilities:

- term loan liabilities, revolving loan liabilities and overdraft liabilities,
- trade liabilities and factoring liabilities,
- finance lease agreements,
- financial instruments with negative valuation.



Carrying amount of financial instruments

Classes of financial instruments	note	31.12.2017	31.12.2016	Categories of financial instruments
Cash and cash equivalents	5.12	489,754	414,369	Loans and receivables
Loans granted	5.11	26,087	34,000	Loans and receivables
Trade receivables	5.10	337,668	298,004	Loans and receivables
Factoring receivables	5.10	47,256	70,155	Loans and receivables
Hedging derivatives with positive value	5.7;5.11	59,837	75,792	Hedging instruments
Embedded instruments	5.7;5.11	15,717	28,955	Hedging Instruments
ASSETS		976,319	921,275	
Trade liabilities	7.3	(380,404)	(367,420)	Financial liabilities at amortised cost
Loans and borrowings	7.1	(1,329,919)	(1,346,436)	Financial liabilities at amortised cost
Debt securities – bonds issued	7.1	-	(160,382)	Financial liabilities at amortised cost
Factoring liabilities	7.3	(28,162)	(27,502)	Financial liabilities at amortised cost
Finance lease liabilities	7.4	(24,888)	(23,693)	Financial liabilities excluded from IAS 39
Hedging derivatives with negative value	7.2;7.3	(43,669)	(126,935)	Hedging Instruments
LIABILITIES		(1,807,042)	(2,052,368)	

In the CIECH Group selected trade receivables are subject to factoring. This is factoring with the assumption of insolvency risk whereby the factor assumes the risk in the amount specified in the insurance policy.

Revenues, costs, profit and loss recognised in the income statement by the category of financial instruments.

Revenues, costs, profit and loss recognised in the statement of profit or loss	01.01.-31.12.2017	01.01.-31.12.2016	Categories of financial instruments
Interest income /(costs) including income / costs calculated using the effective interest rate method	(39,767)	(35,301)	
	3,661	2,039	Loans and receivables
	(42,578)	(36,453)	Financial liabilities at amortised cost
	(850)	(887)	Financial liabilities excluded from IAS 39
Foreign exchange gains/(losses)	(32,602)	5,301	
	(32,696)	5,344	Financial liabilities at amortised cost
	94	(43)	Financial liabilities excluded from IAS 39
Recognition of impairment losses	(1,509)	(12,435)	Loans and receivables
Reversal of impairment losses	11,503	904	Loans and receivables
Income / costs on account of use of derivatives	30,983	22,623	
	(317)	3,949	Financial assets/liabilities at fair value through profit or loss
	31,300	18,674	Hedging instruments
Gain / (loss) on the disposal of financial instruments	(653)	(18)	Hedging instruments
TOTAL	(32,045)	(18,926)	



8.2. FINANCIAL INSTRUMENTS DESIGNATED FOR HEDGE ACCOUNTING

Accounting policy

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item.

Derivatives such as options, forwards, swaps are held to hedge the fair value of assets or liabilities or expected future cash flows. For the aforesaid derivatives, the entity may apply hedge accounting if, and only if, all the following conditions are met:

- ✓ at the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. In this documentation, the Group shall include identification of the hedging instrument for the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk,
- ✓ The Group expects that the hedge will be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship,
- ✓ for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss,
- ✓ the effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured,
- ✓ the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

If the aforesaid conditions are not met, the derivative should be valued in accordance with the principles as for financial instruments held for trading.

Cash flow hedge:

A hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, and that (ii) could affect profit or loss.

Cash flow hedge shall be accounted for as follows:

- ✓ the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised in other comprehensive income and presented in equity; the ineffective portion of the gain or loss on the hedging instrument shall be recognised in profit or loss.
- ✓ if a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive income (effective hedge) shall be reclassified from other comprehensive income to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss.
- ✓ for cash flow hedges other than those covered above, amounts that had been recognised in other comprehensive income shall be reclassified from equity (effective hedge) to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss.

Hedges of a net investment in a foreign operation:

Hedges of a net investments in a foreign operation shall be accounted for as follows:

- ✓ It is a hedge of a net investment in foreign operations with functional currency different than the one of the parent entity, by foreign currency liabilities.
- ✓ revaluation of foreign currency liabilities designated for hedge accounting is recognised in other comprehensive income and offset with the opposite revaluation of net investments in foreign operation in consolidated financial statements.

accumulated amount in other comprehensive income is transferred to the profit or loss statement in the case of partial or overall sale of shares in a foreign entity.

The table below presents a summary of specific groups of relationships existing in 2017, designated for hedge accounting:



Hedged risk	Type of hedge	Hedged item	Hedging instrument
Currency risk EUR/PLN	Cash flow hedge	Future cash flows due to realisation of revenues from sales denominated or indexed to the EUR exchange rate	Series of EUR/PLN forward transactions isolated through the decomposition of CIRS transactions; Currency forwards EUR/PLN
Currency risk USD/RON	Cash flow hedge	Future cash flows due to realisation of revenues from sales denominated or indexed to the USD exchange rate	Currency forwards USD/RON
Interest rate risk (change of WIBOR 6M)	Cash flow hedge	Interest payments related to the term loan taken out by CIECH S.A. with the nominal value of PLN 1,045 million	Swap of WIBOR 6M to fixed interest rate (transaction isolated through the decomposition of CIRS transactions)
Interest rate risk (change of EURIBOR 6M)	Cash flow hedge	Interest payments related to the term loan taken out by CIECH S.A. with the nominal value of EUR 69,673 thousand	Swap of EURIBOR 6M to fixed interest rate
Raw material price risk	Hedge for the cost of purchase of CO ₂ units	Cost of purchase of CO ₂ units in 2017 and 2018	Futures contracts for the purchase of CO ₂ units
Raw material price risk	Hedge for the costs of gas purchased in the period 2016-2020	Cost of gas purchased in the period 2016–2020	Acquired call options embedded in a gas supply contract
Currency risk EUR/PLN	Net investment hedge	The hedged position is the net investment in the subordinated entity	Term loan in EUR
Currency risk EUR/PLN	Net investment hedge	The hedged position is the net investment in the subordinated entity	Bonds issued in EUR

Transactions designated to hedge accounting / risks hedged	Fair value as at the reporting date	Amount recognised in equity (after income tax) as at 31.12.2017	Amount transferred from equity and recognised in the statement of profit or loss (after income tax) in the period of 01.01-31.12.2017	Ineffective portion recognised in the statement of profit or loss	Forecast period of cash flow occurrence / Expected date of impact on the financial result
Currency risk					
CIECH S.A. – Bond liabilities	-	(18,197)	-	-	from 01.01.2020 to 31.12.2022
CIECH S.A. – Series of EUR/PLN forward transactions isolated through the decomposition of CIRS transactions	(599)	(485)	14,349	1,287	from 01.01.2018 to 25.11.2020
CIECH S.A. – Currency forward EUR/PLN	4,271	3,459	13,151	-	from 01.01.2018 to 31.12.2018
CIECH S.A. – Currency forward USD/RON	1,429	1,200	449	-	from 01.01.2018 to 30.11.2018
CIECH Vitrosilicon S.A. - forward EUR/PLN	397	322	1,345	-	from 01.01.2018 to 31.12.2018
Interest rate risk					
CIECH S.A. – Interest Rate Swap (IRS) PLN 80 million	-	-	(1,043)	-	Closed designation
CIECH S.A. – Interest Rate Swap (IRS) EUR 70 million	(1,746)	(1,414)	(1,104)	-	from 01.01.2017 to 25.11.2020
CIECH S.A. – Interest rate swap (transaction isolated through	11,130	9,018	518	-	from 01.01.2017 to 25.11.2020



Transactions designated to hedge accounting / risks hedged	Fair value as at the reporting date	Amount recognised in equity (after income tax) as at 31.12.2017	Amount transferred from equity and recognised in the statement of profit or loss (after income tax) in the period of 01.01-31.12.2017	Ineffective portion recognised in the statement of profit or loss	Forecast period of cash flow occurrence / Expected date of impact on the financial result
the decomposition of CIRS transactions)					
Raw material price risk					
CIECH Soda Polska S.A. – Futures contracts for the purchase of CO ₂ units	11,458	11,458	-	-	from 01.01.2017 to 31.12.2018
SDC Group – isolated option instruments embedded in a gas supply contract	4,914	4,660	1,604	-	from 01.01.2018 to 31.03.2020
Total cash flow hedge	31,254	10,021	29,270	1,287	
CIECH S.A. – Bond liabilities	-	(5,864)	-	-	Upon the sale of shares
CIECH S.A. – Term loan liabilities	(290,599)	5,548	-	-	Upon the sale of shares
Net investment hedge – currency risk	(290,599)	(316)*	29,270		
TOTAL	(259,345)	9,705	27,924	1,287	

* Amount recognized in equity under "Currency translation reserve".

Transactions designated to hedge accounting / risks hedged	Fair value as at the reporting date	Amount recognised in equity (after income tax) as at 31.12.2016	Amount transferred from equity and recognised in the statement of profit or loss (after income tax) in the period of 01.01-31.12.2016	Ineffective portion recognised in the statement of profit or loss	Forecast period of cash flow occurrence / Expected date of impact on the financial result
Currency risk					
CIECH S.A. – Bond liabilities	-	(18,197)	-	-	from 01.01.2020 to 31.12.2022
CIECH S.A. – Series of EUR/PLN forward transactions isolated through the decomposition of CIRS transactions	(60,187)	(48,751)	14,407	1,862	from 01.01.2017 to 25.11.2020
CIECH S.A. – Currency forward EUR/PLN	1,616	1,309	2,706	-	from 01.01.2017 to 31.12.2018
CIECH S.A. – Currency forward USD/PLN	-	-	(112)	-	Closed designation
CIECH S.A. – Currency forward USD/RON	(3,861)	(3,245)	-	-	from 01.01.2017 to 30.11.2018
CIECH Vitrosilicon S.A. - forward EUR/PLN	94	76	-	-	from 01.01.2017 to 31.12.2017
Interest rate risk					
CIECH S.A. – Interest Rate Swap (IRS) PLN 80 million	(1,241)	(1,005)	(1,070)	-	from 01.01.2017 to 05.12.2017
CIECH S.A. – Interest Rate Swap (IRS) EUR 70 million	(2,691)	(2,180)	(806)	-	from 01.01.2017 to 25.11.2020
CIECH S.A. – Interest rate swap (transaction isolated through the decomposition of CIRS transactions)	15,127	12,253	271	-	from 01.01.2017 to 25.11.2020
Raw material price risk					
CIECH Soda Polska S.A. – Futures contracts for the purchase of CO ₂ units	5,012	5,012	-	-	from 01.01.2017 to 31.12.2018
SDC Group – isolated option instruments embedded in a gas supply contract	11,772	9,422	2,087	-	from 01.01.2017 to 31.03.2020



Transactions designated to hedge accounting / risks hedged	Fair value as at the reporting date	Amount recognised in equity (after income tax) as at 31.12.2016	Amount transferred from equity and recognised in the statement of profit or loss (after income tax) in the period of 01.01-31.12.2016	Ineffective portion recognised in the statement of profit or loss	Forecast period of cash flow occurrence / Expected date of impact on the financial result
Total cash flow hedge	(34,359)	(45,306)	17,483	1,862	
CIECH S.A. – Bond liabilities	-	(5,864)	-	-	Upon the sale of shares
CIECH S.A. – Term loan liabilities	(308,233)	(8,736)	-	-	Upon the sale of shares
Net investment hedge – currency risk	(308,233)	(14,600)*	-		
TOTAL	(342,592)	(59,906)	17,483	1,862	

* Amount recognized in equity under "Currency translation reserve".

The aim of the Group when taking the decision concerning the implementation of the principles of cash flow hedging was to reduce the influence of interest rate movements, exchange rates differences due to incurred liabilities, (e.g. loans, bonds) and the impact of changes in raw material prices (gas, CO₂ certificates) on the statement of profit or loss by reflecting their hedging nature in the financial statements.

The result of the settlement of the effective portion of hedging instruments is reclassified from equity to the statement of profit or loss upon the realisation of the hedged item and recognition of its effect in the statement of profit or loss.

In the reporting period, there were no instances of identifying the inability to realise a future transaction in respect of which the cash flow hedge accounting was applied.

Other relationships (not listed in the table above) were cancelled and settled in the previous reporting period in connection with the occurrence of the hedged position.

Sales revenues designated to hedge accounting are considered as highly probable. Their occurrence is anticipated in the Group's long-term financial forecast. Additionally, to a large extent, these transactions are concluded with regular customers of the Group Companies, which supports the probability of their occurrence. The effect of the cash flow hedge accounting and the net investment hedges in foreign entities was presented in the consolidated statement of other comprehensive income of the CIECH Group.

8.3. FINANCIAL RISK MANAGEMENT

Risk management principles

The CIECH Group actively manages operational and financial risk, striving to reduce the fluctuation of cash flows and maximise the companies' market value.

The CIECH Group's policy assumes natural hedging of imports and exports and hedging of up to 75% of net exposure to currencies exchange rate change by using derivatives and 100% exposure to interest rate risk.

In 2017, 2016 and 2015, the Group concluded futures contracts to hedge currency risk and interest rate risk (forward, IRS and CIRS transactions).

Cash management

The CIECH Group cooperates with bank service providers of high credit rating and with substantial experience in the cash management area. Allocation of financial resources to the Group companies is performed through the use of intra-group loans, dividends payout by subsidiaries, participation in a cash management system (cashpooling) and increase of share capital in the subsidiaries.

Quantitative and qualitative information on financial risks

The CIECH Group manages financial risks based on, among others, the developed and adopted market risk hedging strategy. The aim of the financial risk management policy is to identify areas requiring risk analysis to determine methods to identify and measure it, to determine activities undertaken in relation to identified risk areas and to define organisational solutions in the risk management process.

In fulfilling its main goals, the Group aims to avoid excessive market risk. This goal is realised by identifying, monitoring and hedging cash flow fluctuation risk and monitoring the size and costs of CIECH Group debt. When assessing risk, the Group



takes into account the risk portfolio effect resulting from the variety of conducted business activities. Risk effects are materialised in the cash flow statement, statement of financial position and the statement of profit or loss.

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

Interest rate risk

The Group finances its activity mainly through term loans and bonds. The amount of the costs of interest-bearing debt held by the Group depends on the reference rate. This refers to term loans made available under a loan agreement dated 29 October 2015 in the amount of PLN 1,045 million and EUR 70 million, a revolving loan made available under a loan agreement dated 29 October 2015 in the amount of PLN 250 million (as at the end of 2017, the debt amounted to PLN 0), overdraft facilities and a part of lease and factoring contracts.

Therefore, the Group is exposed to risk of change in finance costs due to changing interest rates on existing debt. This may result in increased financial costs and, consequently, deterioration of the CIECH Group financial result. The risk is partially reduced by the assets owned by the CIECH Group (bank deposits), interest bearing in accordance with variable interest rate, and by concluding hedging transactions.

In 2017, the CIECH Group benefited from the following interest rate hedging transactions:

- interest rate swap transaction to hedge the variable interest rate levels applicable to the calculation of interest on the bonds issued on 5 December 2012. The transaction hedged indebtedness of nominal value of PLN 80 million and was concluded in March 2013. Following the repayment of the bonds, the transaction no longer exists as at 31 December 2017,
- interest rate swap transaction to hedge the variable interest rate levels applicable to the calculation of interest on the term loan made available in November 2015. The transaction hedges indebtedness of nominal value of EUR 70 million and was concluded in November 2015, and
- currency and interest rate swap transactions to hedge the variable interest rate levels applicable to the calculation of interest on the term loan made available in November 2015. The transaction hedges indebtedness of nominal value of PLN 1,045 million and was concluded in November 2015.

The table below presents the consolidated statement of financial position items (without derivative instruments) exposed to interest rate risk:

Total carrying amount	31.12.2017	31.12.2016
Floating interest rate instruments	(865,052)	(1,116,142)
Financial assets	489,754	414,369
Financial liabilities*	1,354,806	1,530,511

*including PLN 80 million hedged by IRS (applicable to 2016), EUR 70 million hedged by IRS, PLN 1,045 million hedged by CIRS – IRS transaction isolated as part of decomposition of CIRS.

The table below shows the effects of a change in the interest rate by 100 basis points in relation to the floating interest rate instruments presented in the statement of financial position.

	Statement of profit or loss		Equity*	
	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp
31.12.2017				
Floating interest rate instruments	(8,651)	8,651	-	-
Interest rate swap transactions*	-	-	29,349	(30,594)
Cash flows sensitivity (net)	(8,651)	8,651	29,349	(30,594)
31.12.2016				
Floating interest rate instruments	(11,161)	11,161	-	-
Interest rate swap transactions*	-	-	37,506	(39,426)
Cash flows sensitivity (net)	(11,161)	11,161	37,506	(39,426)

* Do not include the impact of profit/loss on equity.



Currency risk

Currency risk is an inevitable component of commercial activity denominated in foreign currencies. Due to the nature of conducted import and export operations, the CIECH Group is subject to currency exposure related to the significant lead of export over import. Sources of currency risk which exposed companies within the Group in 2017 included: purchase of raw materials, product sales, loans taken out and cash in foreign currencies. Unfavourable changes in currency exchange rates may worsen the CIECH Group's financial results.

Foreign exchange risk analysis is focused on the level of operating cash flows. The SDC Group was excluded from the analysis since its functional currency is EUR and all reported operating cash flows of this company are performed in this currency.

In 2017, the CIECH Group used hedging contracts, such as forward options, to partially cover currency risk. The CIECH Group tries to naturally hedge the foreign currency exposure, including matching of currency flows arising from sales and purchases as well as strategic debt denominated in EUR, in order to fit it to the expected exposure to currency risk in operations.

The table below presents the estimated currency exposure of the CIECH Group in EUR (excluding figures concerning the SDC Group) and in USD as at 31 December 2017 and 2016 due to financial instruments.

Exposure to currency risk in EUR ('000)	31.12.2017	31.12.2016	Impact on the statement of profit or loss	Impact on statement of other comprehensive income*
Assets				
Borrowings granted sensitive to FX rate changes	61,191	49,726	x	
Trade and other receivables	23,181	18,290	x	
Cash including bank deposits	21,003	26,459	x	
Liabilities				
Trade and other liabilities	(18,780)	(18,874)	x	
Term loan liabilities	(69,673)	(69,773)		x
Hedging instruments: Forward	(23,600)	(60,400)		x
Hedging instruments: CIRS (forward transactions isolated as part of decomposition of CIRS)	(246,665)	(246,781)		x
Total exposure	(253,343)	(301,353)		

*Evaluation of financial instruments designated for hedge accounting is referred to other comprehensive income while ineffectiveness is recognised in the profit or loss statement.

Exposure to currency risk in USD ('000)	31.12.2017	31.12.2016	Impact on the statement of profit or loss	Impact on statement of other comprehensive income*
Assets				
Trade and other receivables	15,464	17,298	x	
Cash including bank deposits	10,080	3,065	x	
Liabilities				
Trade and other liabilities	(3,862)	(4,558)	x	
Hedging instruments: Forward	(5,600)	(33,800)		x
Total exposure	16,082	(17,995)		

*Evaluation of financial instruments designated for hedge accounting is referred to other comprehensive income while ineffectiveness is recognised in the profit or loss statement.

The table contains an analysis of the sensitivity of individual statement of financial position items to exchange rate changes as at 31 December 2017.



Analysis of sensitivity to foreign exchange rate changes –EUR	('000 PLN)*	Impact on the statement of profit or loss	Impact on statement of other comprehensive income
31.12.2017			
Currency balance sheet items	169	866	(697)
Hedging instruments: Forward and CIRS	(2 703)	-	(2 703)
31.12.2016			
Currency balance sheet items	58	756	(698)
Hedging instruments: Forward and CIRS	(3 072)	-	(3 072)

* Increase of EUR/PLN exchange rate by 1 grosz.

Analysis of sensitivity to foreign exchange rate changes – USD	('000 PLN)*	Impact on the statement of profit or loss	Impact on statement of other comprehensive income
31.12.2017			
Currency balance sheet items	217	217	-
Hedging instruments: Forward	(56)	-	(56)
31.12.2016			
Currency balance sheet items	158	158	-
Hedging instruments: Forward	(338)	-	(338)

* Increase of USD/PLN exchange rate by 1 grosz.

Raw material price risk

A significant portion of the CIECH Group's activity is the import and export of chemical raw materials. The raw materials markets are characterised by a cyclical nature related to fluctuations of the global economy. The growing prices of raw materials cause a decrease in margins of trade intermediaries and a decrease of demand generated by recipients. On the other hand, the falling prices are usually a symptom of a decreasing demand and the beginning of an economic downturn. On the domestic market, raw materials are subject to similar tendencies. The maintenance of a stable pace of economic growth and stable prices of chemical raw materials will have a positive impact on the commercial activity of the CIECH Group. Considerable fluctuations of demand and prices caused either by fast economic growth or economic stagnation will have a negative influence on the activity related to trading in chemical raw materials by the CIECH Group.

The CIECH Group reduces price risk through concluding agreements with suppliers containing an appropriate price formula.

Credit risk

Credit risk means a threat of the counterparty not fulfilling the obligations stipulated in the agreement, exposing the lender to financial loss.

From the CIECH Group's point of view, credit risk is linked to:

- trade receivables from customers,
- cash and bank deposits.

The CIECH Group is exposed to credit risk connected with the credit rating of customers being parties to products and goods sales transactions. That risk is limited by using internal procedures to establish amounts of credit limits for customers and to manage trade receivables (the Group uses securities in the form of a letter of credit, bank guarantees, mortgages, receivables insurance and non-recourse factoring). Customers' creditworthiness is assessed and appropriate collateral is obtained from the borrowers, allowing for a reduction of potential losses in the case of failure to repay the debt. Credit risk assessment for customers is performed prior to concluding an agreement and periodically at subsequent deliveries of goods in accordance with the binding procedures. The risk of the receivables portfolio is assessed on a weekly basis. On selected markets, where more risky payment deadlines are applied, the Group's companies make use of services provided by companies specialising in insuring receivables.

Credit risk connected with cash in bank and bank deposits is low as the CIECH Group enters into transactions with high-rating banks with stable market position.

According to the CIECH Group's Companies, assets that are not overdue and not covered by a write-down are of high credit quality.



At the end of the reporting period, in the Group there was an external loan granted by CIECH Trading S.A. to Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej in the amount of PLN 26,087 thousand. The carrying amount of the loan corresponds mainly to the value of the mortgage collateral held by the Company.

The table below presents the maximum exposure of financial assets to credit risk as at the end of reporting period.

	31.12.2017	31.12.2016
Cash and cash equivalents	489,754	414,369
Loand and receivables	411,011	402,159
Hedging derivatives with negative value	59,837	75,792
Embedded instruments with negative value	15,717	28,955
TOTAL	976,319	921,275

The CIECH Group has no material items which would be uncollectible as at the reporting date and not covered by an impairment allowance. The table below presents trade receivables by age from maturity date.

	31.12.2017		31.12.2016	
	Total gross value of trade and factoring receivables	Impairment loss	Total gross value of trade and factoring receivables	Impairment loss
Not overdue	337,886	(427)	319,398	(1,379)
Up to 1 month	33,895	(92)	37,610	(609)
1-3 months	5,641	(25)	3,390	(92)
3-6 months	4,560	(82)	9,268	(2,269)
6-12 months	2,572	(670)	6,152	(4,095)
Above a year	29,235	(27,569)	30,226	(29,441)
Total	413,789	(28,865)	406,044	(37,885)

	Trade receivables and receivables from factoring		Loans granted	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Soda segment	222,954	234,136	-	-
Organic segment	132,210	102,633	-	-
Silicates and Glass segment	27,271	29,184	-	-
Transport segment	15,930	17,126	-	-
Other activities	18,871	24,729	26,087	34,000
Consolidation adjustments	(32,312)	(39,649)	-	-
TOTAL	384,924	368,159	26,087	34,000

	31.12.2017		31.12.2016	
	Trade receivables and receivables from factoring	Loans granted	Trade receivables and receivables from factoring	Loans granted
Poland	154,659	26,087	132,198	34,000
European Union (without Poland)	147,585	-	157,353	-
Other Europe	24,753	-	23,326	-
North America	54	-	506	-
South America	117	-	1,374	-
Africa	3,779	-	2,852	-
Asia	53,977	-	50,550	-
Total	384,924	26,087	368,159	34,000

Liquidity risk

The CIECH Group is exposed to risk connected with maintaining liquidity due to the considerable share of external financing (due to the term loan, working capital facility and lease agreements) in relation to operating results, the limited ability to



obtain new financing due to the existing high level of indebtedness and the risk of losing the existing long-term financing as a result of violating covenants stipulated in the bond issue terms and loan agreements.

The following measures are applied to reduce liquidity risk:

- current monitoring of liquidity of the CIECH Group's companies,
- monitoring and optimisation of the level of working capital,
- adjusting the level and schedule of capital expenditure,
- intragroup borrowings and sureties for the liabilities of the Group's companies,
- current monitoring of the settlement of liabilities under the loan agreements conditions.

The Group's debt financing is ensured by the term loan. In addition, a revolving loan in the amount of PLN 250 million has been made available to the Group, constituting an additional source of current liquidity and working capital financing (as at 31 December 2017, the loan was utilised in the amount of PLN 0).

The table below presents financial liabilities at face value grouped by maturity.

31.12.2017	Carrying amount	Contractual cash flows	Below 6 months	up to 12 months	1–2 years	3–5 years	Over 5 years
Other financial liabilities:	(1,738,485)	(1,821,902)	(424,279)	(215,123)	(226,365)	(956,135)	-
Trade liabilities	(380,404)	(380,404)	(380,404)	-	-	-	-
Loans and borrowings	(1,329,919)	(1,413,336)	(15,713)	(215,123)	(226,365)	(956,135)	-
Factoring	(28,162)	(28,162)	(28,162)	-	-	-	-
Finance lease liabilities	(24,888)	(26,769)	(2,323)	(2,938)	(7,894)	(7,744)	(5,870)
Derivatives recognised in financial liabilities designated as hedging instruments	(43,669)	(45,900)	(393)	(1,205)	(5,328)	(38,974)	-
TOTAL	(1,807,042)	(1,894,571)	(426,995)	(219,266)	(239,587)	(1,002,853)	(5,870)

31.12.2016	Carrying amount	Contractual cash flows	Below 6 months	up to 12 months	1–2 years	3–5 years	Over 5 years
Other financial liabilities:	(1,901,740)	(2,039,902)	(417,013)	(182,843)	(469,286)	(970,760)	-
Trade liabilities	(367,420)	(367,420)	(367,420)	-	-	-	-
Loans and borrowings	(1,346,436)	(1,475,144)	(17,549)	(17,549)	(469,286)	(970,760)	-
Bonds	(160,382)	(169,836)	(4,542)	(165,294)	-	-	-
Factoring	(27,502)	(27,502)	(27,502)	-	-	-	-
Finance lease liabilities	(23,693)	(26,301)	(2,635)	(2,630)	(6,487)	(8,757)	(5,792)
Derivatives recognised in financial liabilities designated as hedging instruments	(126,935)	(136,184)	(2,888)	(2,674)	(14,119)	(116,503)	-
TOTAL	(2,052,368)	(2,202,387)	(422,536)	(188,147)	(489,892)	(1,096,020)	(5,792)

Detailed information concerning revenues and costs pertaining to financial instruments, recognised in the statement of profit or loss has been presented in note 8.1.



8.4. DETERMINATION OF FAIR VALUES

The following list presents the fair value of financial instruments.

	31.12.2017		31.12.2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	489,754	489,754	414,369	414,369
Loans granted	26,087	26,087	34,000	34,000
Trade receivables	337,668	337,668	298,004	298,004
Aktywa finansowe z wyceny instrumentów pochodnych	59,837	59,837	75,792	75,792
Embedded instruments with positive value	15,717	15,717	28,955	28,955
Factoring receivables	47,256	47,256	70,155	70,155
ASSETS	976,319	976,319	921,275	921,275
Loans and borrowings	(1,329,919)	(1,335,630)	(1,346,436)	(1,353,264)
Debt securities – bonds issued	-	-	(160,382)	(160,000)
Trade liabilities	(380,404)	(380,404)	(367,420)	(367,420)
Hedging derivatives with negative value	(43,669)	(43,669)	(126,935)	(126,935)
Financial lease liabilities	(24,888)	(24,888)	(23,693)	(23,693)
Factoring liabilities	(28,162)	(28,162)	(27,502)	(27,502)
LIABILITIES	(1,807,042)	(1,812,753)	(2,052,368)	(2,058,814)

The fair value of financial assets and liabilities corresponds with the amounts for which these instruments may be exchanged in a market transaction between well informed parties. The following assumptions were made in establishing the fair value:

- cash, trade receivables and liabilities are not measured at fair value – it is assumed that the carrying amount is the closest to fair value due to the short maturities of these instruments,
- fair value of financial assets and liabilities recognised in the statement of financial position at amortised cost for which no active market exists was established as the present value of future cash flows discounted at market interest rate.

Valuation to fair value is grouped according to three-level hierarchy:

- **Level 1** – fair value based on market listing stock exchange prices (unadjusted) offered for identical assets or liabilities on active markets.
- **Level 2** – the CIECH Group values derivatives at fair value by using measurement models for financial instruments and applying generally available interest rates, currency exchange rates etc.
- **Level 3** – fair value estimated on the basis of various evaluation techniques which are not based on observable market inputs.

Assets and liabilities measured at fair value

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS	11,458	75,554	44,268	5,012	104,747	31,384
Investment properties	-	-	44,268	-	-	31,384
Hedging instruments	-	59,837	-	-	75,792	-
Futures contracts	11,458	-	-	5,012	-	-
Embedded instruments	-	15,717	-	-	28,955	-
LIABILITIES	-	43,669	-	-	126,935	-
Hedging instruments	-	43,669	-	-	126,935	-
TOTAL	11,458	119,223	44,268	5,012	231,682	31,384

As at 31 December 2017, the CIECH Group held the following types of financial instruments measured at fair value:

- futures contracts for the purchase of CO₂ certificates concluded by CIECH Soda Polska S.A., hedging the cost of purchase of CO₂ units in 2017 and 2018 – Level 1, according to the fair value hierarchy,
- concluded by the parent company, CIECH S.A.: interest rate swap contracts, CIRS (currency and interest rate swap) contract EUR/PLN – Level 2, according to the fair value hierarchy,
- currency forward EUR/PLN concluded by CIECH Vitrosilicon S.A. – Level 2, according to the fair value hierarchy,



- isolated option instruments (acquired call options) embedded in the gas supply contract concluded by CIECH Energy Deutschland GmbH on 1 August 2016, hedging the cost of gas purchased in 2016–2020 — Level 2, according to the fair value hierarchy,
- currency forwards EUR/PLN and USD/RON concluded by CIECH S.A. — Level 2, according to the fair value hierarchy.

In 2017, there were no transfers within the fair value hierarchy of instruments measured at fair value. There were no changes in the classification of financial instruments, or in business conditions that could affect the fair value of financial assets or liabilities.

The fair value of instruments concluded is determined in the following manner:

- the fair value of the interest rate swap contract is determined as a difference in the discounted interest rate cash flow (cash flow based on a floating rate, the so-called floating leg, and a fixed rate, the so-called fixed leg). The input data for the method is the market data for interest rates provided by Reuters.
- the fair value of the CIRS contract is determined as a difference in discounted interest and capital cash flows. The input data for the method is the market data for interest rates and cross currency basis-swaps quotations provided by Reuters.
- the fair value of the currency forward is determined as a difference between the transaction rate and the forward rate at the valuation date multiplied by the nominal value of the contract in the foreign currency. The input data for the method is the market data for interest rates and cross currency basis-swaps quotations provided by Reuters.
- Futures contracts for the purchases of CO₂ certificates are settled on a daily basis according to quotations published on ICE and EEX's stock exchange,
- options (call) embedded to gas purchases contract, are valued according to Black-Scholes model, taking into account forward prices quoted on ICE and EEX's stock exchange and implied volatility of gas prices specified based on stock quotations for options for gas purchases.

Fair value of derivative instruments and embedded instruments	Cash and cash equivalents	Long-term financial assets	Short-term financial assets	Other non-current liabilities	Trade and other liabilities	TOTAL
31.12.2017						
IRS EUR	-	210	-	(620)	(1,336)	(1,746)
CIRS	-	34,876	18,654	(40,908)	(805)	11,817
Forward EUR/PLN	-	-	4,668	-	-	4,668
Forward USD /RON	-	-	1,429	-	-	1,429
Embedded instruments	-	8,576	7,141	-	-	15,717
Futures contracts	11,458	-	-	-	-	11,458
TOTAL	11,458	43,662	31,892	(41,528)	(2,141)	43,343
31.12.2016						
IRS PLN	-	-	-	-	(1,241)	(1,241)
IRS EUR	-	58	-	(1,506)	(1,243)	(2,691)
CIRS	-	55,569	18,454	(119,083)	-	(45,060)
Forward EUR/PLN	-	967	743	-	-	1,710
Forward USD /RON	-	-	-	(340)	(3,521)	(3,861)
Embedded instruments	-	22,182	6,773	-	-	28,955
Futures contracts	5,012	-	-	-	-	5,012
TOTAL	5,012	78,776	25,970	(120,929)	(6,005)	(17,176)

Investment properties are also measured at the fair value in the financial statements. According to the fair value hierarchy, it is Level 3. Investment real estate portfolio is evaluated by an external, independent property appraiser or based on a preliminary sale agreement. In measuring the fair value of land used under the perpetual usufruct in Bydgoszcz, a comparative method was applied. The valuation of land located in Warsaw, constituting the Group's property, was made based on the preliminary sale agreement concluded. The comparative approach means measuring the value through an analysis of recent sales or listings of comparable assets. These transactions or offers are adjusted in order to take into account differences of



the valuated assets and comparable assets on the day of their sale, for example date of sale, location, area, technical status and other. According to the method of average price adjustments, estimating the property value that is the subject of valuation is based on the average price adjustment of similar properties, that form the base for the comparison creating adjustment coefficients corresponding to different characteristics of these properties. The calculations are based on comparative properties, described by attributes influencing the level of properties prices and transaction prices of these properties.

Valuation of buildings located in Bydgoszcz and tangible assets identified as technical infrastructure (including assets that are necessary to keep properties operational but which are not traded on the secondary market) is synthetically included in the total value of land valuated under the comparative approach method. Buildings and structures located on plots of land in Bydgoszcz have no impact on the market value of this land, therefore, for accounting purposes, the value of this group of assets was determined based on their book value. In the final balance sheet, the value of buildings and structures was deducted from the value of land.

The measurement of the fair value of investment property does not include transaction costs, which the entity might additionally bear, future capital expenditures regarding development or improvement of the investment property, as well as future benefits regarding those expenditures.

The verification of the fair value of investment properties is conducted at least once a year at the balance sheet date ending the financial year.

Financial instruments not measured at fair value

The CIECH Group has taken out term and revolving loans whose book value, as at 31 December 2017, amounts to PLN 1,329,919 thousand, and whose fair value amounts to PLN 1,335,630 thousand (Level 2 of fair value hierarchy). The Company recognised that the fair value of the loans taken out does not differ significantly from their nominal value due to the fact that these loans carry variable interest rates.

In the case of the remaining financial instruments held by the CIECH Group (classified mainly as cash and cash equivalents, loans and receivables, financial liabilities valued at amortised cost other than loans and bonds and financial liabilities excluded from the scope of IAS 39), the fair value is close to the book value.



9.1. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The tables below present the reasons for the differences between the changes of particular items of the consolidated statement of financial position and changes resulting from the consolidated cash flows statement:

	31.12.2017	31.12.2016
Inventory change presented in consolidated statement of financial position	65,253	5,634
Currency translation reserve	2,812	(1,761)
Inventory change in consolidated statement of cash flows	(68,065)	(3,873)

	31.12.2017	31.12.2016
Provision change presented in consolidated statement of financial position	(23,551)	15,785
Reclassification of provisions to /from liabilities	(823)	(6,837)
Currency translation reserve	6,366	(3,903)
Other	1	(80)
Provisions change in consolidated statement of cash flows	(18,007)	4,965

	31.12.2017	31.12.2016
Receivables change presented in consolidated statement of financial position	(10,048)	25,986
Change in investment receivables	13,517	23,892
Change in income tax receivables	298	16,003
Change in receivables from caverns	19,619	(9,715)
Currency translation reserve	15,257	(8,132)
Other	7,346	(9,666)
Receivables change presented in consolidated statement of cash flows	(45,989)	(38,368)

	31.12.2017	31.12.2016
Change of liabilities presented in consolidated statement of financial position	(250,682)	159,713
Change in investment liabilities	14,594	7,937
Change in financial liabilities	266,408	(42,799)
Change in income tax liabilities	(4,091)	11,151
Currency translation reserve	29,394	(18,608)
Other	10,536	17,077
Liabilities change presented in consolidated statement of cash flows	66,159	134,471



9.2. INFORMATION ON CHANGES IN CONTINGENT ASSETS AND LIABILITIES AND OTHER MATTERS

Accounting policy

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Group. An example is a claim that the Group is pursuing through legal processes, where the outcome is uncertain. Contingent assets are not recognised in the statement of financial position since this could result in the recognition of income that may never be realised.

A contingent liability is a possible future obligation, whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Group's control. These are also liabilities that arose from past events but were not recognised in the financial statements because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of obligation cannot be valued with sufficient reliability. Contingent liabilities are not recognised in the statement of financial position.

Significant disputed liabilities of the CIECH Group

As at 31 December 2017, the total value of significant disputed liabilities of CIECH S.A. and subsidiaries of CIECH S.A., pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies represents less than 10% of CIECH S.A.'s equity.

Significant disputed receivables of the CIECH Group

As at 31 December 2017, the total value of significant disputed receivables of CIECH S.A. and subsidiaries of CIECH S.A., pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies represents less than 10% of CIECH S.A.'s equity.

Contingent assets and contingent liabilities including guarantees and sureties

	31.12.2017	31.12.2016
Contingent assets	23,527	18,864
Other contingent receivables*	23,527	18,864
Contingent liabilities	568,733	698,180
Guarantees and sureties granted**	396,408	533,056
Other***	172,325	165,124

* Including:

- Contingent asset in the amount of PLN 18,864 thousand related to the action against GZNF "FOSFORNY" Sp. z o.o. for the payment of compensation for making an alleged untrue declaration by GZNF "FOSFORNY" Sp. z o.o. to CIECH S.A. about the condition of Agrochem Czulchów Sp. z o.o. with its registered office in Czulchów.
- CIECH Soda Polska S.A. recognised a contingent asset in the amount of PLN 4,663 thousand – it is the value of energy efficiency certificates received from the President of the Energy Regulatory Office in 2017 that have not been recorded yet in the account kept by the Polish Power Exchange.

** Including:

- guarantee granted up to the amount of 125% of liability related to term loan in the amount of PLN 1,045,031 thousand and revolving loan in the amount of PLN 250,000 thousand – contingent liability in the amount of PLN 323,758 thousand,
- guarantee granted up to the amount of 125% of liability related to term loan in the amount of EUR 69,673 thousand – contingent liability in the amount of PLN 72,650 thousand.

*** Including mainly:

- contingent liability in the SDC Group relating to environmental protection in the amount of PLN 15,190 thousand (EUR 3,642 thousand),
- contingent liability in CIECH Soda Polska S.A. regarding environmental penalty fees in the amount of PLN 36,474 thousand,
- contingent liabilities in CIECH Soda Polska S.A. resulting from blank promissory notes for the National Fund for Environmental Protection and Water Management relating to grants received in the event of a potential financial adjustment in the amount of PLN 33,483 thousand, in connection with the received subsidy to the project "Extension of the centre of decantation and filtration of distillation sludge in the Plant in Inowrocław" in the amount of PLN 10,930 thousand, in connection with the subsidy to the project "Reduction of dust emission in CHP Inowrocław – modernisation of electrofilters OP 110 No 2 and 4" in the amount of PLN 882 thousand, in connection with the subsidy to the project "Reduction of dust emission in CHP Inowrocław – modernisation of electrofilters OP 110 No 1 and 3" in the amount of PLN 98 thousand,
- contingent liabilities in CIECH Sarzyna S.A. resulting from promissory notes: relating to grants received for the construction of an innovative MCPA and MCP-P substance production installation in the amount of PLN 39,997 thousand; relating to a grant received for developing and testing a group of agro-chemical preparations in the amount of PLN 14,645 thousand,
- contingent liabilities in CIECH R&D Sp. z o.o. resulting from promissory notes relating to subsidies received for investment projects aimed at developing and optimising production processes in the amount of PLN 19,070 thousand.



As at 31 December 2017, contingent liabilities amounted to PLN 568,733 thousand and decreased as compared to 31 December 2016 by PLN 129,447 thousand. The change results primarily from the expiry of guarantees related to the issued domestic bonds (redeemed on 6 December 2017) in the amount of PLN 88,000 thousand, and expiry on 12 March 2017 of a guarantee in the amount of PLN 44,240 thousand (EUR 10,000 thousand) for certain obligations and warranties made by Infrastruktura Kapuściska S.A. in liquidation, as a part of the agreement for sale and transfer of TDI assets on BASF. The remaining decrease in liabilities resulted mainly from foreign exchange gains and expiration of employee claims.

Sureties and guarantees granted as at 31 December 2017

Beneficiary's name	Total amount of liabilities covered by guarantee/surety in whole or in specific part		Financial terms, including guarantee fee due to the company; guarantee period	Principal
	currency	PLN		
CIECH S.A.				
Landesamt fuer Geologie und Bergwesen Sachsen-Anhalt	EUR 3,933 thousand	16,405 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability; no time limit	CIECH Soda Deutschland (subsidiary)
BZ WBK Faktor Sp. z o.o.	PLN 18,000 thousand	18,000 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability; no time limit	CIECH Trading S.A. (subsidiary)
Spolana a.s.	1,500 EUR '000	6,256 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability. Liabilities incurred and outstanding by 31.12.2018	CIECH Trading S.A. (subsidiary)
Siemens Industrial Turbo- machinery s.r.o	1,753 EUR '000	7,312 thousand	Commission of 0.4% p.a. of the guaranteed liability, lease instalments outstanding by 30.04.2019	CIECH Energy Deutschland GmbH (subsidiary)
VITROBUDOWA Sp. z o.o.	PLN 67,035 thousand	67,035 thousand	Commission of 1.5% p.a. of the guaranteed liability; 90 calendar days from signing the final acceptance report	CIECH Vitrosilicon S.A. (subsidiary)
Total amount of guarantees and sureties granted			PLN 115,008 thousand	

Selected subsidiaries in Poland, Germany and Romania

Banks:	PLN 1,618,789 thousand (guarantee granted up to the amount of 125% of liability related to term loan in the amount of PLN 1,045,031 thousand and revolving loan in the amount of PLN 250,000 thousand)	1,982,039 thousand	Commission of 0.55% p.a of the difference between the limit of the guarantee collateralised by assets and a surplus of the guarantee limit; 31.12.2023	CIECH S.A. (parent company)
Bank Handlowy w Warszawie S.A., Bank Millennium S.A., BZWBK S.A., Bank PKO BP S.A., Credit Agricole Bank Polska S.A., HSBC Bank Polska S.A., ICBC (Europe) S.A. Branch in Poland	EUR 87,091 thousand (guarantee granted up to the amount of 125% of liability related to term loan in the amount of EUR 69,673 thousand)			
Total amount of guarantees and sureties granted			PLN 1,982,039 thousand	

In 2017, the CIECH Group companies did not receive any guarantees from third parties.



Letters of support

As at 31 September 2017, CIECH S.A. was the obliged party in the letter of support (Patronatserklärung) regarding CIECH Soda Deutschland GmbH&Co. KG seated in Staßfurt (CSD) granted to RWE Gasspeicher GmbH ("RWE") relating to liabilities of CSD resulting from the agreement dated 5 May 2009 on salt caverns construction for the purpose of natural gas storage on the Staßfurt mining field according to which CSD received payments of EUR 39.5 million from RWE by 31 December 2017.

In the letter of support, CIECH S.A. has committed, among other things, to ensure that CSD will have sufficient funds to fulfil its financial commitments against RWE resulting from the above-mentioned agreement.

Tax audits

In 2017, five polish companies from the CIECH Group were subject to tax inspections and one was subjected to control proceedings in parallel. The aim of the audits was to review the accuracy of the declared tax base and the correctness of calculations and payments of corporate income tax for the year 2015 (four companies) or 2013 (one company). All the audited companies received the Audit reports and one of them received the an Assessment decision. The irregularities identified concern mainly the incorrect settlement of income from a participation in a partnership (this resulted in the reduction of the tax loss by PLN 313 million).

All Companies have submitted objections to the audit reports or their parts. In response to the objections submitted, the auditors maintained their position on key issues (of significant value), while acknowledging the Companies' position or their additional explanations on other issues. Further control proceedings were initiated in three companies. One of the companies, in which tax inspection was carried out in parallel with the control proceedings, received an Assessment decision from which it filed an appeal.

The Management Boards of the companies and their tax advisors do not agree with the findings presented in the audit reports and with responses to objections to the reports or the decision issued. However, if decisions are taken in which the findings contained in the responses to objections to the Report are included and the decision of the Head of the Tax Administration Chamber is upheld, each of the companies may be required to pay tax liabilities in the total amount of PLN 15.1 million for 2015 together with default interest from 1 April 2016, and in the amount of PLN 1.8 million for 2013 (taking account of the tax loss incurred in the audited year) together with default interest from 1 April 2014.

As at the date of the report, control proceedings are pending in four companies and as regards the fifth company, tax proceedings has not started. Three companies have not received Assessment decision by the date of the financial statements, in one case Head of the Tax Administration Chamber's decision.

In 2017, one of the Group's companies was also subject to follow-up activities resulting from CIT inspections for 2010 in the form of a hearing before the Regional Administrative Court in Warsaw. The Regional Administrative Court fully agreed with the Company's position. The Company received a written justification for the judgment after the balance sheet date. By the date of the financial statements, there is no information whether the Head of the Tax Administration Chamber in Warsaw appealed to the Supreme Administrative Court.

After the balance sheet date, a tax audit in the area of corporate income tax for 2016 was also started in one of the Group's companies. The audit is underway as at the date of the report.

The Group estimated that the potential impact on the income tax charge (in the form of additional tax liabilities or the inability to realize an asset for deferred income tax calculated on tax losses), in connection with the above-described issues would amount to PLN 92.1 million if it was no longer probable that the Group will be able to uphold its tax interpretations adopted by the tax authorities.

In addition, as a result of the ongoing audit of the German CIECH Group companies for the years 2007-2009 and 2010-2015, in case of a different assessment by the auditing authorities of economic events, an obligation may arise to recalculate and potentially increase the tax liability and to pay interest on tax arrears. At the time of publication of the financial statements, the audit result is not known.

9.3. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

9.3.1. TRANSACTIONS WITH RELATED PARTIES IN TOTAL

Transactions between the parent, CIECH S.A., and its subsidiaries were eliminated during consolidation and have not been presented in this note.



Detailed information about transactions between the CIECH Group and other related entities (i.e. companies controlled by the parent company at the highest level in relation to CIECH S.A. — Kulczyk Investments S.A. and non-consolidated companies of the CIECH Group) is presented below:

TRANSACTIONS BETWEEN CONSOLIDATED ENTITIES AND OTHER RELATED ENTITIES	01.01.-31.12.2017	01.01.-31.12.2016
Revenues from sales of products and services	5,200	7,334
Revenues from sales of goods and materials	103,259	92,989
Other operating income	2,743	9
Financial income	754	951
Purchase of products, goods and materials	27	350
<i>Kulczyk Holding S.A.</i>	35,550	39,413
Purchase of services	758	698
Other operating expenses	1,279	532
Financial expenses	28	16
	31.12.2017	31.12.2016
Receivables, including:	18,792	15,691
<i>Kulczyk Holding S.A.</i>	939	180
Impairment losses on receivables and loans	1	-
Liabilities, including:	5,135	6,647
<i>Kulczyk Holding S.A.</i>	-	858

Terms of transactions with related entities

CIECH Group's companies, to the best of their knowledge and belief, did not conclude significant transactions on the terms other than market ones. Sales to and purchases from related entities are realised at market prices that reflect market conditions. Overdue liabilities and receivables are not secured and are settled in cash or by set-off. Receivables from related entities have not been secured by any guarantees granted or received besides those described in note 9.2.

In the presented period, the key management personnel of CIECH S.A. did not conclude any material transactions with related parties.

9.3.2. SIGNIFICANT TRANSACTIONS CONCLUDED BY COMPANIES OR SUBSIDIARIES WITH RELATED PARTIES OTHER THAN ON AN ARM'S LENGTH BASIS

CIECH Group's companies, to the best of their judgement, did not conclude significant transactions on the terms other than market ones. Sales to and purchases from related entities are realised at market prices that reflect market conditions.

9.3.3. DESCRIPTION OF NON-ROUTINE TRANSACTIONS WITH RELATED PARTIES

Information on significant transactions with related parties is provided in note 6.4 to these financial statements.

9.3.4. TRANSACTIONS CONCLUDED WITH KEY MANAGERIAL PERSONNEL

Key managerial personnel comprises persons who are authorised to and are responsible for direct and indirect planning, managing and controlling the activities of CIECH S.A.

Remuneration of the Management Board of CIECH S.A.

The following table presents the amount of remuneration and additional benefits paid or payable to particular Members of the Management Board in 2017 and in the comparable period. In the years 2016-2017, members of the Management Board of CIECH S.A. did not receive any remuneration for holding a position in the Supervisory Boards or any other functions performed in the subsidiaries of the CIECH Group.

	2017	2016
Maciej Tybura	4,119	3,701
Artur Król	2,921	1,375
Artur Osuchowski	2,923	2,805
Dariusz Krawczyk	969	5,003
TOTAL	10,932	12,884



Members of the Management Board are employed based on employment contracts. In accordance with a Resolution of the Supervisory Board of CIECH S.A., Members of the Management Board are entitled to:

- monthly remuneration determined in individual employment contracts;
- discretionary bonus in the amount determined by the Supervisory Board of CIECH S.A.;
- annual bonus determined in individual employment contracts.

Remuneration of the Supervisory Board of CIECH S.A.

	Remuneration received from CIECH S.A. in 2017	Remuneration received from CIECH S.A. in 2016
Sebastian Kulczyk	-*	38*
Piotr Augustyniak	158	102
Dominik Libicki	117	83
Tomasz Mikołajczak	144	128
Mariusz Nowak	144	102
Artur Olech	144	102
Wojciech Stramski	-	19
TOTAL	707	574

*From 1 April 2016, Chairman of the Supervisory Board, Mr. Sebastian Kulczyk does not receive any remuneration due to the waiver of the claim for remuneration for the position of the Chairman of the Supervisory Board.

In accordance with a Resolution of the Extraordinary General Shareholders' Meeting, Members of the Supervisory Board are entitled since 1 November 2017 to a monthly gross remuneration computed as a percentage of the calculation base. The calculation base is the average monthly remuneration in the sector of enterprises with profit distributions for the month preceding the calculation, announced by the President of the Central Statistical Office. This remuneration is paid in the following amount:

- to the Chairman of the Supervisory Board – 400% of the calculation base,
- to the Deputy Chairman – 350% of the calculation base,
- to a Board Member – 300% of the calculation base.

The Chairman of the Audit Committee is entitled to an additional gross monthly remuneration amounting to 150% of the remuneration payable to a Member of the Supervisory Board. Members of the Audit Committee are entitled to an additional gross monthly remuneration amounting to 100% of the remuneration payable to a Member of the Supervisory Board.

9.4. INFORMATION ABOUT AGREEMENTS CONCLUDED WITH THE ENTITY AUTHORISED TO AUDIT THE CIECH GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

The entity authorised to audit financial statements for the period from 1 January 2017 to 31 December 2017 was PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw. On 25 June 2015, CIECH S.A. signed an agreement with PricewaterhouseCoopers Sp. z o.o. on the review of semi-annual and audit of annual financial statements for the years 2015, 2016 and 2017.

In 2017, PricewaterhouseCoopers Sp. z o.o. and foreign companies from the network of member firms of PricewaterhouseCoopers were also the auditors of the most significant consolidated subsidiaries/subsidiary groups of CIECH S.A., including: CIECH Soda Polska S.A., Grupa SDC, CIECH Soda Romania S.A., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Pianki Sp. z o.o.

Value of agreements concluded with PricewaterhouseCoopers Sp. z o.o. and members of the PricewaterhouseCoopers network:

	2017*	2016*
CIECH S.A.		
Audit of the annual financial statements	102	97
Review of the semi-annual report	83	83
Other attestation services	1	1
Tax advisory services	156**	328
Other services	203	3 269
TOTAL	545	3 778



	2017*	2016*
Consolidated subsidiaries of the CIECH Group		
Audit of the annual financial statements	914	1,038
Review of the semi-annual report	82	82
Other attestation services	-	14
Tax advisory services	-	75
Other services	23	275
TOTAL	1 019	1,484

* The remuneration includes additional costs, such as travel, accommodation and nourishment costs.

** The amount refers to the Group's verification services of transfer pricing documentation for 2011-2015. The contract was signed before the entry into force of restrictions on the commissioning of additional services to the auditor and was performed by the end of 2017.

9.5. COMPOSITION OF THE GROUP

Accounting policy – Basis of consolidation

Subsidiaries are entities controlled by the Parent Company. Control occurs when the Group has the power to govern either directly or indirectly the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing the control, the influence of both existing and potential voting rights exercisable at the reporting date are considered. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

When selecting entities for consolidation, the Management Board was guided by the criteria of significance of their financial data (according to the concept assumptions of IFRS), for executing the obligation of an actual and reliable image of the material and financial situation, and the financial result of the Group.

A list of fully consolidated companies and companies accounted for under the equity method is provided below:

Company name	Registered office	Segment	Business	Share in equity as at 31.12.2017 / % of votes at the GMS	Share in equity as at 31.12.2016 / % of votes at the GMS
Parent company					
CIECH S.A.	Warsaw	soda, organic, silicates and glass, transport, other	Sales of chemical products manufactured within the CIECH Group, sales of chemical products purchased from third-party producers, holding activities, managing a portfolio of subsidiaries, provision of support services (in the area of sales, manufacturing, purchases, finance, IT, HR and in the legal area) for selected companies in the Group, financial activities in the form of direct lending to the companies in the Group.	-	-
Fully consolidated direct and indirect subsidiaries					
CIECH R&D Sp. z o.o.	Warsaw	Other	Research and developments activities, granting licences to the CIECH Group companies to use the trademarks: "Ciech", "Ciech Trading" and "Sól Kujawska naturalna czysta".	100%	100%



Company name	Registered office	Segment	Business	Share in equity as at 31.12.2017 / % of votes at the GMS	Share in equity as at 31.12.2016 / % of votes at the GMS
CIECH Trading S.A.	Warsaw	Soda, other	Wholesale and distribution of solid inorganic and organic chemicals, wholesale and distribution of raw materials for household chemicals, wholesale and distribution of raw materials for cosmetic and pharmaceutical products, wholesale and distribution of fillers, pigments, raw materials for paints and varnishes, wholesale and distribution of feed additives and fodder, wholesale and distribution of acids, bases and other liquid chemicals.	100%	100%
CIECH Soda Romania S.A.	Ramnicu Valcea, Romania	Soda, silicates and glass	Manufacture of other basic inorganic chemicals, wholesale of chemical products.	98.74%	98.74%
CIECH Vitrosilicon S.A.*	Howa	Silicates And Glass	Production of other basic inorganic chemicals, manufacture of hollow glass and technical glassware, manufacture of plastic packaging goods, manufacture of other plastic products.	100%	100%
CIECH Transclean Sp. z o.o.	Bydgoszcz	Other	International transport of liquid chemicals.	100%	100%
CIECH Pianki Sp. z o.o.	Bydgoszcz	Organic	Manufacture of organic and other inorganic chemicals.	100%	100%
Ciech Group Financing AB	Stockholm, Sweden	Other	Financing activities.	100%	100%
Verbis ETA Sp. z o.o.	Warsaw	Other	General partner of Verbis ETA Sp. z o.o. SKA.	100%	100%
Verbis ETA Sp. z o.o. SKA	Warsaw	Other	Financing activities, direct lending to the CIECH Group companies.	100%	100%
CIECH Cerium Sp. z o.o. SK	Warsaw	Other	Financing activities.	100%	100%
Beta Cerium Sp. z o.o.**	Warsaw	Other	Financing activities, leasing of non-current assets to the CIECH Group companies.	100%	100%
Vasco Polska Sp. z o.o.	Inowrocław	Other	Utilisation of post-soda lime in the restoration of degraded land.	90%	90%
Bosten S.A.	Warsaw	Other	Research and developments activities.	100%	-
CIECH FINANCE Group					
CIECH Finance Sp. z o.o.	Warsaw	Other	Implementing divestment projects concerning obsolete fixed assets (property) and financial assets (shares in companies), carrying out purchases of selected raw materials.	100%	100%
CIECH Nieruchomości S.A.	Warsaw	Other	Real property agency, real property management.	100%	100%
JANIKOSODA S.A.	Warsaw	Other	Since March 2017, the Company has not carried out any operating activities.	100%	100%
CIECH Soda Polska Group					
CIECH Soda Polska S.A.	Inowrocław	Soda	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.	100%	100%
CIECH Cargo Sp. z o.o.	Inowrocław	Transport	Freight transport services.	100%	100%
Cerium Sp. z o.o.	Warsaw	Other	General partner of CIECH Cerium Sp. z o.o. SKA.	100%	100%



Company name	Registered office	Segment	Business	Share in equity as at 31.12.2017 / % of votes at the GMS	Share in equity as at 31.12.2016 / % of votes at the GMS
Gamma Finanse Sp. z o.o.***	Warsaw	Other	Financing activities.	100%	100%
Cerium Finance Sp. z o.o.	Warsaw	Other	Conducting financial activities, in particular comprising direct granting of loans and leasing of non-current assets to the CIECH Group companies.	100%	100%
CIECH Sarzyna Group					
CIECH Sarzyna S.A.	Nowa Sarzyna	Organic	Manufacture of resins, manufacture of pesticides and other chemical products.	100%	100%
Verbis KAPPA Sp. z o.o.	Nowa Sarzyna	Organic	General partner of Verbis KAPPA Sp. z o.o. SKA, other financial intermediation.	100%	100%
Verbis KAPPA Sp. z o.o. SKA	Nowa Sarzyna	Organic	Other financial intermediation.	100%	100%
Algete Sp. z o.o.	Nowa Sarzyna	Organic	Granting CIECH Sarzyna Group companies the license for using the trademark of "Chwastox" for the purpose of business.	100%	100%
SDC Group					
SDC GmbH	Stassfurt, Germany	Soda		100%	100%
CIECH Soda Deutschland GmbH&Co. KG	Stassfurt, Germany	Soda		100%	100%
Sodawerk Holding Stassfurt GmbH	Stassfurt, Germany	Soda	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.	100%	100%
Sodawerk Stassfurt Verwaltungs GmbH	Stassfurt, Germany	Soda		100%	100%
CIECH Energy Deutschland GmbH	Stassfurt, Germany	Soda		100%	100%
Kavernengesellschaft Stassfurt GbmH****	Stassfurt, Germany	Soda		50%	50%

*Number of shares / votes at the GMS attributable directly to CIECH S.A. — 83.03%, indirect share through CIECH Soda Polska S.A. — the remaining 16.97%.

**The limited partners of the company are: CIECH Pianki Sp. z o.o., CIECH Sarzyna S.A., CIECH Soda Polska S.A.

***Shares in the share capital acquired by CIECH S.A. — 1.4% and CIECH Soda Polska S.A. — 98.6%.

****Jointly-controlled company accounted for under the equity method.

9.6. EVENTS AFTER THE BALANCE SHEET DATE

On 9 January 2018, negotiations related to an annexe to the loans agreement were completed. As a result, the following documents were signed:

- an annexe amending and restating the senior and revolving loans agreement for up to PLN 1,590 million of 29 October 2015, concluded by and between, inter alia, CIECH S.A., its selected subsidiaries, Bank Handlowy w Warszawie S.A. as agent, Powszechna Kasa Oszczędności Bank Polski S.A. as security agent and certain other financial institutions
- an annexe amending and restating the intercreditor agreement of 28 November 2012, concluded by and between, inter alia, CIECH S.A., its selected subsidiaries, Bank Handlowy w Warszawie S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. as security agent,
- the deed of release of collateral.

Detailed information about the annexes signed was published in Current Report No 1/2018.

On 6 March 2018, the Supervisory Board of CIECH S.A. appointed on 12 March 2018, Mr. Krzysztof Szłaga to the Management Board of CIECH S.A. as a Member of the Board.



STATEMENT OF THE MANAGEMENT BOARD

These Consolidated financial statements of the CIECH Group for the financial year ended 31 December 2017 were approved by the Company's Management Board in the Company's registered office on 26 March 2018.

Warsaw, 26 March 2018

(signed on the polish original)

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Maciej Tybura — President of the Management Board of CIECH Spółka Akcyjna

(signed on the polish original)

.....

Artur Król — Member of the Management Board of CIECH Spółka Akcyjna

(signed on the polish original)

.....

Artur Osuchowski — Member of the Management Board of CIECH Spółka Akcyjna

(signed on the polish original)

.....

Krzysztof Szlaga — Member of the Management Board of CIECH Spółka Akcyjna

(signed on the polish original)

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Katarzyna Rybacka — Chief Accountant of CIECH Spółka Akcyjna